

**Frequently Asked Questions:
U.S. Ownership of Foreign Securities, Including Selected Money
Market Instruments (SHC& SHC(A))**

TABLE OF CONTENTS

	Page
A. General Instructions/Information	2
B. Residency Rules	3
C. Custody Reporting	3
D. Consolidation Rules	4
E. Reportable/Non-Reportable Items	4-5
F. Securities Pricing and Factor Values	6
G. Contact Information	7

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A. General Instructions/Information

1. What is the difference between the "benchmark report "(SHC) and an "annual report" (SHC(A))?

The SHC and the SHC(A) collect the same information. The SHC is conducted every 5 years and is required to be filed by all institutions that meet the exemption level. The SHC(A) is the annual version of this report. It is only required to be filed by a much smaller group of institutions composed of the largest reporters in the previous benchmark report. FRBNY determines the annual panel and informs those institutions of their reporting status.

2. What are the exemption levels of the SHC and SHC(A) reports?

For the Benchmark report (SHC), the exemption levels are as follows:

Schedule 1 - All institutions are required to file a Schedule 1, even if they are exempt from filing the other schedules.

Schedule 2 - Institutions that own or hold in custody for U.S. clients a combined \$200 million or greater in foreign securities are required to file a Schedule 2 report.

Schedule 3 - Institutions that entrust to individual U.S. custodians \$200 million or more in foreign securities are required to file a Schedule 3. No schedule 3 needs to be submitted for individual custodians to which less than \$200 million has been entrusted.

For the SHC(A) there is no exemption level. Organizations designated by FRBNY as SHC(A) reporters are required to file all applicable schedules.

3. What determines if a security is foreign?

Report all securities issued by companies that were incorporated outside of the United States (including companies incorporated offshore in countries such as the Cayman Islands and Bermuda) as of the report date, even if these companies have their corporate headquarters in the United States and/or primarily do business in the United States.

4. Can a foreign security be reported on more than one Schedule 2 form?

Yes. Consolidation of Schedule 2 records for a specific foreign security is allowed (but not required) for records with the same type of Ownership Code (Item 13).

5. How do I determine if a security is short-term?

All securities with an original maturity of one year or less are considered short-term.

For example, if a security is issued on January 31, 2005 and matures on January 31, 2006, it is considered short-term even though the actual number of days the security is outstanding exceeds 365, i.e., 366.

THE FEDERAL RESERVE BANK OF NEW YORK

B. Residency Rules

6. How is residency determined?

- For individuals, use IRS form W-9 (U.S. residents) or the IRS W-8 series of forms (foreign residents), whenever possible, to determine residency.
- For institutions, the country of incorporation or country which issued the entity's charter determines residency.
- For funds, the country in which the fund is legally established determines residency.

7. How do you determine whether a trust is a U.S. client or a foreign client?

The residency of a trust is based on where the trust is established and not based on the residency of the trustees.

8. Are international and regional organizations considered foreign entities?

Yes. International and regional organizations with extra-territorial status are considered foreign even if located in the United States. (See Appendix E of the SHC instruction booklet for a list of these organizations).

C. Custody Reporting

9. When a U.S.-resident custodian entrusts foreign securities to another U.S.-resident custodian, what are the reporting responsibilities?

The U.S.-resident custodian that actually safekeeps the foreign securities should report those securities on Schedule 2. The U.S.-resident custodian that entrusts the securities to another U.S.-resident custodian should report those securities on Schedule 3. For example, if a U.S. entity entrusts foreign securities to U.S. Custodian A, whom in turn entrusts these foreign securities to U.S. Custodian B, both Custodian A and Custodian B should file Schedule 1. Custodian A would also file Schedule 3 and Custodian B would also file Schedule 2.

10. Who is responsible to report foreign securities entrusted to a US-resident central securities depository (CSD)?

Foreign securities entrusted to a U.S.-resident central securities depository (such as DTC) must be reported by the U.S.-resident entity that entrusted the securities to the CSD.

All foreign securities entrusted to a U.S.-resident central securities depository would be reported on Schedule 2.

11. Who is responsible to report foreign securities entrusted to a foreign-resident central securities depository (CSD) or to a foreign-resident custodian?

Foreign securities entrusted to a foreign-resident central securities depository (such as Euroclear) or to a foreign-resident custodian must be reported on Schedule 2 by the U.S.-resident entity that entrusted the securities.

THE FEDERAL RESERVE BANK OF NEW YORK

D. Consolidation Rules

12. What are the consolidation rules for filing the SHC/SHC(A)?

Reports should include all reportable securities held or managed by all U.S.-resident parts of your organization, including all U.S.-resident branches, offices, and subsidiaries. U.S. residents include organizations located in the Commonwealth of Puerto Rico and U.S. territories and possessions. Please see Appendix H of the SHC instruction booklet for the complete definition of United States. It is the responsibility of the parent entity in each organization to ensure that its report covers all applicable entities within the organization.

E. Reportable/Non-Reportable Items

13. How should ownership of shares of foreign funds be reported?

U.S. investments in the shares of foreign funds should be reported as equity, even if the funds purchase non-equity securities (e.g., bond funds, money market mutual funds).

14. Should depositary receipts/shares be reported?

Yes, if the underlying security is a foreign security, then all depositary receipts/shares (e.g., ADRs, ADSs, GDRs, and IDRs) owned by U.S. residents should be reported. However, note that the issuer of the depositary receipts should not report the foreign shares it holds in trust that back the depositary issue.

15. Should foreign securities held in a trading account be reported?

Yes. All foreign securities should be reported on Schedule 2, including those that are held for trading, are available-for-sale, or are held-to-maturity.

16. Should direct investment positions that are reported to the Commerce Department be included in this report?

No. All direct investment positions should be reported to the Commerce Department and excluded from this report.

Direct investment is a balance of payments concept. A direct investment relationship exists if a single person or affiliated group (such as a U.S. company) controls 10% or more of the voting stock of a foreign company. Case 1: If neither company is a banking institution, all positions between the two companies are considered direct investment and are excluded from this report. Case 2: If one of the companies is a bank or a bank holding company, direct investment is limited to “permanent” debt or equity and remitted profits and losses. Positions with foreign affiliates that arise out of normal banking business (e.g., intercompany certificates of deposits) are not direct investment and should be reported.

In addition, U.S.-resident general partner ownership of foreign-resident limited partnerships is always considered to be direct investment and is excluded from this report.

17. Should investments in foreign partnerships be reported?

Investments in securities issued by foreign partnerships should be reported unless the investment represents direct investment (e.g., a general partner investment).

THE FEDERAL RESERVE BANK OF NEW YORK

E. Reportable/Non-Reportable Items (Continued)

18. Should investments in foreign real estate be reported?

No. Only investments in foreign securities are reportable. Thus, investments in foreign securities that are backed by foreign real estate assets are reportable, but actual purchases of foreign real estate are considered direct investments and should be excluded.

19. Should foreign securities issued under a private placement arrangement be reported?

Yes. Foreign securities should be reported whether they are issued as registered public securities or as private placements, and both should be reported whether or not they are actively traded publicly.

20. How should repurchase agreements and security lending arrangements be reported?

The security lender should report foreign securities sold under repurchase agreements or lent under securities lending agreements as if no repurchase agreement or security lending arrangement occurred; that is, the security should be reported. The security borrower should exclude borrowed foreign securities from their report.

21. Should embedded derivatives that are not bifurcated from the host contract be reported?

Yes. If the embedded derivative has not been bifurcated from the host, then the security should be reported without separating the embedded derivative. However, if the embedded derivative is bifurcated from its host contract, then only the value of the host contract should be reported.

22. Should long positions and short positions be netted?

No. Netting is not permitted on this report. Only long positions should be reported.

23. Should Euro deposits be reported?

No, non-negotiable deposits should be excluded. However, selected money market instruments, including negotiable certificates of deposits, bankers' acceptances, commercial paper and promissory notes issued by foreign-resident entities should be reported.

24. Should matured foreign debt securities be reported?

Yes. Not all securities are repaid on time. Foreign securities that are still outstanding as of the last business day of December should be reported even if the maturity date falls before the report as-of-date.

THE FEDERAL RESERVE BANK OF NEW YORK

F. Securities Pricing and Factor Values

25. How does the FRBNY calculates prices?

Note: Use the calculations listed below to determine whether prices appear reasonable.

An implicit price for non-ABS debt securities can be calculated by dividing the Fair (Market) Value in Currency of Denomination (schedule 2, line 14b) by the Face Value in Currency of Denomination (schedule 2, line 17).

For example, if the Fair (Market) Value in Currency of Denomination is 110,000 and the Face Value in Currency of Denomination is 100,000, then the implicit price is 1.1.

Implicit Price = Fair (Market) Value in Currency of Denomination / Face Value in Currency of Denomination = 110,000 / 100,000 = 1.1

If your data for non-ABS debt display implicit prices that differ greatly from one and the prices cannot be explained by usual factors (e.g., distressed securities, convertible securities, zero-coupon securities, etc.), then there may be a problem in the reported data values.

An implicit price for ABS can be calculated by dividing the Fair (Market) Value in Currency of Denomination (schedule 2, line 14b) by the Remaining Principal Outstanding in Currency of Denomination (schedule 2, line 21).

For example, if the Fair (Market) Value in Currency of Denomination is 210,000 and the Remaining Principal Outstanding in Currency of Denomination is 230,000, then the implicit price is 0.913.

Implicit Price = Fair (Market) Value in Currency of Denomination / Remaining Principal Outstanding in Currency of Denomination = 210,000 / 230,000 = 0.913

If ABS debt data have implicit prices that differ greatly from one and the price difference cannot be explained by usual factors (e.g., distressed securities, convertible securities, zero-coupon securities, etc.), then there may be a problem.

An implicit price for equity securities can be calculated by dividing the US Fair (Market) Value of the security held (schedule 2, line 14a) by the Number of Shares Held (schedule 2, line 16).

For example, if the US Fair (Market) Value is 2,100,000 and the Number of Shares Held is 230,000, then the implicit price is 9.13.

Implicit Price = US Fair (Market) Value / Number of Shares Held = 2,100,000 / 230,000 = 9.13

26. How does the FRBNY calculates factor values for asset-backed securities?

An implicit factor value for ABS debt securities can be calculated by dividing the Remaining Principle Outstanding in Currency of Denomination (schedule 2, line 21) by the Original Face Value in Currency Denomination (schedule 2, line 20)

For example, if the Remaining Principal Outstanding in the Currency of Denomination is 90,000 and the Original Face Value in Currency of Denomination is 100,000, then the factor value would be 0.9.

Factor Value = Remaining Principal Outstanding in Currency of Denomination / Original Face Value in Currency of Denomination = 90,000 / 100,000 =0.9

THE FEDERAL RESERVE BANK OF NEW YORK

G. Contact Information

27. Can the SHC/SHC(A) report be filed over the internet?

Yes. Reporting Central is fast, easy to use and secure. Reporting Central offers a convenient alternative for reporting your data. Further information can be found at:
https://www.frbservices.org/centralbank/reportingcentral/resource_center.html.

28. Who should be contacted with additional questions?

Additional questions can be addressed to the Securities Data Division of the Federal Reserve Bank of New York by calling (212) 720-6300, or email to shc.help@ny.frb.org.