

TRANSACTIONS OF U.S. BANKING AFFILIATE WITH FOREIGN PARENT

Purpose – Reports on this form are required in order to provide reliable and up-to-date information on foreign direct investment in the United States for inclusion in the U.S. international transactions accounts and the national income and product accounts.

Authority – This survey is being conducted under the International Investment and Trade in Services Survey Act (P.L. 94-472, 90 Stat. 2059, 22 U.S.C. 3101-3108, as amended hereinafter "the Act"), and the filing of reports is MANDATORY pursuant to Section 5(b)(2) of the Act (22 U.S.C. 3104).

The Office of Management and Budget has approved this survey under the Paperwork Reduction Act (44 U.S.C. 3501 et seq.).

Penalties – Whoever fails to report may be subject to a civil penalty not less than \$2,500, and not more than \$25,000, and to injunctive relief commanding such person to comply, or both. Whoever willfully fails to report shall be fined not more than \$10,000 and, if an individual, may be imprisoned for not more than one year, or both. Any officer, director, employee, or agent of any corporation who knowingly participates in such violation, upon conviction, may be punished by a like fine, imprisonment, or both. (22 U.S.C. 3105).

These penalties are subject to inflationary adjustments. Those adjustments are found in 15 CFR 6.4.

Notwithstanding any other provision of the law, no person is required to respond to, nor shall any person be subject to a penalty for failure to comply with, a collection of information subject to the requirements of the Paperwork Reduction Act, unless that collection of information displays a currently valid OMB Control Number. The control number for this survey is at the top of Form BE-605 Bank.

Confidentiality – The Act provides that your report to this Bureau is CONFIDENTIAL and may be used only for analytical or statistical purposes. Without your prior written permission, the information filed in your report CANNOT be presented in a manner that allows it to be individually identified. Your report CANNOT be used for purposes of taxation, investigation, or regulation. Copies retained in your files are immune from legal process.

Filing of report – Form BE-605 Bank is a quarterly report. File a single copy of each report within 30 days after the close of each calendar (or fiscal) quarter, except for the final quarter of the calendar (or fiscal) year, when reports should be filed within 45 days. Direct requests for extension of the filing date, additional forms, or clarification of the reporting requirements or instructions to:

U.S. Department of Commerce
Bureau of Economic Analysis, BE-49(Q)
Washington, DC 20230
or fax: (202) 606 5319

Assistance – For assistance, telephone (202) 606 5577 between 8:30 a.m. to 4:30 p.m. eastern time. Forms can be obtained from BEA's web site at:

www.bea.gov/bea/surveys/fdiusurv.htm

DEFINITIONS

United States, when used in a geographic sense, means the several States, the District of Columbia, the Commonwealth of Puerto Rico, and all territories and possessions of the United States.

Foreign, when used in a geographic sense, means that which is situated outside the United States or which belongs to or is characteristic of a country other than the United States.

Person means any individual, branch, partnership, associated group, association, estate, trust, corporation, or other organization (whether or not organized under the laws of any State), and any government (including a foreign government, the United States Government, a State or local government, and any agency, corporation, financial institution, or other entity or instrumentality thereof, including a government-sponsored agency).

Foreign person means any person resident outside the United States or subject to the jurisdiction of a country other than the United States.

Direct investment means the ownership or control, directly or indirectly, by one person of 10 per centum or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise.

Foreign direct investment in the United States means the ownership or control, directly or indirectly, by one foreign person of 10 per centum or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise, including a branch.

Branch means the operations or activities conducted by a person in a different location in its own name rather than through an incorporated entity.

Affiliate means a business enterprise located in one country which is directly or indirectly owned or controlled by a person of another country to the extent of 10 per centum or more of its voting stock for an incorporated business or an equivalent interest for an unincorporated business, including a branch.

U.S. affiliate means an affiliate located in the United States in which a foreign person has a direct investment.

Foreign parent means the first foreign person in the ownership chain of the U.S. affiliate.

Affiliated foreign group means (1) the foreign parent, (2) any foreign person, proceeding up the foreign parent's ownership chain, which owns more than 50 per centum of the person below it up to and including that person which is not owned more than 50 per centum by another foreign person, and (3) any foreign person, proceeding down the ownership chain(s) of each of these members, which is owned more than 50 per centum by the person above it.

Foreign affiliate of foreign parent means, with reference to a given U.S. affiliate, any member of the affiliated foreign group owning the affiliate that is not a foreign parent of the affiliate.

U.S. corporation means a business enterprise incorporated in the United States.

Business enterprise means any organization, association, branch, or venture which exists for profitmaking purposes or to otherwise secure economic advantage, and any ownership of any real estate.

Banking covers business enterprises engaged in deposit banking or closely related functions, including commercial banks, Edge Act corporations engaged in international or foreign banking, foreign branches and agencies of U.S. banks whether or not they accept deposits abroad, U.S. branches and agencies of foreign banks whether or not they accept domestic deposits, savings and loans, savings banks, and bank holding companies. (U.S. branches of foreign banks are U.S. persons; conversely, foreign branches of U.S. banks are foreign persons.)

Voting interest is the percentage of ownership in the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise, including a branch or partnership.

GENERAL INSTRUCTIONS

Accounting methods and records – Generally accepted U.S. accounting principles should be followed, unless otherwise specified. Corporations should generally use the same methods and records that are used to generate reports to stockholders except where the instructions indicate a variance. Reports for unincorporated businesses should be generated on an equivalent basis. Reference to Financial Accounting Standards Board statements are referred to as "FAS" statements. Report items according to U.S. generally accepted accounting principles per books of the U.S. affiliate, except in Part VII, where items 31–37 are to be reported at the market value of the transaction.

Currency amounts – Amounts should be reported in thousands of U.S. dollars. If an amount is between \pm \$500, enter "0." Use parentheses to indicate negative numbers.

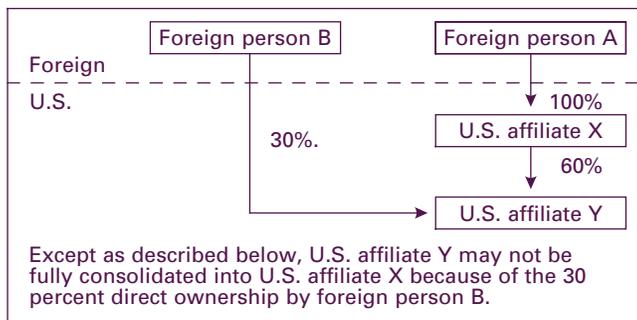
Estimates – If actual amounts are not available, supply estimates and label them as such. When a data item cannot be fully subdivided as required, supply a total and an estimated breakdown of the total.

Multiple foreign parents – If two or more foreign persons hold reportable equity interests in a U.S. affiliate, a separate report should be filed to report transactions or accounts with each foreign parent.

GENERAL INSTRUCTIONS – Continued

Consolidation – A listing of the names and addresses of the U.S. affiliates included in the consolidation should be provided with the first filing and then updated as necessary. The list should indicate each U.S. affiliate's direct owner and the percentage of direct ownership interest held. For an incorporated U.S. banking affiliate, its U.S. branches should not be listed.

A U.S. affiliate in which a direct ownership interest and an indirect ownership interest are held by **different** foreign persons should not be fully consolidated into another U.S. affiliate, but must complete and file its own BE-605 BANK. (See diagram below.)



Reflect the indirect ownership interest, even if more than 50 percent, on the BE-605 Bank report for the directly held U.S. affiliate on an equity basis. For example, in the situation shown in the diagram above, U.S. affiliate X must treat its 60 percent ownership interest in U.S. affiliate Y as an equity investment.

If both the direct and indirect lines of ownership are held by the **same** foreign person, the affiliate may be fully consolidated and the minority interest not held by the foreign parent either directly or indirectly must be eliminated. Thus, if in the diagram above, U.S. affiliate Y is 30 percent directly owned by Foreign person A instead of Foreign person B, then U.S. affiliate Y may be fully consolidated into U.S. affiliate X. In this example, the 10 percent minority interest that is not owned (directly or indirectly) by Foreign person A is eliminated.

Do not consolidate foreign subsidiaries, branches, operations or investments no matter what the percentage ownership. Report foreign holdings of the U.S. bank affiliate owned 20 percent or more (including those that are majority owned) using the equity method of accounting. DO NOT eliminate intercompany accounts for investments reported using the equity method. You may report immaterial foreign investments using the cost method of accounting if this treatment is consistent with your normal reporting practice.

Method of accounting for equity investments in business enterprises that are not fully consolidated – A U.S. affiliate's equity investment in all foreign business enterprises and in U.S. business enterprises that are not fully consolidated should be accounted for as detailed below. Foreign business enterprises must not be fully consolidated with the U.S. affiliate no matter what the percentage ownership. When equity investments are included under the equity basis, intercompany account items MUST NOT be eliminated.

Generally, investment in those business enterprises owned 20 percent or more (including those that are majority-owned) should be reported using the equity basis. However, immaterial investments may be reported using the cost basis provided this basis is consistent with normal reporting practice. Investment in those business enterprises owned less than 20 percent normally should be reported using the cost basis.

Aggregation of branches and agencies – All U.S. banking branches and agencies (including IBF's) directly owned by a given foreign parent may be aggregated on a single Form BE-605 Bank. Operations of branches that are separately chartered offshore, in the Cayman Islands or the Bahamas, for example, are not to be reported on Form BE-605 Bank, because they are considered to be foreign branches of the foreign parent.

Derivatives contracts – Do **not** report either the value of outstanding financial derivative contracts or any payments or receipts resulting from the settlement of those contracts. Derivatives contracts are covered by the Treasury International Capital (TIC) Form D—Report Of Holdings Of, And Transactions In, Financial Derivatives Contracts With Foreign Residents.

Retention of copies – Retain a copy of all reports filed for 3 years beyond the report's original due date.

Revisions – File revisions to any prior period data either by letter, if the revisions are minimal; by noting changes on a file copy of the previously completed form; or by completing a revised form in its entirety and refiling it. Please DO NOT make revisions to prior quarters using ASTAR, BEA's electronic filing system.

SPECIFIC INSTRUCTIONS

Part I

A U.S. affiliate that is only indirectly foreign owned (item 7 must be marked), but is required to file a separate report on Form BE-605 Bank because it has direct transactions or positions with the foreign parent, should complete only Parts I, III, IV, and V as applicable.

PART II

Items 12a and 12b – Certain realized and unrealized gains and losses include:

- (1) Sale or disposition of investment securities, and FAS 115 impairment losses.
- (2) Sale or disposition of land, other property, plant and equipment, or other assets, and FAS 144 impairment losses. DO NOT include gains or losses from the sale of inventory assets in the ordinary course of trade or business. Real estate companies, see below for further instructions.
- (3) Goodwill impairment as defined by FAS 142.
- (4) Restructuring – Include restructuring costs that reflect write downs or writeoffs of assets or liabilities. DO NOT include actual payments or charges to establish reserves for future actual payments, such as for severance pay and fees to accountants, lawyers, consultants, or other contractors.
- (5) DISPOSALS of discontinued operations. However, DO NOT include income from the operations of a discontinued segment.
- (6) Remeasurement of the U.S. affiliate's foreign currency denominated assets and liabilities due to changes in foreign exchange rates during the reporting period.
- (7) Extraordinary, unusual, or infrequently occurring items that are material. Include losses from accidental damage or disasters, after estimated insurance reimbursement. Include other material items, including writeups, writedowns, and writeoffs of tangible and intangible assets; gains (losses) from the sale or other disposition of capital assets; and gains (losses) from the sale or other disposition of financial assets, including securities, to the extent not included above.

Special instructions for real estate companies.

Report gains or losses from the sale, disposition, or revaluation of land, other property, plant, and equipment, or other assets as follows: (1) Realized gains and losses – Include gains or losses from the sale of real state in the ordinary course of business in item 11. DO NOT report these gains or losses in items 12a or 12b. (2) Impairment of long-lived assets – Include impairment losses, as defined by FAS 144 and recognized during the period, in item 11. (3) Unrealized gains – Include gains recognized due to the revaluation of real estate assets in item 12a.

PART III

Item 20 – Allocated expenses and sales of services include financial services; transportation services; computer and information services; management and consulting services; and research, development, and testing services.

DO NOT include:

- Fees for commodity or merchandise brokerage services,
- Earnings from buying and selling (i.e., trading) commercial paper or other securities for your own account,
- Gains or losses due to selling or revaluing securities,
- Interest under repurchase or reverse repurchase agreements,
- Earnings from dealer markups on buy and sell transactions (i.e., bid/ask price spreads),
- Real estate brokerage fees,
- Business brokerage fees,
- Annuity purchases and payments to annuitants,
- Pension fund contributions and benefits,
- Earnings of principals from buying and selling of financial instruments,
- Bid/ask price spreads and trading profits on dealing in foreign currencies, securities, and other financial instruments,
- Interest and dividend receipts and payments.