

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

1. Must a foreign security sometimes be reported on more than one Schedule 2 form?

Yes. Consolidation of Schedule 2 records for a foreign security is only allowed (but not required) if the customers entrusting the foreign securities to a custodian have the same Ownership Code (Item 13).

2. How are repurchase agreements and security lending arrangements reported?

The security lender should report the foreign security as if no repurchase agreement or security lending arrangement occurred; that is, the security should be reported. The security borrower should exclude the foreign security from this report.

3. How is residency determined?

- For individuals, use IRS form W-9 or W-8, whenever possible to determine residency.
- For institutions, the country which issued the entity's charter determines residency.
- For funds, the country in which the fund is legally established determines residency.

4. 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 for a list of these organizations).

5. 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).

6. Are depositary receipts/shares reportable?

Yes. All depositary receipts/shares (e.g., ADRs, ADSs, GDRs, and IDRs) where the underlying security is a foreign security are reportable if they are held for a U.S. entity. However, note that the issuer of the depositary receipts should not report the foreign shares it holds in trust.

7. Are foreign securities held in a trading account reportable?

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

8. Are direct investment positions that are reported to the Commerce Department included on 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.

9. Are investments in foreign real estate reportable?

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.

10. 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, who 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.

11. Are investments in foreign partnerships reportable?

Yes. Investments in foreign partnerships are reportable unless the investment represents direct investment (e.g., a general partner investment).

12. Are embedded derivatives that are not bifurcated from the host contract reportable?

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.

13. Are foreign securities that are issued under a private placement arrangement reportable?

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

14. 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 has passed.

15. Are Euro deposits reportable?

No. However, selected money market instruments, including negotiable certificates of deposits, bankers' acceptances, commercial paper and promissory notes issued by foreign-resident entities are reportable.

16. Should long positions and short positions be netted?

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

17. Who is responsible to report investments held at a central securities depository (CSD)?

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

Normally, such securities are to be reported on Schedule 2. However, if an institution is designated as a "Schedule 3 only" reporter, then the reporter should instead report the securities on Schedule 3 in the following manner:

- File one Schedule 3 report for foreign securities entrusted directly to foreign-resident central securities depositories;
- File one Schedule 3 report for foreign securities entrusted directly to U.S.-resident central securities depositories.

18. Who should be contacted with additional questions?

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