

Supporting Statement for the Government Securities Dealers Reports (FR 2004 A, B, C, SI, SD, and WI; OMB No. 7100-0003)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), propose to extend for three years, with revision, the government securities dealers reports (OMB No. 7100-0003). This family of reports comprises the:

- Weekly Report of Dealer Positions (FR 2004A),
- Weekly Report of Cumulative Dealer Transactions (FR 2004B),
- Weekly Report of Dealer Financing and Fails (FR 2004C),
- Weekly Report of Specific Issues (FR 2004SI),
- Daily Report of Specific Issues (FR 2004SD), and
- Daily Report of Dealer Activity in Treasury Financing (FR 2004WI).

The Federal Reserve Bank of New York (FRBNY), on behalf of the Federal Reserve, collects data from primary dealers in the U.S. government securities market. Filing of the data is required to obtain the benefit of primary dealer status. The Federal Reserve uses these data to monitor the condition of the U.S. government securities market in its surveillance and analysis of the market and to assist the U.S. Department of the Treasury (Treasury).

The Federal Reserve proposes to revise the FR 2004SD reporting form to collect ad hoc information and make several clarifications to the FR 2004 instructions. The current annual reporting burden for the FR 2004 is estimated to be 10,098 hours and would increase by 936 hours based on the proposed revisions. A copy of the draft instructions is attached.

Background and Justification

In the early 1960s, the Federal Reserve began collecting data on positions, transactions, and financing activity from U.S. securities dealers, primarily those with whom it traded. The main purposes of these data were to (1) give the Federal Open Market Committee information on the condition of the U.S. Treasury securities market and (2) permit an appraisal of the position risk of reporting dealers, the soundness of their trading practices, and the adequacy of their market making in all segments of the market. Market practices changed in a number of important ways during the 1970s as U.S. government securities dealers became involved in the trading and positioning of futures and options and also broadened substantially their participation in the repurchase agreement market. In response to these developments, in 1979 the Joint Treasury-Federal Reserve Steering Committee asked staff members from the Treasury, the FRBNY, and the Board of Governors to modify and expand the reporting forms. In early 1980, after consultations with individual dealers and the Bond Market Association, the Joint Steering Committee approved substantial changes to the reports.

In 1990, substantial changes were made to meet the Treasury's capital adequacy rules that were adopted in 1987 and the Government Securities Act of 1986, both of which required continuous capital adequacy compliance. In addition, overall coverage of the reports was improved

and these data were more closely aligned to information collected by the Securities and Exchange Commission (SEC) and the Treasury. At the same time, reporting burden was reduced considerably.

In January 1992, the Federal Reserve, the Treasury, and the SEC submitted to the Congress the *Joint Report on the Government Securities Market*. As part of the joint agency report, the FRBNY assumed primary responsibility for the daily surveillance of the U.S. government securities market. Also announced in the report was the elimination of the FRBNY's dealer surveillance activities and, consequently, so were certain reporting requirements. At the next scheduled review in 1994, several data items on the FR 2004A, B, and C reporting forms were either combined or eliminated and the FR 2004SI was introduced to collect some of the information formerly collected on the addendum sections of the FR 2004A and B. In addition, the FR 2004WI reporting form was revised.

The 1997 review yielded additions to the FR 2004A and FR 2004B to collect Treasury inflation-indexed securities and additional information on federal agency and government sponsored enterprise (GSE) securities. Matched-book financings were eliminated from the FR 2004C.

Substantial changes were made to the reporting forms in 2001. Generally, the changes captured information on a broader range of primary dealers' activities in fixed income markets and also eliminated data items that were no longer seen as useful. In the late 1990s, the government securities market underwent notable changes in the face of large budget surpluses. As the supply of Treasury securities declined and trading activity in the market diminished somewhat, primary dealers began to take relatively greater positions in private securities and to generally assume a larger role as "market makers" in corporate debt markets. The addition of data items to collect information on primary dealers' positions in corporate securities allowed better monitoring of these developments. The revisions also included a change in maturity classifications that provided more detail and was more closely aligned with the classification schedule employed by primary dealers in managing their operations. Data items for futures and options were deleted and the financing data items were collapsed into the broad categories of Securities In and Securities Out. Lastly, memoranda items were added to obtain more detail on repurchase agreements and to track their cumulative volume and average rates.

Effective with the January 7, 2004, report date, the FR 2004 reporting forms were revised to delete the columns for cumulative weekly volume and average weekly rates for repurchase agreements on the FR 2004C, formalize the collection of the FR 2004SI daily data in the FR 2004SD, add a new data item to collect the security ID on the FR 2004SI and the flexibility to modify the reporting form and instructions at any time if the Treasury issues a security with a new maturity class, and align column headings on the FR 2004B, SI, and WI reporting forms. In addition, the time schedule for submitting the reporting forms was made uniform and all data submitted on the FR 2004C were made available to the public on an aggregate basis. In January 2007, the reporting forms were revised to add an attestation requirement, replace the financing counterparty breakdown with the transaction type on the FR 2004SI, and clarify the instructions.

The FRBNY is the collector and principal user of the dealer data because of its responsibility for conducting the Federal Reserve's open market operations, its market surveillance responsibility, and its advisory responsibilities to the Treasury. The FRBNY uses these data in gauging market

conditions and dealer positions while the Treasury uses these data in managing its marketable debt. The Federal Reserve also uses these data in conjunction with its ongoing responsibility to monitor and analyze developments in the government securities markets. Such data can be useful for identifying changing market practices. The aggregate dealer data (for the FR 2004A, B, and C) can be obtained by the Treasury, since the reporting dealers play a central role in underwriting and distributing the Treasury's debt. The Interagency Working Group (IAWG)¹ uses the data from the FR 2004SI, SD and WI for market surveillance.

Description of Information Collection

The FR 2004A collects weekly data on dealers' outright positions in Treasury and other marketable debt securities. The FR 2004B collects cumulative weekly data on the volume of transactions made by dealers in the same instruments for which positions are reported on the FR 2004A. The FR 2004C collects weekly data on the amounts of dealer financing and fails. The FR 2004SI collects weekly data on position, transaction, financing, and fails for the most recently issued on-the-run Treasury securities (the most recently issued Treasury securities for each maturity class). When unusual trading practices occur for a specific security, this information can be collected on a daily basis on the FR 2004SD for either on-the-run Treasury securities or off-the-run Treasury securities. The FR 2004WI collects daily data on positions in to-be-issued Treasury coupon securities, mainly the trading on a when-issued delivery basis.

The frequency associated with each report allows the FRBNY Markets Group to (1) monitor certain technical developments in the U.S. government securities market for its own purposes, in relation to open market operations, and in its role in the IAWG and (2) fulfill its responsibilities as fiscal agent for the Treasury.

The panel consists of all primary government security dealers. Any dealer that would like to become a primary dealer would be required to submit these data. Currently there are 18 primary dealers.

Proposed Revisions

On occasion, there may be a need to collect critical information within a short timeframe for a short period of time from primary dealers. This authority would have proven extremely useful during recent market events. Based on this experience the Federal Reserve proposes authorizing the collection of up to 10 ad hoc data items from all respondents that generally would pertain to specific securities, asset classes, or financing transactions. The request for additional data would be based on recommendations from Federal Reserve staff. The dealers would be notified in advance and any data requested or required would be readily available. These data could be reported as frequently as daily until dealers were notified to discontinue reporting. Written qualitative questions might include categorical questions, yes-no questions, ordinal questions, and open-ended questions. Written quantitative questions would include dollar amounts, percentages, numbers of items, interest rates, and other such information. These data would not be available from any other source.

¹ This group consists of staff from the FRBNY, the Federal Reserve Board, the Treasury, the SEC, and the Commodity Futures Trading Commission.

The Federal Reserve also proposes to clarify instructions to (1) explicitly cover new product types that have been actively traded or held since the last reports review (e.g., covered bonds, Federal Deposit Insurance Corporation (FDIC) debt guarantees), (2) address the reporting of security underwriting done with issuers through reverse inquiry, (3) add a section for prime brokerage reporting, and (4) incorporate several editorial changes.

Time Schedule for Information Collection

Since 1996, the submission of data has been automated, which has allowed dealer firms to integrate the production of data into their own internal systems. All respondents submit their data electronically through the Internet Electronic Submission (IESUB) system to the FRBNY.

The FR 2004A, B, C, and SI are submitted weekly. The FR 2004A and SI collect positions data as of Wednesday, and these data are reported the next business day. Under certain circumstances the FR 2004SD collects positions daily, and these data are reported the next business day. The FR 2004B collects cumulative transactions for the calendar week ended Wednesday, and these data are reported the next business day. The FR 2004C collects outstanding financing arrangements and fails as of Wednesday, and these data are reported the next business day. The FR 2004WI collects closing positions, transactions, and net forward financing commitments of the previous business day during each day of the when-issue period with the last report due on issue date for the business day prior.²

Summary data from FR 2004A, B, and C are published each Thursday in a FRBNY statistical release. These can be obtained from www.newyorkfed.org/markets/primarydealers.html. The data are published with a one-week lag. The FRBNY also publishes summary statistics on concentrations of market share from the FR 2004B data on a quarterly basis with a two-week lag. Summary data from the FR 2004A, B, and C also are published in the *Federal Reserve Bulletin* in tables 1.42, U.S. Government Securities Dealers, Transactions, and 1.43, U.S. Government Securities Dealers, Positions and Financing, with about a two-month lag. In addition, the Fails to Receive and Fails to Deliver data that are collected on the FR 2004C are published by asset type with a one-week lag.

Data from the FR 2004SI, SD, and WI are not available to the public. They are collected for market surveillance purposes exclusively and are considered strictly confidential. However, all individual respondent data are available to the IAWG.

Legal Status

The Board's Legal Division has determined that the FR 2004 is authorized by sections 2A, 12A, and 14 of the Federal Reserve Act [12 U.S.C. §§ 225a, 263, and 353-359] and is required to

² The "when-issued period" for a security extends from the time the security is announced to the time it is issued. FR 2004WI data are collected from the date of Treasury's announcement through the business day before the issue date. Treasury supplies a schedule of issues to be announced.

obtain or retain benefits. Individual respondent data are regarded as confidential under the Freedom of Information Act [5 U.S.C. §§ 552(b)(4) and (b)(8)].

Consultation Outside the Agency and Discussion of Public Comments

Discussions about the possibility of these revisions were held with the primary dealers and in several cases their suggestions were incorporated into this proposal. On November 2, 2009, the Federal Reserve published a notice in the *Federal Register* (74 FR 56633) requesting public comment for 60 days on the extension, with revision, of the FR 2004. The comment period for this notice expires on January 4, 2010.

Estimate of Respondent Burden

The current annual burden for the FR 2004 is estimated to be 10,098 hours. The Federal Reserve believes that the new ad hoc data items for the FR 2004SD would be readily available to the respondents and estimates the average response time to be 2 hours. Based on the proposed revisions, the total annual burden would increase by 936 hours to 11,034 hours. The FR 2004 data are prepared and submitted in an automated format, which continues to help ease the burden on respondents. The estimated annual burden for the FR 2004 represents less than 1 percent of total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 2004A	18	52	1.5	1,404
FR 2004B	18	52	2.0	1,872
FR 2004C	18	52	1.25	1,170
FR 2004SI	18	52	2.0	1,872
FR 2004SD	18	25	2.0	900
FR 2004WI	18	160	1.0	2,880
<i>Total</i>				<u>10,098</u>
Proposed				
FR 2004A	18	52	1.5	1,404
FR 2004B	18	52	2.0	1,872
FR 2004C	18	52	1.25	1,170
FR 2004SI	18	52	2.0	1,872
FR 2004SD	18	25	2.0	900
FR 2004SD ad hoc	18	26	2.0	936
FR 2004WI	18	160	1.0	2,880
<i>Total</i>				<u>11,034</u>
<i>Change</i>				936

The total cost to the public is estimated to increase from the current level of \$622,542 to \$680,246 for the revised FR 2004.³

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 these data falls entirely on the Statistics Function of the FRBNY. The FRBNY Statistics Function's current cost associated with the FR 2004 is estimated to be \$700,000 per year.

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% Administrative or Junior Analyst @ \$25, 45% Managerial or Technical @ \$55, 15% Senior Management @ \$100, and 10% Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.