

MEMO# 10147

July 23, 1998

SEC STAFF ISSUES LEGAL BULLETIN RELATING TO EURO CONVERSION

[10147] July 23, 1998 TO: ACCOUNTING/TREASURERS MEMBERS No. 19-98 CLOSED-END INVESTMENT COMPANY MEMBERS No. 21-98 INTERNATIONAL MEMBERS No. 17-98 INVESTMENT ADVISER ASSOCIATE MEMBERS No. 19-98 INVESTMENT ADVISER MEMBERS No. 20-98 OPERATIONS COMMITTEE No. 30-98 SEC RULES MEMBERS No. 57-98 TECHNOLOGY TASK FORCE RE: SEC STAFF ISSUES LEGAL BULLETIN RELATING TO EURO CONVERSION

On July 22, 1998, the Divisions of Corporation Finance, Market Regulation and Investment Management of the Securities and Exchange Commission issued Staff Legal Bulletin No. 6. The Bulletin provides guidance on issues relating to the January 1, 1999, conversion by eleven member states of the European Union to a common currency called the "euro." A copy of the Bulletin is attached. Disclosure Obligations In the Bulletin, the staff advises corporate issuers, broker-dealers, investment advisers, and investment companies to consider their disclosure obligations in connection with the conversion to the euro. According to the Bulletin, these obligations may arise in connection with: ` known trends or uncertainties related to the euro conversion that an issuer reasonably expects will have a material impact on revenues, expenses or income from continuing operations; ` competitive implications of increased price transparency of European Union markets (including labor markets) resulting from adoption of a common currency and issuers' plans for pricing their own products and services in euro; ` issuers' ability to make any required information technology updates on a timely basis, and costs associated with the conversion (including costs of dual currency operations through January 1, 2002); ` currency exchange rate risk and derivatives exposure (including the disappearance of price sources, such as certain interest rate indices); ` continuity of material contracts; and ` potential tax consequences. Investment companies and investment advisers should determine whether the introduction of the euro will materially affect their business operations and whether disclosure is warranted based upon the factors discussed in the Bulletin to the extent relevant to investment companies. Additionally, investment companies may need to disclose the effect that the euro conversion will have on their advisers' or other service providers' ability to provide the services described in their registration statement and may need to consider the effect of the euro conversion in discussing their investment objectives, investment strategies, and risks. Investment advisers that will not be able to or that are uncertain about their ability to address euro conversion issues have an obligation to disclose that information to clients, if the failure to address the effect of the euro conversion could materially affect the advisory services provided. Operational Considerations The introduction of the euro may require significant computer systems modifications. Accordingly, the staff urges broker-dealers, markets, clearing agencies, and transfer agents to assess their operations to determine the extent to which they will be

impacted by the euro conversion and to implement necessary measures to prepare for the euro conversion. The assessment and systems modifications should be completed by September 30, 1998, to permit sufficient time for systems testing. In this regard, the Bulletin advises all regulated companies, including investment companies and investment advisers, to adopt guidelines similar to those developed in connection with the SEC's Year 2000 Work Program. Robert C. Grohowski Assistant Counsel Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Library Services Division at (202)326- 8304, and ask for this memo's attachment number: 10147.

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