

THE DEPOSITORY TRUST COMPANY
55 WATER STREET
NEW YORK, N.Y. 10041

February 2, 2000

Mr. Michael Macchiaroli
Associate Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W. - Mail Stop 10-1
Washington, DC 20549

SECURITIES AND EXCHANGE COMMISSION
RECEIVED

FEB 03 2000

DIVISION OF MARKET REGULATION

Re: DTC Clearing Fund Deposits

Dear Macchiaroli:

This is in further regard to our letter of January 19, 1999 (a copy of which is enclosed as Exhibit 1) regarding the proposal to increase DTC's capital by restructuring DTC's Participants Fund through reducing its amount and issuing a corresponding amount of preferred stock. It has now been determined that the Participants Fund will be reduced from \$400 million to \$325 million and that DTC will issue \$75 million variable rate noncumulative nonvoting Series A preferred stock preferred over DTC's common stock as to dividends, and in the event of liquidation ("Series A Preferred Stock") (to be issued in accordance with DTC's Certificate of Amendment of the Organization Certificate, a draft of which is attached as Exhibit 2).

We are writing to request that the Commission advise that it will take no action in respect of DTC broker-dealer Participants treating investments in DTC Series A Preferred Stock, as described herein, as allowable assets ("clearing deposits") for purposes of Section 15c(3)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The new Series A Preferred Stock will function in coordination with mandatory deposits to DTC's Participants Fund, the requirements for which are being reduced by the amount of the Series A Preferred Stock. The investment by broker-dealer Participants in the new Series A Preferred Stock will have the same withdrawal and other features as the broker-dealer's mandatory Participants Fund deposits at DTC. In particular, Rule 4, Section 2(h) provides that, promptly after an entity has ceased to be a Participant, its shares of Series A Preferred Stock will be sold to other Participants pro rata their required Series A Preferred Stock

investments (and such other Participants will be required to purchase such shares), and the proceeds thereof will be added to the Actual Participants Fund Deposit of the former Participant subject to disposition in accordance with Section 1(h) of Rule 4 (which provides for the return of such Actual Participants Fund Deposit to a party ceasing to be a Participant).

Assuring that a Participant's investment in the Series A Preferred Stock will have the same characteristics as its clearing fund deposit will be accomplished by revisions to DTC's Rules, a copy of which are attached as Exhibit 3.* The revised Rules will provide:

- (1) the requirement that Participants purchase and own shares of Series A Preferred Stock (Rule 4, Section 2);
- (2) the amount of Series A Preferred Stock that Participants are required to purchase and own, the manner in which that amount is to be periodically adjusted, the price at which shares of Series A Preferred Stock are to be transferred among Participants, the method and timing of payment for shares of Series A Preferred Stock and certain limitations on the transfer of shares of Series A Preferred Stock (Rule 4, Section 2);
- (3) the right of the Corporation, acting as agent and attorney-in-fact for its Participants, to pledge their shares of Series A Preferred Stock to its end-of-day lenders (Rule 4, Section 2(f));
- (4) the right of the Corporation, acting as agent and attorney-in-fact for its Participants, to sell their shares of Series A Preferred Stock to other Participants (which have a corresponding obligation to purchase such shares), and apply the proceeds to the obligations of the Participant to the Corporation (Rule 4, Section 2);
- (5) various changes in defined terms to (A) describe the Series A Preferred Stock and the required investment of Participants in Series A Preferred Stock, (B) distinguish, when necessary, between the Series A Preferred Stock and the required investment of Participants in Series A Preferred Stock (on the one hand) and the Participants Fund and the required deposit of Participants to the Participants Fund (on the other hand) and (C) refer collectively, when appropriate, to the Series A Preferred Stock and the required investment of Participants in Series A Preferred Stock and the Participants Fund and the required deposit of Participants to the Participants Fund (Rule 1);
- (6) the structure under which, after a party has ceased to be a Participant, the Corporation, acting as agent and attorney-in-fact for such party, shall sell all of

* These revisions to DTC's Rules are the subject of a filing which is being filed with the Commission under Section 19(b) of the Exchange Act.

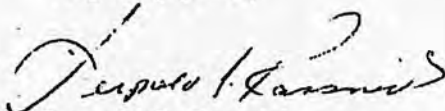
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the shares of Series A Preferred Stock of the former Participant to current Participants (who shall be required to purchase such shares pro rata their Required Preferred Stock Investments at the time of such purchase), and add the proceeds thereof to the Actual Participants Fund Deposit of the former Participant for disposition in accordance with Rule 4, Section 1(h) (which provides for the return of such Actual Participants Fund Deposit to a party ceasing to be a Participant); and

(7) certain other conforming and minor stylistic changes.

Accordingly, inasmuch as broker-dealer investments in DTC's Series A Preferred Stock will increase and decrease, and be subject to substantively the same rules governing withdrawal, and the like as mandatory deposits to DTC's Participants Fund, we request that the Commission advise that it will take no action in respect of DTC broker-dealer Participants treating such investments as an allowable asset ("clearing deposits") for purposes of Section 15c(3)(1) of the Securities Exchange Act of 1934.

Very truly yours,



Leopold S. Rassnick
Managing Director and
Senior Special Counsel

cc: Jerry Carpenter (w/o enclosures)

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