

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 on these reporting forms from primary dealers in the U.S. government securities market. Filing of the data is required to obtain the benefit of primary dealer status.¹ 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 reporting forms by adding an attestation requirement, replacing the financing counterparty breakdown with the transaction type, and making several clarifications to the instructions. The Federal Reserve also is currently researching the possibility of expanding the reporting forms to increase the usefulness of the data to better monitor the condition and events in the fixed income markets. Therefore, another proposal to revise the reporting forms may be presented for review before the three-year extension expires. The annual reporting burden for the FR 2004 is estimated to be 12,342 hours and would remain unchanged. A copy of the draft reporting forms and 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

¹ The Board's Legal Division revised its previous determination of the Legal authorization status for the FR 2004 from voluntary to required to obtain or retain benefits.

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 was charged with primary responsibility for the day-to-day surveillance of the U.S. government securities market. The Federal Reserve's dealer surveillance function was eliminated at that time 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 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 for futures and options were deleted and the financing data 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 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. Lastly, all data submitted on the FR 2004C were made available to the public on an aggregate basis.

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, and the Treasury uses these data in managing its marketable debt. The Federal Reserve also uses these data in conjunction with their 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. Data from the FR 2004SI, SD and WI are available to the Interagency Working Group (IAWG).²

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 outright, financing, and fails positions in current or on-the-run issues. Under certain circumstances this information is also collected on a daily basis on the FR 2004SD for on-the-run and off-the-run 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 twenty-two primary dealers.

Proposed Revisions

Currently, the FR 2004 reporting forms do not have an attestation or certification requirement. In order to mitigate the risk of the FRBNY publishing misleading data, the addition of a weekly attestation requirement is proposed. Since all FR 2004 data are sent electronically through the Internet Electronic Submission (IESUB) system to the FRBNY, the proposed signature requirement, which would appear on each reporting form, would be completed weekly and maintained in the primary dealer's files. The addition of this attestation requirement from a senior officer would help insure that the proper level of review occurs before FR 2004 data are submitted. To verify that the proper level of management is attesting to the accuracy of the data, an annual requirement to submit a copy of the attestation to the FRBNY for all of the FR 2004 reporting forms

² This group consists of staff from the FRBNY, the Federal Reserve Board, the Treasury, the SEC, and the Commodity Futures Trading Commission.

is also being proposed. These attestations would be required with the submission of the last as-of date of each year.

The FR 2004SI and FR 2004SD currently collect counterparty information broken out by broker-dealer and all others. To improve the IAWG's ability to conduct market surveillance, the two counterparty data items would be replaced with two transactional data items ("specific" and "general" transactions) for financing transactions. Greater detail on the type of transaction used to fund a position provides more useful information than the identity of the counterparty. The new data would improve the IAWG's ability to conduct Treasury market surveillance. Capturing these data would allow IAWG to compare specific with general collateral transactions for securities trading and could alert officials to potential anomalies in benchmark securities markets.

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 twenty-two respondents submit their data electronically through the 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 would be used to collect positions daily, and these data would be 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.³

Summary data from FR 2004A, B, and C are published each Thursday in a FRBNY statistical release. These can be obtained from <http://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 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.

³ 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.

Legal Status

The Board's Legal Division has determined that the FR 2004 is authorized by sections 11(a)(2), 14, and 19(c) of the Federal Reserve Act [12 U.S.C. §§ 248(a)(2), 353-359, and 461(c)] and is required to 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

On November 16, 2006, the Federal Reserve published a notice in the *Federal Register* (71 FR 66780) requesting public comment for 60 days on the revisions to the FR 2004. The comment period for this notice expires on January 16, 2007.

Estimate of Respondent Burden

The estimated annual burden for the current FR 2004 of 12,342 hours will remain unchanged. The new information requested is readily available to the respondents so the burden would remain unchanged. All respondents prepare and submit these data in an automated format, which has helped to 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>
FR 2004A	22	52	1.5	1,716
FR 2004B	22	52	2.0	2,288
FR 2004C	22	52	1.25	1,430
FR 2004SI	22	52	2.0	2,288
FR 2004SD	22	25	2.0	1,100
FR 2004WI	22	160	1.0	<u>3,520</u>
<i>Total</i>				<u>12,342</u>

The total cost to the public is estimated to be \$760,884.⁴

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

⁴ 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% - Clerical @ \$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, *Occupational Employment and Wages*, news release.

Estimate of Cost to the Federal Reserve System

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