

SUPPORTING STATEMENT

Request for approval of U.S. Treasury International Capital (TIC)
Annual Survey
of Foreign-Residents' Holdings of United States Securities
as of the last business day of each June (OMB No. 1505-0123)

A. JUSTIFICATION

1. Circumstances necessitating the collection of information

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, 2010.

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 expansion of the Survey in 2002. 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 2009, about 18 percent of the total value of U.S. long-term securities were foreign held. The share held by foreigners as of June 2010 is not available.

2. Use of data

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. Use of information technology

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. 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. Impact on small entities

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. Consequences of less frequent collection and obstacles to burden reduction

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. Circumstances requiring special information collection

There are no special circumstances regarding Form SHL/SHLA that are inconsistent with the conditions outlined in Item A.7 of the Specific Instructions for Supporting Statements for Paperwork Reduction Act Submissions.

8. Solicitation of comments on information collection

Treasury's notice in the *Federal Register* soliciting public comment on Form SHL/SHLA was published Friday, January 28, 2011, volume 76, pages 5249-50. The deadline for receiving pre-clearance comments was March 29, 2011. To bring attention to the Federal Register notices, the Federal Reserve Bank of New York (FRBNY) contacted many respondents reporting data on securities to FRBNY, and to other district Federal Reserve Banks that process TIC data. The Federal Register notice stated that no Current Actions are being proposed.

One comment was received. The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce wrote in a letter dated March 2, 2011, 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. Provision of payments to recordkeepers

In respect of Form SHL/SHLA or any other TIC form, there has been no provision of payments or gifts to respondents for any purpose.

10. Assurance of confidentiality

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. Justification of sensitive questions

There are no questions of a sensitive nature.

12. Total annual hour burden:

Average Annual Number of respondents – 184

Frequency of Responses – one per year

Annual Burden – 26,754 hours

The estimated number of respondents (an annual average over five years) is about 184, but this varies widely from about 540 in the year of a quinquennial survey (SHL; once every five years) to about 95 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 26,754 hours, but this varies widely from about 39,340 hours in the year of a quinquennial survey (SHL) to about 23,610 hours in the year of a smaller annual survey (SHLA).

The annual hour burden per respondent (an annual average over five years) is about 145.4 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 320 exempt respondents will each require an average of 16 hours per report to determine their status; for about 80 custodians of securities, the estimate is 320 hours per report on average, but this figure will vary widely for individual custodians; and for about 140 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 35 largest custodians of securities, the estimate is 485 hours per report on average; and for the 60 largest issuers of securities that have data to report and are not custodians, the estimate for each report is 109 hours.

# Respondents	# Responses per Respondent	Total Annual Responses	Hours Per Response	Total Burden
184	1	184	145.4	26,754

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 \$45.48 an hour (corresponding to an annual salary of \$94,600), the annualized cost (an annual average cost over five years) to the average firm to complete this survey is estimated to be about \$6,613. The breakdown by component survey is as follows. For a quinquennial survey (SHL), the cost to the average reporter is

about \$3,313, where this is the weighted average of costs of about \$728 for each exempt reporter, \$2,774 for the average issuer of securities, and \$14,599 for the average custodian. For an annual survey (SHLA), the cost to the average reporter is about \$11,303, where this is the weighted average of costs of about \$5,003 for the average issuer of securities and \$22,104 for the average custodian. No special equipment is required to respond to this survey.

13. Estimated total annual cost burden to respondents

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

Total annual cost burden:

- (a) Total annualized capital and start-up costs associated with Form SLT are estimated to be \$0 (zero dollars). In general, reporting on the forms requires neither specialized capital equipment, nor fixed or variable costs that are not already associated with the customary and usual business practices of respondents.
- (b) Total annualized operations, maintenance, and purchases of services costs are estimated to be \$0 (zero dollars). Reporting on the forms does not in general impose operations, maintenance, or specialized services costs that are not already associated with the customary and usual practices of respondents.

The above cost estimates are not expected to vary widely among respondents.

Note: As required by OMB, the *Federal Register* notice of January 28, 2011, included an explicit request for public comments on the estimates of cost burdens that are not captured in the estimates of burden hours. No comments on cost estimates were received.

14. Estimated cost to the Federal government

The total annualized cost to the Federal government is estimated to be approximately \$2.82 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
Total	Total	Annualized
SHL	SHLA	Costs

	Costs (one year)	Costs (one year)	(five year average)
Salaries and Benefits:	1,649,340	1,265,350	
Overhead and Support Costs on Salaries and benefits (85%):	1,401,939	1,075,548	
Hardware Procurement:	32,399	14,974	
Other (software support, travel, training, other overhead, etc):	232,807	133,020	
Other Treasury Department costs:	194,600	156,300	
Totals	\$3,511,085	\$2,645,192	\$2,818,371

15. Reason for change

The decrease in total hour burden from 31,500 hours to 26,754 hours is entered in the adjustment category. It is all due to changes in the numbers of the several types of respondents.

16. Plans for tabulation, statistical analysis and publication

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 United States securities, 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 2009 about 57 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 2011	Information about the forms mailed to respondents.
June 30, 2011	Date for which data are to be submitted.
August 30, 2011	Date by which survey respondents must report.

February 2012 Data aggregation completed.

April 2012 Public report completed.

17. Reasons why displaying the OMB expiration date is inappropriate

This approval is not being sought. The forms on the website have expiration dates.

18. Exceptions to certification requirement of OMB Form 83-I

Regarding this request for OMB approval, there are no exceptions to the certification statement in item 19 of Form 83-I.

April 2011