Banking by John Hoefle

BIS says derivatives danger growing

According to figures released in a new report, the French banking system nearly disappeared in 1995.

For the last two years, the Bank for International Settlements' (BIS) Basel Committee on Banking Supervision and the International Organization of Securities Commissions have released surveys of the derivatives activities of 67 banks and 12 securities firms in 11 countries. Although these surveys look only at selected institutions, and do not measure total derivatives activity in the countries, they provide an interesting glimpse into international derivatives flows and holdings.

In 1995, the institutions in the survey held derivatives with an aggregate notional value of $69.3 trillion, an increase of $6.7 trillion (11%) over the $62.6 trillion in 1994. However, the 1995 list contains two banks which were not on the 1994 list, one of which, Sumitomo Bank, had $1.6 trillion in derivatives. That a bank with such a large derivatives portfolio was not included in the 1994 statistics, shows the shortcomings of the list as a measurement of global derivatives totals.

Reliable figures are difficult to obtain, given the desire of banks and regulators to downplay the dangers of the speculative bubble, but *EIR* estimates that the current global derivatives total is actually in the vicinity of $100 trillion; *EIR*'s estimate for 1995 was $75 trillion.

Among individual nations, the United States dominated derivatives activities, with $23.1 trillion, or 30% of the total. Of that, $16.3 trillion were held by 10 commercial banks, and another $6.8 trillion by 10 investment banks. Chase Manhattan Corp., thanks to its merger with Chemical Banking Corp., led all institutions on the list, with $4.8 trillion in derivatives, with second place going to J.P. Morgan, with $3.4 trillion. Citicorp was fourth, with $2.6 trillion, and Salomon, Inc., the top investment bank on the list, with $1.7 trillion, was fifteenth overall.

Japan finished second among nations on this deadly list, with $11.5 trillion in derivatives among eight banks and two securities firms. Leading the pack was the world's largest bank, the Bank of Tokyo Mitsubishi, with $2.9 trillion, and third place overall. Second among Japanese banks was the Industrial Bank of Japan, with $2.1 trillion, followed by Fuji Bank with $1.9 trillion, Sumitomo Bank with $1.6 trillion, and Sanwa Bank, with $1.5 trillion. Altogether, the eight Japanese banks on the list had $11.3 trillion, and the two securities firms had just $240 billion.

Next on the list comes the British Empire, with a combined total for the United Kingdom and Canada of $10.7 trillion. The eight U.K. banks on the list had $7.4 trillion in derivatives, led by National Westminster with $1.9 trillion, Barclays with $1.6 trillion, HBSC (the infamous Hongkong and Shanghai) with $1.5 trillion, and Lloyds Bank, with $1.4 trillion. Six Canadian banks made the list, with a total of $3.3 trillion, led by the Royal Bank of Canada with $929 billion, and the Canadian Imperial Bank of Commerce, with $880 billion.

Over the past several years, international regulators and bankers have kept the system afloat through a remarkable series of bailout operations, including the 1994 "Mexican" bailout package, and the $500 billion "Japan" package in 1995. During the same period, U.S. Federal regulators seized control of Bankers Trust, whose derivatives operation had gone completely wild. These rescue operations were only nominally aimed at specific countries—they were actually attempts to contain a *systemic crisis.* That process also was under way in France, whose banking system has for several years been teetering on the brink of vaporization.

In 1994, Société Générale of France had the largest derivatives exposure of any bank in the BIS survey, with $3.3 trillion, and France was second only to the United States in total derivatives exposure, with $11.7 trillion.

While every other country in the survey saw a rise in derivatives holdings in 1995, the derivatives holdings of the French banks on the list fell dramatically. The derivatives portfolio of Crédit Lyonnais (whose doors are open because of a string of government bailouts) dropped an astonishing 47%, measured in French francs, from FF 9.8 trillion ($1.8 trillion), to FF 5.2 trillion ($1.1 trillion); likewise, the derivatives portfolio of Crédit Commerciale de France dropped 44%, Crédit Agricole dropped 32%, Société Générale dropped 29%, Paribas dropped 20%, and Banque Nationale de Paris dropped 13%. Only one French bank on the list, Union Europeene de CIC, saw a rise in its derivatives holdings, of 29%. Overall, the eight French banks on the list saw their derivatives holdings drop FF 16.5 trillion (26%), from FF 62.4 trillion to FF 45.9 trillion, in 1995. In dollar terms, the drop was $2.3 trillion (20%), to $9.4 trillion.

Those figures indicate a meltdown in progress.