EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Results of the June 2015 survey on credit terms and conditions in euro-denominated securities financing and OTC derivatives markets (SESFOD)

- Tightening of price terms offered to hedge funds, investment funds, pension plans and other institutional investment pools, as well as sovereigns versus easing of non-price terms extended to non-financial corporations and insurance companies.
- Easing of financing rates/spreads offered in the provision of funding to clients collateralised with government bonds, high-quality corporate bonds and covered bonds versus tightening of maximum amounts and maximum maturity of funding.
- Decreased transaction volumes of securities financing and reduced ability to absorb large trades. Some expectations of scarcity for high-quality liquid collateral over the coming quarters.

Price terms offered to counterparties across the entire spectrum of securities financing and OTC derivatives transaction types on balance became less favourable over the three-month reference period ending in May 2015, in particular for counterparties which are hedge funds, investment funds, pension plans and other institutional investment pools, as well as sovereigns. The tightening of terms was driven by a deterioration in market liquidity and limited availability of balance sheet. At the same time, a small net percentage of respondents indicated that somewhat more favourable non-price terms had been extended to non-financial corporations and insurance companies. Overall credit terms are expected to tighten over the next three-month reference period. Banks also reported an increase in the level of resources and attention devoted to the management of concentrated credit exposures to central counterparties in

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particular, and in addition indicated that the use of financial leverage by hedge funds had increased somewhat.

Survey respondents widely reported lower financing rates/spreads offered in the provision of funding to clients collateralised with euro-denominated securities for most types of collateral, but in particular for government, sub-national and supra-national bonds, high-quality financial and non-financial corporate bonds, and covered bonds. Lower financing rates/spreads were not reported for corporate bonds, convertible securities or equities. At the same time, respondents also reported less favourable terms such as a lower maximum amount of funding and a shorter maximum maturity of funding for those types of collateral owing to a more selective use of balance sheet. Banks also reported that demand by counterparties for the funding of almost all types of collateral and all maturities had on balance increased somewhat, and that the liquidity and functioning of markets for the underlying collateral had on balance deteriorated somewhat for all types of euro-denominated collateral covered in the survey.

Credit terms for non-centrally cleared euro-denominated derivatives contracts covered in the survey tended to have remained basically unchanged over the reference period. However, a small share of respondents reported that liquidity and trading had deteriorated somewhat for most types of derivatives, with the reported deterioration being more pronounced for credit derivatives referencing sovereigns and credit derivatives referencing corporates. Some banks also reported an increase in the volume of valuation disputes for foreign exchange derivatives and equity derivatives, and indicated that acceptable collateral standards incorporated in new or renegotiated derivatives master agreements had tightened somewhat over the review period.

Survey respondents reported that trading volumes in securities financing markets had decreased owing to the increased prevalence of negatively yielding sovereign bonds, that bid-ask spreads in securities financing markets had increased somewhat, and that the ability of the market to absorb large trades had on balance decreased. Banks also reported having observed signs of collateral scarcity for some securities and expected the scarcity of high-quality liquid assets to increase over the coming quarters.

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 June 2015 survey collected qualitative information on changes between March and May 2015. The results are based on responses from a panel of 28 large banks, comprising 14 euro area banks and 14 banks with head offices outside the euro area.

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