Supporting Statement for
Semiannual Report of Derivatives Activity
(FR 2436; OMB No. 7100-0286)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget, proposes to reinstate, with revision, the Semiannual Report of Derivatives Activity (FR 2436; OMB No. 7100-0286). This voluntary report collects derivatives market statistics from the five largest U.S. dealers of over-the-counter (OTC) derivatives. Data are collected on the notional amounts and gross fair values of the volumes outstanding of broad categories of foreign exchange, interest rate, equity, commodity-linked, and credit default swap OTC derivatives contracts across a range of underlying currencies, interest rates, and equity markets.

This collection of information complements the triennial Survey of Foreign Exchange and Derivatives Market Activity (FR 3036; OMB No. 7100-0285). The FR 2436 collects similar data on the outstanding volume of derivatives, but not on derivatives turnover. The Federal Reserve conducts both surveys in coordination with other central banks and forwards the aggregated data furnished by U.S. reporters to the Bank for International Settlements (BIS), which publishes global market statistics that are aggregations of national data.

The Federal Reserve proposes to revise the FR 2436 by collecting additional data on credit default swaps (CDS) counterparties in Table 4E. Following the broad expansion of CDS data collected on the report and implemented during 2010 and 2011, it was determined that the data on location of CDS counterparties needed further refinement in order to align the data collection with current BIS standards and to improve the interpretive power of the CDS counterparty data. The current estimated annual burden for this report is 2,100 hours. The annual burden for the revised report is estimated to be 2,120 hours, an increase of 20 hours. A draft copy of the proposed reporting form and instructions is attached.

Background and Justification

The purpose of the FR 2436 is to obtain comprehensive and internationally consistent information on the size and structure of the OTC derivatives markets. The statistics are useful to the Federal Reserve, other central banks, and other parties who monitor patterns of activity in financial transactions. Due to the global nature of derivatives activity, only the cooperative efforts of central banks can generate the statistics required for effective monitoring of this activity. The Federal Reserve's involvement in this international reporting program, therefore, is necessary to ensure the availability of statistics necessary for oversight of international financial markets. The FR 2436 provides comprehensive and consistent measures of global derivatives market size and participation not currently available from other sources.

A sum of notional amounts outstanding provides a means of approximating the scale and character of market transactions, in much the same manner as a sum of principal amounts provides for the cash market. Allocating notional amounts outstanding to market risk, instrument, maturity, and counterparty categories provides greater insight into the exposures to price risks transferred between contracting parties. Additionally, regularly published data on notional amounts enhance market transparency and permit market participants to compare, over time, the size and composition of their derivatives activities with those taking place in the market as a whole.

Gross fair values can be used as one measure of market size; they show, at a given point in time, the amount of risk that is transferred using derivatives contracts. Although, this measure requires summing the gross positive fair values of *all* market participants (not just of reporters), the gross positive fair value of nonreporting firms can be captured by measuring the negative fair value of reporting firms' contracts with nonreporting firms. Thus, market size statistics based on gross fair value can be constructed while maintaining a limited reporting population.

Description of Information Collection

The panel of derivatives dealers provides data on outstanding positions (notional, gross positive and gross negative fair values) with breakdowns by broad market risk category, product type, counterparty type, maturity, and specific underlying market risks—the currency, equity market, or reference entity that underlie the contract. In addition, reporters provide data on the credit exposures and liabilities arising from all outstanding CDS contracts, as well as from the entire portfolio.

Notional amounts outstanding (Tables 1A, 2A, 3A, 4A, 4B, 4C, 4D, 4E, 4H, and 5). Respondents should report the notional value. The notional value of the derivative contract is the underlying principal (or par) amount upon which cash flow or the exchanges of assets are settled.

Gross positive and negative fair values (Tables 1B, 1C, 2B, 2C, 3B, 3C, 4F, and 6). Respondents report as fair value the amount at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for a contract, respondents report the number of trading units of the contract multiplied by that market price. If a quoted market price is not available, respondents report their best estimate of fair value based on the quoted market price of a similar contract or on valuation techniques such as discounted cash flow.

Credit exposures and liabilities from credit default swap contracts (Table 4G). Table 4G collects net positive and net negative fair values of all CDSs, taking into account any CDS contracts with legally enforceable bilateral netting agreements. Net positive and net negative fair values measure, respectively, the total credit exposure and liability to counterparties that arise from only CDS contracts.

Credit exposures and liabilities (Table 6). In addition to gross fair values, Table 6 collects net fair values, which take into account any legally enforceable bilateral netting agreements. Net fair values capture the credit exposures and liabilities arising from OTC derivatives contracts (excluding commodity contracts), i.e., the amounts that reporting dealers would owe to and be owed by their counterparties, if all contracts were to settle on the report date.

Additional detail. With the exception of Table 6, the tables listed above collect the following additional detail on the notional amounts and gross positive and negative fair values of outstanding derivatives contracts.

Broad market risk categories: Foreign exchange rate, gold price, interest rate, equity, commodity, and credit.

Product types: Forward contracts, swaps, and bought and sold OTC options. However, in the market risk category of credit risk, considerable detail on credit derivatives is collected on one type of product, CDSs, which are broken out into single-name and multiple-name instruments, whereas for synthetic tranched structured finance instruments, only protection bought and sold is collected.

Counterparty types: Reporting dealers, other financial institutions, and nonfinancial institutions. For CDSs, other financial institutions are further broken out into (1) banks and securities firms, (2) insurance firms, (3) special purpose vehicles, (4) hedge funds, and (5) other. Additionally, information about the location of the counterparty is collected for CDSs. This finer disaggregation of counterparty types and the location of the counterparty gives central banks and other data users a clearer picture of how CDSs transfer credit risk within the global financial system.

Remaining maturities: One year or less, over one year through five years, and over five years.

Underlying market risks: Data for foreign exchange and single-currency interest rate contracts are reported by currency for each G-10 currency, as well as for any additional currency for which a material amount of contracts is outstanding. Two currencies are reported for each foreign exchange contract. Data on equity derivatives are reported in six categories according to the region of the referenced equity market: U.S., Japanese, European (excluding emerging markets in Eastern Europe), Latin American, Other Asian, and Other. Data on the notional amounts of CDSs are reported by characteristics—the sector and credit rating—of the reference entity or entities (in the case of multi-name instruments) Data on the sector of the reference entity are broken into sovereigns, financial firms, nonfinancial firms, asset-backed securities, or multiple sectors, which has a sub-category for index products. Data on the credit rating of reference entity or entities are broken into upper investment grade (AAA or AA), lower investment grade (A or BBB), sub-investment grade (BB and below), or not rated.

Protection bought and sold: For CDSs, and synthetic tranched structured finance instruments, data are reported according to whether the contract buys or sells credit protection. Distinguishing between protection bought and protection sold is of interest because it gives some indication of how these products are used to shift credit risk among market participants.

Proposed Revisions

Table 4E: Credit Default Swaps by Location of Counterparty Credit. This table, which collects the notional amount of CDS bought and sold by the location of the head office of the counterparty, regionally distributed to the United States, Japan, Western Europe, Latin America, other Asian countries excluding Japan, all other countries[1], would be further broken down to indicate whether or not the counterparty is a reporting dealer to the global derivative statistics. The current row collecting counterparties in the U.S. that are reporting dealers would be deleted with the equivalent information being collected using the new table format.

Reporting Panel

The reporting panel, together with reporters from other reporting countries, represents approximately 90 percent of total global activity in each of the major categories of derivatives. Originally, firms were selected as potential reporters based on the size of their derivatives positions reported in the June 1995 triennial derivatives market survey. The appropriateness and coverage of the reporting panel is periodically re-evaluated, using data from the most recent FR 3036. Currently, five U.S. institutions participate in the reporting panel.

Frequency

Respondents file the FR 2436 semiannually, as of the close of business each June 30 and December 31. The current reporting frequency provides adequate timely data.

Time Schedule for Information Collection and Publication

Data are submitted to the Federal Reserve Bank of New York (FRBNY) within 75 days of the as-of dates, June 30 and December 31 each year. After editing the data, FRBNY sends the aggregated data to the BIS and sends reporter-level and aggregated data to the Board. The Board uses the reporter-level data to compute aggregated concentration statistics, which it sends to the BIS. The BIS compiles the aggregated data and the concentration statistics from U.S. institutions with those from the approximately 50 additional reporters from other G-10 countries and constructs and publishes global derivatives market statistics. Data from the reporting securities firms may be shared with the Securities and Exchange Commission.

Legal Status

The Board's Legal Division has determined that this report is authorized by law (12 U.S.C. §§ 225a, 248(a), 348(a), 263, and 353-359) and is voluntary. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. §552(b)(4)).

1 Western Europe would be defined to consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Consultation Outside the Agency

Given the relatively small changes to the report forms during the current renewal of this information collection, the Federal Reserve did not consult with other G-10 central banks or reporting institutions on the details of the data to be collected, or about the feasibility and reporting burden of the proposed additional data items.

On November 14, 2012, the Federal Reserve published a notice in the *Federal Register* (77 FR 67816) requesting public comment for 60 days on the extension, with revision, of the Semiannual Report of Derivatives Activity. The comment period for this notice expired on January 14, 2013. The Federal Reserve did not receive any comments. The revisions will be implemented as proposed. On January 29, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 6107).

Estimate of Respondent Burden

The current annual reporting burden for this information collection is estimated to be 2,100 hours, as shown in the table below. The burden increase attributed to the proposed additional data items, increase the estimated average hours per response from 210 hours to 212 hours. The total burden represents less than 1 percent of total Federal Reserve paperwork burden for all reports.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	5	2	210	2,100
Proposed	5	2	212	2,120
Change				20

The total cost to the public is estimated to be $94,185 and would increase to $95,082. [2]

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

2 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 for each occupational group are the median hourly wages (rounded up) 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/

The current cost associated with the FR 2436 is $100,000 per year. The Federal Reserve anticipates the proposed changes would not significantly increase the current operating cost.