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OCC Reports that 4th Quarter 1999
Bank Derivatives Volume Drops; Trading Revenue Increases

WASHINGTON -- The Office of the Comptroller of the Currency (OCC) today reported that derivatives revenue at U.S. commercial banks rose \$335 million to \$2.5 billion during the fourth quarter of 1999. The rise in trading revenues resulted primarily from increases in commodity and equity trading and in spite of modest revenue decreases in the interest rate and foreign exchange area where trading volumes are much larger.

The notional volume of derivatives at commercial banks decreased 2.4 percent to \$34.8 trillion during the quarter. While the notional amount of interest rate derivatives decreased 1.6 percent to \$27.8 trillion and foreign exchange derivatives decreased 7.3 percent to \$5.9 trillion, the notional amount of credit derivatives increased 22 percent to \$287 billion and other derivatives increased 4.5 percent to \$843 billion. The figures are from the OCC's quarterly OCC Bank Derivatives Report.

Mike Brosnan, Deputy Comptroller for Risk Evaluation, said "The decline in derivative contract notional amounts was primarily due to a slow down in financial transactions during the fourth quarter as bank customers had front loaded their financing activities in previous quarters in preparation for Y2K."

"While system-wide trading revenues were strong, these figures can be and are influenced by the results achieved at a few large banks," he added.

Tracing the credit derivatives market from year-end positions since they were first reported in 1997, their notional volume has increased \$236 billion to \$287 billion at the end of 1999. Mr. Brosnan said that credit derivatives have the potential to address risks associated with credit concentrations and he said that he was encouraged by their growth as long as they are effectively managed.

The decline in the volume of interest rate derivatives was the first time since the OCC began collecting this data in 1990 that this type of derivative registered a decline.

During the quarter, the volume of futures and forward derivatives products continued their downward trend while options remained relatively level. Swaps continued to rise steadily and are the most dominant type of derivatives product.

For all banks, the book value of derivatives contracts 30 days or more past due totaled only \$2.2 million, or .001 percent of total credit exposure from derivatives contracts. Quarterly charge-offs from derivatives totaled \$141 million during the fourth quarter or about .04 percent of total credit exposure.

By comparison, loan losses at commercial banks averaged .58 percent.

The OCC derivatives report also noted that:

For the quarter, trading revenue represented 5.4 percent of gross revenue at the seven largest commercial banks. This is the second quarter in a row that none of the large banks had a loss from trading revenue.

Credit exposure from off-balance sheet derivatives contracts increased \$9 billion in the fourth quarter, to \$396 billion.

Interest rate contracts accounted for 80 percent of the notional amount of derivatives contracts while foreign exchange contracts accounted for 17 percent of the total. Equity, commodity, credit and other derivatives accounted for the remaining 3 percent.

Seven commercial banks dominate the derivatives market, accounting for 95 percent of the total notional amount in the commercial banking system. The top 25 banks accounted for 99 percent of this business. Altogether, 416 commercial banks were engaged in derivatives activity during the fourth quarter, a drop of 10 banks from the previous quarter.

Over-the-counter contracts comprised 91 percent of the notional amount for the fourth quarter compared to 9 percent for exchange-traded products.

A copy of [OCC Bank Derivatives Report: Fourth Quarter 1999](#) is available on the OCC Web site: www.occ.treas.gov.

The OCC charters, regulates, and examines approximately 2,400 national banks and 59 federal branches and agencies of foreign banks in the United States, accounting for 59 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.