

Joint Release

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

NR 95-134
December 6, 1995

STAFF PAPER RELEASED ON TRADING ACTIVITIES AT COMMERCIAL BANKS

The three federal bank regulatory agencies today released a staff paper, Trading Activities at Commercial Banks. Key observations in the paper include:

Trading activities provide an important source of revenue for the banks involved in those activities.

Trading revenues have been consistently positive for the seven major dealer banks over the last 45 quarters (from June 30, 1984 to June 30, 1995 quarter-end reports), with the exception of six instances of losses and one bank accounting for four of those instances.

Trading revenues appear to be highly correlated across the major dealer banks (which means that when trading revenues are down for one of the major trading banks, trading revenues are likely to be down for most of the other major trading banks).

Virtually all banks supplement risk measurement mechanisms with risk limits and loss control limits and/or management action triggers.

Each of the bank regulatory agencies conducts periodic focused examinations throughout the annual examination cycle focusing on those bank activities or departments exhibiting higher than average risk or growth, instability (such as changes in key personnel), and/or unique or new characteristics.

The paper, which does not necessarily reflect the views of the agencies, is designed to provide perspective about the manageability of the risks posed by trading activities.

The paper discusses trading instruments and trading methods; the growth and benefits of commercial banks' involvement in trading activities; how trading risks are managed by banks; and how bank supervisors regulate trading activities. Appendices deal with legal issues, definitions and descriptions of terms, and data from bank call reports.

The paper is available by writing to the Office of the Comptroller of the Currency, Communications Division, Washington DC 20219. (Fax 202-874-5263).

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