

## Supporting Statement for Paperwork Reduction Act Submission

### United States Treasury Department's Annual Survey of U.S. Ownership of Foreign Securities as of the last business day of each December

#### Section A. Justification

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

The survey of U.S. Ownership of Foreign Securities 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.

Pursuant to the Act, the Treasury Department has a legal mandate to gather timely and reliable information on the international financial position of the United States and to maintain accurate records on the level and flows of international portfolio investment.

Although data on international *transactions* and *holdings* of foreign long-term securities are collected monthly by the Treasury Department, accurate estimates of the U.S. investment position require more detailed periodic surveys of ownership. The monthly reporting systems on transactions and holdings are designed to provide very timely data on cross-border securities activities by collecting data with minimal detail; thus making it very difficult to conduct extensive checking of the data collected. The surveys, on the other hand, collect far greater data detail, enabling enhanced data verification and editing to obtain better data quality. Another useful aspect of the surveys is that they collect more detailed information on the foreign securities owned in the U.S. Finally, the United States, along with most other major countries, has agreed to conduct annual portfolio asset surveys under the auspices of the International Monetary Fund (IMF) to help close a significant gap between worldwide measured portfolio assets and worldwide measured portfolio liabilities.

When this data collection began, the surveys were conducted at three and four-year intervals, and were large-scale benchmark surveys to collect comprehensive data on securities from all significant U.S.-resident custodians and U.S.-resident end-investors.

Since December 2003 data have been collected annually. Full benchmark surveys (Form SHC) are conducted less frequently, at five-year intervals. In the intervening years, smaller surveys (Form SHCA) are conducted, collecting data from only the largest reporters. Whereas a benchmark survey (SHC) requires reporting by approximately 1,000 firms, respondents in the annual surveys (SHCA) number approximately 200, primarily the largest data providers from the previous benchmark survey. The data requested is essentially the same for both Form SHC and Form SHCA; the slight difference that occurs in non-benchmark years reduces the overall

reporter burden. In any year, only one of the forms will be used. The data collected under the annual reports will be used in conjunction with the results of the previous benchmark survey to compute economy-wide estimates for the years of annual surveys.

### Background on international interest in this information

The surveys are part of an internationally coordinated effort under the auspices of the International Monetary Fund to improve the quality of statistics worldwide on foreign holdings of securities. Accurate U.S. statistics are crucial to the success of this worldwide effort. Most of the major industrial and financial countries conduct similar surveys. To quote from the introduction of the IMF's *Coordinated Portfolio Investment Survey (CPIS) Guide* (Second Edition).

“The CPIS is being undertaken in response to the recommendations contained in the *Report on the Measurement of International Capital Flows* (the Godeaux Report), which was published by the IMF in 1992. The report highlighted the increasing importance of portfolio investment across international borders, reflecting the liberalization of financial markets, financial innovation, and the changing behavior of investors. The increased liberalization of international flows, however, has brought measurement difficulties. These difficulties have been reflected in the imbalances at the worldwide level between recorded financial assets and liabilities, with higher flows usually being recorded for liabilities than for assets. Imbalances have generally increased since the publication of the Godeaux Report”.

The first CPIS was conducted in 1997. The 29 participating economies showed total cross-border holdings of \$5.8 trillion. The IMF estimated that global assets were about \$1.7 trillion below global liabilities. The most recently completed CPIS was conducted as of year-end 2011, and the 73 participating economies showed total cross-border holdings of \$38.9 trillion.

An IMF report (BOPCOM 10/13) to the Twenty-Third Meeting of the IMF Committee on Balance of Payments Statistics, Washington, D.C. October 25–27, 2010, stated that: “In early 2009, the Group of Twenty (G-20) Finance Ministers and Central Bank Governors called on the IMF and the Financial Stability Board (FSB) to explore information gaps and provide appropriate proposals for strengthening data collection. This call was endorsed by the IMF's International Monetary and Financial Committee (IMFC). In April 2009, the IMFC stressed the need for the IMF to enhance the effectiveness of surveillance through improving its analysis of macro-financial linkages, cross-border spillovers and sources of systemic risk wherever they may arise. The CPIS and IIP are valuable sources of information for these purposes...”

### Importance of the Data

It is anticipated that U.S. holdings of foreign securities will continue to increase in importance relative to other forms of foreign investment for U.S. residents. U.S. residents are becoming more willing to own foreign securities as foreign markets mature, the availability of information on these securities increases, and transaction and custody costs decrease.

The purpose of this survey is to obtain information on the size, distribution and nature of U.S.

holdings of foreign long-term and short-term securities. U.S. investment in foreign long-term securities has grown very rapidly since the early 1990s to become a major component in the calculation of the U.S. international investment position and balance of payments accounts. The share of U.S. holdings of foreign long-term securities as a percentage of total U.S.-owned assets abroad has increased from 6% at year-end 1981 to 39% at year-end 2006, and to 28% at year-end 2011. Benchmark and annual surveys are essential in order to collect more accurate information on these investments. The numbers above were derived from data in the article on the U.S. international investment position in the July 2012 issue of the Commerce Department's *Survey of Current Business*.

**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 constitute a major component in the calculation of the United States balance of payments accounts and international investment position. In addition, the data are used within the U.S. government to understand the magnitude and structure of foreign investment by United States residents, 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.

The results of this survey are used by the United States Treasury to fulfill its responsibility for gathering timely and reliable information on the level and flows of international portfolio investment. The results are used also to assess the consistency of the data it collects on transactions between U.S. and foreign residents in foreign long-term securities, which is part of the monthly data collections of the Treasury International Capital (TIC) reporting system. Survey reports are made available on the Treasury Department's website (see Part B at: <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx>). The most recent survey of U.S. ownership of foreign securities was conducted by the United States as of December 31, 2010. The preliminary data were published at end-August 2012 and can be found on the internet at: <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/shcprelim.aspx>. The full report was published at end-October 2012 and can be found on the internet at: <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/shc2011r.pdf>.

**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, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden. Explain how you will provide a fully electronic reporting option (meaning no paper from the respondent is required) by October 2003, or an explanation of why this is not practicable.**

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 greatly decreases 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 reducing 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 data reporters.

In the past, we have found little interest in filing over the Internet. We offered the option of filing through the Internet for the March 2000 full benchmark survey of foreign holdings of U.S. securities, but very few respondents used it. We believe that filers find it simpler to respond with other electronic options (diskette, CDs). For that reason, and because setting up the Internet filing system has significant costs, we did not offer Internet filing either for the end-2001 full benchmark survey of U.S. holdings of foreign securities, or for the mid-2002 smaller annual survey of foreign holdings of U.S. securities. We received no public comments regarding the lack of an internet filing option when we published federal register notices asking for public comments regarding any aspect of those two surveys. Nevertheless, for the benchmark survey as of end-December 2006 and the annual survey as of end-December 2007 we again offered Internet filing for schedules 1 and 2. That internet filing option covered almost all of the data submitted; the least used schedule 3 had to be filed on paper because our internet system could not handle the information at that time. Beginning with the annual survey as of end-December 2008, we added an Internet option for schedule 3.

To summarize the current reporting options: Schedules 1 and 3 may be sent on paper or through the Internet. Schedule 2 must be sent electronically, and that can be done in two ways. Either the respondent can upload the file through the Internet or they can put the file on a CD and mail it to us to load into our data system. The one exception is that if a respondent has less than 200 Schedule 2 records they may send the data on paper forms. Most recently, we received no public comments regarding these internet filing options after publication of our federal register notice of September 11, 2012 requesting comments on this renewal of the SHC/SHCA survey (see section 8 below).

#### **4. Describe efforts to identify duplication.**

There is no alternative source for the data that these surveys will collect. Although foreign holdings of U.S. short-term securities are available (see Banking Claims data, Part A, at: <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticclaim.aspx>), these are not collected at the level of detail that is necessary to meet the users' needs, for example to estimate debt repayment schedules, sector of debtor, and currency composition.

We have reviewed information readily available from insurance companies, pension funds,

investment companies (mutual funds and others), depository institutions, broker/dealers, foundations, endowments, and corporations in fields not listed above. For some industry groups partial data are available, but in no instance are data available as required. For example, other sources defined foreign holdings differently (for example they report the country in which a security was issued, not the country of the issuer), or left the definition of a foreign security for each individual respondent to determine. For other sectors there are no data available at all, such as households, broker/dealers, depository institutions, and non-financial corporations.

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

This survey should not affect small businesses. Only organizations that own at least \$100 million of foreign securities, or hold in custody for others at least \$100 million in foreign securities, need report on this survey. The survey will involve essentially the largest U.S. banks, broker/dealers, pension funds, mutual funds, insurance companies and other major institutions with significant amounts of investment funds available.

**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 information collected on this survey is the primary source of accurate data on the level and composition of U.S. investment in foreign securities. The information is critical to the accurate measurement of U.S. international financial flows and positions. Without this information, the accuracy of an important component of the U.S. balance of payments accounts would be very seriously reduced, and policy formulation would be impaired. In addition, the United States would be failing to comply with its commitment to the international statistical community, which would result in poorer data worldwide, thereby increasing global risk.

The information collected by this survey is one of the critical sources used by the Department of Commerce in the estimation of the international investment position and the balance of payments (international transactions) accounts. The estimates of international income flows (interest and dividends) derived from the survey data are also crucial inputs to the national income and wealth accounts. Data collected from past surveys have resulted in significant revisions to the United States' international investment position, balance of payments statistics and the size of the estimated U.S. current account deficit as published by the Commerce Department in the *Survey of Current Business*.

Given the growth and volatility of international flows, and the U.S. role as a major financial center, it is important to have an accurate annual survey of U.S. investment in foreign securities. The Department of Commerce's Bureau of Economic Analysis (BEA) strongly supported the revision of the survey to provide annual data, instead of reporting only every four years. The change to annual collection allows significant improvements in all aspects of BEA's estimates of

positions, financial flows, and income flows related to foreign securities. Without this information, there would be significant loss of accuracy and BEA would be forced to pursue more burdensome surveys, for example to collect income data directly.

**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.**

This survey will not require respondents to do any of the items listed in this section.

**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.**

The Treasury Department's notice required by 5 CFR 1320.8 was published in the *Federal Register* on September 11, 2012, on pages 55900-55901.

There was one response to the notice. The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce wrote in a letter dated October 18, 2012, that "BEA strongly supports the continued collection of data on the SHC and SHCA. The data collected on these forms are crucial to key components of BEA's economic statistics."

Staffs 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.**

No payments or gifts will be made to respondents.

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

The information collected by this survey may be used only for analytical and statistical purposes 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. Persons having access to individual company information submitted pursuant to the Act are subject to penalties for unauthorized disclosure (22 U.S.C. §3104 and 18 U.S.C. §1905). The results of this survey will be made available to the general public at an aggregated level so that neither the U.S. persons or organizations providing information nor individual or organizational ownership of foreign securities can be identified.

**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.**

This survey will not ask any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private.

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

Burden estimates are calculated for four different classes of reporters. The first group is comprised of custodians, who provide safekeeping services for their own firm as well as for others. This type of organization will provide the vast majority of the data collected on the survey, using Schedule 2, and thus will have the greatest burden. They may also have to provide a limited number of Schedule 3 reports. The second class of respondents includes end investors who either keep securities in custody at their own site or who arrange for safekeeping abroad. In either case, no U.S.-resident custodian is employed to safekeep these foreign securities. These investors would need to report on all these holdings of foreign securities on Schedule 2. Most U.S. end-investors who purchase foreign securities entrust the safekeeping of most or all of these securities to U.S. custodians in the first group of reporters mentioned above. These end-investors are the third class of respondents and in most cases need only name their custodian(s) and specify the amount(s) entrusted to them for safekeeping on Schedule 3. The last class of reporters consists of those who are exempt from the survey; that is, they neither own nor perform safekeeping services for \$100 million or more in foreign securities.

While this survey has three schedules, almost all of the effort required is for reporting on

Schedule 2. The Schedule 3 shows only the total amounts held by an U.S. custodian(s), who will report the details on Schedule 2. The schedule 1 contains only identification information (company name address, contact names, etc.), attestation that the data reported is believed to be correct, and an arithmetic summary of the information reported on Schedules 2 and 3.

The estimated number of respondents (an annual average over five years) is about 340, but this varies widely from about 954 in the year of a full benchmark survey (SHC; conducted once every five years) to about 187 in the intervening years of smaller annual surveys (SHCA; conducted four out of every five years). In any given year, respondents will file either the SHC or the SHCA survey form, but not both. The estimated total annual hour burden (an annual average over five years) is about 63,202 hours, but this varies widely from about 119,864 hours in the year of a benchmark survey (SHC) to about 49,037 hours in the years of the smaller survey (SHCA).

The annual hour burden per respondent (an annual average over five years) is about 186 hours. The burden is based on estimates of the average time per report for different groups of respondents, including an hour per respondent for record keeping purposes. The annual hour burden will vary widely from respondent to respondent, and will also depend on whether or not a full benchmark survey is being conducted.

# Respondents	# Responses per Respondent	Total Annual Responses	Hours Per Response	Total Burden
340	1.29	439	144	63,202

In the year of a full benchmark survey (SHC), it is estimated that the average burdens will be as follows: 114 exempt respondents will each require an average of 16 hours per report to determine their status; 149 custodians of securities will require an average of 360 hours per report to provide detailed reports on Schedule 2 (this figure will vary widely for individual custodians); 353 end-investors in foreign securities who do not use U.S. custodians will require 120 hours per report to provide detailed reports on Schedule 2; and about 338 respondents, along with 213 of the above end-investors and custodians, that have their securities entrusted to U.S. custodians will require 40 hours per report to provide summary information on Schedule 3.

In the year of a smaller survey (SHCA) the burden estimates are as follows: 49 large custodians will each require 700 hours per report on average to file detailed Schedule 2 reports (the burden estimate per custodian is higher than in benchmark years because only the largest custodians will report); 49 large end-investors in foreign securities will each require 145 hours per report on average to file Schedule 2 reports; and 89 end-investors, along with 70 of the above large end-investors and custodians, that entrust their securities to custodians will each require 48 hours per report to provide summary information on Schedule 3.

Assuming an average wage rate of \$46.54 an hour, the annualized cost (an annual average cost over five years) to the average firm to complete this survey is about \$8,641. The breakdown by component survey is as follows. For a full benchmark survey (SHC), the cost to the average reporter would be about \$5,847, where this is the weighted average of costs of about \$745 for each exempt reporter, \$1,862 for the average respondent entrusting their securities to U.S.-



resident custodians, \$5,585 for the average end-investor, and \$16,754 for the average custodian. For an annual survey (SHCA), the cost to the average reporter would be about \$12,204, where this is the weighted average of costs of about \$2,234 for the average respondent entrusting their securities to U.S.-resident or foreign custodians, \$6,748 for the average end-investor, and \$32,578 for the average custodian. No special equipment would need to be purchased 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 burdens are included in Items 12 and 14.

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

The total annualized cost to the Federal government is estimated to be approximately \$1,949 thousand. 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 additional expected costs for advisory services, etc.

The Total Annualized Cost is the average cost over five years of one benchmark survey (SHC) and four subsequent smaller annual surveys (SHCA). So the estimate of the Total Annualized Cost is equal to one-fifth of the sum of the SHC Cost plus four times the SHCA Cost.

	Annual SHCA Costs (one survey)	Benchmark SHC Costs (one survey)	Total Annualized Cost (five-year average)
Salaries and Benefits:	764,004	916,804	794,564
Overhead and Support Costs:	677,484	991,532	740,293
Systems Development Costs:	175,424	175,424	175,424
Equipment & software:	40,592	48,710	42,215
Other direct costs (material, supplies, travel, training, telephone, etc):	66,146	79,375	68,792
Other costs estimated by Treasury:	128,138	128,138	128,138
<b>Totals</b>	<b>\$1,851,787</b>	<b>\$ 2,339,983</b>	<b>\$1,949,426</b>

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

The program increase of 7,122 hours, shown on lines 13.e and 13.f.2 of OMB Form 83-I, is the result of an increase in the estimated number of significant respondents in the benchmark survey (SHC). The number of large custodians reporting annually, with relatively high hours per report, is estimated to increase from 99 to 149. Almost no change in total hours is estimated for the annual (SHCA) survey. There has been no change in the estimated average hourly burden for each group of respondents.

A comparison of estimated Federal Government costs shows the cost of a full benchmark survey (SHC) has fallen to about \$2.3 million from the estimate of \$4.2 million made in 2009. The cost of one annual survey (SHLA) also has declined to about \$1.85 million from the estimate of \$3.5 million made in 2009. These decreases are due to reallocation of resources for implementation of a new Treasury International Capital report (TIC SLT) and a new electronic submission system (Reporting Central). In addition, there were decreases in overhead and support cost resulting from efficiencies. Taking into account these costs and the frequency of the two surveys over five year, the total average annual Federal Government cost will decrease to an estimated \$1.95 million, from the estimate in 2009 of \$3.66 million.

**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 time schedule for key events is as follows:

Fall 2012 – Letters mailed to respondents notifying them of the due date and a link to the website from which Forms and Instructions are available.

December 31, 2012 – “As of” date for the survey.

March 1, 2013 - Survey data due to be reported to the Federal Reserve Bank of New York, acting on behalf of the Treasury Department.

August 31, 2013 - Preliminary results of the Survey released.

October 29, 2013 - Final Report published.

Regarding the outputs from the upcoming December 2012 annual survey, the preliminary results will be released at end-August 2013, followed by a final report that will be released at end-October 2013 giving the results of the survey in detail. The final report will show trends in U.S. holdings of foreign securities, and will have tables showing the country, currency, security type, and industry distribution of U.S. holdings, along with appropriate analyses and commentary. The preliminary results and the final report also will be available on the Treasury Department’s TIC website in Part B at <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx>. In addition, the Commerce Department will publish, in the *Survey of Current Business*, the changes

to the United States' balance of payments accounts and international investment position that result from the survey's findings. The International Monetary Fund will publish the results of the coordinated portfolio investment survey by country and in total.

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

Treasury is not seeking approval to not display the expiration date for OMB approval.

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

There are no exceptions to Item 19, "Certification of Paperwork Reduction Act Submissions".