



**GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE**
Washington, D.C. 20230

May 5, 2005

The Honorable Richard B. Cheney
President of the Senate
Washington, DC 20510

Dear Mr. President:

Enclosed is a draft bill – *To Continue the Secretary of Commerce’s Authority to Conduct the Quarterly Financial Report Program* – together with a statement of purpose and need supporting its enactment. The purpose of this bill is to continue the Secretary’s authority to conduct the QFR program by removing the “sunset” provision contained in the authorizing legislation.

We have been advised by the Office of Management and Budget that there is no objection to the submission of this legislative proposal to the Congress from the standpoint of the Administration’s program.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jane T. Dana".

Jane T. Dana
Acting General Counsel

Enclosures



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UNITED STATES DEPARTMENT OF COMMERCE**
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May 5, 2005

The Honorable J. Dennis Hastert
Speaker of the House of
Representatives
Washington, DC 20515

Dear Mr. Speaker:

Enclosed is a draft bill – *To Continue the Secretary of Commerce's Authority to Conduct the Quarterly Financial Report Program* – together with a statement of purpose and need supporting its enactment. The purpose of this bill is to continue the Secretary's authority to conduct the QFR program by removing the "sunset" provision contained in the authorizing legislation.

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Jane T. Dana
Acting General Counsel

Enclosures

A BILL

To continue the Secretary of Commerce's authority to conduct the Quarterly Financial Report Program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That

1 **SECTION 1. TO CONTINUE THE SECRETARY OF COMMERCE'S AUTHORITY TO**
2 **CONDUCT THE QUARTERLY FINANCIAL REPORT PROGRAM.**

3 Section 4(b) of the Act entitled "An Act to amend Title 13, United States Code, to
4 transfer responsibility for the Quarterly Financial Report from the Federal Trade Commission to
5 the Secretary of Commerce, and for other purposes," approved January 12, 1983 (Public Law 97-
6 454, 13 U.S.C. 91 note), is amended by striking Section 4(b) in its entirety.

REAUTHORIZATION OF AUTHORITY FOR THE QUARTERLY FINANCIAL REPORT PROGRAM

STATEMENT OF PURPOSE AND NEED

The Secretary of Commerce's authority to conduct the Quarterly Financial Report (QFR) program will expire on September 30, 2005. This legislative proposal would continue the Secretary's authority to conduct the QFR program by removing the "sunset" provision contained in the authorizing legislation.

The "sunset" provision, which limits the time the Secretary may conduct the QFR program, is contained in Section 4(b) of Public Law No. 97-454; it has been extended each time the program has been reauthorized. This law is the enabling legislation that transferred the program from the Federal Trade Commission (FTC) to the U.S. Census Bureau on January 12, 1983. Section 4(b) was most recently amended by Public Law No. 105-252 on October 9, 1998, which extended the authority to conduct the QFR program until September 30, 2005. This is the fourth time the Department of Commerce has needed to seek reauthorization since the program's transfer.

Under this Public Law (P.L. 97-454 as amended), and Title 13, United States Code, Section 91, the Secretary of Commerce is required to collect and publish quarterly statistics on business operations and organizations, including data on sales, expenses, profits, assets, liabilities, stockholders' equity, and related accounts generally used by businesses in income statements, balance sheets, and other measures of financial condition. To meet these requirements, the Census Bureau conducts the QFR program.

Congress initially included the "sunset" provision in the legislation to ensure that the program would continue to work under the Commerce Department as well as it had under the FTC. During the 35 years the QFR program was at the FTC, it operated successfully without a "sunset" provision. Currently, the QFR program is the only Census Bureau program with a "sunset" provision. Since the program has operated well at the Census Bureau, the legislative proposal requests that the sunset provision be removed.

Continuing the successful QFR program is a top priority for the Department of Commerce—it is one of the Census Bureau's most important economic indicator programs. Preserving this venerable source of business financial information is in the Nation's interest. The loss of the detailed information the QFR provides would erode the quality of our statistical measures, significantly hinder policymakers, and degrade the decisions on which the vitality of our nation depends. If the QFR program were not continued, the most current and comprehensive report on corporate financial activity—and a valuable time series spanning almost 60 years—would be lost, and the accuracy of the Gross Domestic Product and Flow of Funds Accounts would be seriously impaired.

The attachment further describes the QFR program's importance and what is at risk.

WHY IS THE QUARTERLY FINANCIAL REPORT PROGRAM IMPORTANT AND WHAT IS AT RISK?

The Quarterly Financial Report (QFR) program's main purpose is to provide timely, accurate data on business financial conditions for use by government and private-sector organizations and individuals. The primary users are U.S. Governmental organizations charged with economic policymaking responsibilities. Private sector users include banking and lending institutions, brokerage and investment houses, corporations, financial analysts, public libraries, trade associations, unions, and universities. They use the QFR as a source of information for making business and investment decisions and for research.

The QFR consolidation rules provide data on domestic activities only and thus provide the only current source of the "domestic" component of corporate profits and balance sheet data. Data collected by the QFR program are the primary source for the Bureau of Economic Analysis' (BEA) estimates of the domestic corporate profit, tax, and dividend components of the National Income and Products Accounts (NIPAs). These accounts are integral to the calculation of the Gross Domestic Product (GDP) and Gross Domestic Income (GDI). The detailed income statement items reported in the QFR permit BEA to adjust QFR data for consistency with NIPA concepts.

The Federal Reserve Board (FRB) uses QFR data as a primary data source to produce the Flow of Funds Accounts. These data are used by the FRB in estimating the sources and uses of funds that are represented in the quarterly financial flows and balance sheets for the nonfinancial corporate sector of the economy. The FRB also uses QFR data in the preparation of estimates and projections of business activity and corporate profits. These estimates and projections are integral to broader forecasts of output, productivity, and cost and price pressures, which, in turn, are relied upon by the FRB and the Federal Open Market Committee in making monetary policy decisions.

Measures of GDP and Flow of Funds are critical to the functioning of the Nation's economy. The Federal Reserve Bank of New York, in its March 2004 *Current Issues in Economics and Finance*, said that "Corporate profits provide the single best 'bottom line' assessment of the current health and future prospects of the corporate sector." Typically, in BEA's periodic revisions to the NIPAs, revisions to corporate profits for the sectors of the economy covered by the QFR are very small (less than 3 percent in the 2001 revision). By contrast, revisions to the sectors of the economy not covered by the QFR are typically much larger (18 percent in the 2001 revision).

The loss of QFR data would mean that both the BEA and the FRB would have to rely on less reliable data to estimate GDI and Flow of Funds Accounts, seriously impairing their reliability. It would also mean that the private sector, especially the business community, would lose a relevant, accurate, and timely measure of current business conditions.