



DIVISION OF
INVESTMENT MANAGEMENT

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

January 28, 1998

VIA FACSIMILE AND AIR MAIL

Mr. Dragos Neacsu
Executive Manager
Societatea Nationala de Compensare, Decontare
Si Depozitare Pentru Valori Mobiliare
Of. Reg. Com.: J 40 / 6981 / 1996
Cod Fiscal: R 8807210
Bd. Expozitiei nr. 2, World Trade Center, Corp F, Camera 3.22
ROMANIA

ACT ICA of 1940
SECTION 17(f)
RULE 17f-5
PUBLIC
AVAILABILITY JAN. 28, 1998

Dear Mr. Neacsu:

Your letter dated December 9, 1997 requests clarification from the Securities and Exchange Commission ("Commission") regarding the status of Societatea Nationala de Compensare, Decontare ("SNCDD") as an eligible foreign custodian for assets of U.S.-registered management investment companies ("funds"). In your letter, you state that SNCDD serves as the central depository and clearing agency for securities traded on the RASDAQ National Securities Market, and is regulated by two foreign financial regulatory authorities: the National Securities Commission of Romania and the National Bank of Romania.

Section 17(f) of the Investment Company Act of 1940 ("1940 Act") sets forth the custodial requirements for U.S.-registered funds. Rule 17f-5 thereunder permits funds to maintain their assets with certain categories of eligible foreign custodians. Amended Rule 17f-5(a)(2)(iii) defines the term "eligible foreign 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." ^{1/}

^{1/} Amended Rule 17f-5 no longer requires that the centralized securities depository or clearing agency be the only such system in a country.

Section 3(a)(23)(A) of the Securities Exchange Act of 1934 defines "clearing agency" generally as an intermediary that makes payments and/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 the central handling of securities whereby all securities of a particular class or series of an issuer

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Rule 17f-5 is self-operative and 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, based on your representations that SNCDD is a clearing agency that acts as a system for the central handling of securities (or book entries) in Romania, and that SNCDD is regulated by the National Securities Commission of Romania and the National Bank of Romania, it appears that SNCDD would meet the definition of an "eligible foreign custodian," and would not need the approval of the Commission to provide custodial services to U.S. funds.

If you have any further questions, please contact me at (202) 942-0660 or [fax] (202) 942-9659.

Sincerely,



Brendan C. Fox
Attorney

deposited within the system are treated as fungible and may be transferred, loaned, or pledged by bookkeeping entry without physical delivery of securities certificates, or (2) otherwise permits or facilitates the settlement of securities transactions without physical delivery of securities certificates.

Rule 17f-4 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 the securities."



**SOCIETATEA NAȚIONALĂ DE COMPENSARE, DECONTARE
ȘI DEPOZITARE PENTRU VALORI MOBILIARE**

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Cod Fiscal : R 8807210
Bd. Expoziției nr.2, World Trade Center, Corp F, Camera 3.22
Tel : 222 93 48, 222 93 60, 222 93 70, Fax : 222 93 53

**Ms. Kerry McMillan
Special Counsel
Division of Investment Management
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549**

I am writing you on behalf of my institution following the changes that became effective on June 16, 1997 in the regulation of foreign custody as a result of the amendments adopted by the Securities and Exchange Commission on May 12, 1997 to the Investment Company Act of 1940 Section (Rule) 17 f-5. SNCDD respectfully requests clarification from the U.S. SEC regarding its status as an exempt eligible foreign custodian of the assets of U.S. investment companies.

SNCDD was established in August 1996 based on the Rule 8 / 1996 issued by the National Securities Commission of Romania that defines in its second article the mission of this institution as being " the consolidation and development of the capital market in Romania, by promoting a clearing, settlement and depository system aimed at insuring the speediness, fairness and safety of the securities trades while maintaining the lowest possible level of operating costs ". It is organized as a not-for-profit participant owned stock company with a number of 181 shareholders belonging to five different categories allowed for specific group quotas and a individual shareholder limit of 3 % of the stock.

SNCDD functions as a public utility, regulated by both the National Securities Commission of Romania and the National Bank of Romania (BNR). SNCDD is the first fully authorized SRO by the National Securities Commission of Romania since July 17, 1997 (Decision 6787). Moreover, the National Bank of Romania recently made final the authorization of SNCDD as a Clearing House on August 1, 1997 (Decision 4051).



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Management functions are performed by a four years term elected Board of Administrators with 9 members reflecting the proportion of the different types of shareholders (4 brokers, 4 bankers and 1 insurance company) while the operational activities are performed by the Executive Manager and a staff of 14 people.

SNCDD acts as the clearing agency for all securities trades executed on the RASDAQ National Securities Market. Settlement of the trades performed on the RASDAQ Market began on November 1, 1996 after the National Bank of Romania had provisionally authorised SNCDD as the first Clearing House in Romania on the basis of the provisions included in BNR Rules 8 / October 1996.

We started the final settlement procedure that runs on a rolling T + 3 scheme with a number of 15 settlement banks approved by BNR that have opened sub-accounts with BNR, money transfers being performed through a final settlement account opened by SNCDD at the National Bank of Romania. Currently, on every business day 11 banks are performing settlement related money transfers in the name of more than 100 brokerage houses for an average of 1,800 trades and money volumes in equivalent of 1 to 3 million USD.

SNCDD validates and processes the trades received electronically from the transaction mechanism of RASDAQ SRL, the technological utility of the RASDAQ Market, where the trade matching takes place. RASDAQ SRL sends an end-of-day transmission at 2:30 p.m. reflecting trade activity, all processing being completed by 3:00 p.m., at which time reports are available through the remote PC terminals of SNCDD users that are linked to the system using X25 networking from remote locations throughout Romania. The system also facilitates the on-line report retrieval, inquiry, data entry, and interaction with the Romanian Registry of Shareholders for the movement of client shares to and from SNCDD.

SNCDD runs a trade-for-trade settlement by individual trade, followed by a net settlement of money per user account. Trades settle finally and irrevocably in SNCDD at 4:00 p.m. on T+3, both in securities and money.

SNCDD believes that it satisfies the provisions of U.S. SEC Rule 17f-5 and qualifies as an exempt eligible custodian under the Rule. As noted above, SNCDD serves as the central depository and clearing agent for securities traded on the RASDAQ Market and falls under the jurisdiction of two foreign financial regulatory authorities: the National Securities Commission and the National Bank of Romania.



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The Bucharest Stock Exchange recently requested and received a letter from the Commission clarifying its status regarding Rule 17 f-5. As the SNCDD was established under a technical assistance program financed with U.S. taxpayer funds, SNCDD seeks similar clarification in order to level the playing field in Romania with regard to foreign funds.

SNCDD looks forward to your response and thanks you for your consideration.

Very truly yours,

Dragos Neacsu
Executive Manager