



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Trading Revenue Remains Above \$3 Billion, OCC Reports; Quarterly Derivatives Volume at Record Level

WASHINGTON -- U.S. commercial banks earned \$3.03 billion from trading activities in the three months ending June 30.

While trading revenue was down from the record \$3.84 billion recorded in the first quarter, the second quarter was only the third time the industry has earned more than \$3 billion from trading activities in a quarter. In the first quarter of 1999, commercial banks earned \$3.6 billion from trading.

The top seven commercial banks engaged in trading have each gone six consecutive quarters now without suffering a loss of revenue from trading activity. Trading revenue is earned from cash instruments and off-balance sheet derivative instruments.

In its *Bank Derivatives Report, Second Quarter 2000*, the OCC also reported that the number of commercial banks holding derivatives increased by 27 to 416. The vast majority of derivatives trading activity -- 96 percent -- is used by banks in their capacity as a dealer to service bank customers. The remainder is used to manage their own interest rate and other financial risk positions.

The notional amount of derivatives reported by commercial banks grew 4.5 percent to a record high \$39.3 trillion for the quarter. "Contract volumes showed strong growth as bank customers managed risk positions in an environment characterized by rising interest rates and volatile and more uncertain market positions," said Mike Brosnan, OCC Deputy Comptroller for Risk Evaluation.

While the notional volume of foreign exchange derivatives has leveled off, reaching \$6.5 trillion during the second quarter, interest rate derivatives continued their steady climb and hit a record \$31.4 trillion. Since 1997, when banks first began reporting data on credit derivatives, the notional volume of these contracts has increased more than six-fold from \$55 billion to \$362 billion during the recent quarter.

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There has been a pronounced and continued shift in the types of derivatives contracts used. While the volume of swap contracts has nearly doubled since the second half of 1998 to reach \$21 trillion during the most recent quarter, the volume of futures and forwards (\$10.3 trillion), and options (\$7.7 trillion) has essentially leveled off during the same period. Mr. Brosnan said that this was due primarily to bank customers' preference for over-the-counter derivatives contracts such as swaps, which can be tailored to meet a customer's specific risk management needs.

The OCC second quarter derivative report also noted that:

- For the second quarter in a row there were virtually no reported charge-offs, or credit losses, from derivatives.
- The average credit exposure from derivatives at the top seven trading banks fell to 247 percent of risk-based capital. The credit exposure has been steadily falling since reaching a record high 324 percent during the fourth quarter of 1998.
- Revenue from foreign exchange transactions once again dominated the revenue streams of banks. In the first quarter, interest rate transactions dominated revenues.
- Notional amounts for interest rate contracts of more than five years maturity jumped sharply from \$4.9 trillion to \$5.4 trillion. One-to-five year interest rate contracts went from \$9.1 trillion to \$9.6 trillion.
- Notional amounts for one-to-five year equity contracts rose from \$162 billion to \$205 billion accentuating a steep increase in these products seen over the past five years. Equity contracts of less than a year have also been increasing steadily, reaching \$178 billion this reporting quarter.

A copy of *OCC Bank Derivatives Report: Second Quarter 2000* is available on the OCC Web site: www.occ.treas.gov

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The OCC charters, regulates and examines approximately 2,400 national banks and 58 federal branches of foreign banks in the U.S., accounting for more than 57 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.