

SUPPORTING STATEMENT

Request for approval of U.S. Treasury International Capital (TIC) Annual Survey of U.S. Ownership of Foreign Securities as of the last business day of each December (OMB Control No. 1505-0146)

A. JUSTIFICATION

1. Circumstances necessitating the collection of information

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 2012, and the 78 participating economies showed total cross-border holdings of \$43.6 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 34% at year-end 2006, and to 37% at year-end 2013. 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 2014 issue of the Commerce Department's *Survey of Current Business*.

2. Use of data

The data collected constitute a major component in the calculation of the United States balance of payments accounts and international investment position. For this purpose, the results of the survey are provided to the Bureau of Economic Analysis in the Department of Commerce. 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 as published by the Treasury are used by the private sector and academia in international financial analysis and 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, 2013. The preliminary data were published at end-August 2014 and can be found on the internet at: <http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/fpis.aspx#usclaims>. The full report will be published at end-October 2014 and will be available at the same internet address.

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 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, at that time, filers found 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. With the upcoming annual survey as of end-December 2014 we will be utilizing the Federal Reserve Reporting Central for electronic submission.

To summarize the current reporting options: Schedules 1 and 3 may be sent on paper or through the Federal Reserve Reporting Central System. Schedule 2 must be sent electronically, if submitting more than 100 records and that can be done in two ways. Either the respondent can use an online data entry screen or upload an electronic file through the Federal Reserve Reporting Central System. The one exception is that if a respondent has less than 100 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 June 30, 2014 requesting comments on this renewal of the SHC/SHCA survey (see section 8 below).

4. 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. Impact on small entities

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. Consequences of less frequent collection and obstacles to burden reduction

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. Circumstances requiring special information collection

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

8. Solicitation of comments on information collection

The Treasury Department's notice required by 5 CFR 1320.8 was published in the *Federal Register* on June 30, 2014, on pages 36871-36872.

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 July 29, 2014, that "BEA strongly supports the continued collection of data on the SHC/SHCA and the proposed changes. 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. Provision of payments to recordkeepers

No payments or gifts will be made to respondents.

10. Assurance of confidentiality

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. Justification of sensitive questions

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. This collection does not include personally identifiable information.

12. Total annual hour burden

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 57,565 hours, but this varies widely from about 121,031 hours in the year of a benchmark survey (SHC) to about 41,699 hours in the years of the smaller survey (SHCA).

The annual hour burden per respondent (an annual average over five years) is about 169 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	1.291176	439	131.1285	57,565

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 17 hours per report to determine their status; 149 custodians of securities will require an average of 361 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 121 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 41 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 546 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 146 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 49 hours per report to provide summary information on Schedule 3.

Assuming an average wage rate of \$49.37 an hour, the annualized cost (an annual average cost over five years) to the average firm to complete this survey is about \$8,349. The breakdown by component survey is as follows. For a full benchmark survey (SHC), the cost to the average reporter would be about \$6,263, where this is the weighted average of costs of about \$839 for each exempt reporter, \$2,024 for the average respondent entrusting their securities to U.S.-resident custodians, \$5,974 for the average end-investor, and \$17,823 for the average custodian. For an annual survey (SHCA), the cost to the average reporter would be about \$11,009, where this is the weighted average of costs of about \$2,419 for the average respondent entrusting their securities to U.S.-resident or foreign custodians, \$7,208 for the average end-investor, and \$26,956 for the average custodian. No special equipment would need to be purchased to respond to this survey.

13. Estimated total annual cost burden to respondents

All cost burdens are included in Items 12 and 14.

14. Estimated cost 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.

	Benchmark SHC Costs (one survey)	Annual SHCA Costs (one survey)	Annualized Cost (five year average)
Salaries and Benefits:	1,052,206	876,839	
Overhead and Support Costs:	1,137,970	777,541	
Systems Development Costs	614,462	614,462	
Other direct costs (materials & supplies, training, software, fees, equipment, phones, etc.):	147,002	122,502	
Other costs estimated by Treasury (mostly salaries):	128,138	128,138	
<u>Totals</u>	\$3,079,778	\$2,519,482	\$2,631,541

15. Reason for change

All of the decrease in total average burden hours, from 63,202 to 57,565, is entered in the adjustment category. That decrease of 5,637 hours results from two corrections in the estimates of burden hours -- a decrease of 6,076 hours partially offset by an increase of 439 hours. The reduction results from lowering the estimate for custodians reporting on the annual survey from 700 to 545 hours per report; the increase of 439 results from adding one burden hour to all reports for record keeping work.

16. Plans for tabulation, statistical analysis and publication

The survey time schedule for key events is as follows:

Fall 2014 – 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, 2014 – “As of” date for the survey.

March 6, 2015 - Survey data due to be reported to the Federal Reserve Bank of New York, acting on behalf of the Treasury Department.

August 31, 2015 - Preliminary results of the Survey released.

October 29, 2015 - Final Report published.

Regarding the outputs from the upcoming December 2014 annual survey, the preliminary results will be released at end-August 2015, followed by a final report that will be released

at end-October 2015 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#usclaims>. 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. Reasons why displaying the OMB expiration date is inappropriate

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

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

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

September 10, 2014

End of Document