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

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, without revision, the Semiannual Report of Derivatives Activity (FR 2436; OMB 7100-0286). This report collects derivatives market statistics from the eight 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 Central Bank 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 Board conducts both surveys in coordination with other central banks. The aggregated U.S. data is compiled and forwarded to the Bank for International Settlements (BIS), which publishes global market statistics that are aggregates of national data.

The estimated total annual burden for the FR 2436 is 3,776 hours for the eight OTC derivative dealers, each of which responds on a semiannual basis. The form and instructions are available on the Board's public website at https://www.federalreserve.gov/apps/reportforms/default.aspx.

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 Board, other central banks, and other parties who monitor patterns of activity in financial transactions. Due to the global nature of derivatives activity, cooperative efforts are necessary to effectively monitor this activity and to collect comprehensive data on it. The Board's involvement in this international reporting program, therefore, promotes the availability of statistics necessary for oversight of international financial markets. Federal Reserve staff use these data to monitor activity in the OTC derivatives markets and to gauge the concentration in, and hence, competitiveness of these markets.

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 also be used as a 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 credit default swaps (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 CDS, 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, CDS, 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, central counterparties, other financial institutions, and nonfinancial institutions. For CDS, 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 CDS. This finer disaggregation of counterparty types and the location of the counterparty gives central banks and other data users a clearer picture of how CDS 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 CDS 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 CDS, 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.

Respondent Panel

The FR 2436 U.S. 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, eight U.S. institutions participate in the reporting panel. This panel covers 99 percent of all OTC derivatives contracts at U.S.-headquartered bank holding companies.

Time Schedule for Information Collection

Respondents file the FR 2436 within 75 days of the as of dates, June 30 and December 31 each year. After editing the data, the Federal Reserve Bank of New York (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; it then constructs and publishes global derivatives market statistics.

Public Availability of Data

The aggregated FR 2436 data is compiled and forwarded to the BIS, which publishes global market statistics that are aggregates of national data from other central banks.

Legal Status

The FR 2436 is authorized pursuant to sections 2A and 12A of the Federal Reserve Act (FRA). Section 2A of the FRA requires that the Board and the Federal Open Market Committee (FOMC) 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). Under section 12A of the FRA, the FOMC is required to implement regulations relating to the open market operations conducted by Federal Reserve Banks. Those transactions must be governed 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). The Board and the FOMC use the information obtained from the FR 2436 to help fulfill these obligations. The FR 2436 is voluntary.

Information collected on the FR 2436 is 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

There has been no consultation outside the Federal Reserve System.

Public Comments

On April 17, 2019, the Board published an initial notice in the *Federal Register*

(84 FR 16015) requesting public comment for 60 days on the extension, without revision, of the FR 2436. The comment period for this notice expired on June 17, 2019. The Board did not receive any comments. On July 18, 2019, the Board published a final notice in the *Federal Register* (84 FR 34394).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 2436 is 3,776 hours. These reporting requirements represent less than 1 percent of the Board's total paperwork burden.

FR 2436	*Estimated number of respondents*[1]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current	8	2	236	3,776

The estimated total annual cost to the public for this information collection is $217,498.[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

The estimated cost to the Federal Reserve System for collecting and processing this report is $100,000.

[1] Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than $550 million in total assets), https://www.sba.gov/document/support--table-size-standards.
[2] 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 $19, 45% Financial Managers at $71, 15% Lawyers at $69, and 10% Chief Executives at $96). 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 2018*, published March 29, 2019, https://www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Standard Occupational Classification System, https://www.bls.gov/soc/.