

UNDERSTANDING REGARDING AN APPLICATION
OF EUROCLEAR BANK FOR AN EXEMPTION UNDER
U.S. FEDERAL SECURITIES LAWS

Recitals

The Banking and Finance Commission ("BFC") is the sole prudential supervisor of credit institutions in Belgium, including those providing clearance and settlement services, pursuant to the Belgian Law of March 22, 1993 on the legal status and supervision of credit institutions.

The Euroclear System ("EUROCLEAR SYSTEM"), a clearance and settlement system for internationally traded securities, was established in 1968 by Morgan Guaranty Trust Company of New York, Brussels branch ("MORGAN BRUSSELS"). From 1968 until 1972, MORGAN BRUSSELS was both owner and operator of the EUROCLEAR SYSTEM. In 1972, MORGAN BRUSSELS sold certain rights to the EUROCLEAR SYSTEM to the Euroclear Clearance System Public Limited Company ("EUROCLEAR PLC"), a limited liability company organized under the laws of the United Kingdom. From 1972 to the present, MORGAN BRUSSELS has continued to serve as operator of the EUROCLEAR SYSTEM.

EUROCLEAR PLC and its wholly-owned subsidiary Calar Investments S.A., a company organized under the laws of Luxembourg (collectively "EUROCLEAR, PLC"), are the majority shareholders of and control Euroclear Bank S.A. ("EUROCLEAR BANK"). EUROCLEAR BANK is a credit institution that has been organized under the laws of Belgium and has been granted a Belgium banking license by the BFC. EUROCLEAR BANK is subject to regulation by the BFC.

On January 1, 2000, Morgan Guaranty Trust Company of New York ("MORGAN"), EUROCLEAR PLC and EUROCLEAR BANK entered into an agreement (the "TERMINATION AGREEMENT") to replace MORGAN BRUSSELS with EUROCLEAR BANK as operator of the EUROCLEAR SYSTEM. As a result of the TERMINATION AGREEMENT, upon changeover, scheduled for December 31, 2000, EUROCLEAR BANK will operate the EUROCLEAR SYSTEM through a license agreement with EUROCLEAR PLC.

The Securities and Exchange Commission ("SEC") is the agency of the United States Government that supervises the securities markets in the United States and persons acting in a professional capacity in those securities markets, including securities depositories and clearing agencies.

Section 17A of the Securities Exchange Act of 1934 ("1934 Act") directs the SEC, among other things, to facilitate the prompt, accurate, and safe clearance and settlement of securities transactions. In keeping with this mandate, Section 17A requires registration with and regulation by the SEC of agencies engaged in the clearance and settlement of securities transactions. The SEC is authorized under Section 17A to exempt, conditionally or unconditionally, any clearing agency from registration should it find that such exemption is

consistent with the public interest, the protection of investors, and the purposes of Section 17A. Neither MORGAN BRUSSELS nor EUROCLEAR BANK is registered with the SEC as a clearing agency.

On February 11, 1998, the SEC approved an application by MORGAN BRUSSELS as operator of the EUROCLEAR SYSTEM for an exemption from registration as a clearing agency under Section 17A (the "1998 EXEMPTIVE ORDER"). The 1998 EXEMPTIVE ORDER permitted MORGAN BRUSSELS, as operator of the EUROCLEAR SYSTEM, to conduct certain clearance and settlement functions for, and facilitate certain transactions in, U.S. Government securities among U.S. Participants (as defined in the 1998 EXEMPTIVE ORDER), without registration, all as set forth in the 1998 EXEMPTIVE ORDER. The 1998 EXEMPTIVE ORDER granted MORGAN BRUSSELS the authority to provide clearance, settlement, and collateral management services for U.S. Participants' transactions in: (i) Fedwire-eligible U.S. Government securities; (ii) mortgage-backed pass through securities that are guaranteed by the Government National Mortgage Association ("GNMAs"); and (iii) any collateralized mortgage obligation whose underlying securities are Fedwire-eligible U.S. Government securities or GNMA guaranteed mortgage-backed pass through securities and that are depository eligible securities collectively (collectively "ELIGIBLE U.S. GOVERNMENT SECURITIES") as defined in the 1998 EXEMPTIVE ORDER.

On September 21, 2000, EUROCLEAR BANK and MORGAN BRUSSELS filed an application with the SEC to modify the 1998 EXEMPTIVE ORDER to reflect the substitution of EUROCLEAR BANK for MORGAN BRUSSELS as operator of the EUROCLEAR SYSTEM (the "MODIFICATION APPLICATION"). In keeping with its mandate under Section 17A, the SEC must determine whether the substitution of EUROCLEAR BANK for MORGAN BRUSSELS as requested in the MODIFICATION APPLICATION is consistent with the public interest, the protection of investors, and the purposes of that section.

As a condition of granting the substitution of EUROCLEAR BANK for MORGAN BRUSSELS as requested in the MODIFICATION APPLICATION, EUROCLEAR BANK has agreed to provide information to the SEC that, as defined below, is relevant in helping the SEC to fulfill its mandate under the U.S. Securities Laws. Further to its aforementioned task relating to banking supervision, the BFC has determined that it has the authority and that it is appropriate to direct EUROCLEAR BANK as set forth in this Memorandum of Understanding ("UNDERSTANDING"), to provide the SEC with such information as a condition of the SEC's agreeing to the substitution of EUROCLEAR BANK for MORGAN BRUSSELS. The SEC has determined that this UNDERSTANDING provides it with sufficient assurances of receiving the relevant information so that upon execution of this document the SEC will, for the purposes of the MODIFICATION APPLICATION, consider EUROCLEAR BANK as having made a sufficient undertaking regarding providing access to the relevant information.

Based on the foregoing, the SEC and the BFC desire to enter into this UNDERSTANDING pursuant to which the BFC expresses its intention to direct EUROCLEAR BANK to make available to the SEC certain information concerning U.S.

Participants. Such directions to EUROCLEAR BANK will commence upon the SEC's granting of the MODIFICATION APPLICATION substituting EUROCLEAR BANK for MORGAN BRUSSELS under the 1998 EXEMPTIVE ORDER as described above, and will continue until the SEC informs EUROCLEAR BANK that the 1998 EXEMPTIVE ORDER has been withdrawn.

NOW, therefore:

1. The BFC will direct EUROCLEAR BANK to transmit to the SEC certain information relating to U.S. Participants. Specifically, the BFC expresses its intention to direct EUROCLEAR BANK to: (a) notify and transmit information regarding material adverse changes in any account maintained by EUROCLEAR BANK for its U.S. Participants; (b) provide quarterly reports, calculated on a twelve month rolling basis of: (i) the average daily volume of transactions in ELIGIBLE U.S. GOVERNMENT SECURITIES for U.S. Participants that are subject to the volume limit described in the 1998 EXEMPTIVE ORDER; and (ii) the average daily volume of transactions in ELIGIBLE U.S. GOVERNMENT SECURITIES for all participants, whether or not subject to the volume limit; and (c) provide to the SEC the following disclosure documents when made available to EUROCLEAR SYSTEM Participants: (i) any amendments to or revised editions of the Terms and Conditions; (ii) the Supplementary Terms and Conditions Governing the Lending and Borrowing of Securities through the EUROCLEAR SYSTEM; (iii) the Operating Procedures of the EUROCLEAR SYSTEM; (iv) the annual report of EUROCLEAR BANK; and (v) the annual report on the internal controls, policies and procedures of the EUROCLEAR SYSTEM ("SAS-70 Report"). In addition, the BFC will direct EUROCLEAR BANK to respond to all SEC requests for information about any U.S. Participant about whom the SEC has financial solvency concerns, including, for example, a settlement default by a U.S. Participant.

2. In addition to providing the information referred to in sections 1(a) and 1(b) above, the BFC also will direct EUROCLEAR BANK to respond to requests made by the SEC staff as to the status of particular accounts maintained by EUROCLEAR BANK for its U.S. Participants who are also members of a registered clearing agency. These requests may be transmitted in written form (including by regular mail, facsimile and electronic mail) or telephonically. All information will be made available to the SEC by EUROCLEAR BANK in any reasonable format specified by the SEC.

3. The BFC will direct EUROCLEAR BANK to transmit the information regarding section 1(a) above to the SEC as soon as such information is known or made available to EUROCLEAR BANK; information regarding section 1(b) above will be transmitted to the SEC on a quarterly basis or more frequently if requested by the SEC. All other information requested by the SEC under this Understanding is to be promptly provided by EUROCLEAR BANK to the SEC. Confidentiality of information will be maintained by the SEC in accordance with SEC rules and regulations.

4. For purposes of this UNDERSTANDING, the following terms shall have the following meanings:

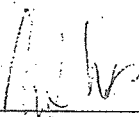
(a) "material adverse changes" includes: (i) the termination of any U.S. Participant; (ii) the liquidation of any securities collateral pledged by a U.S. Participant to secure an extension of credit through EUROCLEAR BANK; (iii) the institution of any proceedings to have a U.S. Participant declared insolvent or bankrupt; or (iv) the disruption or failure in whole or in part in the operations of EUROCLEAR BANK either at its regular operating location or at any contingency center;

(b) "U.S. Participant" means any EUROCLEAR BANK participant having a U.S. residence, based upon the location of its executive office or principal place of business, including, without limitation: (i) a U.S. bank (as defined by Section 3(a)(6) of the 1934 Act); (ii) a foreign branch of a U.S. bank or U.S. registered broker-dealer; and (iii) any broker-dealer registered as such with the SEC even if such broker-dealer does not have a U.S. residence;

(c) "U.S. Government Securities" includes all "government securities" as defined in Section 3(a)(42) of the 1934 Act, except that it shall not include any: (i) foreign-targeted U.S. government or agency securities; or (ii) securities issued or guaranteed by the International Bank for Reconstruction and Development (i.e., the "World Bank") or any other similar international organization.

Signed in duplicate on the dates noted below.

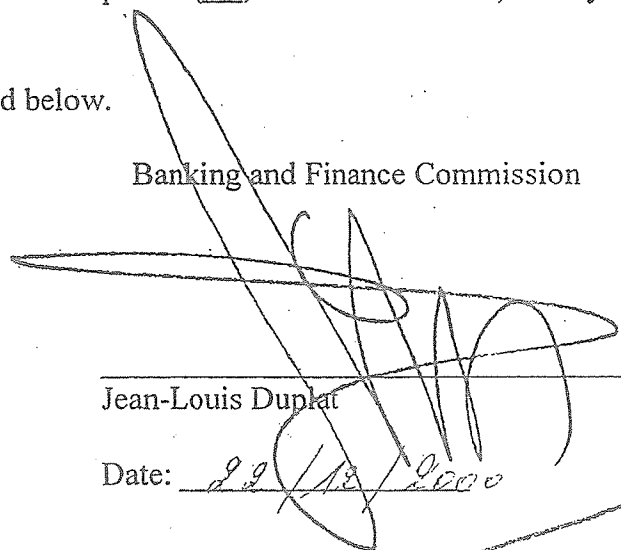
United States Securities
and Exchange Commission



Arthur Levitt

Date: January 30, 2001

Banking and Finance Commission



Jean-Louis Duplat

Date: 29/12/2000