

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. 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 at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR-CBOE-95-66 and should be submitted by November 22, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>4</sup>

Margaret H. McFarland,  
*Deputy Secretary.*

[FR Doc. 95-27133 Filed 10-31-95; 8:45 am]

BILLING CODE 8010-10-M

[Release No. 34-36415; International Series Release No. 877; File No. SR-CBOE-95-45]

#### **Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Approving Proposed Rule Change Relating to the Listing and Trading of Options on the CBOE Mexico 30 Index**

October 25, 1995.

On August 21, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade options on the CBOE Mexico 30 Index ("Mexico 30 Index" or "Index"), a broad-based, modified capitalization weighted index comprised of thirty Mexican stocks. On August 25, 1995, the CBOE submitted

Amendment No. 1 to the proposal to establish additional Index maintenance criteria.<sup>3</sup> Notice of the proposed rule change and Amendment No. 1 thereto appeared in the Federal Register on September 1, 1995.<sup>4</sup> No comments were received on the proposal. This order approves the proposal, as amended.

#### I. Description of the Proposal

The purpose of the proposed rule change is to permit the Exchange to list and trade cash-settled, European-style stock index options on the Mexico 30 Index.<sup>5</sup> The Index is comprised of 30 representative stocks traded on the Mexican Stock Exchange ("Bolsa").<sup>6</sup> The CBOE represents that the Index is deemed to be a broad-based index under Rule 24.1(i)(1).

##### A. Index Design

The Index was designed by and is maintained by the CBOE and the Chicago Mercantile Exchange ("CME"). CBOE represents that the 30 stocks comprising the Index were selected for their high market capitalization and their high degree of liquidity, and further believes that they are representative of the industrial composition of the broader Mexican equity market. The Mexico 30 Index is composed of 15 broad industry groups, including building materials, diversified holding companies, telecommunications, mining and beverages.

The Index is weighted by the market capitalization of the component stocks. However, the CBOE will adjust the Index on a semi-annual basis (occurring after the close on expiration Fridays in December and June), if necessary, to ensure that no single component shall have a weight in the Index greater than 25%, and that the top three weighted component stocks in the Index do not account for more than 45% of the weight of the Index.<sup>7</sup> For example, on June 16, 1995, the most recent review

<sup>3</sup> See Letter from Eileen Smith, CBOE, to Steve Youhn, SEC, dated August 25, 1995.

<sup>4</sup> See Securities Exchange Act Release No. 36160 (Aug. 28, 1995), 60 FR 45755.

<sup>5</sup> A European-style option may only be exercised during a specified period before expiration.

<sup>6</sup> The components of the Index are Alfa SA-A; Apasco SA; Grupo Casa Autrey; Banacci-B; Grupo Carso-A1; Controla Com M-B; Cemex SA-B; Cifra SA-C; Desc SA-B; Empresas Moderna-A; Fomento Econ M-B; Grupo Embotelladoro Mexico; Grupo Financiero Bancomer-B; Grupo Financiero Serfin-B; Grupo Gigante; Grupo Modelo-C; Grupo Mexico-B; Grupo Tribasa-CPO; Hylsamex SA-BCP; Empresas ICA; Iusacell; Kimberly-Clark M-A; Coca-Cola Femsas; Grupo Industrial Maseca-B; Grupo Sidek-B; Tubos de Acero; Telefonos de Mexico-L; Tolmex SA-B2; Grupo Telev-CPO; and Vitro SA.

<sup>7</sup> See Amendment No. 1. As of July 31, 1995, the top three stocks represented 43.6% of the weight of the Index.

date, Telefonos de Mexico ("TMX") would have had a weight of 30.41% of the Index. To reduce TMX's weight, the Exchange reduced the number of outstanding TMX shares used in the calculation of the Index from 8.0375 billion to 6.1303 billion. As of July 31, 1995, TMX represented 23.61% of the Index value.

The average daily capitalization of the Index for the year ended July 31, 1995 was \$58.2 billion.<sup>8</sup> The median capitalization of the stocks in the Index on July 31, 1995, was 4.507 billion pesos (\$737 million at the exchange rate of 6.115 pesos per dollar prevailing on July 31, 1995). The average market capitalization of these stocks was \$1.54 billion on the same date (using the same rate of exchange). The individual market capitalization of these stocks ranged from \$156 million (Grupo Sidek-B) to \$13.3 billion (TMX) on the same date. The largest stock accounted for 23.61% of the Index, while the smallest accounted for 0.36%. The top five stocks in the Index by weight accounted for 55.02% of the Index. The average daily trading volume in the component securities for the period from February 1995 through July 1995, ranged from a low of approximately 9,270 shares to a high of 14,123,392 shares, with an average daily trading volume for all components of the Index of approximately 1,479,390 shares per day.

##### B. Calculation and Maintenance of Index

The value of the Index is determined by multiplying the price of each stock times the number of shares outstanding, adding those sums and dividing by a divisor which gives the Index a value of 200 on its base date of January 3, 1995. The Index had a closing value of 203.07 on July 31, 1995. The Index will be maintained by the CBOE and CME and, in order to maintain continuity of the Index, the divisor of the Index will be adjusted to reflect certain events relating to the component stocks. These events include, but are not limited to, changes in the number of shares outstanding, spin-offs, certain rights issuances, and mergers and acquisitions. In addition, as noted above, CBOE will maintain the Index to ensure that no one component, or the top three components, represent more than 25% or 45% of the weight of the Index, respectively. Any changes to the composition of the Index which are made as a result of these maintenance standards will be done on a semi-annual

<sup>8</sup> On July 31, 1995, the total capitalization of the Index was \$46.21 billion, which represented 49.35% of the overall capitalization of the Mexican Bolsa.

<sup>4</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988 & Supp. V 1993).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

basis in December and June of each year.

The composition of the Index will be reviewed periodically and the CBOE and CME may make component changes at any time to ensure that the Index continues to represent the overall character of the Mexican equity market. When considering replacement stocks, CBOE and CME will choose from among the most heavily capitalized and actively traded stocks on the Bolsa.<sup>9</sup> In addition, CBOE and CME will consider other factors including industry grouping, level of foreign accessibility (*i.e.*, whether foreigners may purchase the stock), name recognition, and volatility.

### C. Index Option Trading

The Exchange also proposes to base trading in options on the Index on the full value of the Index as expressed in U.S. dollars. The Exchange also may provide for the listing of full-value long-term index option series ("LEAPS<sup>®</sup>") and reduced-value LEAPS on the Index. For reduced-value LEAPS, the underlying value would be computed at one-tenth of the value of the Index. The current and closing index value of any such reduced-value LEAP will, after such initial computation, be rounded to the nearest one-hundredth. The Exchange will list expiration months for Mexico 30 Index options and Index LEAPS in accordance with CBOE Rule 24.9.

The trading hours for options on the Index will be from 8:30 a.m. Chicago time to 3:15 Chicago time. Bridge Information Systems ("Bridge") will calculate the value of the Index every fifteen seconds throughout the trading day and disseminate the Index value through the Options Price Reporting Authority ("OPRA").<sup>10</sup> Bridge obtains quotes and trade information on a real-time basis directly from the Bolsa through an electronic feed. The trading hours of the Bolsa are the same as those of the New York Stock Exchange, 8:30 a.m. through 3:00 p.m. Chicago time. Accordingly, the value of the Index will be based upon the prices of the components as traded or quoted on the Bolsa.<sup>11</sup>

The Exchange is proposing to establish position limits for Mexico 30 Index options equal to 50,000 contracts

<sup>9</sup> See Letter from William M. Speth, Jr., CBOE, to Steve Youhn, SEC, dated October 23, 1995.

<sup>10</sup> See Amendment No. 1.

<sup>11</sup> As noted above Mexico Index options will continue to trade for 15 minutes after the Bolsa closes. This is consistent with trading times for other index options and also gives market participants the opportunity to adjust their positions after the Bolsa closes.

on the same side of the market, with no more than 30,000 contracts in the series with the nearest expiration date.

According to the Exchange, these limits are roughly equivalent, in dollar terms, to the limits applicable to options on other indices. Ten reduced-value options will equal one full-value contract for such purposes. Furthermore, the hedge exemption rule applicable to broad-based index options, Commentary .01 to CBOE Rule 24.4, will apply to Mexico 30 Index options.<sup>12</sup>

CBOE also represents that it has the necessary systems capacity to support new series that would result from the introduction of Mexico 30 Index options. CBOE has been informed that OPRA has the capacity to support such new series.<sup>13</sup>

### D. Exercise and Settlement

The proposed options on the Index will expire on the Saturday following the third Friday of the expiration month and trading in the expiring contract month on CBOE will normally cease on Friday at 3:15 p.m. (Chicago time) unless a holiday occurs. The exercise settlement value of Index options at expiration will be determined from closing prices established at the close of the regular Friday trading sessions in Mexico. If a stock does not trade during this interval or if it fails to open for trading, the last available price of the stock will be used in the calculation of the Index. When expirations are removed in accordance with Exchange holidays, such as when the CBOE is closed on the Friday before expiration, the last trading day for expiring options will be Thursday and the exercise settlement value of Index options at expiration will be determined at the close of the regular Thursday trading sessions in Mexico even if the Mexican markets are open on Friday. If the Mexican markets are closed on the Friday before expiration but the CBOE is open for trading, the last trading day for expiring options will similarly be Thursday, with the exercise settlement value being determined from Thursday closing prices on the Bolsa.

### E. Surveillance

The Exchange will apply its existing index option surveillance procedures to Index options. In addition, the Exchange is aware of a Memorandum of Understanding ("MOU") between the Commission and the Mexican Comision Nacional Bancaria y de Valores

<sup>12</sup> Telephone Conversation between Patricia Cerny, Market Surveillance, CBOE, and Stephen M. Youhn, SEC, on October 18, 1995.

<sup>13</sup> See Letter from Joe Corrigan, OPRA, to Eileen Smith, CBOE, dated August 1, 1995.

("CNBV"). As discussed below, this MOU will enable the Commission to obtain information concerning the trading of the component stocks of the Mexico 30 Index. As discussed below, the Exchange will seek to enter into an effective surveillance agreement with the Bolsa.

## II. Findings and Conclusions

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5).<sup>14</sup> The Commission finds that the trading of options based on the Mexico 30 Index, including long-term options based on either the full or a reduced value of the Index, will serve to protect investors, promote the public interest, and help to remove impediments to a free and open securities market by providing investors with a means to hedge exposure to market risk associated with the Mexican equity market and provide a risk management instrument for positions in the Mexican securities market.<sup>15</sup> The trading of options on the Index will permit investors to participate in the price movements of the 30 Mexican equity securities underlying the Index. As a result, the trading of options on the Index will allow investors holding some or all of the securities underlying the Index to hedge the risks associated with those positions. Thus, the trading of options based on the Mexico 30 Index will provide investors with a valuable hedging vehicle that should reflect accurately the overall movement of the Mexican equity market.

The trading of Index options and Index LEAPS on the Mexico 30 Index, however, raises several issues related to index design and structure, customer protection, and surveillance. The Commission believes, however, for the reasons discussed below, that the CBOE has adequately addressed these issues.

### A. Index Design and Structure

The Commission finds that it is appropriate and consistent with the Act to apply the Exchange rules applicable

<sup>14</sup> 15 U.S.C. §78f(b)(5) (1988 & Supp. V 1993).

<sup>15</sup> Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of rule changes pertaining to any new option proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns.

to broad-based index options to the Index options.<sup>16</sup> First, the Index consists of 30 of the most actively traded stocks on the Bolsa.<sup>17</sup> Second, stocks in the Index are among the most highly capitalized stocks on the Bolsa. For example, on July 31, 1995, the market capitalization of the individual stocks in the Index ranged from a high of \$13.3 billion to a low of \$156 million, with a mean value of U.S. \$1.54 billion. Third, the average daily capitalization of the Index, for the year-ended July 31, 1995, was U.S. \$58.2 billion.<sup>18</sup> While this figure is smaller than other previously approved broad-based indexes on U.S. securities, it is nonetheless a substantial capitalization for a foreign market and represents almost half of the total capitalization of the Bolsa.<sup>19</sup> Fourth, the Index includes stocks of companies from fifteen separate industries, with no industry segment comprising more than 25% of the Index's total value. Fifth, CBOE maintenance criteria require that no single index component shall comprise more than 25% of the Index's total value and that the percentage weighting of the three largest issues in the Index shall not exceed 45% of the Index's value. This will help to ensure that a single stock or small group of stocks does not dominate the Index. Sixth, the Index component stock listing and maintenance criteria will serve to ensure that the Index maintains its broad representative sample of stocks on the Bolsa. In addition, the maintenance criteria will ensure that the Index continues to be comprised of component stocks that are among the most highly capitalized and actively traded stocks on the Bolsa. Accordingly, the Commission believes it is appropriate to classify the Index as broad-based.

Furthermore, the Commission believes that the general broad diversification of the Index component stocks, as well as their high capitalizations and trading activity, minimize the potential for manipulation of the Index. First, as discussed above, the Index represents a broad cross-

<sup>16</sup> In addition, the reduced value Mexico 30 Index, which is comprised of the same component securities as the Index, and calculated by dividing the Index by ten, is essentially identical to the Mexico 30 Index.

<sup>17</sup> While some of the stocks in the Index have relatively low trading volume, they account for a small percentage of the Index weighting.

<sup>18</sup> In the event the aggregate capitalization of the Index falls below \$30 billion, the CBOE will consult with the Commission regarding appropriate regulatory responses.

<sup>19</sup> A foreign index capitalization that is smaller than that of the Mexico Index would raise questions regarding whether that particular index warranted broad-based index options treatment.

section of highly-capitalized Mexican stocks, with no single industry group or stock dominating the Index. Second, the stocks that comprise the Index are relatively actively traded. Third, the Commission believes that the index selection and maintenance criteria will serve to ensure that the Index continues to represent stocks with the highest capitalizations and trading volumes on the Bolsa. In addition, the Exchange has proposed position and exercise limits for the Index options that are consistent with other broad-based index options.

#### *B. Customer Protection*

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Mexico 30 Index options and Index LEAPS, can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) The special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options and Index LEAPS will be subject to the same regulatory regime as the other standardized options currently traded on the CBOE, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Mexico 30 Index options and Index LEAPS.<sup>20</sup>

#### *C. Surveillance*

In evaluating derivative instruments, the Commission, consistent with the protection of investors, considers the degree to which the derivative instrument is susceptible to manipulation. The ability to obtain information necessary to detect and deter market manipulation and other trading abuses is a critical factor in the Commission's evaluation. It is for this reason that it is important that the SEC determine that there is an adequate mechanism in place to provide for the exchange of information between the market trading the derivative product and the market on which the securities underlying the derivative product are

<sup>20</sup> In addition, CBOE has represented that it and OPRA have the necessary systems capacity to support those new series of options that would result from the introduction of Index options and Index LEAPS. See Memorandum from Joe Corrigan, Executive Director, OPRA, to Eileen Smith, CBOE, dated August 1, 1995.

traded. Such mechanisms enable officials to surveil trading in both the derivative product and the underlying securities.<sup>21</sup> For foreign stock index derivative products, such mechanisms are especially important for the relevant foreign and domestic exchanges to facilitate the collection of necessary regulatory, surveillance and other information.

With respect to the CBOE proposal, CBOE and the Bolsa do not have a written surveillance sharing agreement that covers the trading of Mexico 30 Index options at this time.<sup>22</sup> Moreover, it is the Commission's understanding that the Bolsa currently is not able to provide the requisite information for a comprehensive surveillance sharing instrument. Thus it would be impossible for the CBOE to secure a comprehensive agreement. In such cases, the Commission has relied in the past on surveillance sharing arrangements between the relevant regulators. In regard to the Index, first, the Commission notes that the Bolsa is under the regulatory oversight of the CNBV, which has responsibility for both the Mexican securities and derivatives markets. The Commission and the CNBV have concluded a Memorandum of Understanding, dated October 18, 1990, that provides a framework for mutual assistance in investigatory and regulatory issues.<sup>23</sup> Based on the relationship between the SEC and CNBV and the terms of the MOU, the Commission understands that both it and the CNBV could acquire information from and provide information to the other similar to that which would be required in a comprehensive surveillance sharing agreement between exchanges.<sup>24</sup> Moreover, the agencies could make a request for information under the MOU

<sup>21</sup> The Commission believes that a comprehensive surveillance sharing agreement should provide the parties thereto with the ability to obtain information necessary to detect and deter market manipulation and other trading abuses. Consequently, the Commission generally requires that such agreements require that the parties provide each other, upon request, with information about market trading activity, clearing activity, and the identity of the purchasers and sellers of securities underlying the derivative product. See, e.g., Securities Exchange Act Release No. 31529 (Nov. 27, 1992), 57 FR 574248.

<sup>22</sup> The CBOE has committed to make every effort to enter into a comprehensive surveillance sharing agreement with the Bolsa.

<sup>23</sup> The CNBV is the successor to the Comision Nacional de Valores de Mexico, which was merged with the Mexican Banking Commission in April 1995 to form the CNBV. See National Banking and Securities Commission Act, Mexico, dated April 24, 1995.

<sup>24</sup> This information could include transaction, clearing, and customer identity information necessary to conduct an investigation.

on behalf of an SRO that needed the information for regulatory purposes. Thus, should the CBOE need information on Mexican trading in the Index component securities to investigate incidents involving trading of Index options, the SEC could request such information from the CNBV under the MOU. While this arrangement certainly would be enhanced by the existence of direct exchange to exchange surveillance sharing agreements, it is nonetheless consistent with other instances where the Commission has explored alternatives when the relevant foreign exchange was unwilling or unable to enter into a comprehensive surveillance sharing agreement.<sup>25</sup>

Accordingly, the Commission believes the MOU provides sufficient basis for the exchange of necessary surveillance information. The Commission continues to believe strongly, however, that the Bolsa and the CBOE should continue to work together to consummate a formal surveillance sharing agreement to cover Mexico 30 Index options as soon as practicable.

*It therefore is ordered*, pursuant to section 19(b)(2) of the Act,<sup>26</sup> that the proposed rule change (SR-CBOE-95-45) is approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority:<sup>27</sup>

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 95-27003 Filed 10-31-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36425; File No. SR-DTC-94-16]

**Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Amendment to a Proposed Rule Change Clarifying the Depository Trust Company's Policy on Depository-to-Depository Services and Fees**

October 26, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on November 29, 1994, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-DTC-94-16) as

<sup>25</sup> See, e.g., Securities Exchange Act Release No. 36070 (Aug. 9, 1995), 60 FR 42205 (Aug. 15, 1995) (Order Approving Proposed Rule Changes Relating to the Listing and Trading of Warrants on the Deutscher Aktienindex).

<sup>26</sup> 15 U.S.C. § 78s(b)(2) (1988).

<sup>27</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

described in Items I, II, and III below, which Items have been prepared primarily by DTC. Notice of the proposal was published in the Federal Register on January 9, 1995.<sup>2</sup> One comment letter was received.<sup>3</sup> On October 11, 1995, DTC filed an amendment to clarify the filing.<sup>4</sup> Because the amendment changes the substance of the filing, the Commission is publishing this notice to solicit comments on the amended proposed rule change from interested persons.

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

DTC proposes to clarify its policy regarding depository-to-depository services and fees by filing the following statement:

With respect to any other securities depository that is registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934 (a "depository"), neither DTC nor the other depository shall be obligated to pay each other the fees charged to participants by virtue of having executed participant agreements with one another. DTC shall provide services to the other depository, charges fees for those services, and pay for the services provided to DTC, all in accordance with the terms of a separate agreement, if any, between DTC and the other depository respecting such matters.

In the absence of any such separate agreement, however:

1. DTC shall make available to any other depository any service that DTC makes available to its Participants generally, provided that such depository makes its services available to DTC on the same basis.

2. DTC (i) shall not charge for the book-entry delivery services provided to the other depository nor pay for the book-entry delivery services provided by the other depository, (ii) shall charge DTC participant fees for services relating to the physical handling of certificates rendered by DTC to such depository and pay the other depository its participant fees for services relating to the physical handling of certificates rendered to DTC and (iii) shall charge the other depository and pay the other depository for "linked services" provided, if any.<sup>5</sup> [Footnote original]

<sup>2</sup> Securities Exchange Act Release No. 35186 (December 30, 1994), 60 FR 2418.

<sup>3</sup> Letter from J. Craig Long, Foley and Lardner [on behalf of the Midwest Securities Trust Company], to Jonathan G. Katz, Secretary, Commission (February 3, 1995).

<sup>4</sup> Letter from Richard B. Nesson, Executive Vice President and General Counsel, DTC, to Jerry W. Carpenter, Esq., Assistant Director, Division of Market Regulation, Commission (October 11, 1995).

<sup>5</sup> The Commission has described linked services as arrangements where one depository ("servicing depository") performs for another depository ("using depository") the core tasks necessary to deliver the services to the using depository's participants. The Commission has cited as examples of linked services DTC's processing of ID confirmations and affirmations and DTC's fourth-

**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 such statements.<sup>6</sup>

**(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 state DTC's policy with respect to depository-to-depository services and fees. DTC states that this policy statement reflects the practices that have been followed by DTC and the other depositories since the beginning of interdepository processing and is consistent with the Commission's expressed views concerning these matters.

From the very beginning of interdepository processing, in the mid-1970's and through the present, DTC and the other depositories have charged and paid each other for services rendered only such fees that have been negotiated. For example, in 1975, Pacific Securities Depository Trust Company ("PSDTC") declared that it would not pay or levy charges on the other depositories. In September 1976, DTC was informed of the unilateral determination by the Midwest Securities Trust Company ("MSTC") Board that as a matter of principle MSTC would discontinue paying DTC for services other than for physical withdrawals of certificates. In 1977, DTC, PSDTC, and MSTC formally agreed to provide most services to each other without charge ("no charge agreement"). At the present time, DTC has an informal agreement with the Philadelphia Depository Trust Company ("Philadep") covering custody-related services. DTC and Philadep charge each other their published fees for these services.

DTC states that the Commission has been aware of and has commented in its

party delivery service. The Commission has expressed the view that a servicing depository should be permitted to charge a using depository the same fee it charges its participants for the same or a similar service. Securities Exchange Act Release No. 23083 (March 31, 1986), 51 FR 12421.

<sup>6</sup> The Commission has modified the text of the summaries prepared by DTC.