

**Supporting Statement for the
Central Bank Survey of Foreign Exchange and Derivatives Market Activity
(FR 3036; OMB No. 7100-0285)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to conduct a voluntary survey of the foreign exchange and derivatives markets, the Central Bank Survey of Foreign Exchange and Derivatives Market Activity (FR 3036; OMB 7100-0285). The FR 3036 is the U.S. part of a global data collection that is conducted by central banks every three years. More than fifty central banks plan to conduct the survey in 2007. The Bank for International Settlements (BIS) compiles national data from each central bank to produce global market statistics.

The Federal Reserve System and other government agencies use the survey to monitor activity in the foreign exchange and derivatives markets. Respondents use the published data to gauge their market share.

The proposed survey has two parts: a Turnover (volume of transactions) survey conducted in April and a Derivatives Outstanding survey conducted at the end of June. The Turnover portion (Attachment 1) would cover approximately fifty market-making financial institutions. The Derivatives Outstanding portion (Attachment 2) would cover a smaller set of firms (ten) since it is collected on a consolidated basis and market making in derivatives is more concentrated. The Derivatives Outstanding portion of the survey is coordinated with the Semiannual Report of Derivatives Activity (FR 2436; OMB No. 7100-0286), which is filed by a subset of the FR 3036 respondents. Those respondents that file the FR 2436 would not file the FR 3036, thus limiting the reporting burden associated with this survey. The estimated burden for this information collection is 3,150 hours.

Background and Justification

The survey has been conducted every three years, beginning informally in the 1960s as Federal Reserve Bank of New York's (FRBNY) survey of the New York foreign exchange market. The survey expanded beyond foreign exchange in the 1980s to include interest rate and other types of derivatives. It also became part of a global data collection effort, with participation growing to forty-eight central banks in 2001 and more than fifty in the coming year. The global nature of financial markets requires a global, coordinated collection of data to obtain data on the size and structure of these markets. The BIS will use the aggregate data of each central bank to produce global market estimates.

The survey is the only comprehensive source of global information on the volume of foreign exchange and derivatives trading and, as such, is useful to the Federal Reserve System and other government agencies in understanding market developments and trends. The data also provide information for analyzing market developments and conducting Federal Reserve and U.S. Treasury foreign exchange operations. Survey data are also used by market participants to

gain a perspective on the market that is not available from data at the firm level. Academics and the general public also use the survey's data for research and analysis.

The proposed survey covers the spot foreign exchange market and over-the-counter derivatives markets in foreign exchange, interest rates, equities, and commodities in the United States. Combined with the survey data of the other central banks, it would provide global data on these markets. Although the Federal Reserve System and the U.S. Treasury collect information on outstanding foreign exchange contracts of banks and some nonbanks on the Treasury Foreign Currency Reports (OMB No. 1505-0010, 1505-0012, and 1505-0014) and the Consolidated Reports of Condition and Income (FFIEC 031 and 041; OMB No. 7100-0036), these reports do not collect information on the turnover and their coverage of the markets is more limited.

Description of Information Collection

The proposed survey would collect information on the size and structure of the foreign exchange and over-the-counter derivatives markets. The survey would cover the turnover in the foreign exchange spot market, the foreign exchange derivatives market, and interest rate derivatives markets (forwards, swaps, and options). In addition, the survey would gather data on the notional amounts and gross positive and negative market values of outstanding derivatives contracts for over-the-counter foreign exchange, interest rates, equities, and commodities.

To reduce reporting burden, the Derivatives Outstanding part of the survey is coordinated with the FR 2436 report. Those firms that submit FR 2436 data would not complete the Derivatives Outstanding part of the survey.

Differences between the proposed survey and the prior survey are as follows:

1. The abbreviated report for FR 2436 reporters has been eliminated from the Outstanding survey. Data on credit derivatives are now submitted on the FR 2436.
2. Data items to capture credit default swaps have been added to the Outstanding survey to be consistent with the FR 2436. Given the growth in the credit derivative market, these data are an important component of understanding the structure and activity of the overall over-the-counter derivatives market.
3. Additional currencies have been identified in tables on interest rate derivatives and on foreign exchange transactions on both the Outstanding and Turnover surveys. This change will facilitate reporting and ensure comprehensive identification of turnover in all participating countries' currencies. Reporting central banks will retain discretion to customize this list.
4. The section on electronic trading and identification of execution method has been simplified and adjusted in order to better distinguish between categories on the Turnover survey.

5. The definition of internal and related party trades has been clarified on the Turnover survey in order to improve consistency of data reporting.
6. The two data items in the memorandum section concerning trading activity trends on the Turnover survey have been split into four data items to provide detail on derivative contracts markets since these markets behave very differently.

Reporting Panel

The reporting panel for the Turnover portion of the survey would decline to fifty institutions in 2007 from the sixty that participated in 2004. This decline reflects the continued consolidation in the market. Dealers were identified for the survey based on 1) market share in the previous survey, 2) *Euromoney's* annual foreign exchange market survey, and 3) foreign exchange and interest rate contracts reported as held for trading by U.S. bank holding companies on the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) and by U.S. branches and agencies of foreign banks on the Report of Assets and Liabilities of U.S Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032).

The reporting panel for the Derivatives Outstanding portion of the survey would consist of ten U.S banking and nonbanking institutions that are dealers for the Turnover portion of the survey and who actively trade in the over-the-counter derivatives market. This panel size represents a decline from twenty in 2004.

Time Schedule for Information Collection and Publication

The turnover data would include all trading conducted during April 2007. The choice of April for turnover data continues the practice of previous surveys. April was selected to avoid strong seasonal effects in the foreign exchange market at other times of the year. The outstanding positions would be reported as of end of June 2007. Collecting data on outstanding contracts as of end of June reduces reporting burden by allowing the use of June data from the FR 2436. In addition, April and June are the dates other central banks will be conducting their surveys and adoption of those dates is critical for the aggregation of consistent global statistics.

The survey forms would be mailed or emailed by and returned to FRBNY, and all data would be processed at the FRBNY. Market totals from the survey would be published by FRBNY and would also be provided to the BIS for its published report on global trading.

Legal Status

The Board's Legal Division determined that this report is authorized by law (12 U.S.C. 225a, 248(a)(2), 358, and 3105(c)) and is voluntary. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. 552 (b)(4)).

Consultation Outside the Agency

This survey is being coordinated by the BIS. Also, the Federal Reserve published the notice for comment in the *Federal Register* (72 FR 1325).

Estimates of Respondent Burden

As shown in the table below, the total reporting burden is estimated to be 3,150 hours to be incurred on a one-time basis in 2007. This represents less than 1 percent of total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated hours per response</i>	<i>Estimated annual burden hours</i>
Turnover	50	1	51	2,550
Outstanding (Non-FR 2436 reporters)	10	1	60	600
Total				3,150

The total estimated annual reporting cost to the public for these reporting forms is \$215,775.¹

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Costs to the Federal Reserve System

The cost of collecting and processing the FR 3036 data falls entirely on the FRBNY and is estimated at \$600,000.

Attachments

¹ Total cost to the public was estimated using the following formula. Percent of staff time, multiplied by proposed annual burden hours, multiplied by hourly rate: 70% - Managerial or Technical @ \$55 and 30% - Senior Management @ \$100. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.