

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.

Moreover, 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 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 700 firms, respondents in the annual surveys (SHCA) number approximately 200, primarily the largest data providers from the previous benchmark survey. The data requested are 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 are 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 major industrial and financial countries conduct similar surveys. To quote from the introduction of the current (third) edition of the IMF's *Coordinated Portfolio Investment Survey (CPIS) Guide*, second edition:

“The CPIS was initiated 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, brought measurement difficulties. These difficulties are 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.”

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 2020, and the 84 participating economies showed total cross-border holdings of \$76.3 trillion.

In its 2015 Annual Report, the IMF Committee on Balance of Payments Statistics “confirmed its continued support for interconnectedness-related initiatives, including the Coordinated Portfolio Investment Survey (CPIS) and the Coordinated Direct Investment Survey (CDIS), as well as for the enhancements to the IIP.”

Importance of the Data

U.S. holdings of foreign securities have increased in importance relative to other forms of foreign investment for U.S. residents. U.S. residents have become 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 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 about 41% at year-end 2020. Benchmark and annual surveys are essential to collect more accurate information on these investments. (The numbers above are from data in the article on the U.S. international investment position in the July 2021 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 U.S. international transactions (balance of payments) and the U.S. international investment position. Consequently, 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 also used by the private sector and academia in international financial analysis and by international organizations.

The Department of the Treasury uses the results of this survey to fulfill its responsibility for gathering timely and reliable information on the level and flows of international portfolio investment. Treasury also uses the results to assess the consistency of the data it collects on transactions between U.S. and foreign residents in foreign long-term securities, which are 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 at: <https://home.treasury.gov/data/treasury-international-capital-tic-system/tic-forms-instructions/us-claims-on-foreigners-from-holdings-of-foreign-securities>. The most recent survey of U.S. ownership of foreign securities was conducted by the United States as of December 31, 2020. The preliminary results were released at end-August 2021 (see the press release at: <https://home.treasury.gov/news/press-releases/jy0339>.) The full report is scheduled to be published at end-October 2021.

3. Use of information technology

Essentially all 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 burdens, as reporters can query their databases and transfer the results directly to media that will be provided to the survey staff. Such procedures also significantly reduce the cost to the government to process the data.

The survey administrators will also acquire part of the data for the survey from commercial firms that 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.

We have used various approaches to filing over the Internet starting with the March 2000 full benchmark survey of foreign holdings of U.S. securities. However, very few

respondents used it. We believe that, at that time, filers found it simpler to respond with other electronic options (diskette, CDs). 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. Our internet system could not handle the information on the schedule 3 at that time. Beginning with the annual survey as of end-December 2008, we added an internet option for schedule 3. Beginning with the survey as of end-December 2014 we have used the Federal Reserve's Reporting Central, a secure internet portal, for electronic submissions.

To summarize, the current reporting options are as follows: Schedules 1 and 3 of the report may be sent on paper or through the Federal Reserve's Reporting Central. Schedule 2 must be sent electronically if submitting more than 100 records, which can be done in two ways. The respondent can use an online data entry screen, or upload an electronic file through the Federal Reserve Reporting Central System. If a respondent has fewer than 100 Schedule 2 records, it may send the data on paper forms. We received no public comments regarding these Internet filing options after publication of our *Federal Register* notice of March 31, 2021 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. Foreign holdings of U.S. short-term securities are available (see Banking Claims data at: <https://home.treasury.gov/data/treasury-international-capital-tic-system/help-files/us-financial-firms-claims-on-foreign-residents>) but are not collected at the level of detail 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 define foreign holdings differently (for example, reporting the country where a security was issued, not the country of the issuer), or leave the definition of a foreign security for each individual respondent to determine. For other sectors data are unavailable; such sectors include households, broker/dealers, depository institutions, and nonfinancial corporations.

5. Impact on small entities

This survey should not affect small businesses. Only organizations that own at least \$200 million of foreign securities, or hold in custody for others at least \$200 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 seriously reduced, and policy formulation would be impaired. In addition, the United States would be noncompliant with its commitments to the International Monetary Fund and other international organizations, which would result in poorer data quality worldwide, increasing the global risks of making policy without sufficient facts.

The information collected by this survey is one of the critical sources used by the Department of Commerce in estimating the U.S. international transactions (balance of payments) and the U.S. international investment position. 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 U.S. international investment position, U.S. international transactions (balance of payments) statistics, and the size of the estimated 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 first notice was published in the *Federal Register* on August 3, 2018, on pages 38208-38209. The notice provided clarifications in the instructions and included the following current actions: No changes in the forms (schedules) are made from the previous survey that was conducted as of December 31, 2017. The proposed changes in the instructions are: (1) In section II.A.(2) "Who Must Report/End-Investors", new text is added to clarify reporting responsibilities; in particular that reporting (as end-investor) is the responsibility of the manager of a fund, partnership, trust, etc., if they have discretion over investments of the fund/partnership/trust/etc.; (2) In section II.A.(2) "Who Must Report/End-Investors", the terms "limited partnerships and trusts" are added in the third bullet in the list; (3) Section III.B/"direct investments" is revised to make the section more uniform across all TIC reports; (4) Section III.C.4/"pension & retirement funds" is revised to cover reporting responsibilities and foreign-resident pension funds; (5) In Appendix G,

the link is corrected to point to the March 2018 version of the TIC Glossary. (6) Some changes in text, page numbers and formatting are made to clarify other parts of the instructions.

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 September 10, 2018. The letter said 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.

The Treasury Department's second notice was published in the *Federal Register* on March 31, 2021, on pages 16843-16844. The notice included the following current actions: No changes in the forms (schedules) or instructions are being proposed at this time. Some clarifications and format changes may be made to improve the instructions.

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 April 12, 2021. The letter said BEA strongly supports the continued collection of data on the SHC and SHCA 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 Bank Policy Institute.

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 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

We estimate burdens for four different classes of reporters. The first class is custodians, who provide safekeeping services for their own firms as well as for others. They provide the vast majority of the data collected on the survey, using Schedule 2, and thus have the greatest burden. Custodians 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 arrange for safekeeping abroad. In either case, no U.S.-resident custodian keeps these foreign securities. These investors 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 their securities to U.S. custodians in the first class 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 fourth class of reporters consists of those exempt from the survey because they neither own nor perform safekeeping services for \$200 million or more in foreign securities.

The survey has three schedules, but almost all the effort required is for reporting on Schedule 2. Schedule 3 shows only the total amounts held by U.S. custodians, who will report the details on Schedule 2. Schedule 1 contains only identification information (company name address, contact names, etc.), attestation that the data reported are 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 324, but the number varies widely from about 759 in the year of a full benchmark survey (SHC; conducted once every five years) to about 215 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 64,700 hours, but this varies widely from about 95,499 hours in the year of a benchmark survey (SHC) to about 57,000 hours in the years of the smaller survey (SHCA).

The annual hour burden per respondent (an annual average over five years) is about 200 hours. The burden is based on estimates of the average time per response for different groups of respondents, including one hour per response for record keeping purposes. The annual hour burden will vary widely from respondent to respondent and will also depend on whether a full benchmark survey is being conducted.

| # Respondents | # Responses per Respondent | Total Annual Responses | Hours Per Response | Total Burden |
|---------------|----------------------------|------------------------|--------------------|--------------|
| 324 | 1.348765 | 437 | 148.054 | 64,700 |

In the year of a full benchmark survey (SHC), estimated average burdens are as follows: 26 exempt respondents will each require an average of 17 hours per report to determine their status; 68 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); 436

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 229 respondents, along with 204 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: 57 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); 141 large end-investors in foreign securities will each require 146 hours per report on average to file Schedule 2 reports; and 17 end-investors, along with 91 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 \$56.04 an hour, corresponding to an annual salary of \$116,566, the annualized cost (an annual average cost over five years) to the average firm to complete the survey is about \$11,198. The breakdown by component survey is as follows. For a full benchmark survey (SHC), the average cost to the average reporter would be about \$7,051, where this is the weighted average of costs of about \$953 for each exempt reporter, \$2,298 for the average respondent entrusting their securities to U.S.-resident custodians, \$6,781 for the average end-investor, and \$20,230 for the average custodian. For an annual survey (SHCA), which uses the larger reporters with higher hourly burdens, the cost to the average reporter would be about \$14,857, where this is the weighted average of costs of about \$2,746 for the average respondent entrusting their securities to U.S.-resident custodians, \$8,182 for the average end-investor, and \$30,598 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 \$2.87 million. 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). It therefore equals one-fifth of the SHC Cost plus four-fifths of the SHCA Cost.

| | Benchmark SHC Costs | Annual SHCA Costs | Annualized Cost (five-year |
|--|---------------------------|-------------------------|----------------------------------|
|--|---------------------------|-------------------------|----------------------------------|

| | (one survey) | (one survey) | average) |
|---|-----------------|--------------|-------------|
| Salaries and Benefits: | 748,113 | 911,386 | |
| Overhead and Support Costs: | 1,449,053 | 1,198,350 | |
| Computer Systems and Programming Costs: | 509,056 | 526,139 | |
| Totals | \$2,706,222 | \$2,635,875 | \$2,649,944 |

15. Reason for change

There will be an increase in total burden hours to 64,700 as compared to the estimate of 53,260 currently carried in OMB's Information Collection Inventory. There will be an increase in the total number of responses to 437 as compared to the estimate of 388 currently carried in OMB's Information Collection Inventory. The total overall increase of 11,440 burden hours and the total overall increase of 49 responses is due solely to an estimated increase of 18 respondents that has occurred naturally since 2018.

16. Plans for tabulation, statistical analysis, and publication

The survey time schedule for key events is as follows:

Fall 2020 – 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, 2020 – “As of” date for the survey.

March 2, 2021 - Survey data due to be reported to the Federal Reserve Bank of New York, acting on behalf of the Treasury Department.

August 31, 2021 - Preliminary results of the Survey released.

October 31, 2021 - Final Report published.

Regarding the outputs from the December 2019 annual survey, the preliminary results were released at end-August 2020, followed by the final report that was released at end-October 2020 giving the results of the survey in detail. The final report shows trends in U.S. holdings of foreign securities, and includes tables and charts showing the country, currency, security type, and industry distribution of U.S. holdings, along with appropriate analyses and commentary. The final report is available on the Treasury Department’s TIC website at: <https://home.treasury.gov/data/treasury-international-capital-tic-system/tic-forms-instructions/us-claims-on-foreigners-from-holdings-of-foreign-securities>. In addition, the Commerce Department, Bureau of Economic Analysis, usually publishes, in the *Survey of Current Business*, the changes to the U.S. international transactions (balance of payments) and the U.S. international investment position that result from the survey’s findings. The International Monetary Fund publishes 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".

October 2021

End of Document