

SUPPORTING STATEMENT
U.S. Department of Commerce
U.S. Census Bureau
Quarterly Financial Report (QFR) Program
OMB Control Number 0607-0432

A. Justification

1. Necessity of the Information Collection

The QFR program has published up-to-date aggregate statistics on the financial results and position of U.S. corporations since 1947. The program currently collects and publishes financial data for the manufacturing, mining, wholesale trade, retail trade, information, and professional, scientific, and technical services (except legal) sectors. The survey is a principal economic indicator that provides financial data essential to calculation of key U.S. government measures of national economic performance. The importance of this data collection is reflected by the granting of specific authority to conduct the program in Title 13 of the United States Code, Section 91, which requires that financial statistics of business operations be collected and published quarterly. Public Law 109-79, Section 91 extended the authority of the Secretary of Commerce to conduct the QFR program through September 30, 2015. Currently, QFR is in the process of reauthorizing this public law. On April 1, 2015, the Census Bureau published a notice in the Federal Register announcing our intention to submit this clearance request. That notice mistakenly referenced Section 224 as a collection authority.

The Census Bureau is requesting approval to continue collection of the QFR program. QFR's last submission for forms approval included an announcement of an expansion of its coverage to include four new service sectors. The new sectors included subsectors in Sector 53 (Real Estate and Rental and Leasing), excluding subsector 533 (Lessors of Nonfinancial Intangible Assets); Sector 56 (Administrative and Support and Waste Management and Remediation Services); Sector 62 (Health Care and Social Assistance); and Sector 72 (Accommodation and Food Services) based on the 2007 North American Industry Classification System (NAICS). However, on June 9, 2014, the QFR ceased collection of these additional sectors due to sample restrictions and budget constraints. Notification of this change was announced on the QFR Business Help Site (BHS) Website and the QFR Publication. Furthermore, we are pursuing funding to get the expansion reinstated.

The survey forms used to conduct the QFR are: QFR-200 (MT) Long Form (manufacturing, mining, wholesale trade, and retail trade); QFR-201 (MG) Short Form (manufacturing); and the QFR-300 (S) Long Form (services).

2. Needs and Uses

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

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

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

The BEA uses QFR data as a primary source for current estimates of corporate profits, taxes, and dividends for the quarterly estimates of the Gross Domestic Income (GDI), a component of the National Income and Product Accounts (NIPA). Reports emanating from these measures are used widely by the public and private sectors. The GDI estimate, which must balance with the estimate of GDP, is critical to economic policymaking. In addition, QFR data are merged into BEA's database and used as a business cycle indicator in the "Survey of Current Business."

- **Federal Reserve Board (FRB)**

The FRB uses QFR data as a major building block of the FRB's Flow of Funds accounts and its sole source of consolidated nonfinancial corporate data. The FRB uses QFR data in briefings on conditions of financial markets in various sectors of the economy; to provide current insight into sector borrowing changes; and as a primary input to econometrics models for industry and size analysis of corporate finance. FRB reports are used widely by the Executive and Legislative Branches for economic policymaking. In addition, the FRB "Bulletin" regularly publishes data derived from the QFR.

- **Federal Trade Commission (FTC)**

The FTC uses QFR data to study the impact and extent of ownership concentration in the manufacturing sector.

- **Small Business Administration (SBA)**

The SBA uses QFR data to trace the financial performance of small businesses, and analyze and prepare reports for use in loan policy, Congressional testimony, and advice to the administration on small versus large company performance.

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

The Treasury Department's Office of Tax Analysis uses QFR data to extrapolate tax-based income, on a current basis, by industry, in order to estimate effect of existing and contemplated tax law on the corporate sector. The data are also used as a reference source to respond to questions, usually Congressional, concerning industry profitability and financial position.

- **Joint Committee on Taxation (JCT)**

The JCT uses QFR data to respond to congressional inquiries regarding corporate sales, profits, financial position, and rate of return by industry and asset size for the purpose of drafting or responding to proposed legislation.

Assuring information quality is a fundamental purpose of the pre-dissemination review of all published Census data (fully described in the Census Bureau's Information Quality Guidelines). Information quality is also a key objective of the information collections conducted by the Census Bureau and the clearance process required by the Paperwork Reduction Act.

- **Private Sector Users:**

- ProQuest and Haver Analytics
- Natural Resources Defense Council
- National Retail Federation
- American Forest & Paper Association
- Oxxford Information Technology
- Newspapers, trade magazines, and researchers

3. Use of Information Technology

The Census Bureau uses two forms of data collection: a secure, encrypted Internet data collection system called Centurion, and mail out, with mail or fax back paper survey forms. Every company receives an initial mail package which includes information about electronic reporting on the form and on an internet reporting flyer, which appears on the backside of the letters. Centurion provides improved quality with automatic data checks and is context-sensitive to assist the data provider in identifying potential reporting problems before submission, thus reducing the need for follow-up. Centurion is completed via the Internet, eliminating the need for downloading software and increasing the integrity and confidentiality of the data. The Centurion response rate is approximately 73%.

4. Efforts to Identify Duplication

The QFR does not duplicate other data series. Our consultations with user agencies, such as BEA and FRB, concerning their needs, confirm that the QFR's timeliness and "domestic only" consolidated data are not available from other public or private sources.

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

- **IRS Form 1120**

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

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

- **Security Exchange Commission (SEC) Form 10-Q**

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

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

- **Census Bureau Forms**

Other Census Bureau data are inappropriate for the specific QFR user needs listed above for two reasons. First, they are for the most part establishment or physical location based data and do not present integrated financial statement information. Second, the establishment data do not provide enterprise industry classification information, which is needed for compatibility with the IRS benchmark data.

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

5. **Minimizing Burden**

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

Sample Design Used to Select Companies

Structure of Reporting Form and Related Filing Requirements

Specific Program Actions to Reduce Burden (2009 to Present)

- **Sample Design Used to Select Small Manufacturing Companies**

The QFR sample includes less than 5 percent of small-asset size manufacturing corporations. Effective October 1, 1995, the Paperwork Reduction Act (PRA) of 1995 required that companies with assets of less than \$100 million be sampled. Previously, all companies with assets of \$50 million or more were certainty companies, i.e., companies required to file on a continuing basis. To comply with the PRA and also ensure that there is sufficient number of companies from which to select the non-certainty sample, the take-all or certainty threshold of the QFR sample was raised to include only companies with assets of \$250 million or more. Companies with assets between \$50 million and \$250 million are sampled. This change resulted in a reduction of the number of companies participating in the QFR by about 1,000, or approximately 10 percent.

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

- **Structure of Reporting Form and Related Filing Requirements**

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

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

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

- **Specific Program Actions to Reduce Burden (2009 to Present)**

The QFR program has consistently sought to reduce reporting burdens for small and medium size firms. From 2009 to present, the following actions were taken:

1. During the fourth quarter of 2011, the QFR program introduced an encrypted Internet data collection system (Centurion) for use as a substitute for the paper form mailed to all companies.

6. Consequence of Less Frequent Data Collection

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

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

7. Special Circumstances

QFR forms are mailed to companies approximately 15 days in advance of the end of the period being collected, and companies are asked to return them within 25 days after the close of the reporting period. Early return is encouraged to satisfy the need for maximum

coverage in special preliminary tabulations required by BEA for its first revision of quarterly GDI estimates. As necessary, companies can also be granted filing extensions.

8. Consultations Outside the Agency

On April 1, 2015, on page 17411 of the Federal Register, the Census Bureau published a notice of its intent to resubmit for approval to OMB the three data collection forms used by the QFR program. We received no comments in response to the notice. However, we did receive a letter of support from the BEA. We thank the BEA for its continued support for this collection.

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

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

9. Paying Respondents

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

10. Assurance of Confidentiality

Respondent reports to the Census Bureau are confidential by law (Title 13, United States Code, Section 9). They may be seen only by persons sworn to uphold the confidentiality of Census Bureau information and may be used only for statistical purposes. The law also provides that copies retained in respondents' files are immune from legal process. Respondents are informed of the mandatory nature of the survey and the confidentiality of their reports in a letter accompanying the QFR survey questionnaire and in a statement on the questionnaire itself.

11. Justification for Sensitive Questions

No questions of a sensitive nature are asked.

12. Estimate of Hour Burden

QFR Annual Report Burden Summary

	QFR Forms			
	200 – MT (Long Form)	300 – S (Long Form)	201-MG (Short Form)	Total (SF-83, Item 17)
Number of respondents	4,800	1,337	5,753	11,890
Number of responses per respondent/year	4	4	4	4
Total annual responses (line 1 times line 2)	19,200	5,348	23,012	47,560
Hours per response	3.0000	3.0000	1.2000	2.12907
Total hours (line 3 times line 4)	57,600	16,044	27,614	101,258

The QFR long and short form estimates of collection burden are based on the average completion times reported during telephone conversations with respondents in the normal course of QFR business, and information collected during cognitive interviews for the services expansion. Note: Some of the numbers in the above table are slightly refined from those included in the notice published in the Federal Register on April 1, 2015 due to refining the estimate.

The estimated cost to all respondents to respond is \$3,529,854. This cost is calculated by multiplying the 101,258 annual burden hours by the Bureau of Labor Statistics' May 2013 per hour estimate of \$34.86 for a private industry entry-level accountant.

13. Estimate of Cost Burden

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

14. Cost to the Federal Government

The total cost to the Government of this survey in fiscal year 2015 is estimated to be \$4.7 million. This cost is borne by the Census Bureau. We expect the cost to be similar in fiscal years 2016 and 2017.

15. Reason for Change in Burden

Change in Burden-Summary

Form Type	Description of Change	Difference in Burden Hours
QFR-200 (MT) Long Form	decrease in active corporations	-1,788
QFR-300 (S) Long Form	Cease collection of additional services corporations	-15,828
QFR-201 (MG) Short Form	increase in active corporations	+3,763
Net Difference		-13,853

The burden estimate of 101,258 hours is based on the number of active corporations as of third quarter 2014. The new estimate is a decrease of about 12% from the previous estimate of 115,111 hours. The decrease associated with the QFR long forms are due to ceasing collection of additional service sector corporations as explained in Question 1 above and the reduced current estimate of active corporations for the manufacturing, mining, and trade companies. The increase associated with the QFR short form is due to increased current estimate of active manufacturing corporations receiving that form.

16. Project Schedule

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

QFR data are released approximately 75 days after the end of the first, second, and third calendar quarters and approximately 95 days after the end of the fourth calendar quarter.

For reporting purposes, retail trade corporations' quarters have been staggered by one month. The published data include information on the most recently closed quarter and the preceding four quarters for the manufacturing, mining, wholesale trade, and selected service sectors.

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

Reporting Quarters for Surveyed Business Sectors *		
QFR Quarter	Manufacturing, Mining, Wholesale Trade, and Selected Services	Retail Trade
First	January, February, or March	February, March, or April
Second	April, May, or June	May, June, or July
Third	July, August, or September	August, September, or October
Fourth	October, November, or December	November, December or January

*Coverage is for corporations whose quarter ends as shown.

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

17. Request to Not Display Expiration Date

We display the expiration date on the collection form and Centurion.

18. Exception to the Certification

There are no exceptions.

19. North American Industry Classification System (NAICS)

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

The survey covers the following NAICS sectors:

Title	2-digit NAICS Sector
Mining	21
Manufacturing	31-33
Wholesale trade	42
Retail trade	44-45
Selected Services	51, 54 (except 541)