

**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 once every three years. More than 50 central banks plan to conduct the survey in 2010. 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 also use the published data to gauge their market share.

The proposed survey has two parts: a Turnover (volume of transactions) survey collected in April and a Derivatives Outstanding survey collected at the end of June. The Turnover portion (Attachment 1) would cover approximately 35 market-making financial institutions. The Derivatives Outstanding portion (Attachment 2) would cover a smaller set of 4 firms since it is collected on a worldwide 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. The FR 2436 collects similar data on the outstanding volume of derivatives, but not on derivatives turnover. Those respondents that file the FR 2436 would not be required to file the FR 3036 during the overlapping reporting period, thus creating a subset of respondents limiting the reporting burden associated with this survey. The estimated burden for this information collection is 2,165 hours. Attached are copies of the 2007 and 2010 survey forms and instructions.

Background and Justification

The survey has been conducted every three years by the Federal Reserve Bank New York (FRBNY), beginning informally in the 1960s as a 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 48 central banks in 2001 and more than 50 in the coming year. The global nature of financial markets requires a global, coordinated effort 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 a 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 would cover the spot foreign exchange market and over-the-counter derivatives markets in foreign exchange, interest rates, equities, and commodities in the United States. Although the U.S. Treasury collects 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 data are narrower in scope and cover more limited markets.

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.

Differences between the proposed survey and the 2007 survey are:

1. Data items to capture credit default swaps with central counterparties would be added to the Outstanding survey to be consistent with the FR 2436. The growth in the credit derivative market has made these data an important component of understanding the structure and activity of the overall over-the-counter derivatives market. This has become particularly evident during the recent financial crisis.
2. Additional currencies would be identified in tables for foreign exchange transactions and for interest rate derivatives on the Turnover survey. This change would facilitate reporting of currency pairs in carry trade strategies and ensure comprehensive identification of turnover in all participating countries' currencies.

Reporting Panel

The reporting panel for the Turnover portion of the survey would decline to roughly 35 institutions in 2010 from the 50 that participated in 2007. This decline reflects the continued consolidation in the market. Dealers were identified for the survey based on 1) Survey of North American Foreign Exchange Volume, 2) market share in the previous survey, 3) *Euromoney's* annual foreign exchange market survey, and 4) 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 4 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 10 in 2007.

Time Schedule for Information Collection

The turnover data would include all trading conducted during April 2010. 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 2010. 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 and instructions would be made available at the Board of Governors of the Federal Reserve System website at <http://www.federalreserve.gov/reportforms/>. 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 has determined that this report is authorized under sections 2A and 12A of the Federal Reserve Act (12 U.S.C. 225a and 263) 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 and Discussion of Public Comment

This survey is being coordinated by the BIS with other participating central banks. On November 2, 2009, the Federal Reserve published a notice in the *Federal Register* (74 FR 56633) requesting public comment for 60 days on the implementation of the FR 3036 survey. The comment period for this notice expired on January 4, 2010. The Federal Reserve did not receive any comments. On January 19, 2010, the Federal Reserve published a final notice in the *Federal Register* (75 FR 2863). The FR 3036 will be implemented as proposed.

Sensitive Questions

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

Estimates of Respondent Burden

As shown in the table below, the total reporting burden is estimated to be 2,165 hours to be incurred on a one-time basis in 2010. 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	35	1	55	1,925
Outstanding (Non-FR 2436 reporters)	4	1	60	240
	<i>Total</i>			2,165

The total estimated annual reporting cost to the public for these reporting forms is \$148,303. ¹

Estimate of Cost to the Federal Reserve System

The cost of collecting and processing the FR 3036 data 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 (BLS), Occupational Employment and Wages 2007, <http://www.bls.gov/news.release/ocwage.nr0.htm> Occupations are defined using the BLS Occupational Classification System, <http://www.bls.gov/soc/> ..