



# NEWS RELEASE

Comptroller of the Currency  
Administrator of National Banks

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Contact: Robert M. Garsson  
(202) 874-5770

## **OCC Reports Derivatives Volume Increases to \$51.3 Trillion**

WASHINGTON -- Derivatives held by U.S. commercial banks increased by \$3.5 trillion in the third quarter of 2001, to \$51.3 trillion, the Office of the Comptroller of the Currency reported today in its quarterly *Bank Derivatives Report*.

The OCC also reported that earnings attributable to the trading of cash instruments and derivatives activities increased by \$641 million in the three month period, to \$3.45 billion.

“Growth in over-the-counter derivatives resulted from heavy debt issuance and continued strong corporate demand for risk management products. In turn, that growth contributed to relatively strong trading revenues,” said Michael Brosnan, Deputy Comptroller for Risk Evaluation.

Mr. Brosnan noted that while the record notional amount of derivatives is a reasonable reflection of business activity, it does not represent the amount at risk for commercial banks. The risk in a derivatives contract is a function of a number of variables, such as whether counterparties exchange notional principal, the volatility of the currencies or interest rates used as the basis for determining contract payments, the maturity and liquidity of contracts, and the credit worthiness of the counterparties in the transaction, he said.

The report noted that total credit exposure, which consists of both current credit exposure as well as potential future exposure, increased by \$53 billion, to \$560 billion, in the third reporting period.

“Credit exposures get the lion’s share of our attention at the OCC for a number of reasons,” said Mr. Brosnan. “First, credit is the most significant financial risk in this business. Second, the longer tenors of the contracts we see banks booking increases the potential credit exposures. And, of course, the overall economic situation warrants extra vigilance on the part of bankers and regulators. Although the numbers are very large, our examinations have found the quality of counterparty exposures to be reasonably strong and credit risks generally well controlled.”

Although credit exposure increased during the quarter, Mr. Brosnan underscored that “the benefits achieved from legally enforceable bilateral netting eliminated \$583 billion of credit risk from over-the-counter contracts.”

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The report noted that only a small fraction of derivatives contracts were 30 days or more past due. Those contracts amounted to \$49 million, or .009 percent of the industry's total credit exposure from derivatives contracts.

During the third quarter, the notional amount of interest rate contracts increased by \$3.5 trillion, to \$43.1 trillion. Foreign exchange contracts decreased by \$48 billion to \$6.6 trillion. This figure excludes spot foreign exchange contracts, which decreased by \$44 billion to \$396 billion. Equity, commodity and other contracts dropped by \$12.6 billion to \$1.14 trillion. Credit derivatives increased \$8 billion to \$360 billion.

“Credit derivatives rose after they were basically flat the previous quarter,” Mr. Brosnan said. “That market is just getting over some legal uncertainties related to definitional issues regarding payout events. Additionally, given overall economic concerns, the cost of buying credit protection had increased significantly on many reference entities, which reduced activity. Now that the legal problems appear to be resolved, and the cost of protection has come back down, we expect to see this product begin to grow again.”

The top seven commercial banks engaged in derivatives account for 96 percent of the total notional amount of derivatives in the commercial banking system, with more than 99 percent held by the top 25 banks.

The OCC third quarter derivatives report also noted that:

- Revenues from interest rate positions increased to \$1.6 billion, up \$200 million from the previous three months, while revenues from foreign exchange positions increased by \$578 million to \$1.5 billion. Revenue from equity, commodity and other trading positions decreased by \$136 million to \$391 million.
- Long-term contracts (those with maturities of five years or more) increased from the second quarter by \$1.4 trillion to \$10 trillion. Notional amounts for contracts with maturities of one to five years grew in the third quarter by \$1.1 trillion to \$13.8 trillion. Short-term (less than one year) contract notional volumes increased by \$820 billion to \$16 trillion.
- The number of commercial banks holding derivatives decreased by 8 to 359.

A copy of *OCC Bank Derivatives Report: Third Quarter 2001* is available on the OCC Web site: [www.occ.treas.gov](http://www.occ.treas.gov).

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The OCC charters, regulates and examines approximately 2,200 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 54 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.