EUROPEAN CENTRAL BANK
EUROSYSTEM

Press release

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Results of the June 2020 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

- Most widespread tightening of credit terms over three-month review period since SESFOD launched in 2013
- Less-favourable price terms for non-financial corporations and less-favourable non-price terms for hedge funds
- Liquidity and trading deteriorated materially for all types of OTC derivatives, while initial margin requirements increased for almost all types
- Some insurance companies, hedge funds and investment funds faced strained liquidity situations linked to variation margins

Survey respondents reported the most widespread tightening of credit terms and conditions over a three-month review period since the SESFOD was launched in 2013. For the March 2020 to May 2020 review period, their respective institutions offered less-favourable price and non-price credit terms for all counterparty types. For price terms, non-financial corporations were the most affected counterparty type, while for non-price terms the tightening of conditions was most noticeable for hedge funds. Respondents mainly attributed the tightening to a deterioration in general liquidity and market functioning, but they also suggested that current or expected financial strength of counterparties was an additional motivation for offering less-favourable conditions to hedge funds and non-financial corporations in particular.

The maximum amount and maturity of funding offered against all types of non-government euro-denominated collateral continued to decline, but rose for funding against government bonds as collateral. Haircuts applied to euro-denominated collateral increased significantly and financing rates/spreads increased for funding secured by all types of collateral except domestic government

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bonds. The liquidity of collateral deteriorated for all collateral types, and collateral valuation disputes recorded the strongest increase on record.

Initial margin requirements increased for all OTC derivatives except commodity derivatives, with a significant share of respondents reporting increased initial margin requirements for OTC credit derivatives referencing sovereigns, corporates and structured credit products. Respondents also reported that the maximum amount of exposures had decreased for OTC commodity derivatives and total return swaps referencing non-securities such as bank loans. Liquidity and trading deteriorated materially for all types of derivatives, with the most pronounced deterioration in credit derivatives referencing corporates, structured credit products and sovereigns. The volume, duration and persistence of valuation disputes rose further across all types of derivatives.

The June 2020 survey included a number of special questions aimed at gauging the impact of credit terms and margin requirements on market and counterparty liquidity situations against the background of the evolving coronavirus (COVID-19) crisis. Within the limits of their risk management frameworks, responding institutions accounted, to some degree, for their counterparties' liquidity or solvency situation when tightening credit terms during this period. Responding institutions were able to roll over money market transactions, albeit at less-favourable pricing conditions for many institutions. Survey respondents reported that their clients predominantly covered liquidity needs resulting from margin calls by tapping repo markets or credit lines. However, some insurance companies, hedge funds and investment funds faced strained liquidity situations linked to the posting of variation margins.

The SESFOD 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 June 2020 survey collected qualitative information on changes between March 2020 and May 2020. 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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