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), propose 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 No. 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 2013. The Bank for International Settlements (BIS) compiles aggregate 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. Survey results also provide perspective on market developments for the Manager of the System Open Market Account, on the Desk's trading relationships, and for planning Federal Reserve and U.S. Treasury foreign exchange operations. 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 only three firms because it is collected (on a fully consolidated basis) only from derivatives dealers that are headquartered in the United States and that do not report the FR 2436 and because market-making in over-the-counter (OTC) derivatives is more concentrated than in foreign exchange. The Federal Reserve plans to invite the three institutions targeted for the Derivatives Outstanding portion of the survey to participate instead on the FR 2436 beginning in June 2013, in which case the Derivatives Outstanding portion of the survey would not be conducted in 2013. The estimated burden for this information collection is 2,485 hours. Attached are draft copies of the 2013 survey forms and instructions.

Background and Justification

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 the Manager of the System Open Market Account with 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, commodities, and credit default swap markets 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 031and 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 market (spot, forwards, foreign exchange swaps, currency swaps, and options), and interest rate derivatives markets (forward rate agreements, swaps, and options). In addition, the survey would gather data on the notional amounts and gross positive and negative fair values of outstanding derivatives contracts for over-the-counter foreign exchange, interest rates, equities, commodities, and credit default swaps markets.

Differences between the proposed survey and the 2010 survey are:

1. A more detailed counterparty breakdown for "other financial institutions" for credit default swap reporting 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.

2. The Canadian dollar would be added in tables for foreign exchange and interest rate derivatives on the Outstanding survey to be consistent with the FR 2436 and to align with the BIS global reporting requirements.

3. An additional 18 currency pairs would be added in tables for foreign exchange transactions on the Turnover survey, accompanied by full instrument and counterparty breakdowns. This change would facilitate reporting of currency pairs in carry trade strategies and ensure comprehensive identification of turnover in all participating countries' currencies.

4. A new item "of which non-deliverable" would be added under the total of "outright forwards" for six emerging market currency pairs opposite the U.S. dollar that have significant non-deliverable forward (NDF) volumes, and for the total amount of NDFs included under "outright forwards." In prior surveys, NDF turnover was captured under "outright forwards." With some previously non-deliverable currencies now being traded in deliverable forms, this new item will help distinguish between their deliverable and non-deliverable forward turnover. These data will provide insight into turnover in currencies for which there is not a deliverable market offshore due to limitations placed on such activity by local market authorities.

5. The counterparty breakdown would be modified to add more granularity to the "other financial institutions" category for the foreign exchange section of the Turnover survey. Other financial institutions would be split according to their primary business activity into non-reporting banks, institutional investors, hedge funds and proprietary trading firms, and

official sector financial institutions, Other, and Undistributed[1]. This additional granularity would provide better information on the contribution of the different types of other financial institutions, which have accounted for a large part of the growth in foreign exchange turnover in recent years, to foreign exchange market growth more explicitly.

6. A new item "of which prime brokered" would be added to the foreign exchange section of the Turnover survey to capture deals done via prime brokerage relationships for the reported totals for each instrument and currency pair. This would help assess the extent to which prime brokerage adds to foreign exchange turnover and which instruments and currencies are favored by prime brokerage customers. It would also add some insight to the geographic distribution of prime brokerage activity. Only survey respondents that act as foreign exchange prime brokers would need to report this item.

7. A new item "of which retail driven" would be added to the reported totals for each instrument and currency pair for the foreign exchange section of the Turnover survey. This new item would capture transactions with wholesale financial counterparties that cater to retail investors as well as direct transactions with non-wholesale investors. This would help assess the extent to which retail customers contribute to the turnover between dealers and could provide insight in to the geographic distribution of retail investors and the instrument and currencies preferred by retail investors.

8. The Execution Method schedule on the Turnover survey would be modified to breakdown execution methods for foreign exchange turnover by instrument (spot, forward, swaps, and option) and counterparty (reporting dealers, other financial institutions, and non-financial institutions). The enhanced breakdown of the execution method categories better reflects current market practices and simultaneously disentangles execution methods from counterparty types. Execution would be reported as:

    a. Voice-Direct - not intermediated by a third party
    b. Voice-Indirect - intermediated by a third party
    c. Electronic-Direct - not intermediated by a third party
        i. Single bank proprietary trading system (electronic-direct)
        ii. Other (electronic-direct) such as: Reuters Conversational Dealing, Bloomberg, etc.
    d. Electronic-Indirect - intermediated by a third party electronic platform, i.e., via a matching system
        i. Reuters Matching or Electronic Broking Services (EBS) – major electronic trading platforms that are geared towards the interdealer market

[1] "Undistributed" was added to prepare for the possibility that some reporting dealers may be technically incapable of reporting in full the new breakdowns under "other financial institutions." This entry captures the amount of "other financial institutions" turnover that fails to be allocated into one of the sub-categories above.

   ii. Other electronic communication networks (ECNs) – multi-bank dealing systems such as Currenex, FXall, Hotspot, Bloomberg Tradebook, etc.
   iii. Other (electronic-indirect)

e. Undistributed - captures the amount of turnover for each instrument and counterparty that fails to be allocated into one of the aforementioned execution method categories.

9. The Turnover survey would add three quantitative questions on "retail driven" transactions asking for estimated percentage shares of transactions with "wholesale" counterparties, "non-wholesale" on-line transactions, and "non-wholesale" voice transactions[2]. This change would allow for the differentiation of turnover in the "non-financial customer" category of customer trades driven by retail investors versus those that are wholesale driven. This would yield information useful to assess the extent to which retail investors contribute to turnover between dealers and their customers. It may also provide some insight into the currency pairs and methods of execution favored by retail investors.

10. The Turnover survey would add three quantitative questions on algorithmic and high frequency trading asking for estimated percentage shares of these types in spot turnover reported with hedge funds and proprietary trading firms for all currency pairs, major currency pairs and non-major currency pairs. This change would allow for estimates of the growth in foreign exchange turnover due to high frequency trading, which has expanded rapidly in recent years. As high frequency trading is a general trading style adoptable by any firm with access to the relevant technology, it is not practical to capture this activity under a single counterparty category.

Reporting Panel

The reporting panel for the Turnover portion of the survey would remain at 35 institutions in 2013 unchanged from 2010. Dealers were identified for the survey based on their participation in the Survey of North American Foreign Exchange Volume.

The reporting panel for the Derivatives Outstanding portion of the survey would consist of three U.S. banking institutions that are dealers for the Turnover portion of the survey, filed the FR 3036 Derivatives Outstanding portion of the survey in 2010, and who actively trade in the over-the-counter derivatives market. This panel size represents a decline from four in 2010. The Federal Reserve intends to invite these three institutions to begin reporting on the FR 2436 semiannually starting in June 2013 in lieu of reporting on the FR 3036. If all three institutions accept the invitation to report, the coverage of foreign exchange (FX) derivatives on the FR 2436 would rise from 94 percent to 99 percent of all FX derivatives contracts at U.S.-headquartered bank holding companies. The coverage of all OTC derivatives contracts covered by the FR 2436

[2] For ease of reporting, the "non-wholesale" transactions excludes branch retail spot transactions, transfers of funds denominated in different currencies across any two accounts, and electronic transactions using ATM, credit card, and stored value transactions that are executed in a foreign currency. They would also exclude transactions conducted by retail clients as part of a commercial transaction even if denominated in a foreign currency.

would increase from 97 percent to 99 percent. In addition, improvements in data quality would be expected with the increase in reporting frequency to twice per year from only once every three years on the FR 3036, where the long interim between report dates leads to less robust reporting infrastructures, less formal oversight, and considerable knowledge loss due to the lack of continuity among personnel responsible for completing the reports. Any of the three institutions that choose to report the FR 2436 in June 2013 would not be required to report the amounts outstanding section of the FR 3036, which would save the Federal Reserve Bank considerable automation and processing costs.

Time Schedule for Information Collection

The turnover data would include all trading conducted during April 2013. 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 2013. 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 Turnover survey would be published by the Federal Reserve 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

This survey is being coordinated by the BIS with other participating central banks. 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 implementation of the FR 3036 survey. The comment period for this notice expired on January 14, 2013. The Federal Reserve did not receive any comments. The surveys will be conducted as proposed. On January 29, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 6107).

Estimates of Respondent Burden

The total reporting burden is estimated to be 2,105 hours and would increase to 2,485 hours with the proposed revisions, as shown in the table below. The estimated paperwork burden would be incurred on a one-time basis in 2013. The FR 3036 represents less than 1 percent of total Federal Reserve System paperwork burden.

	Number of respondents	*Annual frequency*	*Estimated hours per response*	*Estimated annual burden hours*
Current				
Turnover	35	1	55	1,925
Derivatives Outstanding (Non-FR 2436 reporters)	3	1	60	180
Total				2,105
Proposed				
Turnover	35	1	65	2,275
Derivatives Outstanding (Non-FR 2436 reporters)	3	1	70	210
Total				2,485
Difference				+380

The total estimated annual reporting cost to the public for these reporting forms is $94,409 and would increase to $111,452 with the proposed revisions.[3]

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 the FR 3036 is estimated to be $600,000.

[3] 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/