REPORTING OF U.S. OWNERSHIP ON TIC FORM SHC DUE BY MARCH

Date: 23 February 2017

Investment Management Alert

The U.S. Department of the Treasury ("Treasury") is currently collecting data from U.S. institutions in connection with its mandatory five-year benchmark survey of the ownership of foreign securities by U.S. residents. For purposes of the survey, foreign securities include equity and debt instruments, including select money market fund instruments, issued by entities established under the laws of a non-U.S. country. This survey must be completed on Form SHC by all U.S. custodians and end-investors (as described below) that exceed the applicable reporting threshold, and filed with the Federal Reserve Bank of New York electronically or by mail no later than March 3, 2017.

The Treasury International Capital ("TIC") reporting system is a set of periodic statistical reports prepared by the Treasury to document the flow of money into and out of the United States through purchases and sales of securities and other financial instruments. The reports generated from this data are used primarily by the Treasury for: (i) construction of U.S. balance of payments; (ii) formulation of international financial policy; and (iii) tracking of developments in international markets. Form SHC is one in a series of TIC forms used by the Treasury to collect information on positions held by U.S. persons in foreign securities to inform the TIC reporting system.

WHO IS REQUIRED TO REPORT?

Form SHC must be filed by U.S. persons (including U.S. affiliates of foreign entities) with holdings of reportable foreign securities (described below) equal to or greater than $200 million as of December 31, 2016. These reporting entities include:

- U.S.-resident custodians responsible for the safekeeping of $200 million or more in reportable foreign securities;
- U.S.-resident end-investors owning or managing $200 million or more in reportable foreign securities; and
- any other entity specifically notified by letter from the Federal Reserve Bank of New York.

For purposes of Form SHC, an end-investor is any U.S.-resident organization that invests in foreign securities for its own account or on behalf of others. The following organizations are specifically within scope of the survey:

- financial and non-financial organizations (including intermediate holding companies);
- managers of private and public pension funds;
- managers/sponsors of registered funds, exchange traded funds, collective investment trusts, hedge funds, private equity funds, venture capital funds and other private investment vehicles;

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- insurance companies;
- foundations;
- university endowments; and
- trusts and estates.

Additionally, Form SHC reporting must be made on a consolidated basis, that is, a single Form SHC reflecting all reportable securities held or managed by all U.S.-resident branches, offices, and majority-owned subsidiaries of an organization must be filed by the top-level U.S.-resident parent entity of the organization. The Form also requires consolidation of proprietary and client assets by asset managers. For these entities, a consolidated report on Form SHC must include all reportable securities held by the organization on a proprietary basis as well as the reportable securities held by the U.S.-resident funds and accounts sponsored or managed by the manager. The report may exclude reportable securities held by non-U.S. subsidiaries or managed for non-U.S. accounts.

STRUCTURE OF FORM SHC

Form SHC is comprised of three distinct schedules:

- Schedule 1 must be completed by all filing organizations. Schedule 1 requests basic identifying information for the filing organization as well as summary information regarding the data reported in Schedules 2 and 3 (as applicable).

- Schedule 2 requires detailed information regarding reportable foreign securities held by the filing organization.

  U.S. custodians that safekeep, in the aggregate for all accounts, more than $200 million in reportable securities must complete Schedule 2 with respect to all reportable securities under their safekeeping (or in the safekeeping of their foreign sub-custody network).

  End-investors must complete Schedule 2 if they hold or manage $200 million or more in reportable foreign securities with non-U.S. custodians or in self-custody. However, end-investors do not need to report securities held through a U.S. custodian on Schedule 2. Thus, an end-investor that owns and manages less than $200 million held away from a U.S. custodian has no reporting obligation on Schedule 2.

  An organization that holds foreign securities reportable on Schedule 2 must complete a separate Schedule 2 for each such security.

- Schedule 3 requests information regarding the U.S.-resident custodian(s) used by the filing organization to safekeep reportable foreign securities. A filing organization must file a separate Schedule 3 for each

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U.S. custodian holding $200 million or more in reportable foreign securities on behalf of the filing organization.

The fair value of the securities as of the close of business on December 31, 2016 should be used for purposes of determining whether an organization holds or manages $200 million of reportable securities.

WHICH SECURITIES ARE REPORTABLE

Reportable securities generally include all securities (including equities, long-term debt and short-term debt) issued by entities that are established under the laws of a country other than the United States, and all securities issued by international organizations. Neither the country in which the securities are traded or issued, nor the currency in which the securities are denominated is relevant to determining whether the security in question is reportable. In this regard, the security-specific instructions in Form SHC can be quite nuanced and warrant careful scrutiny. As an example, depositary receipts held by a U.S. person that provide exposure to foreign securities are reportable, but foreign securities held by a U.S. depository to back depositary receipts are not reportable.

Additional examples of foreign securities that are not reportable include, among other things:

- any U.S. securities;
- direct investments (ownership of 10% or more of the voting securities of an entity);
- derivatives;
- loans and loan participation certificates;
- bank deposits; or
- foreign securities temporarily acquired under reverse repurchase, borrowing or lending arrangements.

PENALTY FOR NONCOMPLIANCE

Notwithstanding the fact that Form SHC is designed to facilitate the collection of information for survey purposes, filing is mandatory for designated organizations and failure to provide timely and accurate data can result in penalties under applicable law. Accordingly, Form SHC should be filed prior to the March 3, 2017 reporting deadline.

CONFIDENTIALITY OF DATA

The information collected on Form SHC will be made available to the general public only at an aggregate level; the reports of individual persons or filing organizations are not made public.

For additional information:

The Federal Register notice announcing the survey can be found at http://ticdata.treasury.gov/Publish/frshc2016(12-2016).pdf.

Form SHC and the related instructions may be found on the Department of Treasury website at http://ticdata.treasury.gov/Publish/shc2016in.pdf.

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