

FEDERAL RESERVE BANK *of* NEW YORK

***Report of U.S. Ownership of
Foreign Securities
Including Selected Money Market
Instruments
Training Seminar***

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Presenters

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History and Use of Cross-Border Portfolio Investment Data



Philip Pappalias

Overview

- ▶ Part of an integrated system
- ▶ Used in conjunction with monthly flow (TIC S) data
- ▶ Annual data are detailed, but not timely
- ▶ Monthly data are very timely, but less precise
- ▶ Used together to create U.S. cross-border portfolio investment statistics

History

- ▶ Security-level data first collected in 1974
- ▶ Measured foreign investment in U.S. securities
- ▶ Congressional concern over growing foreign influence
- ▶ Existing TIC data collected monthly and quarterly, but lacked detail

History

- ▶ Levels of US holdings of foreign securities had been modest: \$ 9 billion per year 1980-1989
- ▶ Levels steadily grew: \$65 billion per year 1990-1994
- ▶ First collected security-level data for U.S. investment in foreign securities in 1994

History

- ▶ Measured U.S. holdings of foreign securities in 1994 were 60% above estimates
- ▶ \$870 billion vs. \$540 billion
- ▶ Showed need for future detailed data collections
- ▶ Conducted next collection in 1997

History

- ▶ Crisis of 1997-1998 caught most by surprise
- ▶ Lack of key data helped mask the problem
- ▶ Led to recognition that greater financial transparency was required
- ▶ Implies higher quality and faster data needed
- ▶ Initially believed detailed collections could be conducted every 3 to 4 years to meet users needs

IMF Coordinated Data Collections

- ▶ Organized by the IMF as of year-end 1997
- ▶ 29 countries participated
- ▶ World measured additional \$750 billion
- ▶ U.S. measured an additional \$300 billion

IMF Coordinated Data Collections

- ▶ Worldwide, at year-end 1997
- ▶ Assets \$7.7 trillion
- ▶ Liabilities \$9.3 trillion
- ▶ Difference 18%
- ▶ Implied more needed to be done

IMF Coordinated Data Collection

- ▶ Second collection organized by the IMF as of year-end 2001
- ▶ 67 countries participated
- ▶ All of the major industrial countries
- ▶ Most of the major offshore financial centers
- ▶ Short-term securities included

IMF Coordinated Data Collections

- ▶ Worldwide, at year-end 2001
- ▶ Assets \$12.6 trillion
- ▶ Liabilities \$15.0 trillion
- ▶ Difference 16%
- ▶ Implied more needed to be done

IMF Coordinated Data Collections

- ▶ Internationally-coordinated annual data collections
- ▶ U.S. began conducting annual collections as of year-end 2003
- ▶ U.S. benchmark collections every 5 years
- ▶ U.S. “Large Reporter” collections intervening years

Annual Data

- ▶ Annual data provide more precise geography
 - Long-term securities reported monthly are based on location of purchaser/seller which results in heavy bias towards financial centers such as the United Kingdom
 - Security-level collection allows for greater data editing

Data Uses

- ▶ Why care about these data?
- ▶ U.S. is the world's largest net debtor
- ▶ Level of U.S. net debt is increasing rapidly

Users

- ▶ Board of Governors of the Federal Reserve
- ▶ U.S. Treasury
- ▶ U.S. Department of Commerce
- ▶ The International Monetary Fund
- ▶ Academic research
- ▶ Private sector analysts

Institute of International Finance Recommendations

- ▶ IIF strongly urged changes
- ▶ IIF recommended a more rigorous system than will be implemented
- ▶ “...private sector participants in these markets bear a responsibility for full and timely disclosure of information on their activities.”

Summary

- ▶ Changes have increased the burden on both TIC reporters and compilers
- ▶ By combining estimates with reported data we are attempting to limit the burden
- ▶ Timely, accurate data from TIC reporters is the key

Who Must Report



Marc Plotsker

Overview

- ▶ Who Must Report the annual Report of U.S. Ownership of Foreign Securities (TIC SHCA)
 - Overview of Report Forms
 - SHCA Reporter Categories
 - Reporting Panels

Report Forms

- ▶ Schedule 1 - SHCA Reporter Contact Identification and Summary of Financial Information
- ▶ Schedule 2 – Details of Securities
- ▶ Schedule 3 - Custodians Used

Proper Classification of U.S. and Foreign

- ▶ Reporting organization
 - Report foreign securities held or managed by all U.S.-resident parts of your organization
 - ▶ U.S.-resident branches
 - ▶ U.S.-resident offices
 - ▶ U.S.-resident subsidiaries

Categories of Reporters

- ▶ U.S.-resident custodians
 - U.S.-resident organizations that hold in custody or manage the safe keeping of foreign securities for other U.S.-residents
 - Invest in foreign securities for their own account

Categories of SHCA Reporters

- ▶ U.S.-resident end-investors
 - Invest in foreign securities on behalf of other U.S.-residents
 - Invest in foreign securities for their own account

Categories of SHCA Reporters

- ▶ Examples of U.S.-resident end-investors
 - Managers of private and public pension funds
 - Managers of mutual funds, country funds, unit-investment funds, hedge funds, exchange-traded funds, collective-investment trusts
 - Insurance companies
 - Foundations
 - Institutions of higher learning (e.g., university endowments)
 - Trusts and estates

Reporting Panels

- ▶ How FRBNY determines the SHCA reporter panel.
 - Every 5 years, FRBNY collects data from all significant U.S.-resident custodians and end-investors (“Benchmark”).
 - Based on the Schedule 2 and Schedule 3 data submitted in the “Benchmark” report, FRBNY selects the largest reporting institutions as well as those that significantly contributed to a particular region and/or broad security type for the annual panel.

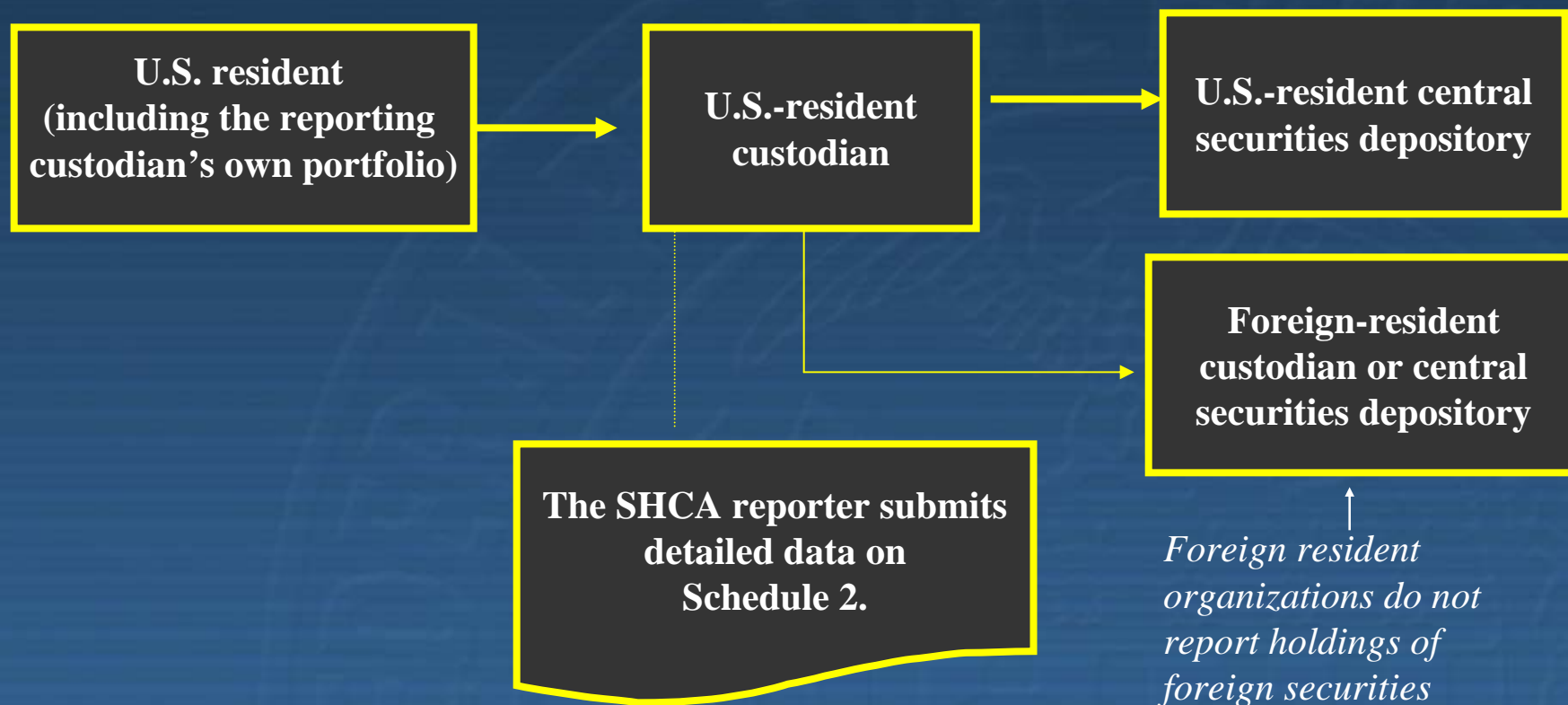
Schedule 2 and Schedule 3 Exemption Levels

- ▶ All SHCA reporters MUST file Schedule 1.
- ▶ Report Schedule 2 if the total fair (market) value of reportable securities is \$100 million or more.
- ▶ Securities entrusted to U.S.-resident custodians should be reported on Schedule 3 if the fair (market) value of the foreign securities aggregated over accounts owned and/or managed equals \$100 million or more.
 - ▶ This exemption level applies to each U.S.-resident custodian used.

Reporting Panels

- ▶ U.S.-resident custodians
 - Schedule 2, report detailed information on foreign securities that:
 - ▶ held in custody for U.S.-resident clients
 - ▶ invest in for own account
 - ▶ entrust to foreign-resident custodians or central securities depositories
 - ▶ entrust to U.S.-resident central securities depositories

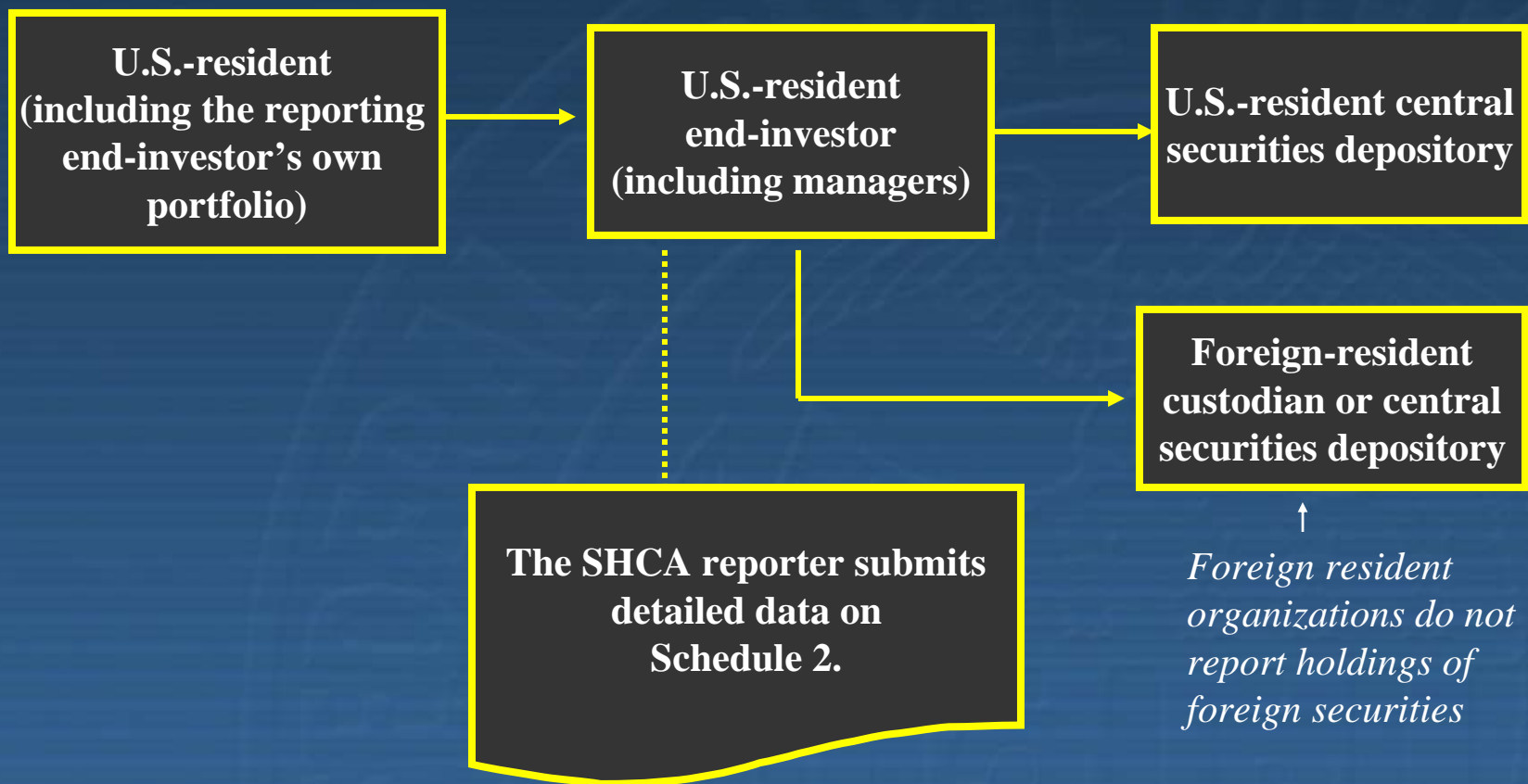
Reporting Panels U.S.-Resident Custodians Schedule 2 Reporting



Reporting Panels

- ▶ U.S.-resident end-investors
 - Schedule 2, report detailed information on foreign securities not entrusted to U.S.-resident custodians; that is, when the end-investor:
 - ▶ holds the foreign securities directly
 - ▶ employs foreign-resident custodians or central securities depositories
 - ▶ employs U.S.-resident central securities depositories

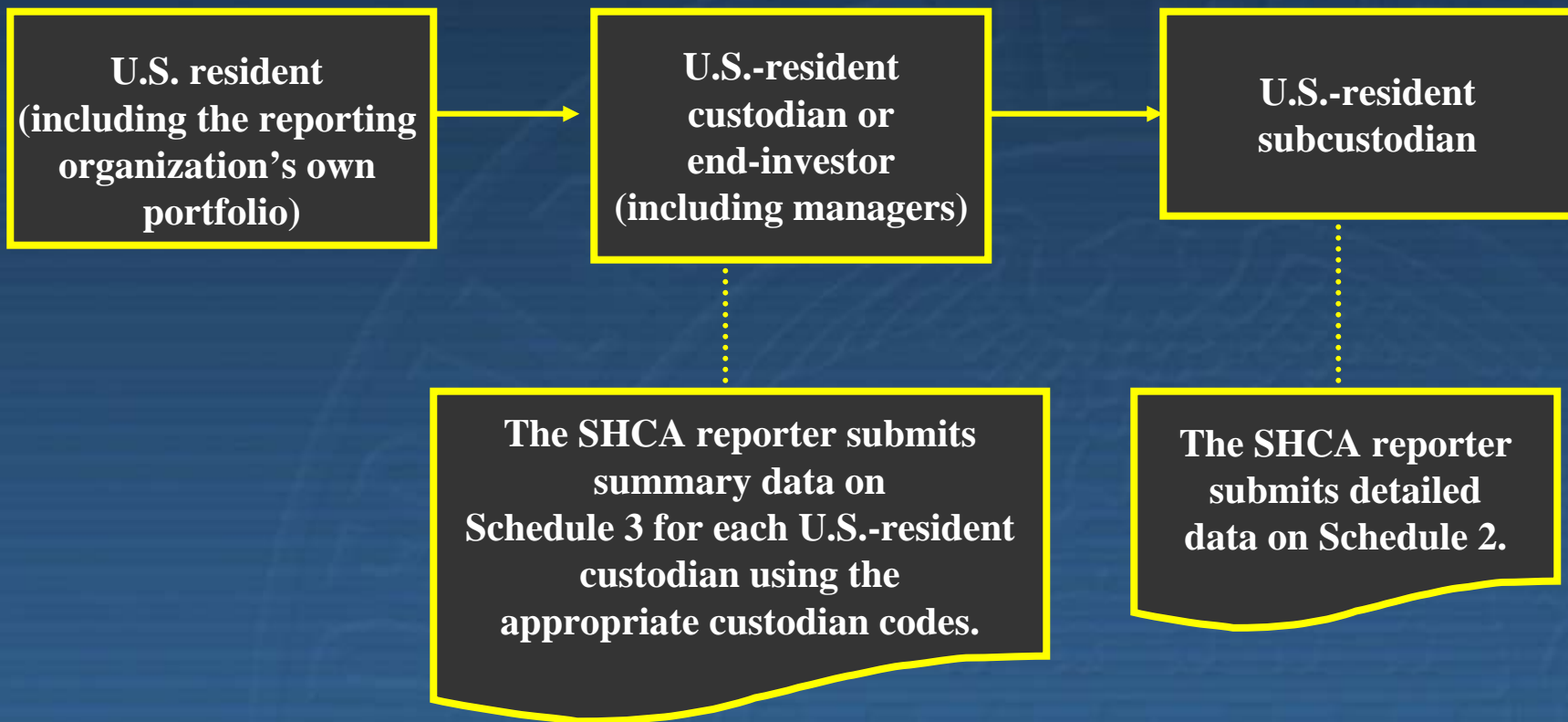
Reporting Panels U.S.-Resident End-Investors Schedule 2 Reporting



Reporting Panels

- ▶ U.S.-resident custodians and end-investors
 - Schedule 3, report summary information for foreign securities entrusted to the safekeeping of a U.S.-resident custodian (excluding U.S.-resident central securities depositories)
 - U.S.-resident sub-custodians report detailed data on Schedule 2

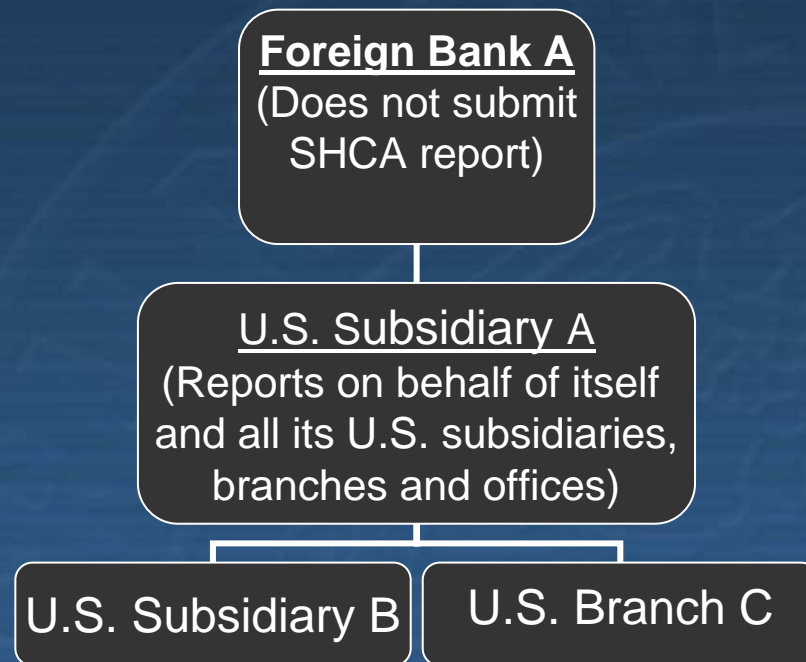
Reporting Panels Schedule 3 Reporting



Categories of SHCA Reporters

- ▶ Report should be filed by top U.S. entity and should consolidate data for all U.S.-resident subsidiaries and offices.
- ▶ This applies for both U.S.-resident custodians and U.S.-resident end-investors.

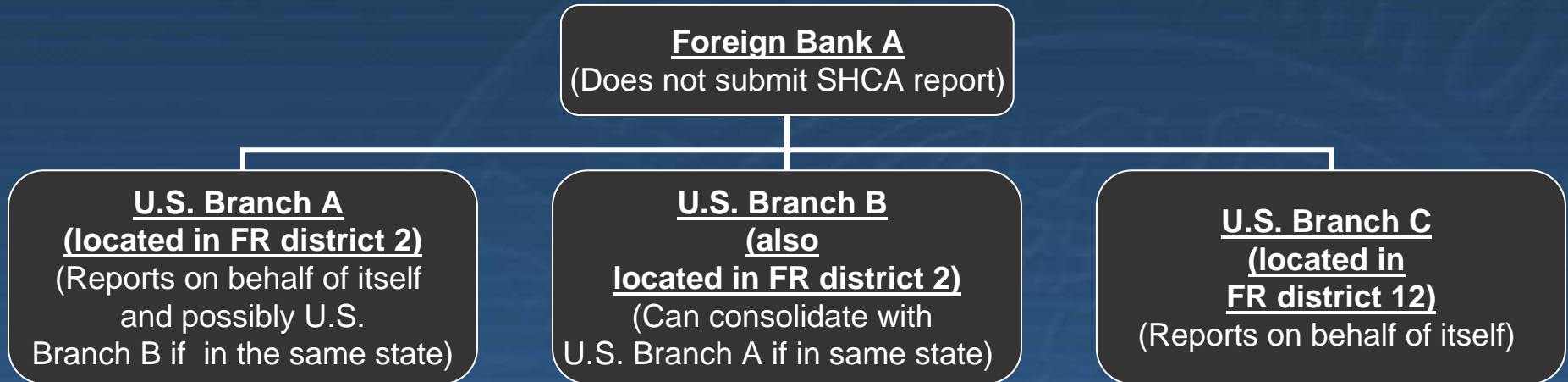
Who Must Report Consolidation Rules Scenario 1 Parent Organization is Foreign



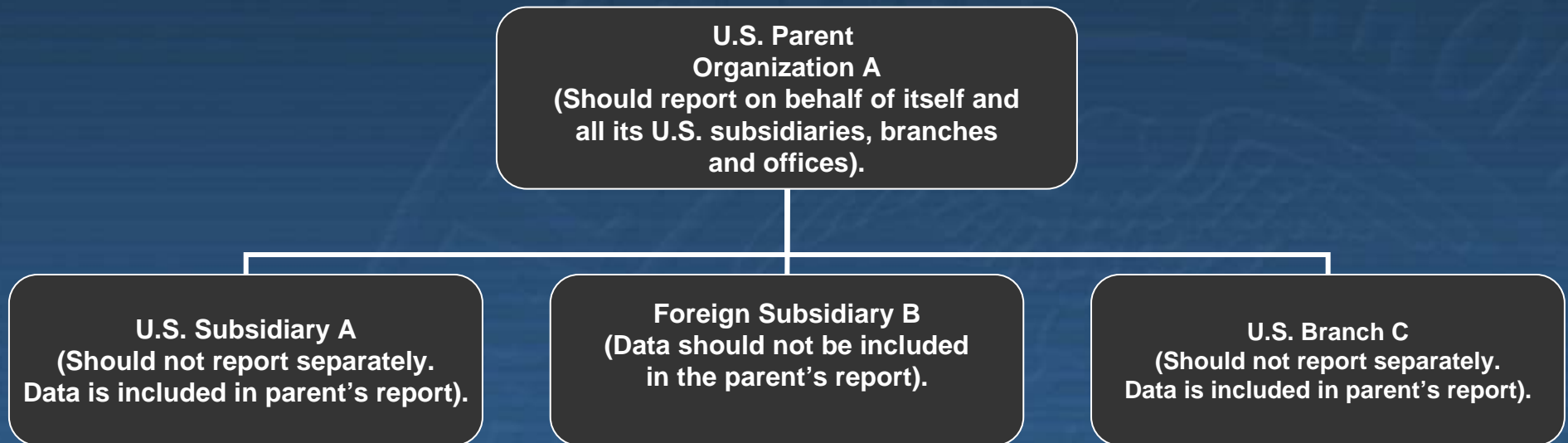
Reporting Panels

- ▶ If foreign parent directly owns US subsidiaries (no US entity between subsidiary and foreign parent), then each of these subsidiaries would file separate SHCA report.

Who Must Report Consolidation Rules Scenario 2a Parent Organization is Foreign



Who Must Report Scenario 3 Parent Organization is Located in the United States



What Must be Reported



Aaron Gononsky

Proper Classification of U.S. and Foreign

▶ Definition of United States

- The fifty states of the United States
- The District of Columbia
- The Commonwealth of Puerto Rico
- American Samoa, Baker Island, Guam, Howland Island, Jarvis Island, Johnston Atoll, Kingman Reef, Midway Island, Navassa Island, Northern Mariana Islands, Palmyra Atoll, U.S. Virgin Islands, and Wake Island

Proper Classification of U.S. and Foreign

- ▶ How to determine residency of the owner
 - Tax forms
 - ▶ W-8 forms are filed by foreign residents
 - ▶ W-9 forms are filed by U.S. residents
 - Mailing address
 - Citizenship does not determine residency

Proper Classification of U.S. and Foreign

- ▶ How to determine residency of the issuer
 - Country where legally incorporated, otherwise legally organized, or licensed

Proper Classification of U.S. and Foreign

▶ Examples of U.S. resident issuers

- Wal-Mart
- BP America Inc.
- Societe Generale NY Branch
- KfW International Finance, Inc.

▶ Examples of foreign residents issuers

- Wal-Mart Canada
- Vodafone Group
- Bank of New York Tokyo Branch
- Tyco International, Ltd.
- International Bank for Reconstruction and Development (IBRD; World Bank)

Proper Classification of U.S. and Foreign

- ▶ Owners of securities
 - U.S.-resident clients
 - U.S-resident parts of your organization
- ▶ Securities
 - Issued by foreign organizations
 - Issued by foreign parts of your organization

Foreign Securities

- ▶ Information that does not contribute to determining if a security is foreign:
 - place of issue or location of trades
 - currency of denomination
 - nationality of parent organization
 - guarantor

Foreign Securities Example 1

- ▶ Yen denominated 2-year note issued by a Toyota affiliate incorporated in the United States.

- ▶ Is this security reportable?

Foreign Securities Example 1 Answer

- ▶ Yen denominated 2-year note issued by a Toyota affiliate incorporated in the United States.
- ▶ Is this security reportable?
- ▶ No. The security was issued by a U.S.-resident entity.

Foreign Securities Example 2

- ▶ U.S. dollar-denominated 2-year note issued directly in the United States by Toyota incorporated in Japan.
- ▶ Is this security reportable?

Foreign Securities Example 2 Answer

- ▶ U.S. dollar-denominated 2-year note issued directly in the United States by Toyota incorporated in Japan.
- ▶ Is this security reportable?
- ▶ Yes. This security was issued by a foreign-resident entity.

Foreign Securities

Example 3

- ▶ U.S. dollar-denominated asset-backed security issued by Company B incorporated in Canada and guaranteed by the parent, Company A, incorporated in the United States.
- ▶ Is this security reportable?

Foreign Securities Example 3 Answer

- ▶ U.S. dollar-denominated asset-backed security issued by Company B incorporated in Canada and guaranteed by the parent, Company A, incorporated in the United States.
- ▶ Is this security reportable?
- ▶ Yes. This security was issued by a foreign-resident entity.

Types of Reportable Foreign Securities

- ▶ Equity
- ▶ Non Asset-Backed Debt
- ▶ Asset-Backed Debt

Equity

- ▶ Instruments representing an ownership interest in foreign-resident organizations.
- ▶ Ownership interests representing direct investment should not be reported.

Equity

- ▶ Reportable equity securities include:
 - common stock
 - restricted stock
 - preferred stock
 - depositary receipts/shares
 - shares/units in foreign-resident funds
 - limited partner interest in foreign-resident limited partnerships

Equity

- ▶ Security type = 1 (common stock)
 - all common stock, including restricted stock
 - depositary receipts/shares where the underlying security is common stock
- ▶ Security type = 2 (preferred stock)
 - all preferred stock, including restricted stock
 - ▶ participating preference shares
 - ▶ nonparticipating preference shares
 - convertible preferred stock
 - depositary receipts/shares where the underlying security is preferred stock

Equity Depository Receipts/Shares

- ▶ Reportable depository receipts/shares are those where the underlying security was issued by a foreign resident.
- ▶ ADRs, ADSs, GDRs, IDRs are considered foreign securities for this report.

Equity Depository Receipts/Shares

- ▶ Issuers of depository receipts/shares should not report the holdings of the underlying foreign securities.
- ▶ U.S.-resident holders of the depository receipts/shares should report these holdings.

Equity Depository Receipts/Shares

- ▶ Report the following based on the depository receipt/share:
 - security id
 - security description
 - depository receipt/share indicator
 - currency of denomination
 - market value
 - number of shares held

- ▶ Report the following based on the underlying security:
 - security type
 - name of issuer
 - country of issuer

Equity

Depository Receipts/Shares Example

- ▶ U.S. Company A has issued \$100 million of ADRs representing an ownership interest in a Swiss company. U.S. Company B purchases these ADRs.

- ▶ What should Company A and B report?

Equity

Depository Receipts/Shares Example

Answer

- ▶ U.S. Company A has issued \$100 million of ADRs representing an ownership interest in a Swiss company. U.S. Company B purchases these ADRs.
- ▶ What should Company A and B report?
- ▶ Company B should report the holdings of \$100 million of ADRs. Company A would not report equity ownership in the Swiss company.

Equity

- ▶ Security type = 3 (funds)
 - shares/units in foreign-resident funds
- ▶ Security type = 4 (other equity)
 - limited partner interest in foreign-resident limited partnerships
 - all other foreign equity not specified in security types 1, 2, and 3

Equity Foreign-Resident Funds

- ▶ Report U.S. residents' ownership of shares/units of funds legally established outside of the United States as equity.
- ▶ Examples of funds:
 - closed-end and open-end mutual funds
 - money market funds
 - exchange-traded funds
 - index-linked funds
 - investment trusts
 - hedge funds

Equity Foreign-Resident Funds

- ▶ Classification of the fund as “foreign” is not based on the securities that the fund invests in.
- ▶ Example:
 - A fund established in Bermuda that only purchases U.S. Treasury securities is a foreign-resident fund.
 - A fund established in the United States that only purchases Japanese Treasury securities is a U.S.-resident fund.

Equity Exclusions

- ▶ Exclude from equity:
 - convertible debt
 - ▶ convertible debt is reportable as debt.
 - general partner interest of foreign-resident limited partnerships
 - all other direct investment

Non Asset-Backed Debt

- ▶ Instruments that usually give the holder the unconditional right to financial assets.

Term

- ▶ Determine term, (short-term or long-term), based on the original maturity of the security.
- ▶ Original maturities of one year or less are short-term.
- ▶ Original maturities of greater than one year are long-term.

Term Examples

- ▶ A Japanese Treasury bill issued on November 15, 2007 and matures on February 15, 2008 is short-term.
- ▶ A German 30-year bond that matures on January 15, 2008 is long-term.

Term

- ▶ Debt with multiple call options (multiple maturity dates) is long-term if any of the maturity dates is greater than one year from the date of issue.
- ▶ Perpetual debt is long-term.

Term

- ▶ Securities that mature in exactly 365 days are considered short-term
- ▶ Example:
 - A security issued on Jan. 31, 2007 and matures on Jan. 31, 2008 should be reported as short-term.

Debt

- ▶ Security type 5 - Commercial Paper
 - Includes **all** commercial paper, including asset-backed commercial paper
- ▶ Security type 6 - Negotiable CDs
 - negotiable certificates of deposit
 - negotiable bank notes
 - negotiable deposit notes

Debt

- ▶ Security Type 7 – Convertible Debt
 - Convertible bonds
 - Zero coupon convertible debt

Debt

- ▶ Security type 8 – Zero Coupon & Stripped Securities
 - Bond and notes that do not provide explicit interest payments
 - Zero-coupon convertible debt should be reported as Security Type 7
 - Stripped asset-backed securities should be reported as Security Type 10

Stripped Securities

- ▶ Reportable stripped securities are those where the issuer of the stripped security is a foreign-resident entity.
- ▶ Residency of the stripped security is not determined by the issuer of the underlying security.

Stripped Securities Example

- ▶ U.S. Company A owns \$100 million of German bonds. U.S. Company A issues stripped securities where these German bonds are the underlying securities. U.S. Company B purchases these stripped securities.
- ▶ What should Company A and B report?

Stripped Securities Example

Answer

- ▶ U.S. Company A owns \$100 million of German bonds. U.S. Company A issues stripped securities where these German bonds are the underlying securities. U.S. Company B purchases these stripped securities.
- ▶ What should Company A and B report?
- ▶ Company A reports the ownership of \$100 million of German bonds. The stripped securities are not reported by either company.

Debt

- ▶ Security type 9 – Unstripped Bond or Note & all other Non Asset-Backed Debt
 - Non asset-backed debt not covered in Security Types 5 – 8
 - Bonds that cannot be converted to equity
 - Provide explicit interest payments
 - Have not been stripped
 - Commonly referred to as “Straight Debt”

Debt Exclusions

- ▶ Exclude from short-term and long-term debt:
 - shares/units in foreign-resident funds, even if the foreign fund invests in debt.
 - loans
 - trade credits
 - accounts receivable
 - derivatives
 - non-negotiable certificates of deposit

Debt

- ▶ Security type 10 – Asset-Backed Securities
 - Securitized interest in a pool of assets, which give the purchaser a claim against the cash flows generated by the underlying assets.

Asset-Backed Securities

- ▶ Reportable asset-backed securities are those where the issuer securitizing the assets is a foreign resident.
- ▶ The underlying asset is not a factor in determining whether the ABS is a foreign security.

Asset-Backed Securities

- ▶ Reportable asset-backed securities include:
 - collateralized mortgage obligations (CMOs)
 - collateralized bond obligations (CBOs)
 - collateralized loan obligations (CLOs)
 - collateralized debt obligations (CDOs)

Asset-Backed Securities

- ▶ Reportable asset-backed securities include:
 - other securities backed by:
 - ▶ mortgages
 - ▶ credit card receivables
 - ▶ automobile loans
 - ▶ consumer and personal loans
 - ▶ commercial and industrial loans
 - ▶ other assets

Asset-Backed Securities Exclusions

- ▶ Exclude from asset-backed securities:
 - asset-backed commercial paper
 - Brady bonds
 - securities backed by a sinking fund
 - covered bonds (e.g., Pfandbrief)
- ▶ These securities are reportable but should be included in Security Types 5 - 9

Repurchase Agreements Security Lending Arrangements

- ▶ Repurchase agreements/securities lending arrangements and reverse repurchase agreements/securities borrowing arrangements involve the temporary transfer of a security for cash or another security.

Repurchase Agreements Security Lending Arrangements

- ▶ The security lender should report the foreign security as if no repo or security lending arrangement occurred.
- ▶ The security borrower should exclude the foreign security.

BREAK



How We Review Your Data



Lois Burns

Four Levels of Review

▶ Reporter level

- Analyzing your data for completeness and reasonability
- Trend analysis from prior submission

▶ Schedule 2/3 Comparison

- Trend analysis from prior submission
- Comparing Schedule 3 data to Schedule 2 data

▶ Security level

- Comparing attributes of securities across reporters and to commercial data sources

▶ Macro level

- Additional analyses and comparisons over time on a higher level

FRBNY Calculations

- ▶ Based on reported market value and quantity fields, FRBNY calculates:
 - **Implicit Exchange Rates**
 - **Implicit Prices**
 - **Implicit Factor Values**
- ▶ These calculations assist us in determining the quality of your reported market values and quantities.

FRBNY Calculations

- ▶ **Implicit exchange rates**
 - US MV/ FC MV
- ▶ **Implicit prices (MV/Quantity)**
 - Equity: US MV/Number of Shares
 - Non ABS Debt: FC MV/FC Face Value
 - ABS Debt: FC MV/FC Remaining Principal
- ▶ **Implicit factor values**
 - FC Remaining Principal/FC Original Face Value

Reporter Level Review

Reasonability

- Schedule 1 vs. Schedule 2 and Schedule 3 comparison
- Other completeness and consistency checks
- Schedules 2 & 3 comparison to prior submission
 - ▶ Market values by country of issuer
 - ▶ Ownership code
 - ▶ Depositary Receipts
- Reasonableness of implicit values
 - ▶ Exchange rates
 - ▶ Prices
 - ▶ Factors

Reporter Level Review

Completeness

- ▶ Ensuring all Schedule 2 records were reported:
 - Does the number of records on the Schedule 1 agree with the number of records in our data base?
 - Does the market value reported for each broad security type agree with the market values calculated from the Schedule 2s?

Reporter Level Review

Completeness

- ▶ Ensuring all Schedule 2 items were reported, particularly:
 - Security IDs
 - Security Type
 - Ownership code
 - Quantities
 - ▶ Number of shares held
 - ▶ Face Value held
 - ▶ Remaining principal (ABS)

Reporter Level Review

Completeness

- ▶ Ensuring all Schedule 3 records were reported:
 - Does the number of Schedule 3s reported on the Schedule 1 agree with the number of Schedule 3s in our data base?
 - Do the market values reported for each broad security type agree with the market values calculated from the Schedule 3s?

Reporter Level Review

Completeness

- ▶ Ensuring all Schedule 3 items were reported:
 - Custodian code and/or custodian identification
 - Ownership code (Reporting as owner or custodian)

Reporter Level Review

Reasonability

- ▶ Currency/Exchange Rate Analysis
 - If the currency is US\$, does the US\$ market value (item 14a) equal the market value in the currency of denomination (item 14b)?
 - If the currency is not US\$ and the exchange rate is not 1, does the US\$ market value differ from the market value in the currency of denomination?
 - Does the implicit exchange rate calculated from the data equal the December 31 exchange rate for the currency?

Reporter Level Review

Reasonability

- ▶ Country of Issuer by Broad Security Type
 - Are increases/decreases in specific countries reasonable?
 - Are the increases/decreases due to changes in quantities, changes in price, or new/matured securities?
 - Are securities being reported as being issued from countries that had no data at all in the prior year?

Reporter Level Review

Reasonability

- ▶ Country of Issuer is coded as U.S. on Schedule 2
 - Are these securities coded incorrectly or should these have been excluded from your report?
 - Are securities issued by international and regional organizations miscoded, and reported with the U.S. as the country of issuer?
 - Are securities issued by residents of a U.S. territory or protectorate (Puerto Rico, etc.)? If so, exclude them from the report.

Reporter Level Review

Reasonability

- ▶ Depository Receipts (DRs)

Comparison of the reported market value and proportion of DRs relative to total equity:

- ▶ Did you report any DRs?
- ▶ Did you report DRs previously? If so, is the proportion of DRs to total equity similar to previous submissions?

Reporter Level Review

Reasonability

- ▶ Ownership Code Analysis
 - Have the market values and proportions of the total market value of securities reported as owner and as custodian changed substantially?
 - Is there a large amount of securities reported as held by customers of unknown entity type?
 - Are you reporting any securities as owner? If so, does it correlate to your organization's TIC S reporting?

Reporter Level Review

Reasonability

- ▶ Key Securities Analysis
 - Implicit exchange rates, implicit prices, implied factor value, country of issuer, etc.
 - Securities reported multiple times with exact same amounts.
 - Common foreign securities reported by those in your peer group.

Reporter Level Review

Reasonability

- ▶ Key Securities Analysis
 - Failure to include securities of reincorporated entities
 - Any one security that makes up a very high percentage of the data for a specific security type

Reporter Level Review

Reasonability

- ▶ Key Securities Analysis
 - Securities reported with zero quantities
 - ▶ If the quantities were reported correctly, these securities do not need to be reported, and should be excluded from future reports.
 - ▶ The quantity may have been reported in the wrong field.

For example, a security was coded as debt but had the quantity reported in the number of shares field.
 - ▶ The currency of denomination may be invalid or missing.

Reporter Level Review

Reasonability

- ▶ Consistency of Schedule 2 data reported for a security throughout the reporter's submission
 - Example: You report data for Stock A with two different implicit prices, which is correct?
 - ▶ Unit 1 reported with calculated price of \$30.00
 - ▶ Unit 2 reported with calculated price of \$60.00

Reporter Level Review

Reasonability

- ▶ Queries targeted to areas that were problems for a specific reporter in prior data submissions, such as:
 - ▶ keywords in descriptions, such as rights, warrants, repurchase, repo, etc.
 - ▶ debt prices far above par or failure to provide market values for a large number of securities
 - ▶ issue dates after as-of date
 - ▶ comparisons to other reporters' data

Reporter Level Review

Reasonability

- ▶ Schedule 3 data
 - If the reported custodian is not in Appendix G, is the custodian a U.S. entity?
 - Have the custodians that you employ changed?
 - Are the changes in the market values reported for each broad security type reasonable?
 - Have the market values and proportions of the total market value of securities reported as end-investor and as custodian (item 8.), changed substantially?

Schedule 2 vs. Schedule 3 Review

Σ of Market Values
by security type,
from Schedule 2s
and 3s reported by
each custodian

> =

Σ of Market values
attributed to each
custodian on
Schedule 3s
reported by its customers

Security Level Review

Comparison of the attributes of the securities across all reporters and against outside sources to check for inconsistencies

- Review of actual reported data
- Review of data calculated based on reported data

(implicit price, implicit factor value, implicit exchange rate)

Security Level Review

Comparison of data embedded in the security description, e.g., security type or maturity date, to data in the corresponding report fields

- Issuer should not be a U.S. resident.
- Total amount held reported across all reporters is compared to the total amount outstanding for a given security.

Macro Level Review

Comparisons of various “cuts” of the aggregate data

- ▶ Equity by country and security type
- ▶ Long-term debt by country and currency
- ▶ Short-term debt by country and currency
- ▶ Long-term debt by country and type of security
- ▶ Short-term debt by country and type of security

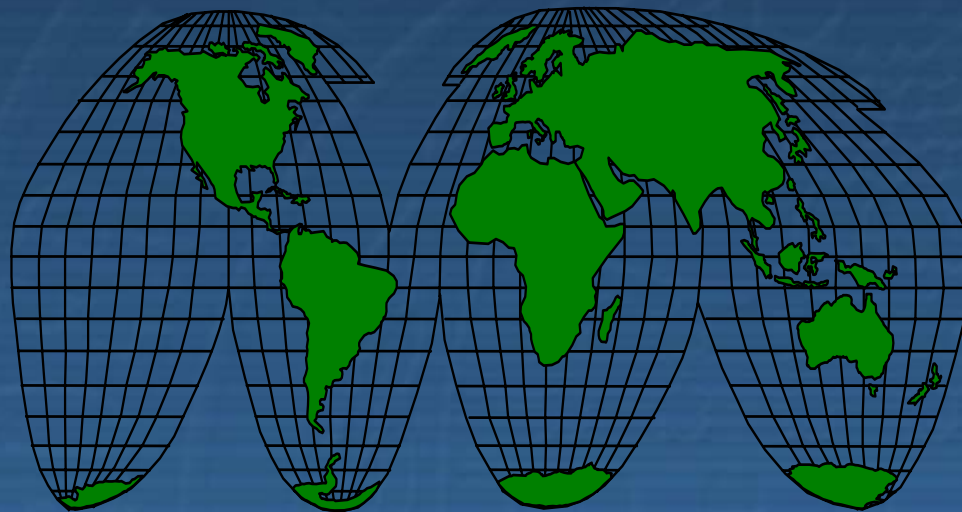
Macro Level Review

Comparisons of various “cuts” of the aggregate data

- ▶ Depository Receipts by country
- ▶ Debt by maturity date
- ▶ Debt by coupon

Published macro data can be found at
<http://www.ustreas.gov/tic/>

Analysis of the TIC SHC(A) report in conjunction with the TIC S & TIC B reports



Reports Used for Comparison

- ▶ U.S. Ownership of Foreign Securities (TIC SHC(A) or Claims)
- ▶ TIC S Report

<http://www.ustreas.gov/tic/>

How TIC S and TIC SHC(A) are used together

- ▶ Totals from prior year SHC(A) data
- ▶ Add in net sales by foreigners of foreign securities for the year (column 10 - column 9 for LT debt and column 12 - column 11 for equity from the TIC S report)
- ▶ Add in a price adjustment
- ▶ Add in stock swap adjustment
- ▶ Total is estimate of the current year SHC(A) total

Reports Used for Comparison

- ▶ U.S. Ownership of Foreign Securities (TIC SHC(A) or Claims)
- ▶ Other TIC Reports
 - TIC BQ-1 Customer Claims
 - TIC BQ-2 Customer and own claims denominated in foreign currency
 - TIC BC Own Claims

<http://www.ustreas.gov/tic/>

Differences

- ▶ TIC B - Face Value
 - TIC SHC(A) - Face Value and Market Value
- ▶ TIC B - Aggregate per country
 - TIC SHC(A) - Detailed information on each security
- ▶ TIC B - USD or USD equivalent
 - TIC SHC(A) - Market Value in both USD and currency of denomination. Face value in currency of denomination that FRBNY converts to USD.

Differences

- ▶ There may be more than one TIC B report filed per institution.
- ▶ One consolidated TIC SHC(A) report filed per institution
 - For example: A U.S. entity sends in separate TIC B reports for the Bank Holding Company, Bank, and Broker Dealer but would send in one consolidated TIC SHC(A) report.

Differences

- ▶ There are instances when securities held in custody are given over to other U.S based sub-custodians.
- ▶ The custodian closest to the foreign claimant would report on the TIC B reports but the sub-custodian (final custodian in the chain) would report on the TIC SHC(A).

Compare - Overview

- ▶ Negotiable certificates of deposit
- ▶ Commercial Paper
- ▶ Other short-term negotiable securities
- ▶ Foreign currencies

Compare - Overview

- ▶ Securities held in custody
- ▶ Securities owned by the reporter

Compare Negotiable CDs in USD Held in Custody

- ▶ **TIC SHC (per country)** = ▶ **TIC BQ-1 (per country)**
- Security Type 6 (item 7)
 - Term Indicator – 1 or 2 (item 10)
 - Currency = USD (item 12)
 - Ownership code 2-6 (item 13)
 - Sum of face value (item 17)
- Negotiable CDs (column 2)

Compare Other Short-Term Negotiable Securities in USD Held in Custody

- ▶ **TIC SHC (per country)** = ▶ **TIC BQ-1 (per country)**
- Security Types 5,7,8,9 and 10 (item 7)
 - Term Indicator 1 (item 10)
 - Currency = USD (item 12)
 - Ownership code 2-6 (item 13)
 - Sum of face value (item 17 or item 21 for ABS)
- All Short-Term Negotiable Securities (column 3)

Compare Commercial Paper in USD Held in Custody Memo Item

▶ TIC SHC

- Security Type 5 (Item 7)
- Term Indicator 1 (item 10)
- Currency = USD (Item 12)
- Ownership code 2-6 (item 13)
- Sum of face value (Item 17)



▶ TIC BQ-1

- Commercial Paper (memo line 8161-2, column 3)

Compare Own Securities in USD

- ▶ **TIC SHC (per country)** **=** ▶ **TIC BC (per country)**
- Security Type 5-10 (Item 7)
 - Term Indicator = 1 (Item 10)
(Security Type 6 includes Term Indicator = 2)
 - Currency = USD (Item 12)
 - Ownership code 1 (item 13)
 - Sum of face value (Item 17, or item 21 for ABS)
- Negotiable CDs and All Short Term Negotiable Securities (column 2 + column 4)

Compare Own Negotiable CDs in USD Memo Item

▶ TIC SHC

- Security Type 6 (Item 7)
- Currency = USD (Item 12)
- Ownership code 1 (item 13)
- Sum of face value (Item 17)

=

▶ TIC BC

- Negotiable CDs (row line 8110-8, column 2)

Compare Own Negotiable CDs not in USD Memo Item

▶ TIC SHC



▶ TIC BQ-2

- Security Type 6 (Item 7)
 - Term Indicator – 1 or 2 (item 10)
 - Currency **not** = USD (Item 12)
 - Ownership code 1 (item 13)
 - Sum of face value (Item 17)
- Negotiable CDs (row line 8110-8, column 4)

Compare Negotiable CDs not in USD Held in Custody Memo Item

▶ TIC SHC



▶ TIC BQ-2

- Security Type 6 (Item 7)
 - Term Indicator – 1 or 2 (item 10)
 - Currency **not** = USD (Item 12)
 - Ownership code 2-6 (item 13)
 - Sum of face value (Item 17)
- Other Customers' Claims (memo line 8110-8 column 6)

Compare Own Other Short-Term Negotiable Securities not in USD Memo Item

▶ TIC SHC

- Security Type 5,7,8,9 and 10 (item 7)
- Term Indicator 1 (item 10)
- Currency **not** = USD (item 12)
- Ownership code 1 (item 13)
- Sum of face value (item 17)



▶ TIC BQ-2

- Short-Term Negotiable Securities (memo line 8120-5, column 4)

Compare Other Short-Term Negotiable Securities not in USD Held in Custody Memo Item

▶ TIC SHC

- Security Type 5,7,8,9 and 10 (item 7)
- Term Indicator 1 (item 10)
- Currency **not** = USD (item 12)
- Ownership code 2-6 (item 13)
- Sum of face value (item 17 or item 21 for ABS)



▶ TIC BQ-2

- Short-Term Negotiable Securities (memo line 8120-5, column 6)

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
- Currency = CAD (Canadian
Dollar, Item 12)
- Ownership code 1 (item 13)
- Sum of face value (Item 17
or 21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Canadian
Dollars (memo line 8500-1,
column 4)
- Note: Short-term securities
are just one of many items
that can be reported in this
column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
 - Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
 - Currency = EUR (Euros,
Item 12)
 - Ownership code 1 (item 13)
- ▶ Sum of face value (Item 17 or 21
for ABS)

< =

▶ TIC BQ-2

- Denominated in Euros
(memo line 8500-2, column
4)
- Note: Short-term securities
are just one of many items
that can be reported in this
column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes Term Indicator = 2)
- Currency = GBP (Sterling, Item 12)
- Ownership code 1 (item 13)
- Sum of face value (Item 17 or 21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Sterling
(memo line 8500-3, column 4)
- Note: Short-term securities are just one of many items that can be reported in this column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
- Currency = JPY (Yen, Item
12)
- Ownership code 1 (item 13)
- Sum of face value (Item 17 or
21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Yen (memo
line 8500-4, column 4)
- Note: Short-term securities
are just one of many items
that can be reported in this
column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
- Currency = CAD (Canadian
Dollar, Item 12)
- Ownership code 2-6 (item 13)
- Sum of face value (Item 17 or
21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Canadian
Dollars (memo line 8500-1,
column 6)
- Note: Short-term securities
are just one of many items
that can be reported in this
column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes Term Indicator = 2)
- Currency = EUR (Euros, Item 12)
- Ownership code 2-6 (item 13)
- Sum of face value (Item 17 or 21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Euros (memo line 8500-2, column 6)
- Note: Short-term securities are just one of many items that can be reported in this column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
- Currency = GBP (Sterling,
Item 12)
- Ownership code 2-6 (item 13)
- Sum of face value (Item 17 or
21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Sterling
(memo line 8500-3,
column 6)
- Note: Short-term
securities are just one of
many items that can be
reported in this column.

Compare Data by currency

▶ TIC SHC

- Security Type 5-10 (Item 7)
- Term Indicator = 1 (Item 10)
(Security Type 6 includes
Term Indicator = 2)
- Currency = JPY (Yen, Item
12)
- Ownership code 2-6 (item 13)
- Sum of face value (Item 17 or
21 for ABS)

< =

▶ TIC BQ-2

- Denominated in Yen (memo
line 8500-4, column 6)
- Note: Short-term securities
are just one of many items
that can be reported in this
column.

Key Issues/Common Reporting Errors



Lois Burns

Key Issues/Common Reporting Errors

Communication

- ▶ Please keep us informed of changes in the name, address, certifier and other contacts, etc. of the reporting entity.
- ▶ Please address the issues that we brought up in your feedback letter for the previous year's submission *before* you file for the current year.
- ▶ Call for help at any time.

Key Issues/Common Reporting Errors

Securities to be **included** that are mistakenly excluded:

- ▶ securities issued by international and regional organizations, including those with headquarters/facilities in the U.S.

EXAMPLES

Inter-American Development Bank (IDB)
International Bank for Reconstruction and Development
(IBRD)
International Monetary Fund (IMF)

Key Issues/Common Reporting Errors

Securities to be **included** that are mistakenly excluded:

- ▶ securities issued by companies that have headquarters in the U.S and do business primarily in the U.S. but are incorporated outside the U.S., including formerly U.S.-resident companies that have re-incorporated outside of the U.S.
- (See hand-out on Reincorporated Companies, also at this URL, <http://www.newyorkfed.org/stats/usown/company.pdf>.)

Key Issues/Common Reporting Errors

Securities to be **included** that are mistakenly excluded:

- ▶ securities issued by foreign-resident subsidiaries or offices of U.S.-resident entities

EXAMPLE

Negotiable certificates of deposit issued by non-U.S. branches of U.S. banks.

Key Issues/Common Reporting Errors

Securities to be **included** that are mistakenly excluded:

- ▶ restricted securities
- ▶ securities in custodians' own portfolios
- ▶ securities held in trading accounts
- ▶ depositary receipts, if the underlying security is foreign
- ▶ matured securities that are outstanding

Key Issues/Common Reporting Errors

Securities to be **included** that are mistakenly excluded:

- ▶ securities entrusted to U.S.-resident or foreign-resident central securities depositories
(e.g.: Depository Trust and Clearing Corp. (DTCC); Euroclear)
- ▶ securities entrusted to foreign-resident custodians, including foreign offices of U.S.-resident custodians

Key Issues/Common Reporting Errors

Securities to be **excluded** that are mistakenly included:

- ▶ foreign securities underlying depositary receipts
- ▶ securities issued by U.S. subsidiaries/ U.S. offices of foreign-resident entities, even if traded outside of the U.S.

Key Issues/Common Reporting Errors

Securities to be **excluded** that are mistakenly included:

- ▶ all general partnership interests and similar controlling interests which constitute direct investment
- ▶ all loans, derivatives and **non-negotiable** CDs

Key Issues/Common Reporting Errors

Security IDs

- ▶ Use ISIN or CUSIP, whenever possible, even for restricted securities.
- ▶ Use SEDOL, CINS, Common or another exchange-assigned code, if necessary.
- ▶ Use your own, internal codes, only if no other code exists.
- ▶ Include leading zeroes and the check digit.

Key Issues/Common Reporting Errors

Currency of Denomination

- Do not default to the currency of the country of residence of the issuer of the security.
- Be careful, especially with legacy currencies, that the face value, remaining principal and original principal are consistent with the reported currency.

Key Issues/Common Reporting Errors

Country Attribution of Issuer

- ▶ Do not default the country code to the country component of the ISIN or CINS.

US902124AA8 was issued by Tyco International Limited which is incorporated in Bermuda.

US90118AW81 was issued by Tyco International Group S.A. which is incorporated in Luxembourg.

JP584106A526 was issued by Ford Motor Credit, which is incorporated in the U.S.

XS001087127 was issued by the Federal Home Loan Mortgage Corp, a U.S. government sponsored agency.

Key Issues/Common Reporting Errors

Country Attribution of Issuer

- ▶ Do not make assumptions for the country of residence of the issuer based on its name.

EXAMPLE

HSBC Global Investment Funds – Japanese Equity Fund is a Luxembourg security.

The fund is organized under the laws of Luxembourg, not of the UK where HSBC is headquartered and not of Japan. The fund invests in securities of companies registered in Japan and/or listed with a regulated Japanese securities exchange/market.

Key Issues/Common Reporting Errors

Country Attribution of Issuer

- ▶ Do not report securities issued by entities that are residents of Puerto Rico and other U.S. territories and possessions.
- ▶ Report foreign securities held by/for residents of Puerto Rico and other U.S. territories and possessions.

Key Issues/Common Reporting Errors

Country Attribution of Issuer

- ▶ Report securities issued by Canadian and Caribbean residents.
- ▶ Avoid the use of country code 88862 (defunct country).

(Excessive use of code 88862 will be questioned.)

Key Issues/Common Reporting Errors

Pricing

- ▶ Avoid reporting fair market value equal to zero.
 - If your report includes a large number of unpriced securities, your organization will be requested to obtain prices and re-file its report.
- ▶ Fair Market Value should exclude accrued interest.

Key Issues/Common Reporting Errors

Remaining Principal Outstanding for ABS

Schedule 2, line 21

- ▶ If the factor value as of 12/31 is not available, use the factor value as of the date closest to 12/31.

Key Issues/Common Reporting Errors

Schedule 1

- ▶ Lines 16 and 21: Report the number of Schedule 2s and Schedule 3s filed, not the number of securities for which data was summarized.
- ▶ Be sure to complete date signed, line 25, if you are not filing via IESUB.

Key Issues/Common Reporting Errors

Schedule 3, Lines 3 and 9 - 14.

- ▶ Modifications to Appendix G – Custodian Codes
- ▶ Use the codes and file Schedule 3 only if you employ a U.S.-resident affiliate of the listed organization.

Key Issues/Common Reporting Errors

Reporting as, Schedule 3, Line 8.

- ▶ If your organization is both the end-investor and the custodian, use code 1 end-investor
- ▶ If your organization is, or represents the end-investor (your client), and is not legally responsible for the safe-keeping of the securities, use code 1 end-investor.
- ▶ If your organization represents the end-investor and is also legally responsible for the safe-keeping of the securities, use code 2 custodian.

Key Issues/Common Reporting Errors

Other Errors

- ▶ Reporting securities when the quantity held (number of shares, face value, remaining principal) rounds to zero
- ▶ Reporting sinking fund securities as asset-backed securities
- ▶ Basing the term of a debt security on the time remaining to maturity, rather than the period between the date of issuance and the date of maturity

Technical Topics

Submitting your Data



Sharon McKenzie

Technical Topics

Options for Filing

<u>Mail</u>		<u>Internet</u>
<u>On Paper:</u> <ul style="list-style-type: none">▶ Schedule 1▶ Schedule 2<ul style="list-style-type: none">▪ Only if less than 200 records▶ Schedule 3	<u>On Media:</u> <ul style="list-style-type: none">▶ Schedule 2<ul style="list-style-type: none">▪ No minimum record requirement	<u>Via IESUB:</u> <ul style="list-style-type: none">▶ Schedule 1▶ Schedule 2<ul style="list-style-type: none">▪ No minimum record requirement▶ Only available to reporters that are submitting <u>both</u> Schedules 1 & 2

Technical Topics: IESUB General Information

IESUB - Internet Electronic SUBmission

Data Submission	
<u>Schedule 1</u>	<u>Schedule 2</u>
<ul style="list-style-type: none">▶ Data Entry Form▶ Initial and Revised Data	<ul style="list-style-type: none">▶ File Transfer▶ Initial and Revised Data▶ Standard Windows PC ASCII Text Files With a .txt extension

Note: Schedule 3 reports are not available online, the report must be submitted on paper.

Technical Topics: IESUB Information

- ▶ Unique User-ID and Password
- ▶ 128 Bit SSL Encryption
- ▶ Server-side Certificate
- ▶ User Request Forms and System Requirements can be found on the Internet at

<http://www.reportingandreserves.org/req.html>

Technical Topics:

Media Requirements for Schedule 2 Data

- ▶ Diskette or Standard CD
- ▶ Standard Windows PC ASCII Text Files With a .txt extension
- ▶ Labeled With Reporter Name & ID

Technical Topics:

Schedule 2 File Formats

Use Either of Two File Formats for IESUB or Media Submission:

- ▶ Semi-colon Delimited
 - Field and Record Length Vary
 - Fields are Separated by Semi-colons
- ▶ Positional
 - Field and Record Length is Constant
 - Fields are Separated by Spaces

Technical Topics

Correct Positional File Example

sample records - Notepad

File Edit Format View Help

1	2	3	4	5	6
1234567890	1234567890	1234567890	1234567890	1234567890	1234567890
-----+	-----+	-----+	-----+	-----+	-----+
0000067890	0000001	010	CUSTODY SERVICES		
0000067890	0000002	020	NY BRANCH		
0000067890	0000003	020	NY BRANCH		

Reporter ID

Filler (space)

Sequence Number

Reporting Unit

Filler (space)

Name of Reporting Unit

Technical Topics

Incorrect Positional File Example

```
sample records - Notepad
File Edit Format View Help

      1          2          3          4          5          6          7
123456789012345678901234567890123456789012345678901234567890123456
-----+-----+-----+-----+-----+-----+-----+-----+-----
0000067890 0000001 010  CUSTODY SERVICES
0000067890 0000002 020   NY BRANCH
0000067890 0000003 020   NY BRANCH
```

Reporting Unit Description
field begins in the incorrect
position, 26, on records 2 and 3.
The correct position is 24.

Technical Topics

Correct Delimited File Example

The screenshot shows a Notepad window titled "sample records - Notepad" with the following text:

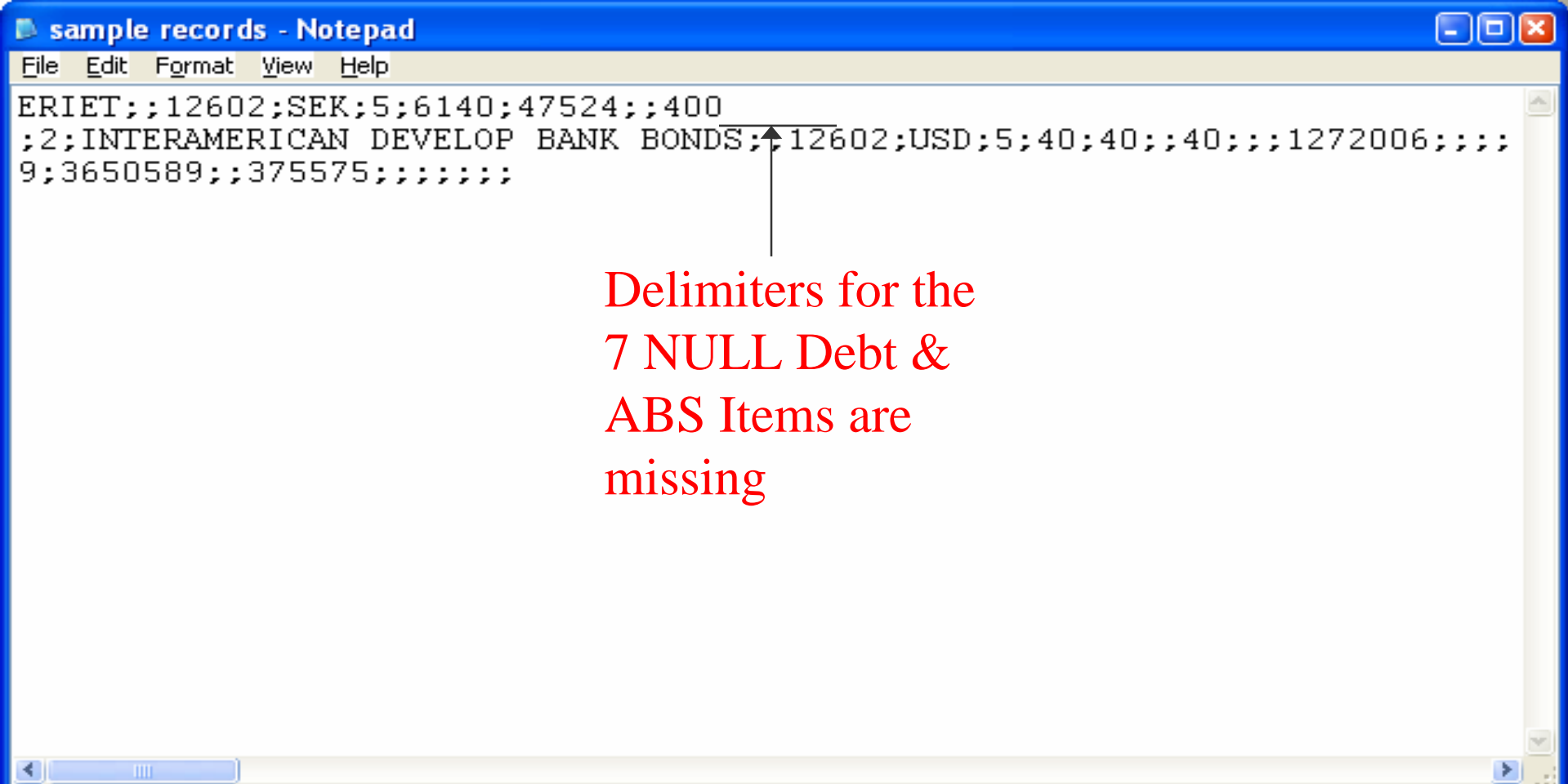
```
0000012345;0000001;001;ACCOUNTING SYSTEMS;ANN2879J1070;LMA INTERNAT
0000012345;0000002;001;ACCOUNTING SYSTEMS;CH0004704588;SWITZERLAND
0000012345;0000003;002;CUSTODY SERVICES;MXP810081010;WAL-MART DE ME
```

Labels with arrows pointing to the corresponding fields in the text:

- Reporter ID (points to "0000012345")
- Delimiter (points to the first semicolon ";")
- Sequence Number (points to "0000001")
- Delimiter (points to the second semicolon ";")
- Reporting Unit (points to "001")
- Delimiter (points to the third semicolon ";")
- Name of Reporting Unit (points to "ACCOUNTING SYSTEMS")

Technical Topics

Incorrect Delimited File Example



```
sample records - Notepad
File Edit Format View Help
ERIET;;12602;SEK;5;6140;47524;;400
;2;INTERAMERICAN DEVELOP BANK BONDS;12602;USD;5;40;40;;40;;;1272006;;;
9;3650589;;375575;;;;;
```

Delimiters for the
7 NULL Debt &
ABS Items are
missing

Technical Topics

Tips & Traps

▶ Date Format

- Correct format MMDDYYYY. For example, the date May 3, 2006 would be reported as 05032006
- Examples of incorrect date formats MM/DD/YY, MM/DD/YYYY, MM-DD-YY, etc.

▶ Need to Have Leading Zeroes

- Reporter ID
- Date Fields

Technical Topics

Tips & Traps

- ▶ Illegal Characters in the File, such as □
- ▶ An extended list of tips & traps can be found on the Internet at <http://www.treas.gov/tic/shcakeys-n2006.pdf>, the document is titled “Key Issues for SHC(A) Software Developers”

Technical Topics

Contact Information

- ▶ If you have questions about IESUB or file format
 - Call your SRD contact at the Federal Reserve Bank of New York
 - Call the SHC Hotline at (212)720-6300
 - E-mail your question to SHC.help@ny.frb.org

END

