

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52123; File No. SR-DTC-2005-07]

Self-Regulatory Organizations; the Depository Trust Company; Notice of Filing of Proposed Rule Change Relating to an Expansion of DTC's Inventory Management System

July 26, 2005.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on July 8, 2005, the Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") and on July 8, 2005, amended the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by DTC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

DTC is seeking to expand its Inventory Management System ("IMS") to offer additional customized transaction recycling capabilities and to provide users with an enhanced approval mechanism in order to give a user greater internal control over deliveries that they submit to DTC.²

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, DTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. DTC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.³

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to expand IMS to offer

additional customized transaction recycling capabilities and to provide users with an enhanced approval mechanism in order to give users greater internal control over deliveries that they submit to DTC.

Currently, a participant using IMS can prepopulate its profile to customize the position recycle order for its night cycle deliveries. These "high priority" transactions are processed in the prescribed order if the participant has sufficient shares in its account. If there are insufficient shares to complete these high priority transactions, then DTC attempts to complete lower prioritized transactions that can be completed with the shares the participant has available.

The rule proposal would: (i) Increase control over the processing order by adding two new recycle profiles; (ii) expand the recycle profiles to include Initial Public Offering ("IPO") transactions, and (iii) allow a participant's input to be subjected to secondary authorization through a new transaction type in IMS.

The new recycle profiles will allow participants to further customize the processing of their deliveries by either: (i) Electing to have the deliveries processed in strict profile order or (ii) enabling the participant to hold all or a specific set of deliveries in a separate profile until they are ready to release those transactions for processing. For each delivery that is customized and recycled based upon profile selection, a participant will be charged \$0.06.

Currently, participants can only route their NDOs to IMS for authorization. Under this proposed rule, participants will be able to submit their manual or automated day deliveries for authorization based on predetermined profiles. A user will be able to create a profile by asset class and within asset class by input source (e.g., only deliveries submitted by Participant Browser Service). The user will also be able to determine, based on input source, which delivery types (all valued, all free, only under/over valued deliveries) should be routed for authorization. For these deliveries, participants will be charged the current authorization fee of \$0.006 each in addition to the applicable delivery fee.

Participants would not be required to make any systematic changes and could continue to process their deliveries as they do today. IMS recycle profiles would be optional, and users that do not elect to prioritize their deliveries through IMS will continue to be subjected to the existing default recycle profile.

DTC believes the new enhancements will enable participants to route all of

their deliveries to IMS, which will: (i) Increase their ability to achieve straight-through processing; (ii) allow them to maximize their priority deliveries and associated settlement credits; and (iii) improve business continuity by having all of their deliveries residing at DTC throughout the day.

DTC believes the proposed rule change is consistent with the requirements of Section 17A of the Act⁴ and the rules and regulations thereunder applicable to DTC because it will promote the prompt and accurate clearance and settlement of securities transactions by increasing efficiency in processing member transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DTC does not believe that the proposed rule change will impose any burden on competition. DTC has discussed the rule change proposal in its current form with various DTC participants and industry groups, a number of whom have worked closely in developing the proposed IMS system.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments relating to the proposed rule change have not yet been solicited or received. DTC will notify the Commission of any written comments received by DTC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period: (i) As the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding; or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

⁴ 15 U.S.C. 78q-1.

¹ 15 U.S.C. 78s(b)(1).

² For additional information on DTC's IMS processing, see Securities Exchange Act Release Nos. 47826 (May 9, 2003), 68 FR 27876 (May 21, 2003) [File No. SR-DTC-2002-19] and 50690 (November 18, 2004), 69 FR 69433 (November 29, 2004) [File No. SR-DTC-2004-10].

³ The Commission has modified the text of the summaries prepared by DTC.

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-DTC-2005-07 on the subject line.

Paper Comments

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-9303.

All submissions should refer to File Number SR-DTC-2005-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 100 F Street, NE., Washington, DC 20549. Copies of such filings also will be available for inspection and copying at the principal office of DTC and on DTC's Web site at <http://www.dtc.org>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2005-07 and should be submitted on or before August 22, 2005.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁵

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52122; File No. SR-NASD-2005-092]

**Self-Regulatory Organizations;
National Association of Securities
Dealers, Inc.; Notice of Filing and
Immediate Effectiveness of Proposed
Rule Change to Extend Operation of
NASD's Alternative Display Facility as
a Temporary Pilot**

July 25, 2005.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 20, 2005, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or the "Commission") the proposed rule change as described in Items I and II below, which items have been prepared by NASD. NASD has designated the proposed rule change as a "non-controversial" rule change pursuant to Rule 19b-4(f)(6) under the Act,³ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's
Statement of the Terms of Substance of
the Proposed Rule Change**

NASD is proposing to extend for nine months, to April 26, 2006, the operation of NASD's Alternative Display Facility ("ADF") on a pilot basis. The ADF pilot program, as approved by the SEC on July 24, 2002, and extended on April 17, 2003, January 26, 2004, and October 26, 2004, will expire on July 26, 2005. The pilot permits members to quote and trade only Nasdaq-listed securities on or through the ADF. The text of the proposed rule change is below. Proposed new language is in *italics*; proposed deletions are in [brackets].

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**4000A. NASD ALTERNATIVE
DISPLAY FACILITY**

4100A. General

NASD Alternative Display Facility ("ADF") is the facility to be operated by NASD on a nine-month pilot basis for members that choose to quote or effect trades in Nasdaq securities ("ADF-eligible securities") otherwise than on Nasdaq or on an exchange. The ADF

will collect and disseminate quotations, compare trades, and collect and disseminate trade reports. Those NASD members that utilize ADF systems for quotation or trading activities must comply with the Rule 4000A, Rule 5400 and Rule 6000A Series, as well as all other applicable NASD Rules. The ADF pilot will expire on [July 26, 2005] *April 26, 2006*.

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**II. Self-Regulatory Organization's
Statement of the Purpose of, and
Statutory Basis for, the Proposed Rule
Change**

In its filing with the Commission, NASD included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NASD has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

**A. Self-Regulatory Organization's
Statement of the Purpose of, and
Statutory Basis for, the Proposed Rule
Change**

1. Purpose

On July 24, 2002, the Commission approved SR-NASD-2002-97,⁴ which authorizes NASD to operate the ADF on a pilot basis for nine months. NASD subsequently filed for immediate effectiveness proposed rule changes SR-NASD-2003-067 to extend the pilot until January 26, 2004;⁵ SR-NASD-2004-012 to extend the pilot until October 26, 2004;⁶ and SR-NASD-2004-160 to extend the pilot until July 26, 2005.⁷ As described in detail in SR-NASD-2001-90, the ADF is a quotation collection, trade comparison, and trade reporting facility developed by NASD in accordance with the Commission's SuperMontage Approval Order⁸ and in conjunction with Nasdaq's anticipated registration as a national securities exchange.⁹ In addition, since the Commission gave its initial approval to the ADF pilot, NASD has filed several other ADF-related rule change proposals

⁴ Securities Exchange Act Release No. 46249 (July 24, 2002), 67 FR 49822 (July 31, 2002).

⁵ Securities Exchange Act Release No. 47633 (April 10, 2003), 68 FR 19043 (April 17, 2003).

⁶ Securities Exchange Act Release No. 49131 (January 27, 2004), 69 FR 5229 (February 3, 2004).

⁷ Securities Exchange Act Release No. 50601 (October 28, 2004), 69 FR 64611 (November 5, 2004).

⁸ Securities Exchange Act Release No. 43863 (January 19, 2001), 66 FR 8020 (January 26, 2001).

⁹ Securities Exchange Act Release No. 44396 (June 7, 2001), 66 FR 31952 (June 13, 2001).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁵ 17 CFR 200.30-3(a)(12).