

Paperwork Reduction Act Submission

for the

**United States Treasury Department's
Annual Survey of
Foreign-Residents' Holdings of United States Securities**

as of the last business day of each June

[OMB Control Number 1505-0123]

Supporting Statement for Paperwork Reduction Act Submission
OMB Form 83-I
Survey of Foreign Holdings of United States Securities
as of the last business day of each June

Section A. Justification

1. Explain the circumstances that make the collection of information necessary.

The Foreign Portfolio Investment Survey is undertaken by the Department of the Treasury pursuant to the *International Investment and Trade in Services Act* (22 U.S.C. 3101 et seq. [the "Act"]). Responsibility for provisions of the Act that pertain to portfolio investment was delegated to the Secretary of the Treasury by the President in Section 2 of Executive Order 11961 on January 19, 1977.

Before June 2002, the surveys were conducted at approximately five-year intervals, the minimum frequency required by the Act, and all were large-scale surveys to collect comprehensive data on long-term securities from all significant U.S.-resident custodians and U.S.-resident security issuers. The most recent survey of foreign portfolio investment in U.S. securities was conducted by the United States as of June 30, 2007.

Beginning in June 2002 this data collection is conducted annually and covers both short-term and long-term securities. To obtain data annually, the continuing quinquennial surveys (Form SHL) are supplemented by smaller annual surveys (Form SHLA) in the intervening years. To minimize both reporter burden and the cost to the government, these new annual surveys (SHLA) are collected from a much smaller reporting panel than is used for the quinquennial surveys (SHL). Whereas a quinquennial survey (SHL) requires reporting by approximately 1,200 firms, only the approximately 75 largest data providers from the previous quinquennial survey will be reporters in the annual surveys (SHLA). The data requested will be the same for both Form SHL and Form SHLA; in any year, only one of the forms will be used. The data collected under the annual reports are used in conjunction with the results of the previous quinquennial survey to compute economy-wide estimates for the years of annual surveys.

Background to the Current Survey. The world experienced a major financial crisis in 1997-1998. This crisis, which started in Thailand, spread throughout southeast Asia, and eventually affected South Korea, Russia and Brazil. For a time, it appeared that the crisis would spread even further. The events of this period were all the more troubling because they came as a surprise to the financial markets.

In an attempt to preclude further such serious threats to the international financial system, the international community undertook a detailed review of the causes of the crisis and the concurrent lack of early warning that problems were building. These efforts concluded that one of the primary reasons for the lack of early warning was the absence of information about the performance of

countries' economies. To address this situation, the international financial community, under the leadership of the International Monetary Fund (IMF), developed a standard for reporting economic and financial data, known as the Special Data Dissemination System (SDDS). The United States has been a leading supporter of the SDDS. Sixty-four countries now comply with the SDDS-external debt reporting, including the largest industrial countries and the largest debtor countries. A list of the subscribing countries can be found at the IMF website at <http://dsbb.imf.org/Applications/web/sddsexdpage/>.

The External Debt Category of the SDDS sets new standards requiring quarterly reports on the level of a country's external debt by domestic sector (monetary authorities, general government, banks, and other) and by type of debt (long-term securities, short-term securities, loans, trade credits, currency and deposits, and other liabilities), with a one quarter lag. In addition, the External Debt Category strongly encourages the provision of a debt repayment schedule and a currency breakdown of external debt (domestic currency vs. foreign currency).

To meet these standards, the United States has made substantial changes to its international financial data collection system. A key part of these changes involves conducting portfolio liability surveys annually. These surveys will be the key to providing much of the data for meeting the reporting requirements of the SDDS's External Debt Category.

Importance of the Data. The data collected in these surveys have become increasingly important in recent years as foreign investment in the United States has been increasing rapidly. In 1974, approximately 5 percent of all U.S. long-term securities (stocks, corporate and government debt instruments) were held by foreign residents. By March 2000, approximately 10 percent of the total value of these U.S. securities were foreign held. As of June 2006, almost 17 percent of the total value of U.S. long-term securities were foreign held. The share held by foreigners as of June 2007 is not available.

2. How, by whom, and for what purpose is the information to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.

The data collected constitutes a major component in the calculation of the United States balance of payments accounts and the international investment position. In addition, the data are used within the U.S. government to understand the magnitude and structure of foreign investment in the United States, and as an element in the formulation of international economic and financial policies. The data are used by the private sector and academia in international financial analysis. The data are also used by international organizations.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology. Also describe any consideration of using information technology to reduce burden.

Essentially all of the data collected by the survey will be received in electronic form, with respondents having the option of reporting on various electronic media. Reporting electronically will greatly decrease reporter burden, as reporters can query their databases and transfer the results directly to media that will be provided to the survey staff. Such procedures will also significantly reduce the cost to the government to process the data.

The survey administrators will also acquire significant amounts of the data required for the survey from commercial firms whose business it is to compile financial market data, thus minimizing the amount of data required from reporters. In addition, commonly asked questions and answers pertaining to the survey, along with copies of the forms and instructions, will be posted on the Internet for the convenience of reporters.

4. Describe efforts to identify duplication.

There is no alternative source for the data that these surveys will collect. Though there are some partial aggregates for foreign holdings of U.S. short-term securities available, these are not collected at the level of detail that is necessary for the needs of this survey, which requires information on debt repayment schedules, sector of debtor, and currency composition.

5. If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.

The data collection will not involve small businesses or other small entities. The annual surveys (SHLA) will involve only very large organizations. Regarding the quinquennial surveys (SHL), it should be noted that organizations holding foreign owned securities totaling less than \$100 million are exempt from the survey, thus effectively removing small businesses from the survey.

6. Describe the consequences to Federal program or policy activities if the collection were not conducted or was conducted less frequently, as well as any technical or legal obstacles to reducing burden.

The data are required by law to be collected at least once every five years.

This data collection is the only source of accurate, detailed information on foreign holdings of U.S. securities. Lack of this information on foreign holdings of U.S. securities would adversely affect the accuracy of the U.S. balance of payments accounts and the U.S. international investment position, both of which are key data used in the formulation of U.S. international economic and financial policies.

In addition, the United States would not be able to meet its commitment made to comply with the IMF's Special Data Dissemination Standard for the External Debt Category. The SDDS is a key mechanism advocated by the United States and implemented by the IMF to improve transparency and reduce the risk of financial crisis following the Mexican and Asian crises of the 1990s. The external

debt category is now being enhanced to provide for the timely, detailed release of information on countries' external debt positions and future debt repayment obligations to foreigners. The SDDS has dramatically increased the availability of information on countries' economic and financial situations and thus contributed importantly to the more efficient functioning of international capital markets – as well as to the prevention of international financial crises.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner: (a) requiring respondents to prepare information to the agency more often than quarterly; (b) requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it; (c) requiring respondents to submit more than an original and two copies of any document; (d) requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records, for more than three years; (e) in connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study; (f) requiring the use of a statistical data classification that has not been reviewed and approved by OMB; (g) that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or (h) requiring respondents to submit proprietary trade secrets, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.

The survey will be conducted in full accordance with the guidelines set forth above.

8. Summarize public comments received in response to the Federal Register Notice requesting public comments and describe actions taken by the agency in response to these comments, particularly comments on cost and hour burden. Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, clarity of instructions and record keeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.

One comment was received from the Federal Register Notice of January 7, 2008, volume 73, number 4, pages 1263-1264. The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce wrote in a letter dated February 25, 2008, that "BEA strongly supports the continued collection of the data on Form SHLA/SHL. The data collected on these forms are crucial to key components of BEA's economic statistics."

Staff at the Federal Reserve Bank of New York have ongoing discussions with respondents and organizations that are representatives of the respondent panel for the survey, such as the New York Clearing House. No suggestions for changes in this data collection have been received over the past couple of years by the Bank.

9. Explain any decision to provide any payment or gift to respondents.

None

10. Describe any assurance of confidentiality provided to respondents and the basis for assurance in statute, regulation, or agency policy.

The *International Investment and Trade in Services Survey Act* mandates that information filed on individual reports may be used only for analytical and statistical purposes within the U.S. Government and to enforce the Act. Access to the information is available only to officials and employees (including consultants and contractors and their employees) designated to perform functions under the Act. No information can be published or made available in a manner that specifically identifies the person who furnished the information, unless the prior written consent of the person is given. Persons having access to individual company information submitted pursuant to the Act are subject to penalties for unauthorized disclosure.

11. Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private.

No questions of a sensitive nature regarding attitudes or beliefs are included.

12. Provide estimates of the hour burden of the collection of information. Also provide estimates of annualized cost to respondents for the hour burdens.

The estimated number of respondents (an annual average over five years) is about 300, but this varies widely from about 1200 in the year of a quinquennial survey (SHL; once every five years) to about 75 in the intervening years of smaller annual surveys (SHLA; four out of every five years). The frequency of the data collection is annual. The estimated annual hour burden (an annual average over five years) is about 31,500 hours, but this varies widely from about 56,800 hours in the year of a quinquennial survey (SHL) to almost 25,200 hours in the year of a smaller annual survey (SHLA).

The annual hour burden per respondent (an annual average over five years) is about 105 hours. The burden is based on estimates of the average time per report for different groups of respondents, plus an additional hour per respondent for record keeping purposes. The annual hour burden will vary widely from respondent to respondent. (a) In the year of a quinquennial survey (SHL), it is estimated that about 1000 exempt respondents will each require an average of 16 hours per report to determine their status; for about 110 custodians of securities, the estimate is 320 hours per report on average, but this figure will vary widely for individual custodians; and for about 90 issuers of securities that have data to report and are not custodians, the estimate is 60 hours per report. (b) In the year of an annual survey (SHLA): for the 45 largest custodians of securities, the estimate is 485 hours per report on average; and for the 30 largest issuers of securities that have data to report and are not custodians, the estimate for each report is 109 hours.

In any given year, either Form SHL or Form SHLA, but not both, will be filed by respondents. While each form has two schedules, almost all of the effort required is for schedule 2. Schedule 1 contains only identification information (company name and address, contact name and telephone number, etc.), attestation that the data reported are believed to be correct, and an arithmetic summary of the information reported on schedule 2.

Assuming an average wage rate of \$43.95 an hour, the annualized cost (an annual average cost over five years) to the average firm to complete this survey is estimated to be about \$4,614. The breakdown by component survey is as follows. For a quinquennial survey (SHL), the cost to the average reporter is about \$2,080, where this is the weighted average of costs of about \$703 for each exempt reporter, \$2,681 for the average issuer of securities, and \$14,108 for the average custodian. For an annual survey (SHLA), the cost to the average reporter is about \$14,750, where this is the weighted average of costs of about \$4,835 for the average issuer of securities and \$21,360 for the average custodian. No special equipment is required to respond to this survey.

13. Provide an estimate for the total annual cost burden to respondents or recordkeepers not included in Item 12 and Item 14.

All cost figures are provided in Item 12 above. No special equipment is required to respond to this survey.

14. Provide estimates of annualized costs to the Federal government.

The total annualized cost to the Federal government is estimated to be approximately \$2.47 million annually. The figures are best estimates by the staff of the Federal Reserve Bank of New York using their standard accounting and costing procedures and are based in part on experience gained by conducting previous portfolio investment surveys. Treasury Department staff has included expected costs for advisory services, printing, etc.

The Annualized Costs is the average cost over five years of one quinquennial survey (SHL) and four subsequent smaller annual surveys (SHLA). So the estimate of Annualized Costs is equal to the Total SHL Survey Cost plus four times the Total SHLA Survey Cost, divided by five.

	Total SHL Costs (one year)	Total SHLA Costs (one year)	Total Annualized Costs (five year average)
Salaries and Benefits:	1,299,875	1,180,181	
Overhead and Support Costs on Salaries and benefits (85%):	1,104,894	1,003,154	
Hardware Procurement:	14,200	14,200	
Other (software support, travel, training, other overhead, etc):	100,718	100,718	
Other Treasury Department costs:	147,900	118,805	
Totals	\$2,667,587	\$2,417,058	\$2,467,163

15. Explain the reasons for any program changes or adjustments reported in Items 13 or 14 of OMB Form 83-I.

The increase in total hour burden from 30,600 hours to 31,500 hours is entered in the adjustment category. It is all due to changes in the numbers of the several types of respondents.

16. For collections of information whose results will be published, outline plans for tabulation and publication. Provide the time schedule for the entire project.

The survey results will be published and made available to the public annually. A full report on the survey findings will be produced and made available on the Internet at the Treasury website: <http://www.treas.gov/tic/fpis.html> .

The report will show the total level of foreign portfolio investment in the United States, the amounts invested in various types of U.S. securities, the countries of foreign investors, and the types of foreign investors. In addition, analysis of the overall percentage of various types of U.S. securities foreign held will be shown, and trends in these holdings over time will be presented. For instance, in 1974, 15 percent of all U.S. Treasury securities were foreign held, while in 2006 about 52 percent of these securities were foreign held. The report will also discuss the growth of foreign investment in U.S. long-term securities compared with other types of portfolio investment, such as bank loans or deposits. The patterns of foreign investment by industry will also be shown. Further, the maturity structure of foreign holdings of U.S. securities will be presented.

The schedule of major milestones follows.

April 2008	Information about the forms mailed to respondents.
June 30, 2008	Date for which data are to be submitted.
August 30, 2008	Date by which survey respondents must report.
February 2009	Data aggregation completed.
April 2009	Public report completed.

17. If seeking approval to not display the expiration date for OMB approval, explain the reasons that display would be inappropriate.

This approval is not being sought.

18. Explain each exception to the certification statement identified in Item 19 of OMB Form 83-I.

There are no exceptions.

Section B - Collections of Information Employing Statistical Methods

1. Describe (including a numerical estimate) the potential reporting universe and any sampling or other respondent selection methods to be used.

This survey will measure foreign ownership of U.S. securities for portfolio investment purposes. These foreign holdings can be held in three different ways.

- (a) They can be purchased directly from the U.S. firms that issue these securities (direct registered holdings). In this case, the issuer of the security has the information pertaining to foreign ownership.
- (b) They can be held indirectly by being held in the name of a U.S. financial intermediary, such as a U.S. bank or broker dealer. In this case, the issuer of the security has no direct knowledge of the foreign holding, and the information must be collected from the U.S. custodian.
- (c) If they are bearer bonds issued outside the United States by U.S. entities, their owners do not have to disclose any ownership information. Data on the amount of these bonds outstanding are obtained directly from the U.S. issuers, and are augmented and cross-checked with information available from commercial sources.

The potential reporting universe consists of approximately 1,200 U.S. custodians and the many thousands of U.S. private and governmental organizations that issue securities.

On the quinquennial benchmark surveys (SHL), all institutions believed likely to be significant sources of information on foreign ownership of U.S. securities will be included in the survey. This group will include the largest U.S. custodians, U.S. custodians that are subsidiaries of foreign banks, all U.S. issuers of Eurobonds, and the largest U.S. corporations. These firms will be identified based on past survey filings, industry surveys, the financial press, other TIC system reports, information from the FDIC, and data from commercial vendors. In addition, other firms believed to be possible, although less likely, sources of data will be sampled.

On the annual survey (SHLA), only the approximately 75 largest reporters from the last quinquennial benchmark survey will be included in the survey. On the survey as of June 2006, these reporters accounted for about 98 percent of all data reported on the survey. The data collected on the annual surveys will be grossed up appropriately to arrive at estimates of total foreign holdings.

The response rate will be 100 percent, as responses are required by law. The response rate on the previous survey was 100 percent.

2. Describe the procedures for the collection of information including: (a) Statistical methodology for stratification and sample selection, (b) Estimation procedure, (c) Degree of accuracy needed for the purpose described in the justification, (e) Unusual problems requiring specialized sampling procedures, and (g) Any use of periodic (less frequent than annual) data collection cycles to reduce burden.

Based on the results of the last quinquennial survey, the approximately 75 largest reporters reported about 98 percent of the total holdings of U.S. securities, thus we are assuming that the same percentage will be captured by including only these reporters on this survey. The data received from these reporters will be increased by about 2 percent to obtain an estimate of total foreign holdings.

There is no pre-determined or externally set level of accuracy needed from this survey. What is sought is the best accuracy possible without undue reporter burden or government cost. We believe that a reasonably high degree of accuracy will be achieved by using the above technique.

The results of the quinquennial full benchmark surveys will be used to check on the accuracy of the annual surveys and to meet the requirements of the *International Investment and Trade in Services Act*.

3. Describe methods to maximize response rates and to deal with issues of non-response.

This survey is required by law and failure to report is punishable by fine and/or imprisonment. Non-reporters are reminded of their reporting responsibility and required to report. If necessary, a letter is sent from the Treasury Department's General Counsel's office to the chief legal officer of the institution in question reminding the institution of its reporting responsibility and the applicable penalties for non-compliance. In one case, a letter was sent to an institution stating that the failure to provide necessary information within a stated time period would result in the Treasury Department recommending to the Justice Department that legal proceedings be instituted. However, in the 25

year history of these surveys this is the only instance where such measures were required, and this case occurred 18 years ago.

4. Describe any tests of procedures or methods to be undertaken.

To see how well our technique might work, we went back to the previous benchmark survey conducted as of year-end 1994. We selected the top 54 respondents from the 1994 survey. These represented all custodians reporting at least \$2 billion. This group reported about 80 percent of the total value of long-term securities reported in 1994. Holding the list of custodians constant, this same group reported 88 percent of the total amount measured by the March 2000 survey. That tracks reasonably well, especially considering the substantial cost savings to be realized. In the March 2000 survey, the 45 largest respondents reported about 90 percent of the total value of long-term securities reported in the survey.

5. Provide the name and telephone number of individuals consulted on statistical aspects of the design and the name of the agency unit, contractor(s), grantee(s) or other person(s) who will actually collect and/or analyze the information for the agency.

The statistical methods to be employed were reviewed by representatives of the Department of the Treasury, the Department of Commerce (Bureau of Economic Analysis), the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York.

Kenneth Aberbach	212-720-8234	Federal Reserve Bank of New York
Carol Bertaut	202-452-3476	Board of Governors of Federal Reserve System
Christopher Gohrband	202-606-9564	Department of Commerce
Dwight Wolkow	202-622-1276	Department of the Treasury

The actual data collection will be conducted by the Statistics Function of the Federal Reserve Bank of New York, in conjunction with the Federal Reserve Board of Governors, International Finance Division.