



# NEWS RELEASE

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Comptroller of the Currency  
Administrator of National Banks

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## OCC Reports Derivatives Volume Grows \$3.1 Trillion

WASHINGTON—Derivatives held by U. S. commercial banks increased \$3.1 trillion in the third quarter, to \$53.2 trillion, the Office of the Comptroller of the Currency reported today in its quarterly *Bank Derivatives Report*.

The OCC also reported that earnings attributable to the trading of cash instruments and derivatives activities decreased by \$1 billion in the three-month period, to \$2.4 billion.

“Normally, a significant increase in notionals would translate into a stronger revenue picture,” said Kathryn E. Dick, the OCC’s Deputy Comptroller for Risk Evaluation. But financial market volatility in the third quarter dampened the revenue picture for some of the bank dealers.”

Ms. Dick noted that while the record notional amount of derivatives is a reasonable reflection of business activity, it does not represent the amount at risk for commercial banks. The risk in a derivatives contract is a function of a number of variables, such as whether counterparties exchange notional principal, the volatility of the currencies or interest rates used as the basis for determining contract payments, the maturity and liquidity of contracts, and the creditworthiness of the counterparties in the transaction, she said.

The report noted that total credit exposure, which consists of both the current mark-to-market exposure, as well as potential future exposure, increased \$45 billion to \$570 billion.

“At this point in the economic cycle, we are not surprised to see increased credit exposure,” said Ms. Dick, “but the assessment of risk must take into consideration the common use of credit risk mitigants such as netting and collateralization in the derivatives markets.” For example, Ms. Dick pointed out that the benefits achieved from legally enforceable bilateral netting reduced current credit exposures by 79.6 percent in the third quarter.

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Ms. Dick noted that only a small fraction of derivatives contracts were 30 days or more past due. “For all banks, the fair value of contracts past due 30 days or more aggregated to only \$17 million or .003 percent of total credit exposure from derivative contracts.”

During the third quarter, the notional amount of interest rate contracts increased by \$3 trillion, to \$45.7 trillion. Foreign exchange contracts increased by \$27 billion, to \$5.8 trillion. This figure excludes spot foreign exchange contracts, which increased by \$5.7 billion, to \$509 billion. Equity, commodity and other contracts increased by \$6 billion, to \$1.1 trillion. Credit derivatives increased by \$81 billion, to \$573 billion.

Overall, 86 percent of the notional amount of derivatives positions was comprised of interest rate contracts with foreign exchange accounting for an additional 11 percent. Equity, commodity and credit derivatives accounted for only 3 percent of the total notional amount.

Ms. Dick said that the number of commercial banks engaging in derivatives remains small. “The top seven commercial banks account for almost 96 percent of the total notional amount of derivatives in the commercial banking system, with more than 99 percent held by the top 25 banks.”

The OCC third quarter derivatives report also noted that:

- Revenues from interest rate positions decreased by \$329 million, to \$1.2 billion, and revenues from foreign exchange positions decreased by \$315 million, to \$1 billion. Revenues from equity trading position decreased by \$662 million, for a loss of \$172 million. Revenues from commodity and other trading positions increased by \$304 million to \$278 million.
- Long-term contracts (those with maturities of five years or more) increased by \$287 billion, to \$9.2 trillion. Contracts with remaining maturities of one to five years grew by \$272 billion to \$14.7 trillion. Short-term contracts (those with maturities of less than one year) increased by \$467 billion to \$16.6 trillion.
- The number of commercial banks holding derivatives increased by 17, to 408.

A copy of *OCC Bank Derivatives Report: Third Quarter 2002* is available on the OCC Web site: [www.occ.treas.gov](http://www.occ.treas.gov).

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The OCC charters, regulates and examines approximately 2,100 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.