

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 No. 1505-0123)

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

1. Describe (including a numerical estimate) the potential reporting universe and any sampling or other respondent selection methods to be used.

This survey will measure foreign ownership of U.S. securities for portfolio investment purposes. These foreign holdings can be held in three different ways.

(a) The securities can be purchased directly from the U.S. firms that issue these securities (direct registered holdings). In this case, the issuer of the security has the information pertaining to foreign ownership.

(b) The securities can be held indirectly by being held in the name of a U.S. financial intermediary, such as a U.S. bank or broker dealer. In this case, the issuer of the security has no direct knowledge of the foreign holding, and the information must be collected from the U.S. custodian.

(c) If the securities are bearer bonds issued outside the United States by U.S. entities, their owners do not have to disclose any ownership information. Data on the amount of these bonds outstanding are obtained directly from the U.S. issuers, and are augmented and cross-checked with information available from commercial sources.

The potential reporting universe consists of over 130 U.S. custodians and the many thousands of U.S. private and governmental organizations that issue securities.

On the quinquennial benchmark surveys (SHL), all institutions believed likely to be significant sources of information on foreign ownership of U.S. securities are included in the survey. This group will include the largest U.S. custodians, U.S. custodians that are subsidiaries of foreign banks, all U.S. issuers of Eurobonds, and the largest U.S. corporations. These firms will be identified based on past survey filings, industry surveys, the financial press, other TIC system reports, information from the FDIC, and data from commercial vendors. In addition, other firms believed to be possible, although less likely, sources of data will be sampled.

On the annual survey (SHLA), the reporting panel is drawn primarily from the approximately 190 largest reporters from the last quinquennial benchmark survey and from the largest monthly SLT reporters of foreign holdings of U.S. securities. The reporting panel for the June 2020 SHLA accounted for 98 percent of the reporting on the most recent benchmark survey, the 2019 SHL. The data collected on the annual surveys are “grossed up” appropriately to arrive at estimates of total foreign holdings.

The response rate will be 100 percent, as responses are required by law. The response rate on the previous survey was 100 percent.

2. Describe the procedures for the collection of information including: (a) Statistical methodology for stratification and sample selection, (b) Estimation procedure, (c) Degree of accuracy needed for the purpose described in the justification, (e) Unusual problems requiring specialized sampling procedures, and (g) Any use of periodic (less frequent than annual) data collection cycles to reduce burden.

Two important types of adjustments are made to the survey data.

First, to avoid double counting, the data are adjusted downward to subtract out identified cases of over-reporting. Over-reporting can occur if an issuer reported that debt securities issued directly into foreign markets were 100 percent foreign-held, but U.S. custodians also reported foreign holdings of those securities. For the 2020 survey, a total of \$156 billion was deducted to account for over-reporting.

Second, in the annual surveys (SHLA) the reported data are adjusted upward so the final annual survey results reflect the more comprehensive coverage typically obtained in a larger benchmark survey. One part of this adjustment is to account for new reporters since the last benchmark survey that are identified in the TIC form SLT reporting. To do that, synthetic securities are created using SLT data from reporters on the SLT panel that were not included on the annual survey panel (“non-survey SLT reporters”). The SLT data provides the aggregate market value for these holdings of non-survey SLT reporters by major security type, by country of foreign holder and by type of foreign holder (official or private). To determine the distribution of securities holdings across other relevant characteristics not available from the SLT (i.e., maturity, currency, industry, and detailed security type such as type of equity), data are used from reporters on the annual survey panel that are considered to be similar to those non-survey SLT reporters. Securities with a market value below a minimum threshold, usually \$1 million, are omitted to reduce the number of adjustment securities created. The total of such adjustments amounted to \$360 billion in 2020, or less than 2 percent of total foreign holdings. The second part of this adjustment is to account for U.S. securities issued abroad but not reported by the issuers selected to report in the SHLA survey. These securities are identified based on news and industry reports. The total of such adjustments amounted to \$97 billion in 2020.

There is no pre-determined or externally set level of accuracy needed from this survey. What is sought is the best accuracy possible without undue reporter burden or government cost. We believe that a reasonably high degree of accuracy will be achieved by using the above technique.

The results of the quinquennial full benchmark surveys will be used to check on the accuracy of the annual surveys and to meet the requirements of the International Investment and Trade in Services Act.

3. Describe methods to maximize response rates and to deal with issues of non-response.

This survey is required by law and failure to report is punishable by fine and/or imprisonment. Non-reporters are reminded of their reporting responsibility and required to report. If necessary, a letter is sent from the Treasury Department's General Counsel's office to the chief legal officer of the institution in question reminding the institution of its reporting responsibility and the applicable penalties for non-compliance. In one case, a letter was sent to an institution stating that the failure to provide necessary information within a stated time period would result in the Treasury Department recommending to the Justice Department that legal proceedings be instituted. However, in the 26-year history of these surveys this is the only instance where such measures were required, and this case occurred about 20 years ago.

4. Describe any tests of procedures or methods to be undertaken.

To see how well our technique works, we compared it to a simplified method of assuming that the panel of large reporters in each annual survey reports a constant percentage of the total holdings of U.S. long-term securities. In the 2011 annual survey, the gross-up amounted to \$96.5 billion, or about 0.83% of the total \$11,561 billion holdings of long-term U.S. securities. So in the case of the 2020 survey with total holdings of \$20,726 billion, the simplified method would imply a gross-up of roughly \$172 billion. However, our technique resulted in a larger gross-up of \$301 billion, better reflecting, we think, the growing number of monthly SLT reporters since 2011 when the SLT report began.

5. Provide the name and telephone number of individuals consulted on statistical aspects of the design and the name of the agency unit, contractor(s), grantee(s) or other person(s) who will actually collect and/or analyze the information for the agency.

The statistical methods to be employed were reviewed by representatives of the Department of the Treasury, the Department of Commerce (Bureau of Economic Analysis), the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York.

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The actual data collection will be conducted by the Statistics Function of the Federal Reserve Bank of New York, in conjunction with the Federal Reserve Board of Governors, International Finance Division.

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