EUROPEAN CENTRAL BANK

EUROSYSTEM

17 April 2014

PRESS RELEASE

RESULTS OF THE MARCH 2014 SURVEY ON CREDIT TERMS AND CONDITIONS IN EURO-DENOMINATED SECURITIES FINANCING AND OTC DERIVATIVES MARKETS (SESFOD)

- Credit terms have eased for the majority of counterparty types over the past three months.
- Credit terms for funding that is collateralised by euro-denominated securities have become less stringent for most collateral types since the December 2013 survey.
- By contrast, credit terms for non-centrally cleared OTC derivatives, on balance, either tightened or remained basically unchanged.
- Year on year, price terms have eased for most counterparty types: 43% of respondents say conditions have eased for banks and dealers; 30% of respondents say conditions have eased for hedge funds; non-price terms have also eased for many types of counterparty; and credit terms for secured funding were also reported to have eased.

The main finding of the March 2014 qualitative survey on credit terms and conditions in euro-denominated securities financing and over-the-counter (OTC) derivatives markets (SESFOD) is that there has been a widespread easing in securities financing terms. More precisely:

- Across the entire range of securities financing and OTC derivatives transactions, offered price terms (such as financing rates/spreads) have eased, on balance, for nearly all types of counterparty covered in the survey over the three-month reference period ending in February 2014. Furthermore, offered non-price credit terms (including, for example, the maximum amount of funding, haircuts and cure periods, as well as covenants and triggers) are also reported to have eased for almost all counterparty types. In addition, survey respondents indicated an increased use of financial leverage by hedge funds, an increased intensity of efforts to negotiate more favourable terms, and a decrease in the volume, persistence and duration of valuation disputes with counterparties.
- Credit terms offered to provide funding to clients that is collateralised by euro-denominated securities have eased for almost all types of collateral over the reference period from December 2013 to February 2014. Respondents to the March 2014 survey, on balance, reported an increase in the maximum amount and the maximum maturity of funding for many types of euro-denominated securities. In addition, respondents indicated, on net, a decrease

in haircuts and reported lower financing rates/spreads at which securities are funded for nearly all types of euro-denominated collateral covered in the survey. Furthermore, the results of the March 2014 survey also suggest that demand has increased for the funding of nearly all types of euro-denominated collateral included in the survey.

- Credit terms for OTC derivatives that are not cleared through a CCP are reported to have either tightened or remained basically unchanged on most aspects covered by the survey. Responses to the March survey show very little change in initial margin requirements and a small net percentage of respondents reported that the maximum amount of exposure and the maximum maturity of derivatives trades have decreased over the three-month reference period. While a large share of survey respondents indicated basically unchanged liquidity and trading for all types of non-centrally cleared derivatives, a limited number of respondents indicated a deterioration of liquidity conditions in non-cleared OTC derivatives markets.
- Looking at developments of credit terms by counterparty type over a longer horizon, the March 2014 survey results suggest that price terms have eased, and in some cases considerably, compared with the levels of one year ago for nearly all types of counterparty. Similarly, non-price terms have, on balance, eased compared with one year ago for banks and dealers, hedge funds, and sovereigns, but not for investment funds and non-financial corporations. The easing of price and non-price terms is most evident for banks and dealers, as well as for hedge funds. Over this longer reference period, credit terms for secured funding have eased for all types of collateral with the exception of convertible securities. By contrast, non-price credit terms applied to OTC derivatives counterparties have tightened for nearly all types of derivatives compared with one year ago.

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 March 2014 survey collected qualitative information on changes between December 2013 and February 2014. The results are based on responses from a panel of 28 large banks, comprising 13 euro area banks and 15 banks with head offices outside the euro area.

For media enquiries, please call Stefan Ruhkamp on +49 69 1344 5057.

European Central Bank
Directorate General Communications & Language Services
Global Media Relations
Kaiserstraße 29, D-60311 Frankfurt am Main
Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404
Internet: http://www.ecb.europa.eu