

OTC Derivatives

Trading Globally

Put at \$41 Trillion

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By NICHOLAS BRAY

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Staff Reporter of THE WALL STREET JOURNAL

LONDON—The global market for over-the-counter derivatives turns out to be a lot bigger than many people expected.

A survey by the Bank for International Settlements put the total notional value of contracts outstanding for all types of OTC derivatives at around \$41 trillion—more than twice most previous assessments. Unlike derivatives traded on public exchanges, OTC products are privately traded between banks and other counterparties—and subject to much less scrutiny.

Covering trading in a range of markets including interest-rate products, foreign exchange, equities and commodities and carried out in March and April with the assistance of national central banks in 26 countries and 2,400 participants, the BIS survey provides the most comprehensive X-ray to date of this market.

Derivatives are financial instruments whose value is designed to track the return on stocks, bonds, currencies or some other benchmark.

BIS officials pointed out that their assessment of the risks involved in derivatives hasn't deteriorated by comparison with earlier estimates. That's because most derivatives contracts are based on market movements, rather than on the absolute values of the products or markets concerned.

If all outstanding OTC derivatives contracts were annulled—an unlikely event—BIS expert Svein Andreisen said their replacement value for traders and customers would amount to around \$1.7 trillion, or only 4.3% of their total notional value.

The growth of the derivatives market has worried international regulators in recent years because of the difficulty of monitoring the risks that derivatives themselves involve. Derivatives have played a role in several high-profile financial scandals, including the collapse last February of British investment bank Barings PLC.

The BIS survey, carried out alongside a three-yearly survey of foreign-exchange markets and made public at a news conference at the Bank of England, won't solve any problems for the financial security of market participants. But it will give regulators a better idea of what's going on in their national markets and a better understanding of the flows involved in OTC trading.

Until recently, estimates based on smaller groups of respondents and covering a narrower spectrum of products put the size of the global OTC derivatives market at below \$20 trillion.