The exemptions for "passive market making" granted by the Commission in *Letter regarding Distributions of Certain SEAQ and SEAQ International Securities* (July 12, 1993) shall continue to apply to transactions in securities covered by those exemptions and not qualifying for the exemptions granted herein.

The foregoing exemptions from Rules 10b–6, 10b–7, and 10b–8 are based solely on your representations and the facts presented, and are strictly limited to the application of those rules to the proposed transactions. Any different facts or representations might require a different response. Responsibility for compliance with any other applicable provisions of the federal securities laws must rest with the Relevant Parties. The Division expresses no view with respect to any other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure of any other federal or state laws to, the proposed transactions.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Brandon Becker,

Director.

London Stock Exchange

6 January 1995

Mr. Larry Bergmann,
Associate Director, Division of Market
Regulation, US Securities and Exchange
Commission, 450 Fifth Street NW.,
Washington DC 20549, USA
Dear Larry

Distributions of Certain SEAQ and SEAQ International Securities

Introduction

I am writing to request an exemption from rules 10b–6, 10b–7 and 10b–8 under the US Securities Exchange Act of 1934 ("1934 Act") for distribution of certain SEAQ and SEAQ International securities, in line with the 1993 Policy Statement issued by the Commission ("Commission").

We seek exemptions for distributions of SEAQ securities that are component securities of FT–SE 100 Index¹ and have a market capitalisation of more than \$1 billion (£660 million) and a daily world-wide turnover of \$5 million (£3.5 million), and for distributions of certain SEAQ International securities, as discussed more fully below.

We also request that you confirm that distributions of SEAQ and SEAQ International securities which do not meet the requirements of the new exemptions may be made in conformity with the exemption from rules 10b–6 and 10b–7 granted in July 1993 ("1993 exemption") 2, if the terms of that exemption are met.

The London Stock Exchange

The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, which trades as the London Stock Exchange ("Exchange"), is an organised stock exchange and regulatory organisation of long standing in the United Kingdom. The offices, facilities and operations of the Exchange are located in London, England with branches in various British centres and Dublin, Ireland. The Exchange is subject to UK law and is not registered under the 1934 Act in any capacity. The Exchange is recognised by the UK Securities and Investments Board ("SIB") as a Recognised Investment Exchange ("RIE") under the Financial Services Act of 1986 ("FSA").

The Exchange Markets.

The Exchange operates and regulates four markets.

1. Domestic Equity Market. Ordinary shares in UK and Irish companies are traded on the Domestic Equity Market. Over recent years, an average of 33,000 transactions have taken place every day, yielding a daily turnover of £1.6 billion.

The Stock Exchange Automated Quotation system ("SEAQ") is the screen based competitive market making system for Domestic Equity Market securities that are designated by the Exchange for inclusion in SEAQ. A Domestic Equity Market security includes: ordinary shares which are issued by companies which are incorporated in the United Kingdom, the Channel Islands, the Isle of Man or the Republic of Ireland ("the British Isles") and which are listed on the Exchange or trade on the Unlisted Securities Market ("USM"); depositary receipts for, stock convertible into or warrants to subscribe for such ordinary shares (subject to such convertible stock or warrants themselves being listed or designated by the Exchange); and such other securities which the Exchange permits to be traded on the Domestic Equity Market.

A SEAQ security is a Domestic Equity Market security for which a minimum of two market makers, each of whom is obliged to display two-way prices on SEAQ during the mandatory quote period and for which it is possible to calculate a normal market size. Approximately 2,000 securities are traded through SEAQ.

2. International Equity Market. This market is the largest market in the world for trading securities of foreign companies. Over recent years, an average of 8,636 transactions have taken place each day, while annual turnover has reached £579 billion. This market is

divided into 20 country sectors and the developing markets sector. Trading in the International Equity Market can take place 24 hours a day; currently, quotations may only be input to SEAQ International between 7.00 and 20.00 UK time.

The Stock Exchange Automated Quotation International system ("SEAQ International") is the screen based competitive market making system used to support trading International Equity Market securities. An International Equity Market security includes: any equity security of a company which is incorporated in or has its principal office in, a country outside the United Kingdom, the Channel Islands, the Isle of Man and the Republic of Ireland and which is listed by or quoted under the rules of an approved organisation; a depositary receipt for such a security; or any other security which the Exchange decides may be traded on the International Equity Market. A SEAQ International security is an International Equity Market Security for which a price is quoted on SEAQ International or a price on enquiry security.

3. Gilt-Edged and Sterling Bond Market. This is the market for trading gilt-edged securities and fixed income securities (Sterling-denominated corporate debt). In recent years, average daily turnover in gilt-edged securities has reached £6.3 billion, and in fixed interest securities has reached £4.3 billion.

4. Traditional Options Market. On this market, member firms effect transactions in traditional options in securities which are listed on the Exchange or are traded on the USM, in fixed interest securities which are not gilt-edged securities or in International Equity Market securities.

Exchange Market Making Obligations

The rules of the Exchange are designed, *inter alia*, to ensure that there is at all times a competitive and liquid market for securities listed on the Exchange and authorised for quotation on SEAQ or SEAQ International.

A firm that wishes to make a market on SEAQ or SEAQ International must be a member of the Exchange (rules 2.4, 3.3 and 4.3). Rule 4.5 obliges a market maker in a SEAQ security to display on SEAQ during the mandatory quote period firm two-way prices in not less than the minimum quote size and, subject to certain exceptions, to actively offer to buy from and sell to an enquiring member firm at the price and in the up to the size in a security displayed by it on SEAQ. Rule 3.6 requires a market maker in a SEAQ International security designated as a firm quote security, during the mandatory quote period, to display on SEAQ International two-way prices in not less than the minimum quote size and to actively offer to buy and sell at its displayed size and price upon enquiry from another Exchange member firm or a counterparty.

Certain adverse consequences may result when a member firm ceases to act as a market maker in a security. A market maker that withdraws its quotation from SEAQ or SEAQ

¹The FT–SE 100 consists of the 100 largest UK companies which have securities traded on the Domestic Equity Market.

² The 1993 exemption allows London Stock Exchange member firms who are Distribution Participants and Affiliated Purchasers (as defined in that exemption) to engage in passive market making activities during distributions of certain SEAQ and SEAQ International securities. That exemption was granted under rules 10b–6 and 10b–7 for multinational distributions of a security with a US tranche quoted on:

^{1.} SEAQ (a) with a normal market size of 5,000 shares or greater or (b) that did not meet this condition but are agreed on by the Division and the Exchange as eligible securities; or

^{2.} SEAQ International (a) that qualifies as a firm quote security and (b) with an average daily trading volume during any 20 consecutive business day period within 60 consecutive calendar days prior to the commencement of the cooling-off period that equals or exceeds the equivalent of \$250,000 (£166,000) as calculated from transactions reported to the Exchange as a foreign financial regulatory authority ("FFRA"), as that term is defined in section 3(a)(51) of the 1934 Act that publishes trade volume information.

¹ An approved organization is an association or exchange which meets criteria agreed between the SIB and the Exchange and is included in a list published by the Exchange.