

January 19, 2017

## Upcoming Deadline for Form SHC - Holdings of Foreign Securities

Recently, the Department of the Treasury released the final instructions for the reporting requirements of the Treasury International Capital Benchmark Form SHC (herein referred to as “*Form SHC*”) for the 2016 calendar year. Form SHC is filed every five years with the Federal Reserve Bank of New York. **Data as of December 31, 2016 must be submitted no later than March 3, 2017.**

Very generally, Form SHC requires U.S. residents to report information regarding foreign securities owned by U.S. resident end investors. U.S. resident end investors include pooled investment vehicles (such as private investment funds, hedge funds, mutual funds and other similar commingled vehicles), public and private pension funds, foundations and endowments. Generally, investment advisers and managers file Form SHC on behalf of the U.S. resident end investors they advise.<sup>1</sup>

A “foreign security” is a security issued by a non-U.S. resident, as well as ADRs (securities that are issued by U.S.-resident entities but represent shares of an underlying foreign security). Reportable foreign securities may be traded in the United States or in foreign countries, and may be denominated in any currency, including U.S. dollars. Neither the country in which the securities are traded, nor the currency in which the securities are denominated, is relevant in determining whether securities are foreign. Reportable securities generally include:

- **Equity Securities:** Equity securities represent an ownership interest in a foreign resident organization and include limited partner interests, limited liability company interests, corporate shares and equity interests in funds and equivalent investment vehicles.
- **Long-Term Debt Securities:** Long-term debt securities include bonds and notes of a foreign issuer with either no stated maturity or with an original maturity exceeding one year that usually give the holder an unconditional right to financial assets.
- **Short-Term Debt Securities:** Short-term debt securities include bills, commercial paper and other money market instruments of a foreign issuer with an original maturity of one year or less that give the holder unconditional right to financial assets.
- **Asset-Backed Securities:** Asset-backed securities are interests in a pool of assets that give the purchaser a claim against the cash flows generated by the underlying assets. An asset-backed security is reportable if the issuer securitizing the assets is a foreign resident. The underlying asset should not be used to determine if the securities are reportable.

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<sup>1</sup> For fund structures involving both U.S. and non-U.S. entities (for instance, master-feeder structures), the investment adviser is only required to file with respect to the U.S. entity in the structure.

Certain transactions specified in the Instructions to Form SHC (including letters of credit, derivative contracts, loans and loan participation certificates, non-negotiable certificates of deposit, bank deposits and direct investments<sup>2</sup>) are exempt from reporting on Form SHC.

Form SHC is a three-part report:

- Schedule 1 to Form SHC requires that the U.S. resident report basic identifying information about itself and summary information about Schedule 2 and Schedule 3. Schedule 1 is required to be filed if a reporter (a) meets either of the thresholds to report on Schedule 2 or Schedule 3, or (b) is notified by the NY Fed of an obligation to making a Form SHC filing.
- Schedule 2 to Form SHC requires detailed information regarding foreign securities, the safe keeping of which is not held with a U.S. resident custodian, to the extent the total fair value of such securities **equals or exceeds \$200 million**.
- Schedule 3 to Form SHC requires summary information about foreign securities held by an unaffiliated U.S. resident custodian, to the extent the total fair value of such securities **equals or exceeds \$200 million**.

For additional information and guidance, a copy of Form SHC and the Instructions are available [here](#). If you have any questions about Form SHC or the reporting requirements, please contact your Ropes & Gray attorney.

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<sup>2</sup> Direct Investments are defined as investments that represent 10% or more of an issuer's voting equity, and are reportable on the Bureau of Economic Analysis Direct Investment Surveys.