

Supporting Statement for the Government Securities Dealers Reports (FR 2004 A, B, C, SI, SD, SD ad hoc, and WI; OMB No. 7100-0003)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the government securities dealers reports (OMB No. 7100-0003). This family of reports comprises the:

- Weekly Report of Dealer Positions (FR 2004A),
- Weekly Report of Cumulative Dealer Transactions (FR 2004B),
- Weekly Report of Dealer Financing and Fails (FR 2004C),
- Weekly Report of Specific Issues (FR 2004SI),
- Daily Report of Specific Issues (FR 2004SD),
- Supplement to the Daily Report of Specific Issues (FR 2004SD ad hoc), and
- Daily Report of Dealer Activity in Treasury Financing (FR 2004WI).

The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve, collects data from primary dealers in the U.S. government securities market. Filing of the data is required to obtain the benefit of primary dealer status. The Federal Reserve uses these data to monitor the condition of the U.S. government securities market in its surveillance and analysis of the market and to assist the U.S. Department of the Treasury (Treasury). In addition, these data are helpful in the analysis of broad financial conditions and a range of financial stability issues.

The Federal Reserve proposes to substantially revise the reporting forms effective March 31, 2013, to collect additional data on positions, transactions, and securities settlement fails for Treasury, mortgage-backed securities (MBS), and corporate securities. In addition, the Federal Reserve proposes to expand the data on securities financing to include expanded collateral asset classes and contract terms. To increase the coverage of U.S. fixed income markets more broadly, the Federal Reserve proposes increasing the scope of asset classes to include data on state and municipal debt and asset-backed securities while consolidating the reporting of agency and government sponsored enterprise (GSE) debentures. The Federal Reserve is also proposing to expand publication of the aggregate data to include specific-issue Treasury data from the FR 2004SI, on the current 8-day lag schedule. The current annual reporting burden for the FR 2004 is estimated to be 12,873 hours and would increase by 5,131 hours based on the proposed revisions. A copy of the draft reporting forms and instructions is attached.

Background and Justification

In the early 1960s, the Federal Reserve began collecting data on positions, transactions, and financing activity from U.S. securities dealers, primarily those with whom it traded. The main purposes of these data were to (1) give the Federal Open Market Committee information on the condition of the U.S. Treasury securities market and (2) permit an appraisal of the position risk of reporting dealers, the soundness of their trading practices, and the adequacy of their

market making in all segments of the market. Market practices changed in a number of important ways during the 1970s as U.S. government securities dealers became involved in the trading and positioning of futures and options and also broadened substantially their participation in the repurchase agreement market. In response to these developments, in 1979 the Joint Treasury-Federal Reserve Steering Committee asked staff members from the Treasury, the FRBNY, and the Board of Governors to modify and expand the reporting forms. In early 1980, after consultations with individual dealers and the Bond Market Association, the Joint Steering Committee approved substantial changes to the reports.

In 1990, substantial changes were made to meet the Treasury's capital adequacy rules that were adopted in 1987 and the Government Securities Act of 1986, both of which required continuous capital adequacy compliance. In addition, overall coverage of the reports was improved and these data were more closely aligned to information collected by the Securities and Exchange Commission (SEC) and the Treasury. At the same time, reporting burden was reduced considerably.

In January 1992, the Federal Reserve, the Treasury, and the SEC submitted to the Congress the *Joint Report on the Government Securities Market*. As part of the joint agency report, the FRBNY assumed primary responsibility for the daily surveillance of the U.S. government securities market. Also announced in the report was the elimination of the FRBNY's dealer surveillance activities and, consequently, so were certain reporting requirements. At the next scheduled review in 1994, several data items on the FR 2004A, B, and C reporting forms were either combined or eliminated and the FR 2004SI was introduced to collect some of the information formerly collected on the addendum sections of the FR 2004A and B. In addition, the FR 2004WI reporting form was revised.

The 1997 review yielded additions to the FR 2004A and B to collect Treasury inflation-indexed securities and additional information on federal agency and government sponsored enterprise securities. Matched-book financings were eliminated from the FR 2004C.

Substantial changes were made to the reporting forms in 2001. Generally, the changes captured information on a broader range of primary dealers' activities in fixed income markets and also eliminated data items that were no longer seen as useful. In the late 1990s, the government securities market underwent notable changes in the face of large budget surpluses. As the supply of Treasury securities declined and trading activity in the market diminished somewhat, primary dealers began to take relatively greater positions in private securities and to generally assume a larger role as "market makers" in corporate debt markets. The addition of data items to collect information on primary dealers' positions in corporate securities allowed better monitoring of these developments. The revisions also included a change in maturity classifications that provided more detail and was more closely aligned with the classification schedule employed by primary dealers in managing their operations. Data items for futures and options were deleted and the financing data items were collapsed into the broad categories of Securities In and Securities Out. Lastly, memoranda items were added to obtain more detail on repurchase agreements and to track their cumulative volume and average rates.

Effective with the January 7, 2004, report date, the FR 2004 reporting forms were revised to delete the columns for cumulative weekly volume and average weekly rates for repurchase agreements on the FR 2004C, formalize the collection of the FR 2004SI daily data in the FR 2004SD, add a new data item to collect the security ID on the FR 2004SI and the flexibility to modify the reporting form and instructions at any time if the Treasury issues a security with a new maturity class, and align column headings on the FR 2004B, SI, and WI reporting forms. In addition, the time schedule for submitting the reporting forms was made uniform and all data submitted on the FR 2004C were made available to the public on an aggregate basis. In January 2007, the reporting forms were revised to add an attestation requirement, replace the financing counterparty breakdown with the transaction type on the FR 2004SI, and clarify the instructions. In January 2010, the FR 2004SD was revised to collect up to 10 ad hoc data items from all respondents to collect critical information in a short period of time from primary dealers.

The FRBNY is the collector and principal user of the dealer data because of its responsibility for conducting the Federal Reserve's open market operations, its market surveillance responsibility, and its advisory responsibilities to the Treasury. The FRBNY uses these data in gauging market conditions and dealer positions while the Treasury uses these data in managing its marketable debt. The Board also uses these data in conjunction with its ongoing responsibility to monitor and analyze developments in the government securities markets. Such data can be useful for identifying changing market practices. The aggregate dealer data (for the FR 2004A, B, and C) can be obtained by the Treasury, since the reporting dealers play a central role in underwriting and distributing the Treasury's debt. The Interagency Working Group (IAWG)¹ uses the data from the FR 2004SI, SD and WI for market surveillance.

As mentioned above, the current changes to the FR 2004 report series reflect a notable expansion in scope relative to the existing series. This expansion in scope is necessary because it would allow more informed monitoring of a wider range of securities markets that are used by systemically important firms. Such expanded data would have been useful during the recent financial crisis and is expected to be helpful in monitoring a broad range of financial stability issues going forward.²

Description of Information Collection

The FR 2004A collects weekly data on dealers' outright positions in Treasury and other marketable debt securities. The FR 2004B collects cumulative weekly data on the volume of transactions made by dealers in the same instruments for which positions are reported on the FR 2004A. The FR 2004C collects weekly data on the amounts of dealer financing and fails. The FR 2004SI collects weekly data on position, transaction, financing, and fails for the most recently issued on-the-run Treasury securities (the most recently issued Treasury securities for each maturity class). When unusual trading practices occur for a specific security, this information can be collected on a daily basis on the FR 2004SD for either on-the-run Treasury

¹ This group consists of staff from the FRBNY, the Federal Reserve Board, the Treasury, the SEC, and the Commodity Futures Trading Commission.

² "Going forward, for the Federal Reserve as well as other central banks, the promotion of financial stability must be on an equal footing with the management of monetary policy as the most critical policy priorities." Chairman Ben S. Bernanke, "Some Reflections on the Crisis and the Policy Response" April 13, 2012.

securities or off-the-run Treasury securities. The FR 2004SD ad hoc collects up to 10 ad hoc data items when critical information is required for additional market surveillance. The FR 2004WI collects daily data on positions in to-be-issued Treasury coupon securities, mainly the trading on a when-issued delivery basis.

The frequency associated with each report allows the FRBNY to (1) monitor certain technical developments in the U.S. government securities market for its own purposes, in relation to open market operations, and in its role in the IAWG and (2) fulfill its responsibilities as fiscal agent for the Treasury. It also aids the Federal Reserve and the general public in assessing developments in other fixed income markets, including the interplay between different asset classes.

The panel consists of all primary government security dealers. Any dealer that would like to become a primary dealer would be required to submit these data. Currently there are 21 primary dealers.

Proposed Revisions

Provided below is a list of the proposed revisions to each reporting form followed by a more detailed discussion of the justification for each of the proposed revisions.

FR 2004A and B

1. Include new maturity breakdowns for Treasury coupon securities and Treasury inflation-protected securities (TIPS).
2. Consolidate maturity breakdowns for agency and GSE debentures.
3. Expand MBS reporting to include separate reporting of agency and non agency MBS as well as separate reporting of residential pass-through, non pass-through, and commercial mortgage-backed securities (CMBS).
4. Expand reporting of corporate securities data with separate reporting of commercial paper and investment grade/non-investment grade debt securities.
5. Include new asset classes for state and municipal government obligations and asset-backed securities.

FR 2004C

1. Split securities financing data into repurchase agreements/reverse repurchase agreements and other financing activity-securities lent/borrowed.
2. Expand the asset classes for securities financing into U.S. Treasury coupons, TIPS, agency and GSE debentures, agency MBS, corporate debt, equities, and other.
3. Expand financing terms to overnight/continuing, less than 30 days, and 30 days or greater.
4. Expand securities settlement fails granularity to U.S. Treasury coupons, TIPS, agency and GSE debentures, agency and GSE MBS, other MBS, and corporate debt securities.

FR 2004SI and FR 2004SD

Split outright transactions for Treasury securities into two counterparty types, with interdealer brokers and with others.

Expanded Granularity on MBS Products

Expanding the granularity of MBS data reported on the FR 2004A, B, and C is proposed. Non federal agency and GSE-issued MBS would be collected as a distinct asset class on the FR 2004A and B reporting forms instead of in the corporate securities category. In addition, residential MBS and commercial MBS would be collected as distinct categories. Transactions in agency pass through securities would be separately classified as “cash” or as part of a “dollar roll,” providing information on the critical role of primary dealers in intermediating dollar roll transactions and agency MBS financing to market participants. The significant expansion of data collected would allow for a greater understanding of critical markets that directly affect the System Open Market Account, where agency MBS holdings currently account for over 30% of total securities holdings. It would also allow for a greater understanding of the non-agency MBS market by itself as well as the interplay between the non-agency and agency MBS markets. In addition, the increased transparency in these important markets would benefit both the Federal Reserve in its role in financial stability as well as the public through the expansion of publically available aggregate statistics.

Additional Information on Treasury Coupon and TIPS

Expanding the maturity groupings from four to six categories for Treasury coupon securities on the FR 2004A and B is proposed to better align with Treasury issuance patterns. The new maturity splits are constructed so that each one includes a benchmark on-the-run security. To improve the interpretive power of TIPS data on the FR 2004A and B, four new data items for TIPS are proposed. The four new data items would collect TIPS by maturity buckets split so that each has one on-the-run TIPS plus an additional division for short-term TIPS, which tend to trade separately. Adding a column to collect interdealer transactions on the FR 2004SI is proposed to align it with counterparty reporting on the FR 2004B reporting form, which would improve the usefulness of both forms.

Consolidation of Agency and GSE Debenture Reporting

Reflective of current issuance patterns toward shorter maturities, consolidation of agency debenture reporting is proposed on the FR 2004A and B reporting form. All coupon securities would be reported in aggregate, eliminating the current reporting that splits positions and transactions into four separate maturity categories.

Expansion of Securities Financing Data

An expansion of securities financing data is proposed on the FR 2004C including the broadening of collateral asset classes as well as separate reporting of repurchase/reverse repurchase agreements from other types of collateralized financing and additional granularity of

contract terms. The changes in financing reporting, when used in conjunction with existing tri-party and general collateral financing (GCF) repurchase agreement data, would allow for a clearer understanding of activity in the repurchase agreement markets. Separate capture of financing of U.S. equities is proposed, as is a separate residual category “Other,” primarily for financing of asset-backed securities (ABS), municipals, and non-agency issued MBS and collateralized mortgage obligations (CMO). Contract terms for securities financing would expand from two to three categories with over/under 30 day terms collected separately. The new split of contract terms would make the data series more analytically useful as it more closely aligns with common industry practices and market segments.

Expanded Settlement Fails Data

Separate collection of non agency or GSE issued MBS is proposed on the FR 2004C reporting form. This change would provide consistent treatment of non agency or GSE-issued MBS across all of the FR 2004 reporting forms and would simultaneously enhance the usefulness of the corporate settlement fails data by narrowing the definition of corporate securities with the removal of this asset class.

Publication of Aggregate Data

Publication of aggregate data of all new items from the FR 2004A, B, and C is proposed. Publication of aggregate Treasury on-the-run data with an 8-day lag from the FR 2004SI form is also proposed. The expansion of published aggregate statistics would improve market transparency across the affected markets.

Clarifications to the Instructions

The instructions would be revised to (1) cover all proposed data items including asset classes that have been added since the last reports review (e.g., ABS, municipal bonds) and (2) restructure the format and layout with extensive clarifications and structural changes.

Time Schedule for Information Collection

All respondents submit their data electronically through the Internet Electronic Submission (IESUB) system to the FRBNY. All respondents will migrate to the new Reporting Central Data Reporting System during 2013.

The FR 2004A, B, C, and SI are submitted weekly. The FR 2004A and SI collect positions data as of Wednesday, and these data are reported the next business day. Under certain circumstances the FR 2004SD collects positions daily, and these data are reported the next week. The FR 2004SD ad hoc collects daily ad hoc information reported the next week. The FR 2004B collects cumulative transactions for the calendar week ended Wednesday, and these data are reported the next business day. The FR 2004C collects outstanding financing arrangements and fails as of Wednesday, and these data are reported the next business day. The FR 2004WI collects closing positions, transactions, and net forward financing commitments of the previous

business day during each day of the when-issue period with the last report due on issue date for the business day prior.³

Summary data from FR 2004A, B, and C are published each Thursday in a FRBNY statistical release. These can be obtained from www.newyorkfed.org/markets/primarydealers.html. The data are published with a one-week lag. The FRBNY also publishes summary statistics on concentrations of market share from the FR 2004B data on a quarterly basis with a two-week lag. In addition, the Fails to Receive and Fails to Deliver data that are collected on the FR 2004C are published by asset type with a one-week lag.

Data from the FR 2004SI, SD, SD ad hoc, and WI are not available to the public. They are collected for market surveillance purposes exclusively and are considered strictly confidential. However, all individual respondent data are available to the IAWG.

Legal Status

The Board's Legal Division has determined that the FR 2004 is authorized by sections 2A, 12A(c), 14 and 15 of the Federal Reserve Act (12 U.S.C. §§ 225a, 263c, 353-359, and 391) and is required to obtain or retain benefit of dealer status. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. §§ 552(b)(4) and (b)(8)).

Consultation Outside the Agency

Discussions about the possibility of these revisions were held with the primary dealers and in several cases their suggestions were incorporated into this proposal. On August 20, 2012, the Federal Reserve published a notice in the *Federal Register* (77 FR 50102) requesting public comment for 60 days on the extension, with revision, of the FR 2004. The comment period for this notice expired on October 19, 2012. The Federal Reserve did not receive any comments. On January 11, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 2397) for the FR 2004.

Estimate of Respondent Burden

The current annual burden for the FR 2004 is estimated to be 12,873 hours. While the new information requested is readily available to the respondents, significant programming and other resources are required to implement and maintain the proposed changes. In addition, the increased burden would not affect each primary dealer equally as some dealers have only a minimal presence in the new asset classes such as municipal bonds and ABS, which would require only minor implementation costs. The proposed new and revised data items would increase the estimated average hours per response for several reports as follows: the FR 2004A

³ The "when-issued period" for a security extends from the time the security is announced to the time it is issued. FR 2004WI data are collected from the date of Treasury's announcement through the business day before the issue date. Treasury supplies a schedule of issues to be announced.

would increase from 1.5 hours to 2.8 hours; the FR 2004B would increase from 2.0 hours to 3.5 hours; the FR 2004C would increase from 1.25 hours to 3.0 hours; and the FR 2004SI and SD would increase from 2.0 hours to 2.1 hours. Based on the proposed revisions, the total annual burden would increase by 5,131 hours to 18,004 hours. The FR 2004 data are prepared and submitted in an automated format, which continues to help ease the burden on respondents. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Number of respondents⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 2004A	21	52	1.5	1,638
FR 2004B	21	52	2.0	2,184
FR 2004C	21	52	1.25	1,365
FR 2004SI	21	52	2.0	2,184
FR 2004SD	21	25	2.0	1,050
FR 2004SD ad hoc	21	26	2.0	1,092
FR 2004WI	21	160	1.0	<u>3,360</u>
<i>Total</i>				<u>12,873</u>
Proposed				
FR 2004A	21	52	2.8	3,058
FR 2004B	21	52	3.5	3,822
FR 2004C	21	52	3.0	3,276
FR 2004SI	21	52	2.1	2,293
FR 2004SD	21	25	2.1	1,103
FR 2004SD ad hoc	21	26	2.0	1,092
FR 2004WI	21	160	1.0	<u>3,360</u>
<i>Total</i>				<u>18,004</u>
<i>Change</i>				<u>5,131</u>

The total cost to the public is estimated to increase from the current level of \$577,354 to \$807,479 for the revised FR 2004.⁵

⁴ Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$7 million in average annual receipts) www.sba.gov/content/table-small-business-size-standards.

⁵ Total cost to the public was estimated using the following formula: Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$17, 45% Financial Managers @ \$52, 15% Legal Counsel @ \$55, and 10% Chief Executives @ \$81. Hourly rate estimates for each occupational group are the median hourly wages (rounded up) using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2011, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The cost of collecting and processing these data falls entirely on the FRBNY. The current and proposed cost to the FRBNY for collecting and processing the FR 2004 is estimated to be \$700,000 per year. The one-time cost to implement the revised reports is estimated to be \$38,000.