a country-by-country basis.[15] In support of adding Mexico to the list of Designated Foreign Governments in the Rule, the CME restated its belief that futures on Mexican sovereign debt would serve a valuable economic purpose and would benefit both U.S. investors and the Mexican economy. The CME asserted that Mexican Brady bonds are actively traded in the over-the-counter market in the United States, and that dealers and investors in Mexican Brady bonds could use the CME's proposed futures contracts to hedge the price risk in holding the underlying bonds.

Euro Brokers noted that while the underlying cash market for emerging market debt securities, including Mexico, has experienced considerable growth, there does not exist a proper hedging vehicle for positions in emerging market debt. According to Euro Brokers, this lack of an effective hedging tool limits the growth, liquidity, and stability of the market. If the CME is permitted to market and trade futures contracts on Mexican sovereign debt, Euro Brokers asserted, traders and investors will have the ability to hedge their exposure, thus generating depth, liquidity, and stability for the emerging markets as a whole both in the cash and futures markets.

SDI additionally suggested that the Commission be ''flexible'' in allowing the debt obligations of additional foreign governments to qualify for such exempt status.

Finally, according to Centre Financial, the fact that Mexico's debt is not rated in one of the two highest rating categories by at least two Nationally Recognized Statistical Rating Organizations (''NRSROs'') is immaterial when considering the obligations as the basis of a futures or options contract. Moreover, Centre Financial suggested that the Commission consider an exemption for all sovereign debt, thereby allowing individual exchanges to determine whether a futures or options contract on a country's debt is appropriate.

It should be noted that in the Proposing Release, the Commission sought comment on: the appropriateness of designating Mexican sovereign debt as exempted securities even though its long-term debt is not rated in one of the two highest rating categories by at least two NRSROs (a factor the Commission has traditionally looked to as an indication of the liquidity of the underlying market); whether debt ratings should continue to be used in evaluating proposals to add countries to the Rule, and what alternative criteria, such as volume and depth of trading or amount of outstanding debt, could be used; whether the proposed amendment is appropriate in light of the fact that Mexico would be the first emerging market country to be included as a Designated Foreign Government; whether the CME's proposal to develop a contract market in Mexican Brady bonds raises any unique issues; and the general application and operation of the Rule given the increased globalization of the securities markets since the Rule was adopted. The commenters did not address all of these issues, but instead focused on the economic benefits of including Mexico as a Designated Foreign Government and adopting a liberal approach for further amendments to the Rule to include the sovereign debt of other countries.

B. Analysis

For the reasons discussed below, the Commission finds that it is consistent with the public interest and the protection of investors that Rule 3a12–8 be amended to include the sovereign debt obligations of Mexico. The Commission believes that the trading of futures on Mexican sovereign debt could provide U.S. investors and dealers with a vehicle for hedging the risks involved in holding Mexican debt instruments and that the sovereign debt of Mexico should be subject to the same regulatory treatment under the Rule as that of the Designated Foreign Governments for purposes of trading futures contracts on such debt obligations by U.S. persons.

In determining whether to amend the Rule to add new countries, the Commission has considered whether there is an active and liquid secondary trading market in the particular sovereign debt. The market for Mexican sovereign debt instruments appears to be active and liquid. As of March 31, 1995, there was approximately US$87.5 billion face amount Mexican government debt issued and outstanding of various classes and maturities.[16] According to the CME petition, the cash market for Cetes evidences active trading. For example, between 1993 and 1994 the monthly trading volume (in principal amount), according to the CME, of Cetes ranged from a low of approximately US$18.5 billion to a high of US$1.1 trillion. Moreover, according to a recent survey of members of the Emerging Markets Traders Association (''EMTA''), Mexican debt instruments are one of the most actively traded of all emerging markets instruments. According to the survey, the total annual trading volume for Mexican Brady bonds amounted to approximately US$282.3 billion.[17] As is the case for all sovereign issuers, there are less actively traded Mexican sovereign debt issues, but the Commission believes that as a whole the market for Mexican sovereign debt is sufficiently liquid and deep for purposes of Rule 3a12–8.

In amending the Rule to include the debt obligations of Mexico, however, the Commission has considered additional factors relating to Mexican government debt. In connection with some of the prior amendments to the Rule, the Commission noted that the long-term sovereign debt of those countries was rated in one of the two highest rating categories by at least two NRSROs.[18] This factor, as previously stated by the Commission, could be viewed as indirect evidence of an active and liquid secondary trading market. Mexico's long-term sovereign debt obligations are not rated in one of the two highest rating categories.[19]

Although the Commission in 1987 proposed to incorporate a rating standard specifically exempting securities issued by any country with outstanding long-term sovereign debt rated in one of the two highest rating categories by at least two NRSROs,[20] it ultimately declined to adopt such a rule.[21] At the time of the 1987 Rule

[15] Instead of the current country-by-country analysis, the CME suggested that the Commission's approach should be to permit futures trading on any country's sovereign debt, provided that the futures contracts do not allow delivery of unregistered foreign government securities in the United States. *See* CME comment letter, *supra* note 4. This approach would require an amendment to Rule 3a12–8 that has not been proposed at this time.

[16] *See* Exhibit D to Form 18–K, Annual Report for Foreign Governments and Political Subdivisions Thereof, filed by Mexico on June 30, 1995.

[17] The survey, which was responded to by 80 out of 333 members of the EMTA, was prepared for the EMTA by Price Waterhouse LLP. *See* 1994 Debt Trading Volume Survey, Emerging Markets Traders Association (May 1, 1995).

[18] *See* Securities Exchange Act Release No. 26217 (October 26, 1988), 53 FR 43860 (October 31, 1988) (Austria, Denmark, Finland, the Netherlands, Switzerland, and [West] Germany); Securities Exchange Act Release No. 30166 (January 6, 1992), 57 FR 1375 (Republic of Ireland and Italy); Securities Exchange Act Release No. 34908 (October 27, 1994), 59 FR 54812 (November 2, 1994) (Kingdom of Spain).

[19] As of June, 1995, Standard and Poor's Corp. (''S&P'') rated Mexico's long-term foreign currency debt BB and its long-term local currency debt BBB+. As of the same date, Mexico's Bonos de Desarrollo (Bondes) were rated Baa3 by Moody's Investors Service.

[20] *See* Securities Exchange Act Release No. 24428 (May 5, 1987), 52 FR 18237 (May 14, 1987).

[21] *See* Securities Exchange Act Release No. 25072 (October 29, 1987), 52 FR 42277 (November 4, 1987).