

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

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, 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),
- Supplement to the Daily Report of Specific Issues (FR 2004SD ad hoc), 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 these 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 Treasury market surveillance and analysis of the market and to assist and support the U.S. Department of the Treasury (Treasury) in its role as fiscal agent for Treasury financing operations. In addition, these data are helpful in the analysis of broad financial conditions and a range of financial stability issues.

The Federal Reserve proposes to revise the FR 2004 effective January 7, 2015, to (1) collect data on gross positions for floating rate Treasury securities; (2) expand data collected on gross positions in investment grade corporate securities, below investment grade corporate securities, and state and municipal government obligations; (3) collect data on asset-backed securities in the securities financing section; and (4) add four new reporting forms to collect detailed data on settlement fails and transaction volumes. The current annual reporting burden for the FR 2004 is estimated to be 18,860 hours and would increase by 1,930 hours based on the proposed revisions. 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 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 Treasury market surveillance of the U.S. government securities market. Also announced in the report was the elimination of the FRBNY's dealer Treasury market 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.

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.

In January 2010, the FR 2004SD was revised to collect up to 10 ad hoc data items from all respondents to collect critical information in a short period of time from primary dealers.

Effective March 31, 2013, the FR 2004 reporting forms were revised to collect additional data on positions, transactions, and securities settlement fails for Treasury, mortgage-backed securities (MBS), and corporate securities. In addition, the Federal Reserve expanded the data on securities financing to include expanded collateral asset classes and contract terms. To increase the coverage of U.S. fixed income markets more broadly, the Federal Reserve increased the scope of asset classes to include data on state and municipal debt and asset-backed securities while consolidating the reporting of agency and government sponsored enterprise (GSE) debentures. The Federal Reserve also expanded the publication of the aggregate data to include specific-issue Treasury data from the FR 2004SI, on the current 8-day lag schedule.

The FRBNY is the collector and user of the dealer data because of its responsibility for conducting the Federal Reserve's open market operations, its Treasury 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. Board staff 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)<sup>1</sup> uses the data from the FR 2004SI, SD and WI for Treasury 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 2004SD ad hoc collects up to 10 ad hoc data items for instances when critical information for additional Treasury market surveillance is required. 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 Federal Reserve 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. It also aids the Federal Reserve and the general public in

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

assessing developments in other fixed income markets, including the interplay between different asset classes.

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 22 primary dealers.

### **Proposed Revisions**

The Federal Reserve proposes to revise the FR 2004 effective for the January 7, 2015, as of date. Provided below is a list of the proposed revisions to each reporting form followed by a more detailed discussion of the justification for each of the proposed revisions.

#### **FR 2004A and B**

1. Collect data on gross positions for floating rate Treasury securities.
2. Expand reporting of corporate securities data with additional maturity groupings for both investment grade and below investment grade debt securities.
3. Expand reporting of state and municipal government obligations data with additional maturity groupings.

#### **FR 2004C**

Add a separate row in the securities financing section of the report form to cover financing activity for asset-backed securities (ABS) collateral.

#### **FR 2004SI, SD, and WI**

Collect data on gross positions for floating rate Treasury securities.

#### ***Treasury Floating Rate Notes (FRNs)***

Collecting data on gross positions for nominal Treasury securities on the FR 2004A and B is proposed to capture position and transaction data on the newly-issued floating rate Treasury notes. The FR 2004SI, SD, and WI would be modified to capture data on new issue and on-the-run floating rate Treasury notes. Separately capturing and disseminating these data would help promote transparency in this market. In an effort to minimize burden, all Treasury FRN activity, regardless of maturity, would be combined and reported on a single line on the FR 2004A, B, SI, SD, and WI.

#### ***Additional Maturity Information on Corporate and State and Local Government Obligations***

Expanding the maturity categories on the FR 2004A and B for both investment grade and non-investment grade corporate bonds as well as for state and local government obligations is proposed to assist market participants and other data users in better understanding the shifts in holdings and transaction volumes across the investment-grade, high-yield, and municipal credit

markets, as well as the inter-market dynamics between these asset classes.

### ***Asset-Backed Securities in the Securities Financing Section***

A small expansion of securities financing data through the broadening of collateral asset classes to include asset-backed securities (previously reported under the classification “other”) is proposed on the FR 2004C. The changes in financing reporting, when used in conjunction with existing tri-party and general collateral financing (GCF) repurchase agreement data, would allow for a clearer understanding of activity in the repurchase agreement markets and how holding of these securities are financed by dealers.

### **Proposed FR 2004FA, FB, FC, and FM**

#### ***Proposed Monthly Reporting Forms on MBS Settlement Fails***

The Federal Reserve proposes to add four new reporting forms to the FR 2004 series (FR 2004FA, FR 2004FB, FR 2004FC, and FR 2004FM) to collect detailed data on settlement fails to receive and fails to deliver as well as accumulated outright transaction and dollar roll volume in the Federal Agency and GSE MBS to-be-announced (TBA) markets. Three of these new reporting forms would focus specifically on outstanding settlement fails monthly on the specific class settlement date across the full coupon stack for each of the respective TBA and pool settlement classes as follows:

- 1) FR 2004FA – Class A, 30-year Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) MBS TBA for coupons:
  - <2.5%
  - 2.5%
  - 3.0%
  - 3.5%
  - 4.0%
  - 4.5%
  - 5.0%
  - 5.5%
  - 6.0%
  - >6.0%
  
- 2) FR 2004FB – Class B, 15-year FNMA and FHLMC MBS TBA for coupons:
  - <2.0%
  - 2.0%
  - 2.5%
  - 3.0%
  - 3.5%
  - 4.0%
  - 4.5%
  - 5.0%
  - 5.5%

- >5.5%

3) FR 2004FC – Class C, 30-year Government National Mortgage Association (GNMA) for coupons:

- <2.5%
- 2.5%
- 3.0%
- 3.5%
- 4.0%
- 4.5%
- 5.0%
- 5.5%
- 6.0%
- >6.0%

The FR 2004FM would collect as of the last business day of each month detailed data on outstanding settlement fails across the full coupon stack for all three of the respective TBA settlement classes for that month's settlement cycle.

All four proposed forms would also collect total accumulated outright TBA and specified pool transaction and dollar roll volumes separately for each of the same MBS TBA and specified pool securities and across all respective coupon rates covered in the settlement fails section of the forms.

- Class A - 30-year FNMA and 30-year FHLMC
- Class B - 15-year FNMA and 15-year FHLMC
- Class C - 30-year GNMA

Given the unique forward trading and settlement characteristics of the MBS TBA markets, settlement fails would continue to be a focus of concern for market participants, as a high level of settlement fails can lead to increases in operational costs due to financing and settlement fail charges, as well as raise counterparty credit risk. It also absorbs capital through regulatory charges, leads to overall market inefficiencies, and increases overall systemic risk.

The collection and public dissemination of detailed data on settlement fails for specific Federal agency and GSE MBS benchmark securities would promote increased transparency to the public by providing sufficient granularity to identify those securities contributing most significantly to elevated or persistent levels of settlement fails. Collecting outstanding fails data at two separate dates each month offers several benefits including an ability to distinguish between fails due to operational issues such as miscommunication of pool terms, pool substitutions, and daisy chain fails due to pool sorting delays, from more persistent fails still outstanding at month end and unlikely to be settled until the next monthly class settlement date. Persistent fails are often the result of insufficient incentives for a dealer that is short securities to borrow the securities required to satisfy its obligations. Prior episodes of higher and protracted settlement fails seem to be closely related to low interest rate environments. These new data would allow market participants and the broader public to more precisely monitor the settlement

dynamics of this important market, allowing for a broader understanding of market functioning and trading conditions, and more generally, about the formulation and implementation of monetary policy. It would also provide information on the critical role of primary dealers in intermediating dollar roll transactions and agency MBS financing to market participants. The expansion of collected data would allow for a greater understanding of critical markets that directly affect the System Open Market Account, where agency MBS holdings currently account for over 40% of total securities holdings.

### **Publication of Aggregate Data**

Publication of aggregate data of all new data items from the FR 2004A, B, C, and SI is proposed. The expansion of published aggregate statistics would improve market transparency across the affected markets. Publication of summary aggregate statistics on MBS TBA settlement fails is also proposed with the format still to be determined.

### **Clarifications to the Instructions**

The instructions for all report series would be revised to (1) cover all new proposed data items and maturity groupings, (2) to indicate the reporting rules for Treasury FRNs on the FR 2004C report and (3) cover the reporting rules and deadlines for the new monthly report forms on MBS TBA settlement fails and transaction volumes.

### **Time Schedule for Information Collection**

All respondents submit their data electronically through the Reporting Central 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 week. The FR 2004SD ad hoc collects daily ad hoc information reported the next week. 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.<sup>2</sup> The proposed FR 2004FA, FB, FC, and FM would be collected once per month, one for each class settlement date and one for the last business day of the month and these data will be due to the FRBNY the next business day.

Summary data from FR 2004A, B, C, and SI are published each Thursday in a FRBNY statistical release. These can be obtained from [www.newyorkfed.org/markets/primarydealers.html](http://www.newyorkfed.org/markets/primarydealers.html). The data are published with an eight-day 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.

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<sup>2</sup> 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.

Data from the FR 2004SD, SD ad hoc, and WI are not available to the public. They are collected for Treasury market surveillance purposes exclusively and are considered strictly confidential. However, all individual respondent data are available to the IAWG. Summary statistics from the proposed FR 2004FA, FB, FC, and FM are expected to be made available in a format yet to be determined by the data owners.

## **Legal Status**

The Board's Legal Division has determined that the FR 2004 is authorized by sections 2A, 12A(c), 14, and 15 of the Federal Reserve Act (12 U.S.C. §§ 225a, 263c, 353-359, and 391) and is required to obtain or retain benefit of dealer status. 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**

Discussions about these revisions were held with the primary dealers, especially with regard to the framework for report as of dates and due dates for the new MBS TBA forms. Specifically, dealers were polled on the costs and benefits of consolidating the three TBA class settlement forms into a single form covering three distinct class settlement dates as opposed to three separate form collections. Comments from primary dealers were incorporated, where appropriate. On September 24, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 57101) requesting public comment for 60 days on the extension, with revision, of the FR 2004. The comment period for this notice expired on November 24, 2014. The Federal Reserve did not receive any comments on the extension, with revision. On December 15, 2014, the Federal Reserve published a final notice in the *Federal Register* (79 FR 74088) for the FR 2004.

## **Estimate of Respondent Burden**

The current annual burden for the FR 2004 is estimated to be 18,860 hours. While the new information requested is readily available to the respondents, significant programming and other resources are required to implement and maintain the proposed changes. In addition, the increased burden would not affect each primary dealer equally as some dealers have only a minimal if any presence in the new asset classes such as Agency MBS and ABS, which would require only minor implementation costs. The proposed new and revised data items would increase the estimated average hours per response for the FR 2004 reports as follows: the FR 2004A would increase from 2.8 hours to 3.0 hours; the FR 2004B would increase from 3.5 hours to 3.7 hours; the FR 2004C would increase from 3.0 hours to 3.1 hours; the FR 2004SI and SD would increase from 2.1 hours to 2.2 hours; the new FR 2004FA, FB, and FC would be 1.0 hour each; and the new FR 2004FM would be 1.5 hours. Average time per response would remain unchanged for the FR 2004SD ad hoc and WI. Based on the proposed revisions, the total annual burden would increase by 1,930 hours to 20,790 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<sup>3</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
FR 2004A	22	52	2.8	3,203
FR 2004B	22	52	3.5	4,004
FR 2004C	22	52	3.0	3,432
FR 2004SI	22	52	2.1	2,402
FR 2004SD	22	25	2.1	1,155
FR 2004SD ad hoc	22	26	2.0	1,144
FR 2004WI	22	160	1.0	3,520
<i>Total</i>				<u>18,860</u>
<b>Proposed</b>				
FR 2004A	22	52	3.0	3,432
FR 2004B	22	52	3.7	4,233
FR 2004C	22	52	3.1	3,546
FR 2004SI	22	52	2.2	2,517
FR 2004SD	22	25	2.2	1,210
FR 2004SD ad hoc	22	26	2.0	1,144
FR 2004WI	22	160	1.0	3,520
FR 2004FA	22	12	1.0	264
FR 2004FB	22	12	1.0	264
FR 2004FC	22	12	1.0	264
FR 2004FM	22	12	1.5	396
<i>Total</i>				<u>20,790</u>
<i>Change</i>				<u>1,930</u>

The total cost to the public is estimated to increase from the current level of \$959,974 to \$1,058,211 for the revised FR 2004.<sup>4</sup>

<sup>3</sup> Of these respondents, none are small entities as defined by the Small Business Administration (i.e., entities with less than \$38.5 million in average annual receipts) [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

<sup>4</sup> 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% Office & Administrative Support at \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86. Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

## **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 FRBNY. The current and proposed cost to the FRBNY for collecting and processing the FR 2004 is estimated to be \$700,000 per year. The one-time cost to implement the revised reports is estimated to be \$38,000.