



DIVISION OF
INVESTMENT MANAGEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

September 26, 1997

Mr. Geoffrey R.T. Kenyon
Goodwin, Procter & Hoar, LLP
Exchange Place
Boston, Massachusetts 02109-2681

ACT	ICA
SECTION	
RULE	2a-7
PUBLIC AVAILABILITY	9-26-97

Re: Five Arrows Short-Term Investment Trust

Dear Mr. Kenyon:

Your letter of September 22, 1997 requests assurance that the Division of Investment Management ("Division") would not recommend enforcement action to the Securities and Exchange Commission ("Commission") if Five Arrows Short-Term Investment Trust (the "Trust") operates its Foreign Currency Funds (defined below) as "money market funds" for purposes of compliance with rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act") and for certain other purposes as described below and in more detail in your letter.¹

I. Background

The Trust is an open-end management investment company organized as a Delaware business trust in series form. Rothschild International Asset Management Limited (the "Investment Manager") acts as the investment manager to the Trust. The Trust is authorized to issue shares representing interests in four separate series: the Pound Sterling Fund, the Deutsche Mark Fund, the Canadian Dollar Fund (collectively the "Foreign Currency Funds") and the U.S. Dollar Fund. Additional series of the Trust may be created as the Board of Trustees deems necessary or desirable. You state that you seek this no-action position in connection with the three existing Foreign Currency Funds, as well as any series that are similarly organized in the future.²

¹ Capitalized terms used in this response and not otherwise defined have the meaning as set forth in rule 2a-7 as adopted on March 21, 1996. See Revisions to Rules Regulating Money Market Funds, Release No. IC-21837 (March 21, 1996) [61 FR 13956 (March 28, 1996)] ("Release 21837"). All citations to rule 2a-7 in this response are to the provisions of the rule as adopted in Release 21837.

² You represent that the U.S. Dollar Fund currently operates as a "money market fund" in accordance with the conditions of rule 2a-7.

The prospectus for the Foreign Currency Funds indicates that each is designed primarily for use by institutional investors to invest non-U.S. dollar-denominated short-term cash reserves. You represent that each Foreign Currency Fund is intended to operate as a "money market fund" in a particular country's base currency (the "Designated Currency").³ That is, each Foreign Currency Fund seeks to maintain a stable share price in its respective Designated Currency, similar to the stable \$1.00 per share price that conventional "money market funds" denominated in U.S. dollars seek to maintain.⁴ Each invests only in securities denominated in its Designated Currency, seeks to maintain a constant net asset value expressed in its Designated Currency, and accepts, purchases and effects redemptions only in its Designated Currency. All required financial statements and other financial information with respect to the Foreign Currency Funds will be expressed in their respective Designated Currency.⁵

The Foreign Currency Funds currently do not hold themselves out as "money market funds" in reliance on rule 2a-7, but operate in accordance with amortized cost procedures in reliance on the Commission's 1977 release permitting the use of the amortized cost method for certain debt instruments.⁶ These procedures restrict the Foreign Currency Funds to investments in high quality debt instruments with a remaining maturity of 60 days or less. You state that the Trustees and the Investment Manager believe that this 60-day maturity restriction will, over time, materially reduce the potential returns that the Foreign Currency Funds can achieve. The Division staff understands that, upon receipt of this letter, the Board of Trustees intends to revise the Trust's procedures in order to take advantage of the greater flexibility provided by rule 2a-7's amortized cost method of pricing, and also comply with rule 2a-7 in all other respects, subject to the conditions and limitations set forth in your

³ The Designated Currency is the Pound Sterling in the case of the Pound Sterling Fund, the Deutsche Mark in the case of the Deutsche Mark Fund, and the Canadian Dollar in the case of the Canadian Dollar Fund.

⁴ Similar to conventional "money market funds," each Foreign Currency Fund's prospectus and advertising materials will disclose that there can be no assurance that it will be able to maintain a stable net asset value per share expressed in its Designated Currency.

⁵ While the financial statements and other financial information may be expressed in the Designated Currency, the basis for such presentation will comply with United States Generally Accepted Accounting Principles. You also represent that the Trust has obtained Private Letter Rulings from the Internal Revenue Service permitting each Foreign Currency Fund to use its Designated Currency as its "functional currency" for tax purposes, thereby eliminating fluctuations in currency exchange rates as a variable in computing capital gains or losses in connection with investment activities.

⁶ See Valuation of Debt Instruments By Money Market Funds and Certain Other Open-End Investment Companies, Release No. IC-9786 (May 31, 1977).

letter.⁷ You also represent that the Foreign Currency Funds will undertake to comply with the requirements of all other rules under the 1940 Act and all rules and forms under the Securities Act of 1933 (the "1933 Act") that are applicable to "money market funds" (e.g., Form N-1A and rule 482 under the 1993 Act).

II. *Analysis*

A. *Currency Denomination*

Rule 2a-7(c)(3)(i) limits "money market funds" to investments only in United States Dollar-Denominated securities. Paragraph (a)(28) of rule 2a-7 defines "United States Dollar-Denominated" to mean that all principal and interest payments on securities are payable in U.S. dollars, and that interest and principal payments, and the timing of those payments, do not vary or float with foreign currency values, interest rates on foreign currency borrowings, or any other interest rate or index expressed in a currency other than the U.S. dollar. You request the Division's assurance that it would not recommend enforcement action if the Foreign Currency Funds hold themselves out and otherwise operate as "money market funds" under rule 2a-7, even though they invest exclusively in securities denominated in their Designated Currency, rather than United States Dollar-Denominated securities as required by rule 2a-7(c)(3)(i).

Rule 2a-7's requirement that all "money market fund" investments be United States Dollar-Denominated is designed to eliminate a fund's exposure to losses caused by fluctuations in currency exchange rates and thereby decrease the likelihood that a fund would not be able to maintain a stable share price.⁸ Given that rule 2a-7 contemplates investments, sales and redemptions only in U.S. dollars, you suggest that the policy objectives underlying the rule could be achieved in the context of the Foreign Currency Funds only if all investments are denominated in the same currency in which all sales and redemptions of Foreign Currency Fund shares are effected. You assert that investments denominated in U.S. dollars or any currency *other* than a Foreign Currency Fund's Designated Currency would, in fact, impair a Foreign Currency Fund's ability to maintain a stable share price.⁹

⁷ Procedures utilizing rule 2a-7's amortized cost method of pricing shares will allow the Foreign Currency Funds to invest in securities having remaining maturities of 397 days or less, but also will require that each Foreign Currency Fund comply with the rule's other requirements. The Foreign Currency Funds also will comply with the Commission's advertising rules (e.g., rule 482 under the Securities Act of 1933) in the same manner as conventional "money market funds" denominated in U.S. dollars.

⁸ See Release 21837, *supra* note 1, at nn. 164-65 and accompanying text.

⁹ We understand that, consistent with the definition of "United States Dollar-Denominated"

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B. Designated Foreign Government Securities

Section 2(a)(16) of the 1940 Act defines "Government security" as a security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the U.S. Government pursuant to authority granted by Congress, or any certificate of deposit for any of the foregoing. The definition of "Government Security" in paragraph (a)(13) of rule 2a-7 incorporates the definition in section 2(a)(16) of the 1940 Act.

The Trust's investment policies define "Designated Foreign Government Securities" 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. Subject to the limitations and conditions set forth in your letter, you request assurance that the Division will not recommend enforcement action if the Foreign Currency Funds treat Designated Foreign Government Securities in the same manner as U.S. Government Securities for purposes of: (i) determining whether the funds are adequately diversified under paragraph (c)(4) of rule 2a-7;¹⁰ (ii) calculating the maturities of adjustable rate Government Securities under paragraph (d)(1) of the rule;¹¹ and (iii) applying the rule's definitions of "Asset Backed Security," "Refunded Security" and "Collateralized Fully."¹²

⁹(...continued)

securities, a Foreign Currency Fund seeking to maintain a stable share price and otherwise operate as a "money market fund" under rule 2a-7 would invest only in securities that, under all circumstances, paid principal and interest in its Designated Currency and for which the interest rate, the principal repayment amount, and the timing of payments related to those securities did not vary or float with: (i) the value of a currency other than its Designated Currency; (ii) the rate of interest payable on borrowings denominated in a currency other than its Designated Currency; or (iii) any other interest rate or index expressed in a currency other than its Designated Currency.

¹⁰ You note that the Funds have elected to be classified as "non-diversified" funds and therefore are not subject to the diversification requirements of section 5(b)(1) of the 1940 Act.

¹¹ Paragraph (d)(1) generally provides that variable rate Government Securities have maturities equal to the period remaining until the next readjustment of the interest rate, and that floating rate Government Securities have a remaining maturity equal to one day.

¹² Paragraph (a)(2) of rule 2a-7 excludes Government Securities from the definition of "Asset Backed Security." Paragraph (a)(18) of the rule generally defines "Refunded Securities" as securities whose payment is funded and secured by Government Securities placed in an escrow account. The definition of "Collateralized Fully" in paragraph (a)(4) of the rule is discussed in Section II.C. of this response.

Rule 2a-7 treats "money market fund" investments in U.S. Government Securities differently than other investments because U.S. Government Securities are presumed to present little, if any, credit risks.¹³ You note generally that sovereign governments play a central role as the dominant issuer of debt securities in markets denominated in their own currency and that their securities are a benchmark or reference point for interest rates in those markets. You assert that absent political or economic turmoil, securities issued by sovereign governments and denominated in their own currencies (*i.e.*, domestic currency-denominated obligations) typically enjoy high credit ratings, are often the most liquid debt securities in their respective markets, and are the most commonly accepted collateral for institutional financial obligations such as repurchase agreements. You argue that such obligations are less risky than even the most creditworthy private issuer because the obligations are ultimately backed by the government's ability to issue its own currency.

You assert that investments in securities issued by some sovereign foreign governments, even when denominated in their own currencies, may present greater credit risks than investments in U.S. Government securities. In order to minimize such credit risks and limit investments in foreign government securities to those with credit risks as comparable to U.S. Government Securities as possible, you represent that the Foreign Currency Funds will treat as Designated Foreign Government Securities only those foreign government securities that: (i) have a First Tier rating by the Requisite NRSROs with respect to the applicable government's short-term domestic currency-denominated obligations;¹⁴ and (ii) are of sufficient credit quality in all other respects to qualify as First Tier Securities under rule 2a-7.¹⁵ You also acknowledge that the scope of activities carried out by instrumentalities of foreign governments may be broader than those engaged in by U.S. Government agencies. In order to lessen this potential credit risk, you represent that government securities other than direct obligations of the applicable foreign government will not be treated as Designated Foreign Government Securities unless the Investment Manager

¹³ For example, the diversification provisions of rule 2a-7 do not apply to Government Securities, and all Government Securities are treated as First Tier Securities for purposes of the rule's credit quality provisions. See paragraphs (a)(11) and (c)(4) of rule 2a-7.

¹⁴ You note that NRSROs typically do not rate U.S. or foreign government securities on an issue-by-issue basis, but that ratings are typically assigned to broad categories of government-issued instruments, such as long- and short-term, domestic (*i.e.*, local) and non-domestic (*i.e.*, foreign) currency-denominated ratings categories. You represent that domestic currency-denominated obligations issued by the governments of the United Kingdom, Germany and Canada currently possess First Tier ratings by the Requisite NRSROs.

¹⁵ All Government Securities are First Tier Securities under paragraph (a)(11) of rule 2a-7. For purposes of this response and in accordance with the stipulation contained in your letter, however, Designated Foreign Government Securities must qualify as First Tier Securities under the same standards applicable to securities of non-governmental issuers under paragraph (a)(11).

determines that their credit quality is substantially equivalent to direct obligations of that government.¹⁶

C. Repurchase Agreements

Rule 2a-7 allows "money market funds" to "look through" a repurchase agreement to the underlying collateral in determining compliance with the rule's diversification limitations when the obligation of the counterparty is "Collateralized Fully." Paragraph (a)(4) of the rule provides that a repurchase agreement is "Collateralized Fully" if, among other things, it is collateralized by Government Securities or other securities listed in the rule that permit the repurchase agreement to receive favorable treatment under applicable bankruptcy laws. This provision is intended to ensure that securities collateralizing repurchase agreements can be liquidated promptly in the event of the bankruptcy of the counterparty. You request that collateral comprised of Designated Foreign Government Securities be accorded similar treatment as collateral comprised of U.S. Government Securities for purposes of the rule's definition of "Collateralized Fully."

You represent that the Trust has been advised by its counsel that there is no general stay of creditors' rights applicable to repurchase agreements in bankruptcy proceedings carried out under the applicable laws of Canada, Germany and the United Kingdom. You note that under these circumstances, the Trust generally would have an immediate right of access to collateral securing any repurchase agreements entered into by the Foreign Currency Funds. You represent that comparable assurances from counsel will be obtained with respect to repurchase agreements entered into by any future series of the Trust that are organized similar to the Foreign Currency Funds, and which are collateralized with Designated Foreign Government Securities.

III. Conclusion

The Division would not recommend an enforcement action if the Foreign Currency Funds hold themselves out and otherwise operate as "money market funds" for purposes of compliance with rule 2a-7, except that the Foreign Currency Funds invest only in securities denominated in their respective Designated Currency and treat Designated Foreign Government Securities in a manner similar to the rule's treatment of Government Securities. The Division also would not recommend an enforcement action if the Foreign Currency Funds operate as "money market funds" for purposes of all other rules under the 1940 Act and the rules and forms under the 1933 Act that are applicable to "money market funds." These conclusions are based upon the facts and representations in your letter of September 22, 1997, and are further subject to the conditions and limitations set forth therein. You

¹⁶ The Board of Trustees or other delegate authorized by paragraph (e) of rule 2a-7 also could make this determination.

should note that any different facts or representations might require different conclusions. Moreover, this response expresses our position on an enforcement action only and does not express any legal conclusions on the issues presented.

* * * *

We note that you do not request, and we expressly do not interpret, section 2(a)(16) of the 1940 Act to include Designated Foreign Government Securities. The no-action position taken in this response relates solely to the application of rule 2a-7 to the Foreign Currency Funds. Only securities issued or guaranteed by the U.S. Government, or instrumentalities thereof, are "Government securities" under section 2(a)(16) of the 1940 Act and related Commission rules.¹⁷ You also do not request, and we would not agree, that securities issued by a foreign government and denominated in U.S. dollars may be treated as "Government securities" for purposes of section 2(a)(16) of the 1940 Act and paragraph (a)(13) of rule 2a-7. Finally, we would not agree that the Foreign Currency Funds may be treated as "money market funds" for purposes of any restrictions on a fund's investments in other funds that may be imposed by statute, Commission rules or orders, or by a fund's own investment policies.

Sincerely,



Kenneth J. Berman
Associate Director

¹⁷ See, e.g., J.P. Morgan Structured Obligations Corp. (July 27, 1994).

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**Investment Company Act
of 1940 – Rule 2a-7**

September 22, 1997

FEDERAL EXPRESS

Securities and Exchange Commission
450 Fifth Street
Washington, DC 20549
Attention: Robert Plaze and Kenneth J. Berman

Ladies and Gentlemen:

On behalf of our clients, Five Arrows Short-Term Investment Trust (the "Trust") and Rothschild International Asset Management Limited (the "Investment Manager"), we hereby request that the Staff of the Division of Investment Management of the Securities and Exchange Commission confirm that the Staff would not recommend that the Commission take any enforcement action if non-U.S. dollar-denominated portfolios of the Trust operate as "money market funds" subject to the limitations described in this letter.¹ Capitalized terms used below and not otherwise defined shall have the meaning provided in Rule 2a-7 as proposed to be amended.²

¹ As further specified below, each such portfolio would operate in compliance with Rule 2a-7 under the Investment Company Act of 1940, as amended (the "1940 Act") except that it would be permitted (a) to invest in securities denominated in its own Designated Currency (as defined below), and (b) to treat Designated Foreign Government Securities (as defined below) comparably to the way U.S. government securities are treated by conventional U.S. dollar-denominated money market funds.

Such portfolios also would operate as "money market funds" in compliance with the requirements of all other rules under the 1940 Act and all rules and forms under the Securities Act of 1933, as amended (the "1933 Act"), that are applicable to money market funds (e.g., Form N-1A and Rule 482 under the 1933 Act). However, in the absence of further relief, such portfolios would not be "money market funds" for purposes of the investment restrictions applicable to other entities under such laws.

² See "Technical Revisions to the Rules and Forms Regulating Money Market Funds," Investment Company Act Release 22383 (December 10, 1996). The proposed revisions enumerated in that release are

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Background

The Trust is an open-end management investment company, organized as a Delaware business trust with multiple series (each a "Fund"). The Trust currently is authorized to issue shares representing interests in four separate Funds: the Pound Sterling Fund, the Deutsche Mark Fund, the Canadian Dollar Fund (collectively the "Foreign Currency Funds"), and the U.S. Dollar Fund. The Trustees of the Trust have the power to create such additional Funds as they deem necessary or desirable from time to time. Our client seeks relief in connection with the three Foreign Currency Funds currently in existence, as well as Funds organized in the future.

Each Fund is designed primarily for use as a means of investing short-term cash reserves in its respective base currency (its "Designated Currency"). Each Fund seeks to maintain a constant net asset value expressed in its Designated Currency and effects purchases and redemptions only in such Designated Currency. The Trust has received a private letter ruling from the Internal Revenue Service which permits each Foreign Currency Fund to use its Designated Currency as its "functional currency" for tax purposes. This effectively enables each Foreign Currency Fund to eliminate fluctuations in exchange rates as a variable in computing whether its investment activities have given rise to any capital gains or losses. For purposes of reports filed pursuant to the Securities Exchange Act of 1934, as amended, all required financial statements and other financial information with respect to a Fund will be denominated in that Fund's Designated Currency.

The U.S. Dollar Fund is a "money market fund" within the meaning of Rule 2a-7 and operates in accordance with that Rule. The Foreign Currency Funds currently restrict their investments to high quality debt instruments with a remaining maturity of 60 days or less.³ Accordingly, they utilize the amortized cost method of pricing in accordance with the position articulated in the Commission's 1977 release permitting the use of amortized cost pricing for

²(...continued)

hereinafter referred to as the "December 1996 Proposals."

³ As noted in the Trust's registration statement, the Funds' investments are made through a master-feeder structure. However, we do not believe that this structure has any significance for the issues presented in this letter.

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certain instruments.⁴

The Trustees of the Trust have adopted amortized cost procedures with respect to each of the Foreign Currency Funds (the "Procedures").⁵ By prohibiting the Foreign Currency Funds from acquiring any security having a remaining maturity of more than 60 days, the Procedures impose substantially stricter maturity guidelines than are generally applicable to funds relying upon Rule 2a-7. The Trust and the Investment Manager believe that over time this restriction will materially reduce the potential returns that can be achieved by the Foreign Currency Funds for their shareholders. While the Procedures impose stricter maturity guidelines than does Rule 2a-7, the Procedures are otherwise consistent with Rule 2a-7 except that (a) each Foreign Currency Fund must limit its investments to securities denominated in its Designated Currency, rather than United States Dollar-Denominated securities and (b) a special category of securities, "Designated Foreign Government Securities" is treated much the same as Government Securities are treated under Rule 2a-7. The Procedures define a "Designated Foreign Government Security" as a security issued or guaranteed by the same sovereign government which issues the 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 appropriate legislative or executive body in such country, or any certificate of deposit for any of the foregoing.⁶

Currency Denomination

The requirement that securities eligible for purchase by money market funds be

⁴ Investment Company Act Release 9786 (May 31, 1977).

⁵ Except as noted in this letter, these procedures are intended to track Rule 2a-7 in the form currently mandated for conventional money market funds. The effect of the December 1996 Proposals are further discussed below. Promptly after the issuance of the requested no-action letter, the Procedures would be amended to reflect the terms and conditions thereof.

⁶ While this definition is based upon the definition of Government Securities in Section 2(a)(16) of the 1940 Act, the Trust and the Investment Adviser are aware that in some foreign countries the scope of activities carried out by governmental instrumentalities and other government-controlled entities is broader than in the United States. In connection with receipt of the requested relief, the Trust would be prepared to modify this definition to provide that a security would be not be a "Designated Foreign Government Security" unless the security were determined by the Investment Manager to have a creditworthiness substantially equivalent to that of a direct obligation of the applicable government.

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denominated in U.S. Dollars predates Rule 2a-7.⁷ Over the years this requirement has received little discussion in the Commission's releases addressing Rule 2a-7. Nonetheless, it is clear that this requirement exists in order to avoid the risk that fluctuations in exchange rates would undercut a fund's efforts to maintain a stable net asset value.⁸ From a policy perspective, we believe that this provision is best understood as a requirement that funds which seek to maintain a stable net asset value denominated in a particular currency invest only in instruments denominated in that same currency, rather than an absolute requirement that such funds invest only in U.S. Dollar-Denominated Securities. We respectfully submit that where a fund seeks to maintain a stable net asset value in a currency other than the U.S. Dollar, it is appropriate that such fund *avoid* U.S. Dollar-Denominated Securities and limit its investments to instruments denominated in its base currency.

Designated Foreign Government Securities

It is clear under Section 2(a)(16) of the 1940 Act that "Government Securities" are defined solely by reference to the United States Government. While we are not suggesting that the Staff interpret Section 2(a)(16) of the 1940 Act to include Designated Foreign Government Securities, we believe that there is a strong analogy between Designated Foreign Government Securities and Government Securities which justifies a flexible approach to certain specific provisions of Rule 2a-7.

The securities of a sovereign government play a central role in the market for debt securities which are denominated in that government's own currency. In general, the relevant government is the dominant issuer of debt securities in the national market and its securities are the benchmark for all other debt securities issued in that market, e.g. as a reference point for interest rates. In general, securities of a sovereign government are the most liquid debt securities in the applicable market, have a well defined system for brokerage and safekeeping, and are the most commonly accepted form of collateral for institutional financial obligations such as repurchase agreements.

Perhaps most importantly, the obligations of sovereign governments, when denominated in that government's own currency, are distinct from those of even the most

⁷ See, e.g. Fidelity Daily Income Trust, Investment Company Act Release, 10989 (December 19, 1979) (exemptive order permitting the use of amortized cost pricing).

⁸ See Investment Company Act Release 21837, Revisions to Rules Regulating Money Market Funds (March 21, 1996), footnotes 164-65 and accompanying text.

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creditworthy private issuer. Such obligations are ultimately backed by the government's ability to issue the underlying currency; if necessary, a sovereign government can pay its domestic-currency denominated debt by issuing more of its own currency.⁹

Although the domestic-currency denominated obligations of many foreign governments enjoy high credit ratings,¹⁰ some foreign governments are not considered to be nearly as creditworthy as the United States, e.g. because they are subject to a high degree of political or economic turbulence. Accordingly, as a condition to the requested relief, the Trust is prepared to stipulate that the applicable government, as to its domestic currency-denominated short-term obligations, will have a First Tier rating by the Requisite NRSROs and that in all other respects all Designated Foreign Government Securities purchased by a Foreign Currency Fund will be of sufficient credit quality to qualify as First Tier Securities.

In light of the foregoing considerations, we believe that Designated Foreign Government Securities should be treated comparably to Government Securities for purposes of

⁹ This logic applies only to domestic-currency denominated obligations. Where a governmental obligation is denominated in the currency of another country, the obligation would be analogous to that of a private issuer.

¹⁰ NRSROs typically do not rate U.S. and foreign government securities on an issue-by-issue basis. Rather ratings typically are provided to broad categories of instruments, i.e. long- and short- term, domestic currency-denominated and non-domestic currency-denominated. The Standard & Poor's and Moody's Investors Service ratings of obligations issued by the Canadian, German and the United Kingdom governments and denominated in the applicable local currency are as follows:

Country	Standard & Poor's		Moody's	
	Long Term	Short Term	Long Term	Short Term*
Canada	AAA	A-1+	Aa1	No rating
Germany	AAA	A-1+	Aaa	No rating
United Kingdom	AAA	A-1+	Aaa	No rating

* Although Moody's does not rate domestic currency-denominated short-term obligations of these countries, the foreign currency-denominated short-term obligations of these countries each have a P-1 rating. In general, a sovereign government's domestic currency-denominated obligations are deemed to be at least as credit worthy as its foreign currency-denominated obligations.

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determining whether a fund is adequately diversified under Rule 2a-7(c)(4)(i)¹¹ and calculating the maturity of certain adjustable rate securities.¹² Assuming adoption of the December 1996 Proposals, we also believe that Designated Foreign Government Securities should be treated comparably to Government Securities in defining the terms "Asset Backed Security," and "Refunded Security."¹³

While we believe that Designated Foreign Government Securities should be treated comparably to Government Securities in defining the term "Collateralized Fully," we recognize that this issue raises an additional consideration. For some time the Commission has focused upon the concern that a fund might experience delays as a result of the general stay of creditors rights that arises in many circumstances under U.S. bankruptcy laws. The Commission's 1993 proposed amendment to Rule 2a-7 would have limited the types of acceptable collateral to certain specified types of securities. Under the December 1996 Proposals, collateral would be acceptable only if, upon insolvency of the counter party, the repurchase agreement would qualify under a provision of applicable insolvency law providing an exclusion from any general stay of creditors rights.¹⁴ At your request, the Trust has sought the advice of local counsel concerning the treatment of repurchase agreements under the bankruptcy law of Canada, England, and Germany. The Trust has been advised that in a bankruptcy carried out under the law of each of those countries, there is no general stay of creditors rights applicable to repurchase agreements, regardless of the type of collateral with which they are secured. Accordingly, under those circumstances the Trust would generally have an immediate right of access to the collateral securing the repurchase agreements. In connection with any future Foreign Currency Fund, the Trust intends to seek comparable assurances from local counsel.

On behalf of the Trust, we thank you very much for your time and that of your colleagues in connection with this matter. If you should have any further questions regarding

¹¹ The Foreign Currency Funds are not subject to the diversification requirements of Section 5(b)(1) of the 1940 Act because they have elected to be classified as "non-diversified."

¹² See Rule 2a-7(d)(1).

¹³ Under the December 1996 Proposals, all Government Securities would automatically be First Tier Securities. Consistent with the stipulation in the preceding paragraph, the Trust proposes that Designated Foreign Government Securities would be First Tier Securities only if they met objective standards comparable to those applicable to securities of non-governmental issuers under sub-section (a)(11) of Rule 2a-7.

¹⁴ See Rule 2a-7(a)(4)(definition of "Collateralized Fully")

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the foregoing, please do not hesitate to contact Jackson B.R. Galloway of this office or me.

Sincerely yours,


Geoffrey R.T. Kenyon

GRTK/cbc
Enclosure