

**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 (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, with revision, the Central Bank Survey of Foreign Exchange and Derivatives Market Activity (FR 3036; OMB No. 7100-0285). The FR 3036 is a component of the U.S. portion of a global data collection (the BIS survey) that is conducted by central banks once every three years and captures information relating to the volume of foreign exchange (FX) transactions. Currently, more than 50 central banks plan to conduct the BIS survey in 2022. The Bank for International Settlements (BIS), of which the Board is a member, compiles aggregate national data from each central bank to produce and publish global market statistics. Aggregated data from the FR 3036 is compiled and forwarded to the BIS, which uses the data to produce and publish these statistics.

The Board revised the FR 3036 turnover portion of the survey by adding specifics regarding non-market facing trades (separate identification of back-to-back trades and compression trades under the “total” columns), as well as increased granularity on the short end of the maturity buckets (removing the existing “seven days or less” category and adding “one day” and “over one day and up to seven days” categories). Also, the Board added a new FX settlement risk schedule, with breakdowns by counterparty sector, currency type, and total turnover settlement method. The effective date of the revisions would be April 2022. The revisions keep the survey aligned with BIS templates, in order to ensure the comparability of the reported data across the different central banks.

The current estimated total annual burden for the FR 3036 is 1,155 hours, and would increase to 1,365 hours. The revisions would result in an increase of 210 hours. 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 BIS survey is a comprehensive source of global information on the volume of FX 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 provide the Manager of the Federal Reserve System Open Market Account with information for analyzing market developments and conducting Federal Reserve and U.S. Treasury FX 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 use the survey’s data for research and analysis.

The BIS survey has two parts: a Turnover (volume of transactions) survey and a Derivatives Outstanding survey. The FR 3036 covers only the Turnover portion of the BIS survey and is collected at the end of June. The Derivatives Outstanding portion of the BIS survey

is covered by the Semiannual Report of Derivatives Activity (FR 2436; OMB 7100-0286). This information collected by the FR 3036 is not available from other sources.

Description of Information Collection

The FR 3036 survey will collect information on the size and structure of the FX and over-the-counter (OTC) derivatives markets. The survey will cover the turnover in the FX market on Tables A1-A6 (spot, forwards, FX swaps, currency swaps, and OTC options) and new table A7 (FX settlement), and in interest rate derivatives markets on Tables B1-B2 (forward rate agreements, overnight index swaps, other interest rate swaps, and OTC options).

Notional amounts of FX turnover (Tables A1, A2, A3, A4, A5, and A6). Respondents should report the notional value of FX turnover in the given month 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 settlement of FX transactions (Table A7). Respondents should report the notional value of FX settlement turnover in the given month for each type of counterparty for all currencies combined.

Notional amounts of single currency interest rate derivatives (Tables B1 and B2). Respondents should report the notional value of single currency interest rate derivatives turnover in April 2022 the given month 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 the given month.

Product types: FX spot, outright forwards, FX swaps, currency swaps, and sum of bought and sold OTC FX options (Tables A1, A2, A3, A4, A5, and A6); forward rate agreements, overnight indexed swaps, other interest rate swaps, and OTC interest rate options (Tables B1 and B2).

Counterparty types: Reporting dealers, other financial institutions, and non-financial customers. Counterparties are further broken out into local and cross-border. For FX turnover (Tables A1, A2, A3, A4, A5, and A6), 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 FX turnover for each product type (Tables A1, A2, A3, A4, A5, and A6) 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 FX turnover in recent years.

Retail turnover: Total FX turnover for each product type (Tables A1, A2, A3, A4, A5, and A6) 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 FX market, facilitated by internet-based trading platforms.

Non-deliverable forwards: Total turnover in FX outright forwards (Tables A1, A2, and A3) collects 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.

Non-market facing trades: Total turnover in FX spot (Table A2) collects a grand total in "o/w back-to-back trades". Turnover in FX outright forwards, FX swaps, currency swaps, OTC options, other products, and total FX contracts (Tables A2 and A5), as well as turnover in forward rate agreements, overnight indexed swaps, other swaps, total OTC options, other products and total interest rate contracts (Tables B1 and B2) collects a grand total in "o/w back-to-back trades" and "o/w compression trades".

Original maturities: Total turnover in FX outright forwards and FX swaps capture original maturities according to the following maturity bands (1) one day, (2) over one day and up to seven days, (3) over seven days and up to one month, (4) over one month and up to 3 months, (5) over 3 months and up to 6 months, and (6) over six months.

Execution method for FX contracts (Table C2). The survey includes the execution method used for transacting FX contracts reported on Tables A1-A6 (spot, forward, swaps, and options) and the associated counterparty (reporting dealers, other financial institutions, and non-financial customers). Execution is currently reported as (1) Voice Direct, (2) Voice Indirect, (3) Electronic Direct single-bank proprietary trading system, (4) Electronic Direct Other, (5) Electronic Indirect Anonymous Venues, (6) Electronic Indirect Disclosed Venues, and (7) Unallocated (for turnover that fails to be allocated into one of the aforementioned execution method categories).

Respondent Panel

The FR 3036 panel comprises commercial banks, brokers and dealers, and U.S. offices of foreign banking offices with dealing operations in the United States. Respondents were identified for the survey based on their participation in another survey, the Survey of North American Foreign Exchange Volume, which is conducted by the Federal Reserve Bank of New York in collaboration with the Foreign Exchange Committee, a private sector entity.

Revisions to the FR 3036

The Board revised the maturity bands by replacing the existing “seven days or less” category with two categories: “one day” and “over one day and up to seven days.” This change aligns with current industry standards which, based on pre-emptive consultation with a sample of reporting dealers, are already included in the back-end systems of respondents. Revisions to the maturity bands were originally proposed to the BIS by data users seeking greater insight into how overnight trades impact FX turnover and are expected to be broadly adopted by nearly all participating central banks for the 2022 survey.

The revision added a new item for “of which back-to-back trades” under the total for spot instruments, and the new items “of which back-to-back trades” and “of which compression trades” for several instrument totals: outright forwards (Table A2), FX swaps (Table A2), currency swaps (Table A5), OTC options (Table A5), FX contracts (Table A5), other products (Table A5 and Table B2), forward rate agreements (Table B1), overnight indexed swaps (Table B1), other swaps (Table B1), total OTC options (Table B2), and total interest rate contracts (Table B2). The changes provide insight into an important facet of the FX market that was omitted from prior surveys, and would be particularly valuable to data users given that both transaction types have been cited by reporting dealers to comprise an increasing share of market turnover. These proposed line items were circulated to a selection of reporting dealers and, based on feedback received, have been modified to ensure a more limited impact on respondent burden.

The Board also included a more significant addition in the form of a new Settlement of FX Transactions schedule (Table A7, Settlement of Foreign Exchange Transactions) to collect information on FX settlement, including a breakdown by counterparty sector, currency pair, and settlement method. The new schedule will enable the Board and other supervisory authorities to more accurately and regularly monitor FX settlement risk – an area of growing importance for financial regulators given that the BIS estimates that nearly \$9 trillion of FX market payments are at risk on a given day. While some countries collected a limited set of data on FX settlement during the 2019 survey, it is the broad view of global regulatory authorities that more granular data is needed to effectively monitor risks to financial stability that may arise from FX settlement.

Time Schedule for Information Collection

The FR 3036 will include all trading conducted during the month of April 2022, with the data due in June 2022. 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.

Public Availability of Data

Aggregated market totals from the survey are published in a data release by the Federal Reserve Bank of New York in the fall of 2022 and will also be provided to the BIS for its published report on global trading.

Legal Status

The FR 3036 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 3036 to help fulfill these obligations. The FR 3036 is voluntary.

Individual firm information collected on the FR 3036 is considered confidential to the extent it constitutes nonpublic commercial or financial information, which is both customarily and actually treated as private by the respondent. Therefore, this information may be kept confidential under exemption 4 of the Freedom of Information Act, which exempts "trade secrets and commercial or financial information obtained from a person and privileged or confidential" (5 U.S.C. § 552(b)(4)). If it should be determined that any information collected on the FR 3036 must be released, other than in the aggregate in ways that will not reveal the amounts reported by any one institution, respondents will be notified. Aggregated FR 3036 data is compiled and forwarded to the BIS, which publishes global market statistics that are aggregates of national data from the Federal Reserve and other central banks.

Consultation Outside the Agency

This survey is being coordinated by the BIS with other participating central banks. A selection of reporting dealers was also consulted on the proposed line item additions regarding maturity bands and non-market facing trades to obtain feedback and ensure a more limited impact on burden.

Public Comments

On November 23, 2021, the Board published an initial notice in the *Federal Register* (86 FR 66560) requesting public comment for 60 days on the extension, with revision, of the FR 3036. The comment period for this notice expired on January 24, 2022. The Board did not receive any comments. The Board adopted the extension, with revision, of the FR 3036 as originally proposed. On April 6, 2022, the Board published a final notice in the *Federal Register* (87 FR 19928).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 3036 is 1,155 hours, and would increase to 1,365 hours with the revisions. The estimated average hours per response increased from 55 to 65 hours with the addition of the Settlement of Foreign Exchange Transactions table, resulting in an increase of 210 annual burden hours. Reporting dealers use separate systems for trading versus settlement, and settlement systems group together trades; a slightly higher burden is estimated to result. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

FR 3036	<i>Estimated number of respondents¹</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	21	1	55	1,155
Proposed	21	1	65	<u>1,365</u>
	<i>Change</i>			210

The estimated total annual cost to the public for the FR 3036 is \$69,820, and would increase to \$82,514 with the revisions.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 the FR 3036 is \$750,000.

¹ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 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 \$21, 45% Financial Managers at \$74, 15% Lawyers at \$71, and 10% Chief Executives at \$102). 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 2021*, published March 31, 2022, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.