



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

DIVISION OF  
INVESTMENT MANAGEMENT

December 2, 1998

Mr. Geoffrey R.T. Kenyon  
Goodwin, Procter & Hoar, LLP  
Exchange Place  
Boston, Massachusetts 02109-2881

ACT ICA OF 1940  
SECTION \_\_\_\_\_  
RULE 2a-7  
PUBLIC  
AVAILABILITY 12/2/98

Re: SSgA International Liquidity Fund

Dear Mr. Kenyon:

Your letter of November 20, 1998 requests assurance that the Division of Investment Management (the "Division") will not recommend enforcement action to the Securities and Exchange Commission (the "Commission") if SSgA International Liquidity Fund (formerly Five Arrows Short-Term Investment Trust) (the "Trust") (1) converts its existing Deutsche Mark-denominated fund into a Euro-denominated fund (the "Euro Fund"), and (2) operates the Euro Fund after December 31, 1998 as a "money market fund" under the Investment Company Act of 1940 (the "1940 Act"), subject to the limitations described in a previous no-action letter (the "1997 No-Action Letter")<sup>1</sup> and in your letter.<sup>2</sup>

I. The 1997 No-Action Letter

The Trust is an open-end management investment company organized as a Delaware business trust in series form. State Street Bank and Trust Company (the "Investment Adviser") acts as investment manager to the Trust.<sup>3</sup> 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 (the "Foreign Currency Funds") and the U.S. Dollar Fund. Each Foreign Currency Fund operates as a "money market fund" in a particular country's base

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<sup>1</sup> Five Arrows Short-Term Investment Trust, SEC No-Action Letter (September 26, 1997).

<sup>2</sup> Capitalized terms used in this response and not otherwise defined have the meaning as set forth in rule 2a-7 as adopted on December 2, 1997. See Technical Revisions to the Rules and Forms Regulating Money Market Funds, Release No. IC-22921 (Dec. 2, 1997) [62 FR 64968 (Dec. 9, 1997)] ("Release 22921"). All citations to rule 2a-7 in this response are to the provisions of the rule as adopted in Release 22921.

<sup>3</sup> State Street Bank and Trust Company has replaced Rothschild International Asset Management Limited as investment manager.

currency (the "Designated Currency").<sup>4</sup> 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.

In the 1997 No-Action Letter, the Division stated that it would not recommend enforcement action to the Commission if the Trust's Foreign Currency Funds held themselves out and otherwise operated as money market funds under rule 2a-7. The Trust represented that it would comply with rule 2a-7, except that (A) each Foreign Currency Fund would invest exclusively in securities denominated in their Designated Currency, rather than in United States Dollar-Denominated securities as required by rule 2a-7(c)(3)(i), and (B) each Foreign Currency Fund would treat Designated Foreign Government Securities<sup>5</sup> in the same manner as Government Securities as defined in rule 2a-7<sup>6</sup> for purposes of: (1) determining whether the funds are adequately diversified under paragraph (c)(4) of rule 2a-7; (2) calculating the maturities of adjustable rate Government Securities under paragraph (d)(1) of the rule;<sup>7</sup> and

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<sup>4</sup> 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.

<sup>5</sup> A "Designated Foreign Government Security" was defined as (1) a security issued or guaranteed by the same sovereign government that issues the fund's Designated Currency, (2) a security issued or guaranteed 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 (3) a certificate of deposit for any of the foregoing. In connection with receipt of the 1997 No-Action Letter, the Trust modified this definition to provide that a security issued or guaranteed by an instrumentality of a sovereign government would not be a "Designated Foreign Government Security" unless the security were determined by the Investment Adviser to have a creditworthiness substantially equivalent to that of a direct obligation of the applicable government.

<sup>6</sup> Paragraph (a)(14) states that "Government Security" means any "Government security" as defined in section 2(a)(16) of the 1940 Act. Section 2(a)(16) defines "Government security" as "any 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 Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing."

<sup>7</sup> 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.

(3) applying the rule's definitions of "Asset Backed Security," "Refunded Security" and "Collateralized Fully."<sup>8</sup>

Because some foreign governments are not considered to be as creditworthy as the United States, the 1997 No-Action Letter was based in part on your representation that when purchasing Designated Foreign Government Securities, the Foreign Currency Funds would ensure that the applicable government, as to its domestic currency-denominated short-term obligations, had 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 would be of sufficient credit quality to qualify as First Tier Securities.

## II. The Euro Fund

You state that eleven European countries (the "EMU Member States")<sup>9</sup> are currently in the midst of a three stage process toward European Monetary Union ("EMU").<sup>10</sup> The first two stages have involved detailed planning and preparatory work. The third stage will begin on January 1, 1999 and will involve the introduction of a new currency. At that time, the Euro will become the official currency of each of the EMU Member States. The pre-existing currencies of those countries (the "Legacy Currencies") will continue to exist as legal tender for another three and a half years, but technically will be monetary expressions of the Euro.<sup>11</sup>

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<sup>8</sup> Paragraph (a)(3) of rule 2a-7 excludes Government Securities from the definition of "Asset Backed Security." Paragraph (a)(20) of the rule generally defines a "Refunded Security" as a debt security whose payment is funded and secured by Government Securities placed in an escrow account. Part II of this response discusses the definition of "Collateralized Fully."

<sup>9</sup> Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On May 2, 1998 the Council of the European Union determined that these eleven countries fulfilled the necessary conditions for the adoption of the single currency on January 1, 1999. The United Kingdom and Denmark elected not to adopt the Euro at this time and it was determined that Greece had not fulfilled the necessary conditions. The term "EMU Member States" refers to the eleven initial countries and any other country that subsequently participates in European Monetary Union by adopting the Euro as its official currency.

<sup>10</sup> The Maastricht Treaty, which provides for the completion of Economic and Monetary Union, was signed on February 7, 1992 and came into force on November 1, 1993. The procedures for the changeover to the single currency were set out in various European Council documents from 1995 through 1997.

<sup>11</sup> Between January 1, 1999 and January 1, 2002, the Euro can be used for cashless payments by check, wire transfer or credit card, but Euro banknotes and coins will not yet be available. On January 1, 2002, Euro banknotes and coins will be introduced. As of the same date, cashless

(continued) . . .

Exchange rates between the Euro and each Legacy Currency will be irrevocably locked as of January 1, 1999 and each Legacy Currency will then have an exact legal equivalent in Euros.

You state that as of January 1, 1999, a single monetary policy will be conducted by a multi-national institution, the European Central Bank. Key interest rates will be made by the Governing Council of the European Central Bank and the same official short-term interest rates will apply in all of the EMU Member States. The existing central banks of the EMU Member States will have a role in implementing the European Central Bank's monetary policy in their respective countries, but the European Central Bank will have the exclusive right to authorize the issuance of Euro bank notes.

Following EMU, each EMU Member State will continue to be responsible for its own indebtedness, but the European Central Bank will have the ultimate right to authorize the issuance of Euro bank notes. You state that the Investment Adviser does not expect this change to adversely impact the obligations of the most creditworthy EMU Member States. For example, the Investment Adviser expects the obligations of the German government to be as creditworthy when they are redenominated in Euros as they are at present. You state that it is also likely that the Euro-denominated Designated Foreign Government Securities of the most creditworthy EMU Member States will play a central role in the new Euro-based fixed income markets. You anticipate that these government obligations will be among the most liquid debt securities in the market, will serve as a reference point for interest rates, and will become the most commonly accepted form of collateral for institutional financial obligations such as repurchase agreements.

The Investment Adviser believes that it would be difficult to manage the Euro Fund effectively if obligations of the most creditworthy EMU Member States were limited to the stringent diversification standards applicable to nongovernmental issuers under rule 2a-7. You request that the 1997 No-Action Letter be extended so that the Euro Fund can treat Euro-denominated Designated Foreign Government Securities in the same manner as Government Securities for the purposes of: (1) determining whether the Euro Fund is adequately diversified; (2) calculating the maturities of adjustable rate securities; and (3) applying the rule's definitions of "Asset Backed Security," "Refunded Security" and "Collateralized Fully." Consistent with the 1997 No-Action Letter, you represent that Euro-denominated Designated Foreign Government Securities will only be treated in this fashion if the applicable

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payments will be payable in Euros only. References to Legacy Currency units in contracts and other legal instruments will be considered to be references to an equivalent number of Euros. By July 1, 2002, Legacy Currency banknotes and coins will have been withdrawn from circulation and will cease to be legal tender.

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 under the rule.<sup>12</sup>

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."<sup>13</sup> Paragraph (a)(5) of the rule provides that a repurchase agreement is "Collateralized Fully" if, among other things, (1) it is collateralized by Government Securities or other highly rated securities, and (2) upon an Event of Insolvency with respect to the seller, the repurchase agreement would qualify under a provision of applicable insolvency law providing an exclusion from any automatic stay of creditors' rights against the seller. 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 state that when the Euro Fund intends to use Euro-denominated Designated Foreign Government Securities as collateral for repurchase agreements, the Euro Fund will seek assurances from appropriate local counsel that upon an Event of Insolvency with respect to the seller, the collateral would not be subject to any automatic stay of creditors' rights against the seller. If the Euro Fund is unable to obtain reasonable assurances in this regard as to any portion of the collateral, that portion of the collateral will not be counted when the Trust computes whether a repurchase agreement is "Collateralized Fully."

### III. Conclusion

The Division would not recommend an enforcement action if the Euro Fund holds itself out and otherwise operates as a "money market fund" for purposes of compliance with rule 2a-7, except that the Euro Fund invests only in securities denominated in the Euro and treats Euro-denominated 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 Euro Fund operates as a "money market fund" for purposes of all other rules under the 1940 Act and the rules and forms under the Securities Act of 1933 that are applicable to "money market funds." These conclusions are based upon the facts, conditions and representations in your letter of November 20, 1998 and in the 1997 No-Action Letter.

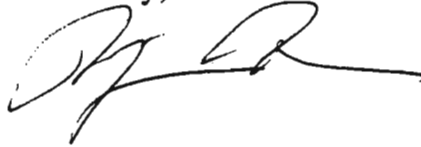
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<sup>12</sup> You state that in connection with receipt of this letter, the Trust will add language to the definition of "Designated Foreign Government Security" stating that in the case of the Euro Fund, any EMU Member State that has a First Tier rating from the Requisite NRSROs as to its Euro-denominated short-term obligations would be considered to be the sovereign government that issues the fund's Designated Currency.

<sup>13</sup> Rule 2a-7(c)(4)(ii)(A).

You 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.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Mann', with a long horizontal flourish extending to the right.

Marilyn K. Mann  
Senior Counsel

GOODWIN, PROCTER & HOAR LLP

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

November 20, 1998

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 client, SSgA International Liquidity Fund (formerly Five Arrows Short-Term Investment Trust)(the "Trust"),<sup>1</sup> 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 the Trust (a) converts its existing Deutsche Mark-denominated fund into a Euro-denominated fund, and (b) operates that Fund after December 31, 1998 as a "money market fund," subject to the limitations described in the Trust's previous no-action letter<sup>2</sup> and in this letter. This letter amends and restates our letter of November 10, 1998.

**The 1997 No Action letter**

In the 1997 No Action letter, the Division of Investment Management stated that it would not recommend an enforcement action if the Trust's Foreign Currency Funds held themselves out and otherwise operated as money market funds, subject to various representations, conditions and limitations. In general, the Trust proposed to comply with Rule 2a-7, except that each Foreign Currency Fund would invest only in securities denominated in its respective Designated Currency and would treat Designated Foreign

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<sup>1</sup> State Street Bank and Trust Company has replaced Rothschild International Asset Management Limited as investment manager. References herein to the "Investment Adviser" refer to State Street Bank and Trust Company.

<sup>2</sup> Five Arrows Short-Term Investment Trust (September 26, 1997) (the "1997 No-Action Letter").

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Government Securities<sup>3</sup> in a manner similar to Rule 2a-7's treatment of U.S. Government Securities.<sup>4</sup>

### European Monetary Union

Eleven European countries<sup>5</sup> are currently in the midst of a three stage process toward full monetary union.<sup>6</sup> The first two stages have involved detailed planning and preparatory work. The third stage will begin on January 1, 1999 and will involve the actual introduction of a new currency. At that time, the Euro will become the official currency of each of the EMU Member States. The pre-existing currencies of those countries (each a "Legacy Currency") will continue to exist as legal tender for another 3½ years but technically will be monetary

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<sup>3</sup> A "Designated Foreign Government Security" was defined as (a) a security issued or guaranteed by the same sovereign government which issues the fund's Designated Currency, (b) a security issued or guaranteed 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 (c) a certificate of deposit for any of the foregoing. In connection with receipt of the 1997 No-Action Letter, the Trust modified this definition to provide that a security would 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.

<sup>4</sup> Thus, this definition is relevant in determining whether a fund is adequately diversified under Rule 2a-7(c)(4)(i), in calculating the maturity of certain adjustable rate securities, see Rule 2a-7(d)(1), and in defining the terms "Asset Backed Security," and "Refunded Security." Under Rule 2a-7, all Government Securities are automatically First Tier Securities; however, the Trust treats Designated Foreign Government Securities as Eligible Securities or First Tier Securities only if they meet objective standards comparable to those applicable to securities of non-governmental issuers under sub-sections (a)(10) and (a)(12) of Rule 2a-7.

<sup>5</sup> Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. On May 2, 1998 the Council of the European Union determined that these eleven countries fulfilled the necessary conditions for the adoption of the single currency on January 1, 1999. The United Kingdom and Denmark elected not to adopt the Euro at this time and it was determined that the Greece had not fulfilled the necessary conditions. The term "EMU Member States" is used in this letter to refer to the eleven initial countries and any other country that subsequently participates in European Monetary Union by adopting the Euro as its official currency.

<sup>6</sup> The Maastricht Treaty, which provides for the completion of Economic and Monetary Union, was signed on February 7, 1992 and came into force on November 1, 1993. The procedures for the changeover to the single currency were set out in various European Council documents from 1995 through 1997.



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expressions of the Euro.<sup>7</sup> Exchange rates between the Euro and each Legacy Currency will be irrevocably locked as of January 1, 1999 and each Legacy Currency will then have an exact legal equivalent in Euros.

As of January 1, 1999, a single monetary policy will be conducted by the recently established European Central Bank. Key interest rates will be set by the Governing Council of the European Central Bank and the same official short-term interest rates will apply in all of the EMU Member States. The existing central banks of the EMU Member States will have a role in implementing the European Central Bank's monetary policy in their respective countries, but the European Central Bank will have the exclusive right to authorize the issuance of Euro bank notes.

Each EMU Member State will continue to be separately liable for its newly issued and existing national debt. Within limits, each EMU Member State will have discretion to determine the amount and terms of its national debt, but may be subject to sanctions if it incurs "excessive governmental deficits."<sup>8</sup>

### Issues Presented

**A. Could a Euro-denominated Fund which limited its investments to securities denominated in the Euro hold itself out and operate as a money market fund to the same extent as the existing Foreign Currency Funds?**

The 1997 No-Action Letter contemplated that future funds denominated in currencies other than the Pound Sterling, the Deutsche Mark, or the Canadian Dollar would qualify for the same relief as the three initial Foreign Currency Funds. Subject to the discussion in below concerning Designated Foreign Government Securities, we believe that a Euro-denominated

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<sup>7</sup> Between January 1, 1999 and January 1, 2002, the Euro can be used for cashless payments by check, wire transfer or credit card, but Euro banknotes and coins will not yet be available. On January 1, 2002, Euro banknotes and coins will be introduced. As of the same date, cashless payments will be payable in Euros only. References to Legacy Currency units in contracts and other legal instruments will be considered to be references to an equivalent number of Euros. By July 1, 2002 Legacy Currency banknotes and coins will have been withdrawn from circulation and will cease to be legal tender.

<sup>8</sup> Maastricht Treaty, Article 104c. The Maastricht Treaty specifies how national budget deficits are to be monitored and then outlines procedures under which countries with excessive deficits will be induced to eliminate them, beginning with confidential recommendations, and ending with possible financial sanctions. Article 104c has been elaborated in a "Stability and Growth Pact" agreed to in June 1997.

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Portfolio of the Trust which limited its investments to securities denominated in the Euro would be squarely within the bounds of the 1997 No-Action Letter. We ask that the Staff concur in this view.

**B. May Euro-denominated governmental obligations be treated as "Designated Foreign Government Securities?"**

In the 1997 No-Action Letter we identified a number of unique characteristics shared by the securities of sovereign governments that are denominated in the applicable government's own currency. In this regard, we cited numerous ways in which such securities played a central role in the applicable market and noted that such obligations are ultimately backed by the government's ability to issue the underlying currency.

Following EMU, each EMU Member State will continue to be responsible for its own indebtedness, but a multi-national institution, the European Central Bank, will have the ultimate right to authorize the issuance of Euro bank notes. Nonetheless, the Investment Adviser does not expect this change to adversely impact the obligations of the most credit worthy EMU Member States. For example, the Investment Adviser expects that the obligations of the German government will be as credit worthy when they are redenominated in Euros as they are presently when denominated in Deutsche Marks.<sup>9</sup>

At the same time, it is likely that the government obligations of the most credit worthy EMU Member States will play a central role in the new Euro-based fixed income markets.

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<sup>9</sup> We are aware of at least one U.S. governmental body that has studied the potential impact of the Euro conversion on foreign governmental obligations. See "Evaluating International Economic Policy with the Federal Reserve's Global Model," 83 Federal Reserve Bulletin, Number 10 (October, 1997). However, we are not aware of any U.S. governmental body that has indicated that the EMU will adversely affect the credit worthiness of governmental obligations of EMU Member States.

You have asked specifically how banking authorities will regard such obligations for purposes of computing the adequacy of a bank's capital. As you know, federally regulated banks must maintain certain substantially identical minimum capital ratios. For example, those for national banks are set forth in 12 CFR Part 3. Appendix A to Part 3 sets forth Risk-Based Capital Guidelines. Risk-based capital is derived by assigning a bank's assets and off-balance sheet items to one of four risk categories. The most favorable category (the "zero percent risk weight" category) includes various obligations of the United States Government or of a member state of the Organization for Economic Cooperation and Development (an "OECD Country") and assets and off-balance sheet transactions collateralized by such obligations. Each of the EMU Member States are OECD Countries, as are various other countries, such as Canada, Mexico, Hungary, Poland, and Korea. We are not aware of any plans by the federal banking authorities to modify these provisions in light of EMU.

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These government obligations will be among the most liquid debt securities in the market, will serve as a reference point for interest rates, and will become the most commonly accepted form of collateral for institutional financial obligations such as repurchase agreements.<sup>10</sup> For this reason, the Investment Adviser believes that it would be difficult to manage the Fund effectively if obligations of the most credit worthy EMU Member States are limited to the stringent diversification standards applicable to nongovernmental issuers under Rule 2a-7.

For the foregoing reasons, the Trust asks the Staff to extend the 1997 No-Action Letter in a manner that would permit Euro-denominated government obligations of EMU Member States to be treated as Designated Foreign Government Securities, provided that the applicable government, as to its Euro-denominated short-term obligations, has a First Tier rating from the Requisite NRSROs and that in all other respects such securities are of sufficient credit quality to qualify as First Tier Securities.<sup>11</sup>

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<sup>10</sup> In the 1997 No Action letter we discussed the status of Designated Foreign Government Securities for purposes of defining whether repurchase agreements were "Collateralized Fully." We have been advised that no pan-European bankruptcy legislation is currently pending and accordingly, for the foreseeable future, each of the EMU Member States will continue to have its own bankruptcy laws.

When the Trust intends to use Designated Foreign Government Securities issued by one or more EMU Member States as collateral for repurchase agreements, the Trust will seek assurances from appropriate local counsel that upon an Event of Insolvency with respect to the seller, the collateral would not be subject to any automatic stay of creditors rights against the seller. If the Trust is unable to obtain reasonable assurances in this regard as to any portion of the collateral, that portion of the collateral will not be counted when the Trust computes whether a repurchase agreement is "Collateralized Fully."

<sup>11</sup> This position would be reflected in the Trust's internal investment procedures. For example, the Trust would add language to the definition of "Designated Foreign Government Securities" stating that in the case of the Euro Fund, any EMU Member State that has a First Tier rating from the Requisite NRSROs as to its Euro-denominated short-term obligations would be considered to be the "sovereign government which issues the fund's Designated Currency."

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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 the foregoing, please do not hesitate to contact me.

Sincerely yours,



Geoffrey R.T. Kenyon

GRTK/cbc  
Enclosure  
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