

Supporting Statement in Request for Clearance of Survey Forms Used in the Quarterly Financial Report (QFR) Program

A. Justification

1. Necessity of the Information Collection

The QFR program has published up-to-date aggregate statistics on the financial results and position of U.S. corporations since 1947. It is a principal economic indicator that also provides financial data essential to calculation of key U.S. Government measures of national economic performance. The forms used in conducting the QFR program are form QFR-200 (MT) - Long Form and QFR-201 (MG) Short Form.

Filing of the long form, basically an income statement and balance sheet, is required quarterly of Manufacturing, Mining, Wholesale Trade and Retail Trade corporations generally with \$50 million or more in assets at the time of sampling. The short form is a simplified version of the long form and is required to be filed quarterly by manufacturing corporations generally with less than \$50 million in assets at the time of sampling.

The importance of this data collection is reflected by the granting of specific authority to conduct the program in Title 13 of the United States Code, Section 91, which requires that financial statistics of business operations be collected and published quarterly. Public Law 109-79, Section 91 extended the authority of the Secretary of Commerce to conduct the QFR program through September 30, 2015.

2. Needs and Uses

The main purpose of the QFR is to provide timely, accurate data on business financial conditions for use by Government and private-sector organizations and individuals. The primary public users are U.S. Governmental organizations with economic policymaking responsibilities. In turn, these organizations play a major role in providing guidance, advice, and support to the QFR program. The primary private-sector data users are a diverse group including universities, financial analysts, unions, trade associations, public libraries, banking institutions, and U.S. and foreign corporations.

The following is a listing of key governmental users and a short description of their respective uses of the QFR data:

- **Bureau of Economic Analysis (BEA)**

Primary source of data for current estimates of corporate profits, taxes, and dividends for the quarterly estimates of the Gross Domestic Income (GDI), of the National Income and Product Accounts (NIPA). Reports emanating from these

measures are used widely by the public and private sectors. The GDI which must balance with Gross Domestic Product (GDP) is critical to economic policymaking. The QFR data are merged into BEA's database and used as a business cycle indicator in the "Survey of Current Business."

- **Federal Reserve Board (FRB)**

Major building block for Flow of Funds and sole source of consolidated nonfinancial corporate data. Used in briefings on conditions of financial markets in various sectors of the economy; provides most current insight into sector borrowing changes. Primary input to econometrics models for industry and size analysis of corporate finance. The FRB reports are used widely by Executive and Legislative Branches for economic policymaking. The FRB "Bulletin" regularly publishes data derived from the QFR.

- **Council of Economic Advisers**

QFR data are used to monitor and analyze financial performance and prepare reports for the President and Congress. The "Economic Report of the President" includes data derived from the QFR.

- **Small Business Administration**

Data used to trace the financial performance of small business, and analyze and prepare reports for use in loan policy, Congressional testimony, and advice to the Administration on small versus large company performance.

- **U.S. Treasury-Office of Tax Analysis**

Data used to extrapolate tax-based income, on a current basis, by industry, in order to estimate the effect of existing and contemplated tax law on the corporate sector. Also, used as a reference source to respond to questions, usually Congressional, concerning industry profitability and financial position.

- **Joint Committee on Taxation**

Used to respond to Congressional inquiries regarding sales, profits, financial position, and rate of return by industry and asset size for the purpose of drafting or responding to proposed legislation.

- **Agriculture Economic Research Service**

Used to determine trends in food pricing by examining the retail food sector's profitability and financial position. Findings are published regularly as well as presented in Congressional and agency hearings.

- **Housing and Urban Development (HUD)-Office of Financial Management**

Used as an index to adjust the Internal Revenue Service's (IRS's) "Statistics of Income" benchmark data on municipal holdings. The resultant current reading of the municipal market is used, in conjunction with other data, in decisions regarding HUD grants in excess of \$25 million.

Assessment of information quality is an integral part of the pre-dissemination review of the information disseminated by the Census Bureau (fully described in the Census Bureau's Information Quality Guidelines). Assessment information quality is also integral to the information collections conducted by the Census Bureau and is incorporated into the clearance process required by the Paperwork Reduction Act.

3. Use of Information Technology

The QFR program provides for the toll-free filing of documents by facsimile machine within the QFR's access controlled environment. The QFR program also offers an encrypted internet data collection system (Census Taker) for optional use as a substitute for the paper form mailed to all companies. Census Taker is an electronic version of the data collection instrument. It provides improved quality with automatic data checks and is context-sensitive to assist the data provider in identifying potential reporting problems before submission, thus reducing the need for follow-up.

4. Efforts to Identify Duplication

The QFR does not duplicate other data series. Our consultation with user agencies concerning their needs, confirmed that the QFR's timeliness and "domestic only" consolidated data are not available from other existing public or private sources.

While a number of forms/reports have been cited by respondents as duplicative of QFR forms, we do not find this to be the case. Through the years careful analysis of other data collection forms has been undertaken, but none provides the same principles of consolidation and frequency as the QFR. Discussion of those forms most commonly cited as duplicative of the QFR and their differences follows.

IRS Form 1120--Form 1120 is the standard corporate tax return filed by corporations on an annual basis and includes a financial statement. The QFR is required quarterly. Also, IRS consolidation rules differ significantly from the QFR rules. On Form 1120 tax consolidation is an election when ownership is 80 percent or more; QFR requires consolidation at a majority ownership (greater than 50 percent).

Lastly, IRS tax accounting conventions differ significantly from generally accepted accounting principles (GAAP), especially in areas of income recognition and depreciation methods. The QFR accounting policy adheres, as closely as possible, to GAAP.

SEC Form 10-Q--The 10-Q is the quarterly financial form filed with SEC by publicly held corporations. While both the QFR and 10-Q are quarterly, there are significant differences that are especially critical to GDI and Flow of Funds calculations. The QFR is designed to provide users with financial data on a domestic basis; the 10-Q reflects worldwide information on U.S. corporations. Without specialized QFR reporting rules, foreign operations of multinational corporations would be included in QFR data and in turn result in overstatement of GDI movements and levels. Similarly, QFR rules designed to provide the FRB with data for the nonfinancial sector ensure against the overstatement in the Flow of Funds that would be created if 10-Q data were used. Another significant difference is in the level of QFR detail on debt structure and security holdings as required by the FRB. Also, in contrast to QFR data, the 10-Q financial statements are not standardized. Thus, statistical aggregation using these statements would be subject to higher dollar costs and would contain accounting classification inconsistencies.

Lastly, the 10-Q filing due date is 35 days after the end of each quarter; QFR reports are due within 25 days. The 25-day QFR filing requirement was established to ensure adequate response for preparation of special preliminary tabulations used in BEA's first revision of GDI, approximately 45 days after each quarterly closing.

Census Bureau Forms--Other Census Bureau data are inappropriate for the specific QFR user needs listed above primarily because they are for the most part establishment or physical location based data and do not present integrated financial statement data. The establishment data also do not provide enterprise industry classification information, which is needed for compatibility with the IRS benchmark data when they become available.

Industry classification for establishments is based on employment or payroll, not receipts as it is for the QFR. Where receipts are available, for example in manufacturing, information is not available to eliminate inter-plant transfers in cases of vertical integration.

5. Minimizing Burden

Efforts to lessen the QFR reporting burden on small firms fall into three categories:

- Sample Design Used to Select Companies
- Structure of Reporting Form and Related Filing Requirements
- Specific Program Actions to Reduce Burden (1977 to Present)

a. Sample Design Used to Select Small Manufacturing Companies

The QFR sample includes less than 5 percent of small asset size manufacturing corporations. Effective October 1, 1995, as required by the Paperwork Reduction Act (PRA) of 1995, the take-all or certainty threshold of the QFR sample was raised to include only companies with assets of \$250 million or more. Previously all companies with assets of \$50 million or more were certainty companies – i.e., companies required to file on a continuing basis. Now companies with assets between \$50 million and \$250 million are sampled. This resulted in a reduction of the number of companies participating in the QFR by about 1,000 or approximately 10 percent.

The PRA also established re-selection criteria for companies that have participated in the program. Companies with assets between \$250,000 and \$50 million are now ineligible for sample re-selection for a 10-year period following the completion of their 2-year reporting period. Companies with assets of \$50 million or more, but less than \$250 million, are now ineligible for sample re-selection for a 2-year period following completion of their 2-year reporting period. This replacement scheme ensures that the same group of companies is not called upon to report continuously and that those chosen are burdened for a relatively short period of time. The new sample design eliminates any possibility of companies being re-selected in adjacent samples.

b. Structure of Reporting Form and Related Filing Requirements

The QFR report forms adhere to a traditional financial statement format. Small companies are familiar with this type of reporting and can use already existing accounting records. They do not have to perform burdensome transition from company to Census Bureau format.

The Census Bureau also recognizes that the 25-day filing deadline for the QFR reports may precede the availability of current data to some corporations. Under these circumstances reporting extensions can be granted provided that data are received within publication deadlines. Company estimates are considered acceptable when actual data are not available. Audited data are not required.

The QFR professional staff works with corporations experiencing compliance problems. Toll-free telephone numbers have been established to enable companies to FAX their forms without incurring long-distance charges and to provide easy access to QFR staff. Staff's expert advice about a company's specific problem(s) frequently results in burden reduction.

c. Specific Program Actions to Reduce Burden (1977 to Present)

The QFR program has consistently sought to reduce reporting burden for small and medium size firms. From 1988 to 2006, the following actions were taken:

- (1) Between 1977 and 1992 the QFR sample was reduced by more than 8,000 companies or nearly 50% of the original sample.
- (2) In 1988 the asset cut-off for sampling for manufacturing, mining, and trade companies was raised from \$25 million to \$50 million. And, in October 1995, the asset cut-off was raised to \$250 million. Previously, these firms were required to report every quarter, and not phased out after eight quarters.
- (3) With the introduction of the short version of the QFR form, in October 1981, the report form to be filed by businesses in the replacement sample (generally those with assets of less than \$25 million) was reduced from 64 to 35 data items. In October 1988, the group of companies receiving the short form was expanded to include those with assets between \$25 million and \$50 million.
- (4) In 1984-1986, the QFR report forms were redesigned to significantly improve readability.
- (5) Beginning in December 1992, the response period for the QFR classification form was extended from 7 to 30 days.
- (6) In 1995, in response to the PRA, the QFR sample was reduced by about 1,000 companies or approximately 10%.
- (7) At the end of calendar year 2002, an electronic reporting option was offered to the QFR long form filers in the sample, and to all new companies entering the sample.
- (8) During the third quarter of 2006, the QFR program consolidated the manufacturing and retail trade long forms into one form; renumbered the short form, and eliminated the classification form. The program also introduced an encrypted internet data collection system (Census Taker) for optional use as a substitute for the paper form mailed to all companies.

6. Consequence of Less Frequent Data Collection

As explained in Item 1, the QFR data series is a principal economic indicator providing income statement and balance sheet data from publicly and privately held U.S. Corporations on a quarterly basis as mandated by law.

The frequency of the QFR data collection is based on the importance of these data to the quarterly GDI and Flow of Funds estimates. The reliability of these other series would be adversely affected if QFR data were collected less often.

7. Special Circumstances

QFR forms are mailed to companies approximately 15 days in advance of the period being collected, and are requested to be returned within 25 days after the close of the reporting period. Early return is encouraged to satisfy the need for maximum coverage in special preliminary tabulations required by BEA for its first revision of quarterly GDI estimates. As necessary, companies can also be granted filing extensions.

8. Consultations Outside the Agency

On March 6, 2007, on page 9920 of the Federal Register, the Census Bureau published a notice of its intent to submit for approval to OMB the two data collection forms used by the QFR program. A letter of support was received from Dr. Dennis J. Fixler, Chief Statistician with BEA.

Consultation with the QFR's primary users occurs on a continuing basis. Open lines of communication have been established to address changes in accounting conventions, business practices, and economic conditions that can affect the usefulness of QFR data. Also, BEA (primarily Dennis J. Fixler, 202-606-9607) and FRB (primarily Michael Palumbo, 202-452-2206) propose program changes that would improve the contribution of the QFR data to GDI and the Flow of Funds estimates, respectively.

Changes in GAAP and business practices affect the reporting community, generally large corporations, and require adjustments in the QFR program. The QFR professional staff regularly contact these large companies to discuss such changes and provide QFR reporting guidance. These contacts ensure that our data requests are clearly stated and that each company is supplying information with minimal effort. This one-on-one approach, on a professional level, is necessary because of the differences in accounting systems and treatments used by reporting companies.

9. Paying Respondents

Currently there is no provision to pay respondents or provide them with material incentives.

10. Assurance of Confidentiality

Respondent reports to the Census Bureau are confidential by law (Title 13, United States Code). They may be seen only by persons sworn to uphold the confidentiality of Census Bureau information and may be used only for statistical purposes. The law also provides that copies retained in respondents' files are immune from legal process. Respondents are informed of the mandatory nature of the survey and the confidentiality of their reports in a letter accompanying the QFR survey questionnaire and in a statement on the questionnaire itself. The envelopes used for mailing the QFR forms also inform respondents that filing is mandatory.

11. Justification for Sensitive Questions

No questions of a sensitive nature are asked.

12. Estimate of Hour Burden

QFR Annual Report Burden Summary

	QFR Forms		
	200 - MT (Long Form)	201-MG (Short Form)	Total
Number of respondents	4,108	4,543	8,651
Number of responses per respondent/year	4	4	4
Total annual responses (line 1 times line 2)	16,432	18,172	34,604
Hours per response	3.0283	1.2000	2.0682
Total hours (line 3 times line 4)	49,762	21,806	71,568

The QFR long and short form estimates of collection burden are based on the average completion times reported in a debriefing questionnaire sent to companies as well as telephone conversations with respondents during the normal course of QFR business.

The following table reflects how total respondent burden was calculated:

**QFR Respondent Burden Estimate in Hours
for QFR Long and Short Forms**

Approximate Number of Companies in Sample	Asset Size of Companies (in dollars)	Average Quarterly Hours/ Company	Estimated Quarterly Total
995*	Billion and over	5.15	5,124
3,113*	50 million to 1 billion	2.35	7,316
4,543**	Under 50 million	1.2	5,452
Total Quarterly			17,892
Total Annual (Quarterly X 4)			71,568

* Files QFR Long form

** Files QFR Short form

The estimated cost to all respondents to respond is \$1,796,357. This cost is calculated by multiplying the 71,568 annual burden hours by the Bureau of Labor Statistics' May 2005 per hour estimate of \$25.10 for a private industry entry-level accountant.

13. Estimate of Cost Burden

We do not expect respondents to incur any costs other than their time to respond. The information requested is of the type and scope normally carried in company records and no special hardware, accounting software or system is necessary to provide answers. Therefore, respondents are not expected to incur any capital and start-up costs or system maintenance costs. Furthermore, purchasing of outside accounting or information collection services, if performed by the respondent, is part of usual and customary business practices and not specifically required for this information collection.

14. Cost to the Federal Government

The total cost to the Government of this survey in fiscal year 2007 is estimated to be \$5.3 million. This cost is borne by the Census Bureau.

15. Reason for Change in Burden

Change in Burden-Summary

Form Type	Description of Change	Difference in Burden Hours
QFR-200 (MT) Long Form	Decrease in number of certainty companies	-1,470
QFR-201 (MG) Short Form	Increase in sample size	+1,498
QFR-103 (NB) Classification Form	Elimination of the form	-13,036
	Net Difference	-13,008

Changes in the QFR report forms and sample sizes in 2006, reduced the total estimated burden hours from 84,576 to 71,568 or about 15%. In the table above, the decrease in estimated burden hours associated with filing QFR long form is due to a decrease in the number of \$50 million to \$1 billion dollar and over asset-size companies required to file. The increase in estimated burden hours associated with filing QFR short form is due to an adjustment in sample size for the less than \$50 million asset size companies. The decrease in estimated burden hours associated with filing QFR classification form is due to the elimination of the form.

16. Project Schedule

Financial information collection commences with mailing of the appropriate form during the last month of each company's reporting quarter. All acceptable forms received are processed for inclusion in the current quarter publication.

The QFR data from manufacturing, mining, and wholesale trade companies are scheduled for release approximately 75 days after the end of the first, second, and third calendar quarters and approximately 95 days after the end of the fourth calendar quarter. For reporting purposes, retail trade corporations' quarters have been staggered by one month. The published data include information on the most recently closed quarter and the preceding four quarters for the manufacturing, mining, and wholesaling sectors.

Data are also published for the preceding four quarters for the retail sector except in the fourth quarter, when the 95-day publication lag permits synchronized presentation with data from other sectors. The following table indicates the four reporting quarters for the surveyed business sectors in terms of the month in which any given surveyed corporation's fiscal quarter ends:

Reporting Quarters for Surveyed Business Sectors *

<u>QFR Quarter</u>	<u>Manufacturing, Mining, and Wholesale Trade</u>	<u>Retail Trade</u>
First	Jan., Feb., or Mar.	Feb., Mar., or Apr.
Second	Apr., May, or Jun.	May, Jun., or Jul.
Third	Jul., Aug., or Sep.	Aug., Sep., or Oct.
Fourth	Oct., Nov., or Dec.	Nov., Dec., or Jan.

*Coverage is for corporations whose quarter ends as shown.

Special preliminary tabulations for BEA are derived from all forms received and processed within the first 45 days after the close of each calendar quarter.

17. Request to Not Display Expiration Date

We display the expiration date on the collection form.

18. Exception to the Certification

There are no exceptions.

19. North American Industry Classification System (NAICS) Codes

The QFR survey converted to the 1997 NAICS Codes in April 2002 with the publication of the fourth quarter 2001 data. The conversion resulted in a minimal change in sample size.

The survey covers the following 2002 NAICS sectors:

<u>Title</u>	<u>3-digit NAICS Sector</u>
Mining	211 - 213
Manufacturing	311-316, 321-327, 331-337, 339
Wholesale trade	423 - 425
Retail trade	441-448,451-454