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OCC Reports Steady Rise In Derivatives Activity  
During 1996 To Record \$20 Trillion

WASHINGTON, D.C. -- The notional volume of derivatives activity at commercial banks increased by \$217 billion in the fourth quarter to \$20 trillion, the Office of the Comptroller of the Currency (OCC) reported today in its quarterly report of derivatives activity.

After a sluggish 1995 that saw derivatives activity hold relatively steady, notional volumes grew by \$3.1 trillion during 1996, an 18 percent increase. Last year's pace continued the growth pattern of 1993 and 1994.

While the notional amount of derivatives was climbing, the number of banks holding derivatives decreased by 18 in the fourth quarter to 483. In the fourth quarter, eight commercial banks accounted for 94 percent of the total notional amount of derivatives in the banking system, while the top 25 banks accounted for 98 percent of derivatives activity.

Trading Revenue Is \$7.5 Billion in 1996

During 1996, commercial banks had \$7.5 billion in revenue from cash and off balance sheet derivatives trading activities. During the fourth quarter, the trading revenue was \$1.9 billion, \$1.5 billion of which went to the top eight most active banks. Relative to the third quarter, revenue from trading increased by \$132 million, or 8 percent.

In the fourth quarter trading revenue derived from interest rate positions -- \$990 million (the same amount as in the third quarter); foreign exchange positions -- \$767 million (up \$253 million); equity positions -- \$27 million (down \$66 million); and commodity and other positions -- \$82 million (down \$55 million).

Interest Rate Derivatives Showed Strong Growth in 1996

The notional amounts of interest rate derivatives grew 21 percent during 1996, from \$11.1 trillion to \$13.4 trillion, and foreign exchange derivatives grew 16 percent during the year from \$5.4 trillion to \$6.2 trillion. The notional amount of other derivatives dropped from \$378 billion to \$367 billion.

Relative to capital, total credit exposures for the top eight banks averaged 237 percent of risk-based capital in the fourth quarter, the same as in the third quarter. The dollar amount of total credit exposure was \$252 billion, up \$13 billion from a quarter earlier. For all banks, the book value of contracts past due 30 days or more aggregated to only \$3 million.

During 1996, banks with derivatives contracts reported \$37 million in credit losses from off-balance sheet derivatives. This number represents the year-to-date charge-offs incurred from

off-balance sheet contracts. These figures reflect both the current healthy economic environment and the relatively high credit quality of counter parties and end-users with whom banks presently engage in derivatives transactions, as well as the increased use of collateral, which serves as a way to reduce potential losses from derivatives contracts.

#### Smaller Banks Use Derivatives to Manage Risks

The data from the OCC report show that smaller banks tend to limit their use of derivatives for risk management purposes. The banks with the 25 largest derivatives portfolios hold 94 percent of the contracts for trading purposes, primarily customer service transactions, while the remaining 6 percent are held for their own risk management needs. Banks below the top 25 hold 72 percent of their contracts for purposes other than trading.

The OCC reported that the gross negative and gross positive fair values of derivatives portfolios are relatively balanced with the value of positions in which the bank has a gain not being significantly different from the value of those positions with a loss.

The number of banks reporting structured notes on their books decreased in the fourth quarter by 235 to 3,457. Of these, 96 percent had total assets of less than \$1 billion.

Of the 489 banks with high-risk mortgage securities, 86 percent had total assets of less than \$1 billion. The book value of these instruments exceeded the market value by \$24 million, an improvement of \$37 million from the third quarter.

#### Next OCC Quarterly Derivatives Report Will Contain Credit Derivatives Data

Beginning in the first quarter of 1997, banks will, for the first time, disclose in the call report the notional amount of any credit derivatives. This data will be incorporated into future OCC quarterly derivatives reports.

A copy of the OCC Fourth Quarter 1996 Derivatives Data Fact Sheet and the accompanying 12 tables and 13 graphs 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 request document number 79732 from the news releases; faxing a request to (202) 874-4448; ordering by phone (202) 874-5043; or 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). The document will be available on the OCC's web page at <http://www.occ.treas.gov> on March 26.

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The OCC charters, regulates and supervises approximately 2,800 national banks

and 66 federal branches and agencies of foreign banks in the U.S.,  
accounting  
for more than half 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.