EUROPEAN CENTRAL BANK

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PRESS RELEASE

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Results of the December 2016 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

- Less favourable credit terms offered to banks and hedge funds
- Higher initial margin requirements for non-centrally cleared OTC derivatives
- A decrease in market-making activities for debt securities and derivatives

Credit terms offered to counterparties in the provision of finance collateralised by euro-denominated securities and in over-the-counter (OTC) derivatives markets became somewhat less favourable for banks and dealers and for hedge funds, but remained basically unchanged for other counterparty types. Credit terms offered to all types of counterparty are expected to tighten further over the next three-month reference period between December 2016 and February 2017.

Regarding the provision of finance collateralised by euro-denominated securities, survey respondents indicated that credit terms such as the maximum amount of funding, the maximum maturity of funding and haircuts had remained basically unchanged. A small net percentage of respondents indicated less favourable financing rates/spreads offered to clients using government, sub-national and supranational bonds as collateral. The liquidity and functioning of markets for the underlying collateral (as opposed to the securities financing market itself) deteriorated over the three-month reference period for all types of government, sub-national and supranational bond, continuing the significant deterioration in liquidity and functioning reported by survey respondents since mid-2015.

Respondents reported that initial margin requirements had increased for all types of non-centrally cleared euro-denominated OTC derivatives contract over the reference period, partly owing to new requirements to exchange initial margin. Regarding non-price changes in new and renegotiated OTC derivatives master

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agreements, responses indicated less favourable conditions in relation to margin call practices, acceptable collateral, covenants and triggers, and other documentation features.

Banks reported a decrease in their market-making activities for debt securities and derivatives over the past year. Respondents' confidence in their ability to act as a market-maker in times of stress was relatively strong for derivatives, government bonds and covered bonds. Their confidence in their ability to act as a market-maker in times of stress was, however, decidedly weaker for the other asset classes covered by the survey.

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 2016 survey collected qualitative information on changes between September 2016 and November 2016. 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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