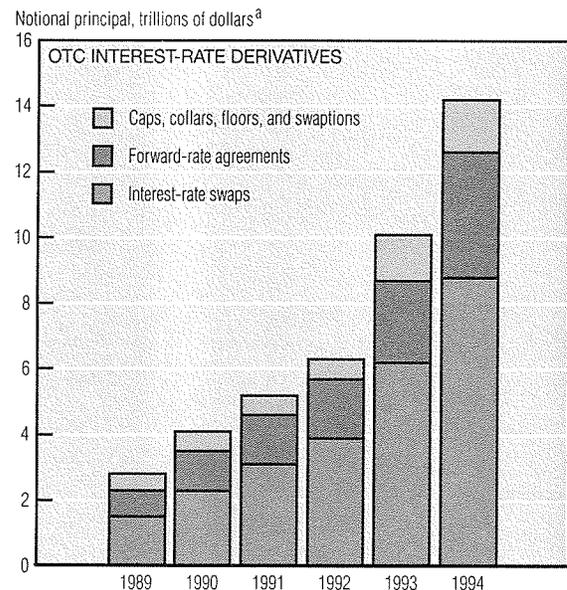
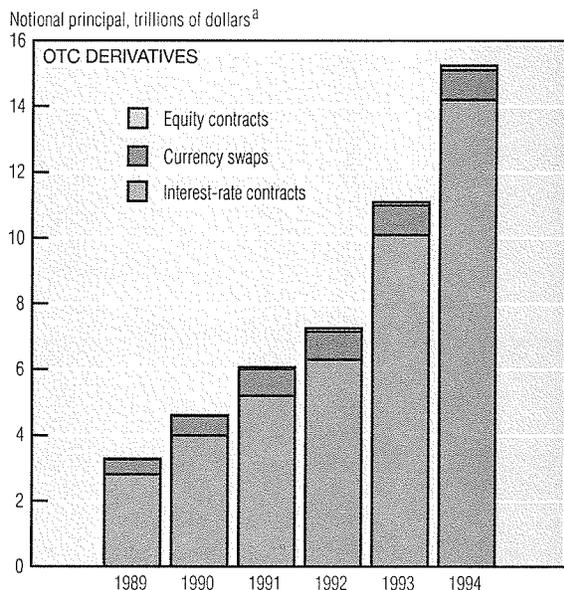
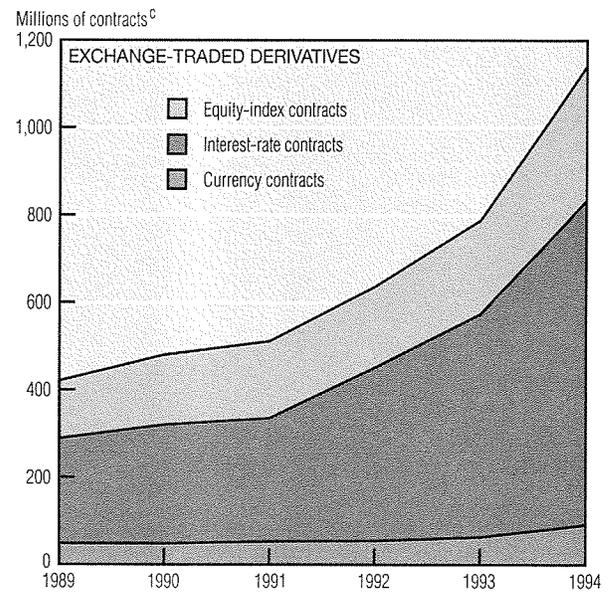
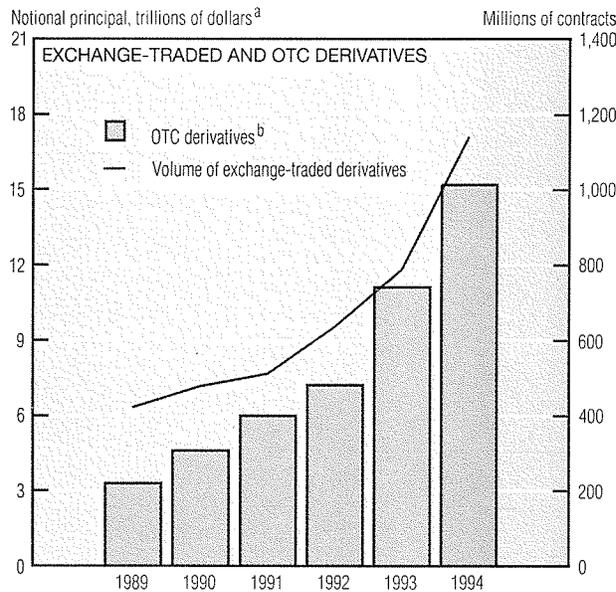


Derivatives



a. Notional principal is the value on which payments are based, but it does not represent a liability of either party.

b. Excludes currency options.

c. Values represent combined global trading volume of exchange-traded futures and options.

NOTE: Notional values of OTC derivatives have been halved to prevent double counting.

SOURCES: Bank for International Settlements; International Swap Dealers Association; Futures Industry Association; Options Clearing Corporation; Philadelphia Stock Exchange; and the Federal Reserve Bank of New York.

The volume of financial derivatives continues to grow at a rapid pace, although the growth has shifted somewhat from the over-the-counter (OTC) market to the organized exchanges. The 37% increase in notional value on the OTC market between 1993 and 1994, while still quite brisk, represents a slowdown from the 54% advance between 1992 and 1993. Exchange-traded derivatives increased their growth, with volume up 45% in 1994 in contrast to a mere 24% in 1993. Some observers attribute this

shift to a heightened concern with risk that has scared investors away from the more complicated and exotic instruments of the OTC market. Keep in mind, however, that these numbers do not include mortgage-backed derivatives, and that notional principal does not measure exposure to risk.

Interest-rate contracts continue to dominate the OTC market, both in total volume and in growth, accounting for \$14.2 trillion of the \$15.3 trillion OTC contracts. Interest-rate swaps also remain the dominant form of interest-rate contract. The

option-based instruments (caps, collars, floors, and swaptions) grew only 12.5% in 1994 after jumping 120% in 1993. Forward-rate agreements grew fastest—up 52%—within the interest-rate category.

Interest-rate contracts dominated exchange-traded derivatives as well, although other contracts also showed robust growth. Currency contracts, with volume up 45%, and equity-index contracts, with volume up 43%, barely lagged interest-rate contracts, which saw value increase by 46%.