

**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 extend for three years, with revision, 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 2016. The Bank for International Settlements (BIS) compiles aggregate national data from each central bank to produce global market statistics.

The Federal Reserve System uses 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 Federal Reserve proposes to revise the FR 3036 by modifying the Execution Method schedule (Table C.2) to add dark pools¹ under electronic-indirect trading and clarifying what should be reported under "Other electronic communication networks." These changes would provide better information on the evolution of electronic trading methods, which have accounted for a large part of the growth in foreign exchange turnover in recent years. This change would also allow the United States (U.S.) to align with BIS reporting guidelines. In addition, several items would be removed from Table C.2. The Federal Reserve also proposes to make several clarifications to the reporting instructions to provide additional guidance to the definitions used for the Execution Method schedule and to reflect the changes and deleted items from the report form.

The BIS survey has two parts: a Turnover (volume of transactions) survey collected in April and a Derivatives Outstanding survey collected at the end of June.² This proposal covers only the Turnover portion of the BIS survey. The Derivatives Outstanding portion of the BIS survey will be covered by the FR 2436 in 2016, however, in the future it is possible that a respondent may not qualify to report the FR 2436 but they could meet the criteria to report both portions of the FR 3036. The Turnover portion would cover 24 market-making financial institutions. The total estimated annual burden for this information collection would decrease from 1,770 hours to 1,320 hours, a reduction of 450 hours.

¹ Dark pools are private platforms for trading securities especially for large trade sizes, where access is restricted and quotes are not revealed.

² The Federal Reserve will not conduct the Derivatives Outstanding portion of the survey in 2016. The Derivatives Outstanding portion is coordinated with the Semiannual Report of Derivatives Activity (FR 2436; OMB No. 7100-0286). Derivatives Outstanding respondents already file the FR 2436 and therefore do not need to file the Derivatives Outstanding portion.

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 collection of market data on turnover in notional amounts of foreign exchange transactions and single-currency interest rate derivative transactions in the U.S. in April 2016.

Description of Information Collection

The proposed survey would collect information on the size and structure of the foreign exchange and over-the-counter (OTC) derivatives markets. The survey would cover the turnover in the foreign exchange market on Tables A.1-A.6 (spot, forwards, foreign exchange swaps, currency swaps, and bought and sold OTC options), and interest rate derivatives markets on Tables B.1-B.2 (forward rate agreements, interest rate swaps, and bought and sold OTC options).

Notional amounts of foreign exchange turnover (Tables A.1, A.2, A.3, A.4, A.5, and A.6). Respondents should report the notional value of foreign exchange turnover in April 2016 for 21 major U.S. dollar currency pairs, 12 major non-dollar Euro pairings, and six major non-dollar Yen pairings. Residual columns for non-specified currency pairs are also collected for an additional 37 specified foreign currencies.

Notional amounts of single currency interest rate derivatives (Tables B.1 and B.2). Respondents should report the notional value of single currency interest rate derivatives turnover in April 2016 for the U.S. dollar and 39 additional currencies. A residual column for turnover in non-specified currencies is also collected.

Additional detail. The tables above collect the following additional detail on the notional amounts of turnover in April 2016.

Product types: Foreign exchange spot, outright forwards, foreign exchange swaps, currency swaps, and bought and sold OTC foreign exchange options (Tables A.1, A.2, A.3, A.4, A.5, and A.6); forward rate agreements, interest rate swaps, and bought and sold OTC interest rate options (Tables B.1 and B.2).

Counterparty types: Reporting dealers, other financial institutions, and non-financial customers. Counterparties are further broken out into local and cross-border. For foreign exchange turnover (Tables A.1, A.2, A.3, A.4, A.5, and A.6), other financial institutions are further broken out into (1) non-reporting banks, (2) institutional investors, (3) hedge funds and proprietary trading firms, (4) official sector financial institutions, (5) others, and (6) undistributed.

Prime brokerage: Total foreign exchange turnover for each product type (Tables A.1, A.2, A.3, A.4, A.5, and A.6) collects a memorandum item, of which prime brokered, to capture turnover conducted through a dealer's prime brokerage accounts. Prime brokers are institutions facilitating trades for their clients (often institutional funds, hedge funds and other proprietary trading firms). Prime brokers enable their clients to conduct trades with a group of predetermined third-party banks in the prime broker's name. These transactions have accounted for a large part of the growth in foreign exchange turnover in recent years.

Retail turnover: Total foreign exchange turnover for each product type (Tables A.1, A.2, A.3, A.4, A.5, and A.6) collects a memorandum item, of which retail-driven, to capture turnover associated with retail clients. Retail-driven transactions are defined as reporting dealers' transactions with "wholesale" financial counterparties that cater to retail investors and direct transactions with "non-wholesale" investors. In recent years, retail investors have increased their participation in the foreign exchange market, facilitated by internet-based trading platforms.

Non-deliverable forwards: Total turnover in foreign exchange outright forwards (Tables A.1, A.2, and A.3) collect a memorandum item, of which non-deliverable forwards (NDF), to capture turnover in six major U.S. dollar currency pairs (USD/BRL, USD/CNY, USD/INR, USD/KRW, USD/RUB and USD/TWD) with significant non-deliverable forward turnover. Turnover in NDF for other less well-traded pairs will also be captured in aggregate. NDF differ from deliverable forwards in that there is no physical delivery of the two underlying currencies at maturity and instead are settled in cash.

Original maturities: Total turnover in foreign exchange outright forwards and foreign exchange swaps capture original maturities according to the following maturity bands (1) seven days or less, (2) over seven days and up to and including one year, and (3) over one year.

Execution method for foreign exchange turnover (Table C.2). The survey includes the execution method used for transacting foreign exchange contracts reported on Tables A.1-A.6 (spot, forward, swaps, and options) and counterparty (reporting dealers, other financial institutions, and non-financial institutions). Execution is reported as (1) Voice Direct, (2) Voice Indirect, (3) Electronic Direct single bank proprietary trading system, (4) Other Electronic Direct, (5) Electronic Indirect Reuters Matching or Electronic Broking Services (EBS), (6) Electronic Indirect Dark Pools, (7) Electronic Indirect other electronic communication networks, and (8) Unallocated (for turnover that fails to be allocated into one of the aforementioned execution method categories).

Proposed Revisions

Proposed revisions to the survey are:

1. For foreign exchange execution methods, the Federal Reserve would separately collect “dark pools” under electronic-indirect trading, and would clarify what would be reported under “Other electronic communication networks.” (Dark pools are private platforms for trading securities especially for large trade sizes, where access is restricted and quotes are not revealed.) The instructions were changed to provide a definition of dark pools, as well as updated guidance on definitions used for the Execution Method schedule.
2. The category “Others” under electronic-indirect trading would be deleted as this item is being deleted by the BIS. The deletion would ensure the FR 3036 aligns with the BIS survey.
3. The questions on algorithmic and high frequency trading would be deleted as this item is being deleted by the BIS. The deletion would ensure the FR 3036 aligns with the BIS survey.
4. The questions on the number of business days, estimated coverage of the survey and concentration levels, and trading activity trends would be deleted. The Federal Reserve would coordinate responses to these questions with the Secretary of the New York Foreign Exchange Committee and its Operations Subcommittee. This change would allow for an improvement in data quality as it eliminates issues with dealer weighting and poor response rates.
5. The questions on “retail-driven” transactions would be deleted. The Federal Reserve would coordinate responses to these questions with the Secretary of the New York Foreign Exchange Committee and its Operations Subcommittee. This change would allow for an improvement in data quality as it eliminates issues with dealer weighting and poor response rates.

Reporting Panel

The reporting panel for the Turnover portion of the survey is 24 institutions in 2016. Dealers were identified for the survey based on their participation in the Survey of North American Foreign Exchange Volume.

Time Schedule for Information Collection

The turnover data would include all trading conducted during April 2016. 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. In addition, April is the month other central banks will be conducting their surveys and adoption of this date 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 www.federalreserve.gov/apps/reportforms/default.aspx. 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 Federal Reserve has determined that the information collection under FR 3036 is implicitly authorized under sections 2A and 12A of the Federal Reserve Act (FRA). Section 2A of the FRA requires the Federal Reserve Board and the Federal Open Market Committee (FOMC) to maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates (12 U.S.C. § 225a) and section 12A of the FRA requires the FOMC to implement regulations relating to the open market operations conducted by Federal Reserve Banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country (12 U.S.C. § 263). Because Federal Reserve System uses the information obtained from the FR 3036 to fulfill these obligations, these statutory provisions provide the legal authorization for the collection of information on the FR 3036.

Additionally, depending upon the survey respondent, the information collection may be authorized under a more specific statute. Specifically, the Board is authorized to collect information from state member banks under section 9 of the Federal Reserve Act (12 U.S.C. § 324); from bank holding companies (and their subsidiaries) under section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)); from Edge and agreement corporations under section 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 602 and 625); and from U.S. branches and agencies of foreign banks under section 7(c)(2) of the International Banking Act of 1978 (12 U.S.C. § 3105(c)(2)) and under section 7(a) of the Federal Deposit Insurance Act (12 U.S.C. § 1817(a)).

The FR 3036 is a voluntary survey. Because the Federal Reserve believes the release of this information would cause substantial harm to the competitive position of the entity from whom the information was obtained, the information collected on the FR 3036 may be granted confidential treatment under exemption (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)), which protects from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

Consultation Outside the Agency

This survey is being coordinated by the BIS with other participating central banks.

On December 1, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 75102) requesting public comment for 60 days on the extension, with revision, of the FR 3036. The comment period for this notice expired on February 1, 2016. The Federal Reserve did not receive any comments. On February 19, 2016 the Federal Reserve published a final notice in the *Federal Register* (81 FR 8491).

Estimates of Respondent Burden

As shown in the table below, the current annual burden is estimated to be 1,770 hours and would decrease to 1,320 hours to be incurred on a one-time basis in 2016. The reduction in the

estimated hours per response is due to items deleted from the Turnover form and the removal of the Derivatives Outstanding form. This represents less than 1 percent of total Federal Reserve System burden.

FR 3036	<i>Number of respondents³</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
Turnover	24	1	65	1,560
Derivatives Outstanding (Non-FR 2436 Reporters)	3	1	70	<u>210</u>
<i>Total</i>				1,770
Proposed				
Turnover	24	1	55	1,320
<i>Change</i>				(450)

The total cost to the public is estimated to be \$91,598 and would decrease to \$68,310.⁴

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 Of these 24 respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/content/small-business-size-standards.

⁴ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015 www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.