

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 Control 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. Beginning in June 2002 this data collection is conducted annually and covers both short-term and long-term securities. The large-scale surveys (Form SHL) continue to be performed every five years (with the most recent conducted as of June 30, 2014). This 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 over 500 firms, only the approximately 100 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. Following a major financial crisis in 1997-1998 which started in Thailand, spread throughout Southeast Asia, and eventually affected South Korea, Russia and Brazil, 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. 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 made substantial changes to its international financial data collection system. A key part of these changes involves conducting portfolio liability surveys annually. These surveys are 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 was foreign held. As of June 2012, over 20 percent of the total value of U.S. long-term securities were foreign held.

2. Use of data

The data collected constitute a major component in the calculation of the United States balance of payments accounts and the 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 in the United States, 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.

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 \$200 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 to help reduce the risk of financial crisis. The external debt category provides 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.

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, December 30, 2016, volume 81, pages 96566-68. The deadline for receiving pre-clearance comments was February 28, 2017. 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.

Two comments were received.

(Comment 1) Mr. Jeffrey A. Sheets from the Bank of America submitted a comment on Tuesday, January 31, 2017. He had two questions regarding the proposed changes to Form

SHLA to include foreign direct investment in U.S. Private Funds: (a) Will U.S. direct Investment in Foreign Private Funds be required to be reported on the SHCA report (as of 12/31/2017)?; (b) Also, will there also be similar proposed changes made to SLT report to reflect these changes? If so, do you know the as-of date?

The comment refers to item (3) under “*Current Actions*” in the subject Federal Register Notice. The item says that the last part of section III.E in the instructions, “Direct Investment exception for private funds”, is new to explain that in TIC reports after 2016, investments in private funds, or between the entities of a private fund, are included in TIC surveys regardless of ownership share if they meet BOTH of the following two criteria: (i) The private fund does not own, directly or indirectly through another business enterprise, an “operating company”— i.e., a business enterprise that is not a private fund or a holding company—in which the foreign parent owns at least 10 percent of the voting interest; and (ii) If the private fund is owned indirectly (through one or more other U.S. business enterprises), so there are no “operating companies” between the foreign parent and the indirectly owned private fund.

There were four parts in our response to Mr. Sheets.

(1) It is important to notice that only certain private funds are involved. For example, excluded are funds which have investments involving operating companies, such as investments typically made by so-called private equity funds. Answers to questions about which private funds should report to Treasury International Capital (TIC) and which should report to the Bureau of Economic Analysis (BEA) are available on the BEA website at: www.bea.gov/privatefunds.

(2) Yes to his question (a). Treasury will be publishing a similar Federal Register Notice for the SHC (Dec2017) report.

(3) Regarding his question (b) about the TIC SLT report, filers that are switching from the BEA reports to the TIC reports should file SLT reports beginning as of January 2017.

-- More generally, the subject change to allow certain private funds to report their direct investments on TIC reports begins for all TIC reports as of January 2017 and afterwards.

So, these select private funds may be required, depending on their activities with foreign residents, to file several TIC reports. The following eleven TIC forms must be reported by financial organizations, including these select private funds, if they have reportable accounts and exceed exemptions levels:

TIC form BC: Own U.S. Dollar Claims (monthly, excludes long-term securities)

TIC form BL-1: Own U.S. Dollar Liabilities (monthly, excludes long-term securities)

TIC form BL-2: Customers' U.S. Dollar Liabilities (monthly, excludes long-term securities)

TIC form BQ-1: Customers' U.S. Dollar Claims (quarterly, excludes long-term securities)

TIC form BQ-2: Own and Customers' Foreign Currency Claims and Liabilities (quarterly, excludes long-term securities)

TIC form BQ-3: Maturities of own Liabilities and Claims (quarterly, excludes long-term securities)

TIC form D: Holdings of, and Transactions in, Financial Derivatives (quarterly)

TIC form S: Purchases and Sales of Long-Term Securities by Foreign-Residents (monthly)

TIC form SLT: Aggregate Holdings of Long-Term Securities by U.S. and Foreign Residents (monthly)

TIC form SHC(A): U.S. Ownership of Foreign Securities, including Selected Money Market Instruments (annually)

TIC form SHL(A): Foreign-Residents' Holdings of U.S. Securities, including Selected Money Market Instruments (annually)

(4) Last, we noted that the change in reporting procedures does not affect the longstanding requirement that all direct investments and portfolio investments with foreign residents must be filed on either the TIC or BEA reports, if the exemption levels are exceeded.

(Comment 2) The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce wrote in a letter dated March 1, 2017, that “BEA strongly supports the continued collection of data on Forms SHLA/SHL and the proposed changes. 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 has 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.
This collection does not include personally identifiable information.

12. Total annual hour burden:

Average Annual Number of respondents – 249
Frequency of Responses – one per year
Annual Burden – 40,793 hours

The estimated number of respondents (an annual average over five years) is about 249, but this varies widely from about 655 in the year of a quinquennial survey (form SHL; once every five years) to about 147 in the intervening years of smaller annual surveys (form 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 40,793 hours, but this varies widely from about 62,951 hours in the year of a quinquennial survey (SHL) to about 35,253 hours in the year of a smaller annual survey (SHLA).

The annual hour burden per respondent (an annual average over five years) is about 163.8 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 (form SHL, conducted once every five years), it is estimated that about 216 exempt respondents will each require an average of 17 hours per report to determine their status; for about 125 custodians of securities, the estimate is 321 hours per report on average, but this figure will vary widely for individual custodians; and for about 314 issuers of securities that have data to report and are not custodians, the estimate is 61 hours per report. (b) In the year of an annual survey (form SHLA, conducted four out of every five years): for about 51 largest custodians of securities, the estimate is 486 hours per report on average; for about 51 largest issuers of securities that have data to report and are not custodians, the estimate for each report is 110 hours; and for about one exempt entities, the estimate for each report is 17 hours.

# Respondents	# Responses per Respondent	Total Annual Responses	Hours Per Response	Total Burden
249	1	249	163.826	40,793

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 \$50.04 an hour (corresponding to an annual salary of \$104,085), the annualized cost (an annual average cost over five years) to the average firm to complete this survey is estimated to be about \$8,211. The breakdown by component survey is as follows. For a quinquennial survey (SHL), the cost to the average reporter is about \$4,809, where this is the weighted average of costs of about \$851 for each exempt reporter, \$3,052 for the average issuer of securities, and \$16,063 for the average custodian. For an annual survey (SHLA), the cost to the average reporter is about \$12,000, where this is the weighted average of costs of about \$851 for each exempt reporter, \$5,504 for the average issuer of securities and \$24,319 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 December 30, 2016, 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 \$4.6 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 estimated costs for advisory services, reviews, etc. The Annualized Cost is the average cost over five years of one quinquennial survey (SHL) and four subsequent smaller annual surveys (SHLA).

	Total SHL Costs (one year)	Total SHLA Costs (one year)	Annualized Cost (five year average)
Salaries and Benefits:	1,299,941	997,296	
Overhead and Support Costs:	2,899,600	2,224,533	
Systems Development Costs	1,082,646	830,591	
Other direct costs (materials & supplies, training, software, fees, equipment, phones, etc.):	271,152	151,312	
Other costs estimated by Treasury (mostly salaries):	186,762	150,004	

Totals \$5,740,101 \$4,353,736 \$4,631,009

15. Reason for change

The total average burden hours are 40,793, which is 8,740 hours more than the estimate of 32,053 hours currently in OMB's Information Collection Inventory. The increase results from (a) an increase of 11,958 hours because the average number of respondents has increased by about 74, and (b) a decrease of 3,218 hours due to agency discretion. The decrease of 3,218 hours resulted from two program changes: (i) a decrease of 5,494 hours and about 28 respondents from raising the threshold level for reporting from \$100 million to \$200 million for the quinquennial survey (SHL); and (ii) an increase of 2,276 hours from adding an average of 12 reporters who now file their international investment reports with the Treasury International Capital data system, instead of with the Bureau of Economic Analysis in the Department of Commerce.

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. 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 be shown. Further, the maturity structure and currency composition of foreign holdings of U.S. securities will be presented.

The schedule of major milestones follows.

April 2017	Information about the forms mailed to respondents.
June 30, 2017	Date for which data are to be submitted.
August 30, 2017	Last date by which survey respondents must report.
End-February 2018	Data aggregation completed.
End-April 2018	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.

March 2017