EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

31 October 2022

Results of the September 2022 Survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

- Tighter credit terms and conditions offered by banks to counterparties, mainly attributed to deterioration in general market liquidity and functioning
- Higher maximum amount of funding but shorter maximum maturity against domestic government bonds
- Deterioration in liquidity conditions continued for most collateral types
- Higher initial margin requirements for most OTC derivative types, especially commodity derivatives

On balance, overall credit terms and conditions tightened over the June-August 2022 review period across all counterparty types. Price terms tightened for all counterparty types, but in particular for banks and dealers, investment funds and hedge funds. Non-price terms tightened for hedge funds and banks and dealers. The overall tightening of credit terms and conditions − mainly attributed to a deterioration in general market liquidity and functioning − continued the trend reported for the previous five quarters and was in line with the expectations expressed in the June 2022 survey. Overall credit terms are expected to tighten further over the September-November 2022 review period. The amount of resources dedicated to managing concentrated credit exposures increased in the June-August 2022 review period, while the use of financial leverage and the availability of unutilised leverage decreased.

In the case of securities financing transactions, the maximum amount of funding offered against collateral in the form of euro-denominated domestic government bonds increased, while the maximum maturity offered decreased. For other types of collateral, respondents reported a mixed picture. Haircuts applied to euro-denominated collateral either increased or remained unchanged, while

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financing rates/spreads increased for financing secured against all collateral types. The liquidity of most collateral types continued to deteriorate, with the largest percentage of respondents reporting a decrease in the liquidity of high-yield corporate bonds.

Turning to non-centrally cleared over-the counter (OTC) derivatives, initial margin requirements for most OTC derivatives, and especially commodity derivatives, increased during the June-August 2022 review period. While liquidity and trading deteriorated somewhat for credit derivatives referencing corporates or structured credit products as well as commodity derivatives and total return swaps, they remained unchanged for all other OTC derivative types. Respondents also reported an increase in the volume, duration and persistence of valuation disputes for OTC commodity derivatives contracts.

The September 2022 SESFOD survey, the underlying detailed data series and the SESFOD guidelines are available on the European Central Bank’s website, together with all other SESFOD publications.

The SESFOD survey is conducted four times a year and covers changes in credit terms and conditions over three-month reference periods ending in February, May, August and November. The September 2022 survey collected qualitative information on changes between June 2022 and August 2022. The results are based on the responses received from a panel of 27 large banks, comprising 14 euro area banks and 13 banks with head offices outside the euro area.

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