Key Issues for Reporters
Report of Foreign Holdings of U.S. Securities,
Including Selected Money Market Instruments (SHL)
As of June 30, 2004

Securities To Be Included

- Report all securities issued by U.S. residents (whether issued or traded in the United States or outside of the United Sates) and held by foreign residents. This includes all U.S. equity securities, short-term and long-term debt securities (including asset-backed securities), and selected money market instruments.

- U.S.-resident custodians must report all foreign-held U.S. securities, even if entrusted to central securities depositories (e.g., Depository Trust and Clearing Corporation (DTCC), Federal Reserve Bank of New York (FRBNY), Euroclear, and Clearstream).

- Issuers should report all bearer bonds issued by U.S. residents, because it is assumed that all are held by foreign residents.

Securities To Be Excluded

- Exclude all securities issued by foreign residents, including foreign subsidiaries and foreign branches of U.S. entities, even if the securities are traded in the United States.

- Exclude all depositary receipts (American, Global, and International) where the underlying security is a foreign security. These securities represent equity in foreign-based entities and, therefore, are not considered U.S. securities for this report.

- Exclude all securities issued by U.S.-resident international and regional organizations with extra-territorial status, such as the World Bank, Inter-American Development Bank (IDB), and the International Monetary Fund (IMF). These organizations are considered foreign residents.

- Exclude all securities issued by companies that were incorporated outside the United States as of 6/30/2004 (including companies incorporated offshore in countries such as the Cayman Islands and Bermuda). Some examples are Accenture Ltd., Ace Ltd., Foster Wheeler, Global Crossing, Helen of Troy, Ingersoll-Rand, McDermott International, Transocean Inc, Tyco, White Mountain Insurance Group, Carnival Corp, and Schlumberger.

- Exclude all loans and loan participation certificates, non-negotiable CDs, other non-negotiable deposits, letters of credit and derivatives (such as options, warrants and swaps).

Identifying Securities

- Whenever possible, report securities using the CUSIP ID. If this is unavailable, then use the appropriate ISIN, CINS, Common or other exchange-assigned code. Use internal codes only if no other code exists for the security.

Valuing Securities

- Report data in U.S. dollars (except for Schedule 2, lines 16a, 19, 22 and 23, where the data should be reported in the currency of denomination).

- To calculate the U.S. dollar market value, convert foreign currency denominated securities using the spot exchange rate as of the close of business on the last day of June.

- Report the fair (market) value (lines 16 and 16a) as of the close of business on the last day of June.

Distinguishing Long-Term Debt from Short-Term Debt by Original Maturity

- Securities with original maturities of one year or less are short-term.

- Debt with multiple maturity dates is long-term if any maturity date is more than one year from the date of issue.

- Perpetual debt is classified as long-term.

Securities Involved in Repurchase and Securities Lending Arrangements

- The security lender should report the U.S. securities held for foreign residents as if no repurchase agreement or securities lending arrangement occurred.

- The security borrower should not report the securities.

- The securities lender should not report any securities received as collateral. However, if the securities lender receives cash as collateral, and purchases additional U.S. securities that are held for foreign residents, those additional U.S. securities should be reported.

Examples of Common Reporting Errors

Reportability Errors

- Failing to report securities issued by U.S.-resident subsidiaries or branches of foreign companies.

- Failing to report holdings of Canadian residents.

- Including or excluding securities based on where they are issued, or the currency in which they are denominated, instead of the residency of the issuer.

- Reporting securities issued by a foreign subsidiary of a U.S. entity. These securities should be excluded from the report because they are considered to be foreign securities.

- Excluding securities that have matured prior to the as-of date if they have not been paid out.

- Reporting securities with an amount foreign held equal to zero.

Securities Coding Errors

- Reporting the same security position twice. If a reporter is both an issuer and a custodian of the same securities, it should report those securities only as issuer (code “2” on line 4 of the Schedule 2).

- Excessive reporting of “Country Unknown” (code 88862) for securities other than bearer bonds.

- Reporting inaccurate security types (Schedule 2, line 10).

- Reporting U.S. Treasury STRIPS with incorrect issuer and security types on Schedule 2. U.S. Treasury STRIPS should be reported with the issuer type of US Treasury (line 9, code 1) and with the security type of bond or note, stripped (line 10, code 10).

- Reporting asset-backed commercial paper as asset-backed securities. They should be reported as commercial paper (Security Type 5).

- Reporting securities backed by a sinking fund as asset-backed securities. They should be reported as bond or note, unstripped (Security Type 9).

Valuation Errors

- Reporting the remaining principal outstanding in the currency of denomination (schedule 2, line 23) for asset-backed securities (ABS) using incorrect factor values. The remaining principal outstanding in the currency of denomination should be calculated by multiplying the original principal outstanding in the currency of denomination (schedule 2, line 22) by the factor value <u>as of 6/30/2004</u>. If the factor value for 6/30/2004 is not available, use the factor value closest to June 30, 2004.

  For example, if the original principal outstanding in the currency of denomination is 100,000 and the factor value as of 6/30/2004 is 0.9, then the remaining principal outstanding is 90,000.

  Remaining principal outstanding in the currency of denomination = (Original principal outstanding in the currency of denomination) * (Factor value)

  90,000 = (100,000) * (0.9)

- For asset-backed securities (ABS) incorrectly reporting the fair (market) value in the currency of denomination based on the original principal outstanding in the currency of denomination. The fair (market) value in the currency of denomination should be calculated based on the remaining principal outstanding in the currency of denomination (Schedule 2, line 23) rather than the original principal outstanding in the currency of denomination (Schedule 2, line 22).

  For example, if the original principal outstanding is 100,000, the remaining principal outstanding in currency of denomination is 50,000 and the price as of June 30, 2004 is 0.9, the fair (market) value in currency of denomination would be 45,000.

  Fair (market) value in currency of denomination = (Price) * (Remaining principal outstanding in the currency of denomination)

  45,000 = 50,000 * 0.9

- Inconsistent reporting of values in the currency of denomination. For example, if the fair (market) value in currency of denomination is reported in Yen, the face value in currency of denomination must be reported in Yen.

<u>How the FRBNY Calculates Equity and Debt Prices</u>

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

Equity

- An implicit price for equity can be calculated by dividing the US$ fair (market) value (Schedule 2, line 16) by the number of shares (line 18).

Debt (non-ABS)

- An implicit price for non-ABS debt securities can be calculated by dividing the fair (market) value in currency of denomination (Schedule 2, line 16a) by the face value in currency of denomination (Schedule 2, line 19).

  For example, if the fair value in currency of denomination is 100,000 and the face value in currency of denomination is 110,000, then the implicit price is 0.909.

Implicit price = Fair value in currency of denomination / Face value in currency of denomination 0.909 = 100,000 / 110,000

If your data display a pattern of implicit prices for debt that differ greatly from one and the prices cannot be explained by usual factors (e.g., distressed securities), there may be a problem in your calculation software.

Debt (ABS)

- An implicit price for ABS can be calculated by dividing the fair (market) value in currency of denomination (Schedule 2, line 16a) by the remaining principal outstanding in currency of denomination (Schedule 2, line 23).

  For example, if the fair value in currency of denomination is 200,000 and the remaining principal outstanding in currency of denomination is 230,000, then the implicit price is 0.870.

Implicit price = Fair value in currency of denomination / Remaining principal outstanding in currency of denomination

0.870 = 200,000 / 230,000

If your data display a pattern of implicit prices that differ greatly from “less than one” and the prices cannot be explained by usual factors (e.g., distressed securities, convertible securities, zero-coupon securities, etc.) there may be a problem in your calculation software.

August 2004