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PRESS RELEASE

RESULTS OF THE DECEMBER 2013 SURVEY ON CREDIT TERMS AND CONDITIONS IN EURO-DENOMINATED SECURITIES FINANCING AND OTC DERIVATIVES MARKETS (SESFOD)

- Price terms tightened, especially for banks and dealers as well as insurance companies.
- Terms offered to hedge funds and non-financial corporations eased overall.
- Demand by counterparties for funding of all types of collateral increased.
- Taken in isolation, implementation of leverage, liquidity coverage and net stable funding ratio regulatory initiatives is expected to lead to no more than a 25% decrease of securities financing books.

The main findings of the December 2013 qualitative survey on credit terms and conditions in euro-denominated securities financing and over-the-counter (OTC) derivatives markets (SESFOD) are as follows:

- The survey suggests that offered **price terms** (such as financing rates/spreads) tightened, on balance, for all types of counterparties covered in the survey over the three-month reference period ending in November 2013, in particular for banks and dealers as well as insurance companies. For each of the counterparty groups included in the survey, with the exception of hedge funds, at least four large banks reported that they had tightened price terms, in some cases considerably.

- By contrast, offered **non-price terms** (including, for example, the maximum amount of funding, haircuts, cure periods as well as covenants and triggers) remained basically unchanged (although four respondents indicated somewhat easier non-price terms for hedge fund clients and three respondents indicated the same for non-financial corporations). All in all, there was an overall easing in the **combined effect of price and non-price term changes** offered to hedge funds and non-financial corporations.

- **Demand by counterparties for the funding** of all included types of euro-denominated collateral increased, in some cases considerably. On balance, more than one-fifth of survey participants indicated an increased demand for the funding of high and lower-quality euro-denominated government bonds. Furthermore, for many types of collateral, there was a

particularly strong increase in demand for funding for maturities greater than 30 days, especially in the case of equities and convertible securities.

- With the exception of commodity derivatives, responses, on balance, suggested a decrease in the volume, duration and persistence of **disputes relating to the valuation of derivatives contracts**. At least four respondents indicated a decrease in the volume of such disputes for non-centrally cleared foreign exchange, interest rate derivatives and corporate and structured credit default swaps. In addition, at least four respondents reported a decrease, which in some cases was considerable, in the duration and persistence of disputes concerning the value of non-centrally cleared foreign exchange and interest rate derivatives contracts.

- The implementation of **regulatory initiatives** (as specified in publicly available proposals at the time of the survey) was reported to lead to a likely decrease of **securities financing books** by 86% of respondents with respect to the **leverage ratio**, by 67% of respondents with respect to the **liquidity coverage ratio** and by 48% of respondents with respect to the **net stable funding ratio**. In most cases, each of these reductions would represent a decrease of no more than 25% of the respondent's securities financing book.

- Amid reports of low dealer inventories of debt securities and growing concerns over possible adverse implications for market liquidity under strained market conditions, there was a wide divergence of responses regarding changes in the **market-making activities** of the surveyed large banks over the past five years. More banks reported that their market-making activities for debt securities had increased, often considerably, rather than decreased, whereas the opposite was true in the case of the balance for derivatives. However, on balance, respondents also noted that overall market-making activities, i.e. for all financial instruments taken together, had changed little over the past five years.

- Only about one-tenth of respondents indicated that their **ability to act as a market-maker in times of stress** for either debt securities or derivatives and overall would be "very limited" or "limited", while around one-half of respondents to the respective questions reported a "good" ability to provide liquidity in bad times. The majority of large banks noted either a "moderate" or "good" ability to act as a market-maker for high-quality government bonds in times of stress. By contrast, more than two-fifths of respondents reported a "very limited" or "limited" ability to provide liquidity in bad times for high-quality non-financial corporate bonds.

The SESFOD survey is conducted four times a year and covers changes in credit terms and conditions over the three-month reference periods ending in February, May, August and November. The December 2013 survey collected qualitative information on changes between September and November 2013. The results are based on responses from a panel of 29 large banks, comprising 14 euro area banks and 15 banks with head offices outside the euro area.

The December 2013 survey also contained special ad hoc questions on (i) the impact of certain regulatory proposals on the size of securities financing and derivatives books and (ii) changes in market-making activities.

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