

MEMO# 10559

December 14, 1998

SEC STAFF NO-ACTION LETTER ON A EURO-DENOMINATED FUND UNDER RULE 2A-7

1 SSgA International Liquidity Fund, SEC No-Action Letter (Dec. 2, 1998). 2 Each fund invests only in securities denominated in the particular foreign currency, seeks to maintain a constant net asset value expressed in that currency, and accepts purchases and effects redemptions only in that currency. 3 Five Arrows Short-Term Investment Trust, SEC No-Action Letter (Sept. 26, 1997). 4 A "Designated Foreign Government Security" was defined in the 1997 no-action letter as securities issued or guaranteed by the same sovereign government which issues a foreign currency fund's Designated Currency, or by a person controlled or supervised by and acting as an instrumentality of such government pursuant to authority granted by the country's appropriate legislative or executive body, or any certificate of deposit for any of the foregoing. [10559] December 14, 1998 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 7-98 SEC RULES MEMBERS No. 109-98 RE: SEC STAFF NO-ACTION LETTER ON A EURO-DENOMINATED FUND UNDER RULE 2a-7

The staff of the Securities and Exchange Commission ("SEC") recently issued a no-action letter¹ stating that the staff would not recommend an enforcement action if a Euro-denominated fund, subject to certain conditions, holds itself out and otherwise operates as a "money market fund" for purposes of compliance with Rule 2a-7 under the Investment Company Act. The staff's letter is summarized below and a copy is attached. The no-action letter is in response to a request from an open-end management investment company organized as a Delaware business trust (the "Trust"). The Trust currently operates several "money market funds," each of which is denominated in a particular foreign currency pursuant to no-action relief obtained in 1997.² The Trust plans to convert its existing Deutsche Mark-denominated fund into a Euro-denominated fund. In the 1997 no-action letter to the Trust,³ the staff stated that it would not recommend an enforcement action if the Trust's foreign currency denominated funds, subject to certain representations, conditions, and limitations, held themselves out and otherwise operated as money market funds under Rule 2a-7. Specifically, the Trust represented that it would comply with Rule 2a-7, except that each foreign currency denominated fund would (1) invest only in securities denominated in the particular country's base currency, rather than in United States Dollar-Denominated securities as required by Rule 2a-7(c)(3)(i), and (2) for purposes of several provisions of the rule, would treat "Designated Foreign Government Securities"⁴ in a similar manner as Government Securities as defined in Rule 2a-7. The current no-action request is in anticipation of the introduction on January 1, 1999 of the Euro as the official currency of the European Monetary Union Member States. As a result of the conversion to the Euro, the investment adviser to the Trust believes it would be difficult to manage a Euro-

denominated fund effectively if obligations of the most creditworthy of these countries were limited to the diversification 5 The staff also stated that it would not recommend an enforcement action if the fund operates as a "money market fund" for purposes of all other rules under the Investment Company Act and the rules and forms under the Securities Act of 1933 that are applicable to money market funds. - 2 - standards applicable to non-governmental issuers under Rule 2a-7. The no-action request adds that the investment adviser believes that obligations of these countries will be as creditworthy when they are redenominated in Euros as they are presently when denominated in the country's own currency. The Trust therefore asked the SEC staff to extend the 1997 no-action letter to permit its Euro- denominated fund, subject to certain conditions, to hold itself out and operate as a money market fund to the same extent as its foreign currency denominated funds described in the 1997 no-action letter. In addition, the Trust also requested guidance on whether Euro denominated governmental obligations may be treated as "Designated Foreign Government Securities." The SEC staff stated that it would not recommend an enforcement action if the Trust's Euro- denominated fund holds itself out and otherwise operates as a "money market fund" for purposes of compliance with Rule 2a-7, if (1) the fund invests only in securities denominated in the Euro and (2) treats Euro-denominated Designated Foreign Government Securities in a manner similar to the rule's treatment of Government Securities for purposes of determining whether the fund is adequately diversified, calculating the maturities of adjustable rate securities, and applying Rule 2a-7's definitions of "Asset Backed Security," "Refunded Security" and "Collateralized Fully."5 In order to limit investments in Euro-denominated Designated Foreign Government Securities to those with credit risks as comparable to U.S. Government Securities as possible, consistent with the 1997 no-action letter, these securities will only be treated in this manner if the applicable government's short-term Euro-denominated obligations have a First Tier rating by the Requisite NRSROs and the securities are of sufficient credit quality in all other respects to qualify as First Tier Securities. Ari Burstein Assistant Counsel

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