

NR 98-94
September 16, 1998

Notional Amount of Derivatives Increased to Record \$28
Trillion
In 2nd Quarter, OCC Reports

WASHINGTON, D.C. -- The notional amount of derivatives used by commercial banks increased 8 percent in the 2nd quarter of 1998, reaching a record \$28 trillion, the Office of the Comptroller of the Currency (OCC) reported today.

This is a \$2 trillion jump over the 1st quarter amount, and it represents a 21 percent increase from one year ago. Particularly noteworthy is the increase in credit derivatives which climbed 42 percent during the 2nd quarter, rising from \$91 billion to \$129 billion.

Mike Brosnan, the OCC's deputy comptroller for risk evaluation, attributed the growth in bank derivative activity to unsettled market conditions. "Bank corporate customers have continued to show strong interest in various risk management products including derivatives as a way of dealing with recent market volatility," Mr. Brosnan said.

"The growth in credit derivatives reflects the increasing interest in and ability of credit risk managers to control their credit risks by diversifying and/or hedging their portfolios," he said.

Revenue from trading activities at commercial banks was \$2.6 billion, just off the record \$2.7 billion set in the 1st quarter. Revenue from foreign exchange contracts continued its steady growth while revenues from interest rate, equity, commodity and other trading positions declined slightly during the quarter.

The notional amount of derivatives has increased or remained steady for 10 consecutive quarters. During the five-year period between the 2nd quarter of 1993, when the notional amount of derivatives stood at what was then a record \$10.9 trillion, and the 2nd quarter of this year, notional amount have increased more than two and a half times.

Holdings of off-balance sheet derivatives continue to be concentrated in the largest banks. Eight commercial banks account for 95 percent of the total notional amount of derivatives in the banking system, with approximately 99 percent held by the top 25 banks.

Over-the-counter (OTC) contracts comprised 85 percent of the notional holdings as of the 2nd quarter of 1998, with the rest traded on exchanges. OTC contracts tend to be more popular with banks and bank customers because they can be privately negotiated to meet the risk management needs of bank customers. However, OTC contracts may expose participants to greater credit risks and

tend to be less liquid than exchange-traded contracts, which are standardized and more easily traded.

During the 2nd quarter, banks charged off \$94 million due to credit losses from off-balance sheet derivatives, or .03 percent of total credit exposure. By comparison, net loan charge-offs relative to total loans for the quarter were .16 percent. According to Mr. Brosnan, "Banks' relatively small derivatives loss figures primarily reflected the generally high credit quality of counterparties and end-users with whom banks engaged in derivatives transactions."

Mr. Brosnan also noted that some banks have publicly announced that market volatility during the 3rd quarter of 1998 will likely result in materially adverse trading revenues as well as additional credit losses.

A copy of OCC Bank [Derivatives Report -- Second Quarter 1998](#) may be obtained by:

Writing to Comptroller of the Currency, Public Reference Room (Mail Stop 1-5), Washington, DC 20219;
Calling the OCC Information Fax Line at (202) 479-0141 and requesting document number 79894 under news releases;
Faxing a request to (202) 874-4448;
Ordering by phone (202) 874-5043;
Visiting the OCC's Public Reference Room at 250 E Street, S.W. in Washington, D.C. (9 a.m. - noon and 1 - 3 p.m., Monday - Friday); or
Going to the OCC's web page at <http://www.occ.treas.gov>.

#

The OCC charters, regulates and examines approximately 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 58 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.