EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

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Results of the December 2024 Survey on credit terms and conditions in euro-denominated securities financing and OTC derivatives markets (SESFOD)

- Overall credit terms and conditions tightened somewhat between September and November 2024 as general market liquidity deteriorated
- Demand for funding secured against all collateral types rose
- Market-making activities increased in 2024 on account of institutions' greater willingness to take on risk and are expected to continue increasing in 2025

Overall credit terms and conditions tightened somewhat between September and November 2024. The tightening of overall credit terms and conditions – reflected in both price and non-price terms – was in line with the expectations of such tightening expressed in the September 2024 survey. Respondents attributed the above-mentioned tightening of price and non-price terms mainly to a deterioration in general market liquidity. A small net percentage of survey respondents expected overall terms to tighten further across all counterparty types in the three months ahead (i.e. in the period from December 2024 to February 2025) (Chart 1).

For central counterparties (CCPs), survey respondents reported that changes in CCPs' practices, including margin requirements and haircuts, had contributed to a slight tightening in price and non-price terms. They reported increased resources allocated and attention paid to the management of concentrated credit exposures over the review period. Hedge funds' use of financial leverage and the additional availability of unutilised leverage increased over the period. Respondents reported increases both in the intensity of efforts made to negotiate more favourable terms for all counterparties and in the provision of differentiated terms for most-favoured clients. A small net percentage of

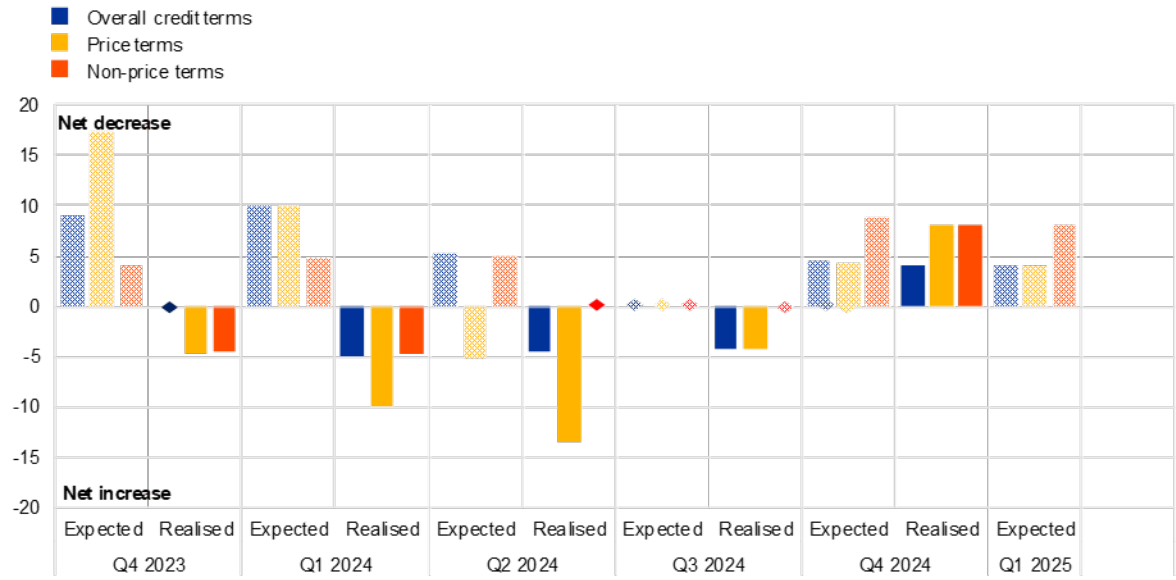
European Central Bank
Directorate General Communications
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu

respondents reported a slight increase in the volume, duration and persistence of valuation disputes across all counterparty types.

Chart 1

Expected and realised quarterly changes in overall credit terms and price/non-price terms offered to counterparties across all transaction types

(Q4 2023 to Q1 2025; net percentages of survey respondents)



Source: ECB.
Note: Net percentages are calculated as the difference between the percentage of respondents reporting “tightened somewhat” or “tightened considerably” and the percentage reporting “eased somewhat” or “eased considerably”.

Turning to financing conditions for funding secured against the various types of collateral, respondents reported increases in the maximum amount of funding secured against equity, domestic and other government bonds, and covered bonds. They also reported an overall increase in the maximum maturity of funding secured against government bonds, corporate bonds, convertible securities and equities. A significant net percentage of survey respondents reported that financing rates/spreads had increased for funding secured against all collateral types. Survey respondents also reported increased demand for funding across all collateral types. Moreover, they reported a slight deterioration in the liquidity and functioning of collateral markets. Finally, respondents reported a slight increase in the volume, duration and persistence of valuation disputes across almost all collateral types.

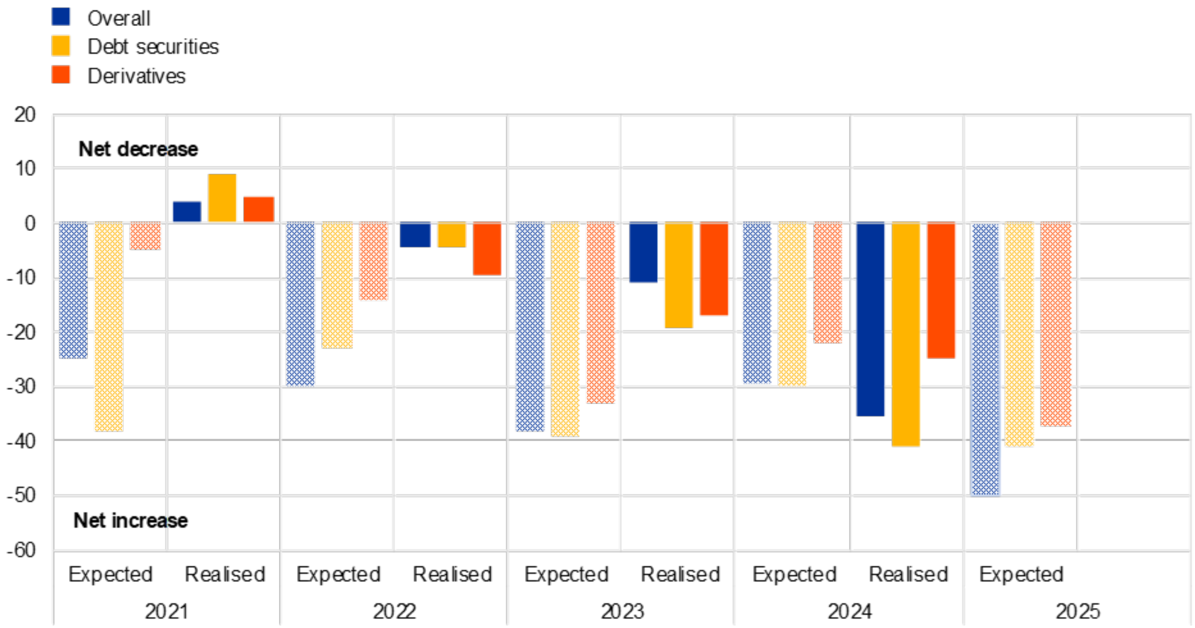
Looking at credit terms and conditions for the various types of non-centrally cleared OTC derivative, initial margin requirements increased for all derivative types except commodity derivatives and total return swaps, for which they remained unchanged. Survey respondents reported increases in the maximum amount of exposure in the case of foreign exchange and equity derivatives as well as credit derivatives referencing sovereigns and corporates. A few respondents reported liquidity and trading conditions that had deteriorated for interest rate and equity derivatives as well as for credit derivatives referencing corporates and structured credit products. Respondents reported that the duration and persistence of valuation disputes had increased across all derivative types.

Finally, turning to the special questions about market-making activities included in each fourth quarter survey round since December 2013, in December 2024 survey respondents reported that their market-making activities over the past year had generally increased. Market-making activities over the previous year had increased for debt securities and derivatives. Overall market-making activities, including both debt securities and derivatives, were expected to increase broadly in 2025 (Chart 2).

Chart 2

Realised and expected annual changes in market-making activities

(2021 to 2025; net percentages of survey respondents)



Source: ECB.
Note: The net percentage is defined as the difference between the percentage of respondents reporting "decreased considerably" or "decreased somewhat" and those reporting "increased somewhat" and "increased considerably".

Survey participants cited the willingness of institutions to take on risk as the main driver of an increase in market-making activities over the past year**.** This willingness to take on risk, the growing importance

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of electronic trading platforms and the profitability of market-making activities were the main factors behind the expected increase in market-making activities in the year ahead.

Respondents expressed confidence in their ability to act as market-makers in times of stress for all types of debt securities and derivatives**.** Willingness to take on risk remained the main reason for banks' confidence in their ability to act as market-makers in times of stress.

The results of the December 2024 SESFOD survey, the underlying detailed data series and the SESFOD guidelines are available on the ECB'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 December 2024 survey collected qualitative information on changes between September 2024 and November 2024. 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.

For media queries, please contact Ettore Fanciulli, tel.: +49 172 2570849.

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