



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
INVESTMENT MANAGEMENT

June 3, 1997

ACT ICA
SECTION _____
RULE 17f-5
PUBLIC
AVAILABILITY 6.3.97

VIA FACSIMILE AND AIR MAIL

Ms. Adriana Tanasoiu
General Deputy Manager
Bucharest Stock Exchange
8 Doamnei Street
Bucharest 70412
ROMANIA

Dear Ms. Tanasoiu:

Your letter dated April 17, 1997 requests information concerning the status of the Clearing and Registry Service of the Bucharest Stock Exchange (the "BSE") with respect to Section 17(f) of the Investment Company Act of 1940 (the "1940 Act") and Rule 17f-5 thereunder.

In your letter, you state that the BSE commenced trading in November 1995 and is regulated by the Comisia Nationala a Valorilor Mobiliare ("CNVM").¹ You further state that the BSE operates an integrated system with trading, clearing, settlement and registry functions, and that all companies traded on the BSE must hold their registers in the BSE. You state also that the CNVM has licensed five custodians in Romania, but you do not indicate whether the CNVM has licensed the BSE as a custodian.

Section 17(f) of the 1940 Act sets forth the custodial requirements for U.S.-registered management investment companies ("funds"). Rule 17f-5 permits funds to maintain certain assets with "eligible foreign custodians." On May 12, 1997, the Commission adopted amendments to Rule 17f-5 to provide funds with greater flexibility in managing their foreign custody arrangements consistent with the safekeeping of fund assets. The amendments will be effective on June 16, 1997. Among other things, the amendments expand the class of foreign banks and depositories that may serve as fund custodians.

Based on your characterization of the BSE, subparagraph (a)(1)(ii) of Rule 17f-5, as amended, seems most relevant to your inquiry. Rule 17f-5 defines the terms "eligible foreign

¹We assume that the CNVM is the same entity as the National Securities Commission referred to on page one of your letter.

custodian" to include "a securities depository or clearing agency that acts as a system for the central handling of securities or equivalent book-entries in the country that is regulated by a foreign financial regulatory authority."² Rule 17f-5 is self operative and, therefore, does not require any foreign institution that satisfies the definition of "eligible foreign custodian" to obtain the prior approval of the Commission before serving as an eligible foreign custodian for U.S.-registered funds. Thus, if the BSE acts as a central depository for handling securities or equivalent book-entries in Romania, and is regulated with respect to those activities by a foreign

²Section 3(a)(23)(A) of the Securities Exchange Act of 1934 ("1934 Act") defines "clearing agency" generally as an intermediary that makes payments or deliveries in connection with transactions in securities. The term includes any entity, such as a securities depository, that (1) acts as a custodian of securities in connection with a system for central handling of securities whereby all securities of a particular class or series of an issuer deposited within the system are treated as fungible and may be transferred, loaned, or pledged by bookkeeping without physical delivery of securities certificates, or (2) otherwise permits or facilitates the settlement of securities without physical delivery of securities certificates.

Section 3(a)(52) of the 1934 Act defines a "foreign financial regulatory authority" as any (1) foreign securities authority, (2) other governmental body or foreign equivalent of a self-regulatory organization empowered by a foreign government to administer or enforce its laws relating to the regulation of fiduciaries, trusts, commercial lending, insurance, trading in contracts of sale of a commodity for future delivery, or other instruments traded on or subject to the rules of a contract market, board of trade, or foreign equivalent, or other financial activities, or (3) membership organization a function of which is to regulate participation of its members in activities listed above.

Rule 17f-4 under the 1940 Act defines a "securities depository" as a "system for the central handling of securities where all securities of any particular class or series of any issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of securities."

Rule 17f-5(c)(2)(iii) under the 1940 Act refers to both securities depositories and clearing agencies because a foreign securities depository may be known as a "clearing agency" in certain countries. See Investment Company Act Release No. 13724 at n. 31 (Jan. 17, 1984) (reproposing Rule 17f-5).

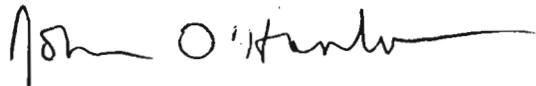
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financial regulatory authority, it falls within the definition of eligible foreign custodian and does not need the approval of the Commission to provide custodial services to U.S. funds.

If the BSE provides custodial services but does not satisfy the "eligible foreign custodian" requirements under Rule 17f-5, we suggest that the BSE consult an attorney familiar with the U.S. federal securities laws.

I am sending with the airmail copy of this letter a copy of Rule 17f-5, as amended, and the release adopting the amendments. If you have any further questions, please telephone me at (202) 942-0660 or [Fax] (202) 942-9659.

Very truly yours,



John V. O'Hanlon
Assistant Chief Counsel

Enclosures



BUCHAREST STOCK EXCHANGE

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Date: 17 April 1997

To: Ms Kerri McMillan
Securities and Exchange Commission
Fax: 202 942 9659

From: Adriana Tanasoiu
General Deputy Manager - Bucharest Stock Exchange
Fax: 00401 323 5732

Re: Section 17 (f) 5 Investment Company Act 1940

Dear Ms McMillan,

I have been in correspondence with Sheldon E Warrick of Brown Brothers Harriman and Co, Boston, who has suggested that I write to you to find out whether or not the Bucharest Stock Exchange needs to apply for a "No Action Letter" in regard of its Clearing and Registry Service so that US institutional investors can invest in our listed companies.

Most companies in Romania are partially privatised, with the state having majority shareholdings. However, the government, newly elected in November 1996, is determined to sell off its holdings. It is this opportunity that is proving very attractive to foreign investors.

There has been considerable interest from foreign investors, especially Americans, about adding Romanian companies to their portfolios of investments. It would be very helpful to us, if you could clarify what our status is with regard to Section 17 (f) 5, and what we need to do to give confidence to American institutions that they can invest in our listed companies.

I trust that the following description of our operation will help you to analyse us.

Background

The Bucharest Stock Exchange commenced trading in November 1995. It is a public entity regulated by the National Securities Commission, but managed by its members through an elected Board of Governors. It currently

trades 32 securities and is processing listing applications which will bring this number up to over 100.

The Exchange operates an integrated system with trading, clearing, settlement, and registry functionality. All companies traded on the Exchange must hold their registers in our system.

There is also an OTC market in Romania, RASDAQ, which has its own clearing and registry arrangements. All the companies that participated in the mass privatisation programme were automatically listed on the OTC market. Now issuing companies have to select which market their shares will be traded on, as they cannot be traded on both.

Brokers, however, can trade on both Exchanges, and Bank Custodians can also participate in both.

The concept of securities custodians is very new in Romania. Our securities commission, the Comisia Nationala a Valorilor Mobiliare (CNVM), which regulates the securities industry, began licensing custodians in January. At present, five have been licensed, three being Romanian subsidiaries of foreign banks (ABN Amro, ING Bank and Societe Generale), one Romanian bank (Transilvania) and a broker (Creditanstalt Securities).

Listing at the BSE

We have a Listing Committee that vets applications, concentrating on the business history of the applicants, particularly their profitability.

There are two tiers to our list.

The top tier has special requirements concerning the capital of the company, the percentage of the company in public ownership, the minimum number of shareholders. Such companies must have existed for three or more years of which the last two must have shown a profit. Today, there are four companies in this tier.

The second tier has less onerous requirements; one year's history and a certificate of non indebtedness to fiscal authorities.

We require all listed companies to publish full annual reports to their shareholders and quarterly income statements. Company news releases must be checked by the Exchange before issue. They must be published in at least one national newspaper and one financial newspaper. They are required for any event that might impact the market price eg: management change, significant new contract, corporate structure change etc. Trading can be suspended waiting for announcements.

The registry

The Registry is divided into three sections.

Unaligned holdings - these are holdings of individuals who are not contracted to a participant in the clearing system. Stock cannot be traded from such holdings. It must be transferred to a clearing participant's control first.

Clearing Participant's Clients' stock - these holdings are still recorded in the name of the client, but they are controlled by the clearing participant.

A clearing participant can be either a broker or a custodian. [At present custodians are not able to participate directly in the service, they have controls over accounts in brokers. This fax describes a service we are in the process of implementing having agreed the outline with the participants.]

Clearing Participant's Principal holdings - the participants own stock.

Companies can request copies of their registers at anytime. One has on line links to the system.

Clearing participants have access to the computer system, and can enquire on data involving the accounts in their control such as stock holdings and transaction history.

Cash benefits are distributed to the names on the register directly by the issuing company. Stock benefits are added to the account holdings.

Romanian law requires registered shareholders to disclose who the beneficial shareholders behind them are on quarterly basis and on demand from the registry. This will be required for voting at a company meeting.

Trading on the BSE.

Only securities firms that are members of the BSE can trade on the BSE. They are licensed and regulated by the CNVM and licensed by the BSE. Trading is via an order matching mechanism where orders are input through terminals on a continuous basis during the trading period (9.15 - 13.30). Matched orders are for T+3 settlement.

Large value trades can be dealt outside the system but must be reported to the Exchange at the end of the trading period. The Exchange validates the price against the market and then inputs the trade for publication and settlement.

Short selling is not permitted at the moment, so the system validates that a seller has the holding he is attempting to sell before passing the order for matching. Buyers have their credit caps checked.

Stock can be frozen in the broker's account, using a pledging mechanism, which means it is not available to sell. Custodians have been given the ability to freeze and release stock in specific broker accounts as their means of controlling holdings in the interim before our proper custodian solution is implemented.

In the proper solution, the broker will quote a custodian's account on his order input and the system will check the custodian's holding. The broker will check that the custodian has client instructions to settle the trade before entering the order.

The custodian will see the order soon after it is matched, and has until midday on T+1 to repudiate it.

Clearing and Settlement

As each trade matches during the trading period the Exchange recalculates the net cash settlement position for the clearing participants involved. After the close of the trading session, the final net cash settlement position is

reported to them together with lists of the transactions that make up the settlement position.

In our proper custodian solution the custodian will replace the broker as the settlement participant for trades using his accounts.

On T+1 the settlement participants must inform the Exchange if they contest information appearing on the settlement reports. The reports can be adjusted by Exchange input. This will occur if a custodian rejects a trade. After T+1, trades are locked in for settlement.

By the morning of T+3 net paying settlement participants must have contributed their payment amounts to our clearing bank. Settlement is guaranteed. If someone fails to pay there are a number of measures in place to ensure funds are found:

- the broker must have lodged a guarantee letter from its bank with our clearing bank for a capped amount, which can be demanded;
- if this is not enough, the Exchange can enforce its lien over the broker's principal holdings to use them as collateral for a loan;
- then there is a guarantee fund to make the payment from, if that is not enough;
- finally all brokers can be requested to make contributions to makeup any difference.

Buyers cash is transferred to the Exchange's account and then on to the sellers in accordance with a novation agreement between the BSE and the settlement parties. The Exchange does not effect the stock transfers until the clearing bank has confirmed it can make the cash transfers.

Conclusion

We believe that as the Bucharest Stock Exchange has sole responsibility for managing the registers of the securities that are traded on it, we are qualified to be considered as a 17f-5 qualified custodian for US domiciled mutual funds.

I look forward to hearing your views about us, and, in particular, what we will have to do to apply for a "No Action Letter".

Yours sincerely,



Adriana Tanasoiu