



DIVISION OF
MARKET REGULATION

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

August 28, 1992

Mr. Guillermo T. Prieto
Vice-Chairman of Market Development
Comision Nacional de Valores
Barranca del Muerto No. 275
Col. San Jose Insurgentes
Mexico 03900 D.F.
MEXICO

Dear Mr. Prieto:

This is in reference to your letter of July 10, 1992, wherein you ask on behalf of the Comision Nacional de Valores ("CNV") that the Division of Market Regulation (the "Division") review the position of its letter of August 6, 1991, in which the Division recognized eleven stocks listed on the Mexican Stock Exchange ("MSE") as having a "ready market" for purposes of Rule 15c3-1 (17 C.F.R. § 240.15c3-1) (the "Rule"). The CNV would like the Division to now recognize additional stocks listed on the MSE as having a ready market.

Specifically, you state that thirteen different issues would now meet the criteria established by the Division in its August 6, 1991 letter. In addition, you suggest that three other issues listed on the MSE very nearly satisfy the requirements of the Division's earlier letter. You ask that the Division consider all sixteen of these equity issues for recognition of their ready marketability under the provisions of the Rule. You also suggest that the Division review the statistics twice a year so it may periodically update the list of Mexican equity securities which have a ready market.

Instead of continually reevaluating the equity securities listed on the MSE, the Division has decided to rely on the FT-Actuaries Mexico Index ("FT-A Mexico Index") as a test of the ready marketability for Mexican equity securities. The FT-A Mexico Index, like all of the FT-A World Indices, are jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie (together, the "Consortium") in conjunction with The Institute of Actuaries and The Faculty of Actuaries.

We understand that, in determining which issues to include from the MSE, the Consortium subjects the issues listed on the MSE to five investibility screens to determine the investible universe.

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The first screen, the Size Screen, excludes the bottom 5% of any market's capitalization. The second screen, the Total Restriction Screen, excludes any foreign security which foreign investors are barred from owning. The third screen, the Partial Restriction Screen, excludes a portion of the capitalization of an issue where the security has restrictions on foreign ownership. A fourth screen, the "Free Float" Screen, generally excludes a security where one or more identifiable holders acting in concert holds more than 75% of the outstanding issue. The fifth screen, the Liquidity Screen, excludes any security that fails to trade for more than fifteen working days within each of two successive quarters.

Once the Consortium has determined the investible universe for the Mexican market, it selects constituent stocks in order to capture about 85% of this investible universe. The Consortium also determines the economic sectoral make-up of the Mexican market before determining the individual stocks to include. The stocks are selected so that the index reflects the economic sector distribution of the investible universe. The FT-A Mexico Index currently includes eighteen different issues, seven more than were deemed to have a ready market in the Division's August 6, 1991 letter. The adoption of the FT-A Mexico Index will ensure that the equities listed on the MSE will be continually reevaluated by an objective standard to determine their suitability for inclusion on the index.^{1/}

Based on the above, the Division will not recommend to the Commission that enforcement action be taken as to section 15(c)(3) of the Securities Exchange Act and Rule 15c3-1 thereunder if broker-dealers treat Mexican equity securities listed on the FT-A Mexico Index as having a ready market. The August 6, 1991 letter to the CNV addressing this issue should be disregarded.

You should be aware that this is a staff position with respect to enforcement only and does not purport to express any legal conclusions. This position is based solely on the foregoing description and factual variations may warrant a different response. This position may be withdrawn or modified if the staff determines that such action is necessary in the public interest, for the protection of investors, or otherwise, in furtherance of the purposes of the securities laws.

1/ As of August 13, 1992, the FT-A Mexico Index included: (1) ALFA A, (2) BANACCI C, (3) CELANESE A, (4) CEMENTOS APASCO, (5) CEMEX A, (6) CIFRA A, (7) CIFRA B, (8) CIFRA C, (9) CYDSA A, (10) DESC B, (11) FEMSA B, (12) GMEXICO A2, (13) KIMBERLY MEX A, (14) PENOLES A2, (15) TAMS A, (16) TELMEX A, (17) TELMEX L, and (18) VITRO.