EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

23 January 2015

Results of the December 2014 survey on credit terms and conditions in euro-denominated securities financing and OTC derivatives markets (SESFOD)

- Further easing in credit terms in the provision of funding that is collateralised by euro-denominated securities for most collateral types.
- Euro area-domiciled respondents report a continuation of the easing of price terms while the opposite is true for respondents domiciled outside the euro area.

The main findings of the December 2014 SESFOD suggest: (i) on balance only limited changes in credit terms for most counterparty types across the entire spectrum of securities financing and OTC derivatives transactions that are collateralised by euro-denominated securities, but (ii) less stringent credit terms for funding that is collateralised by euro-denominated securities for many collateral types. More specifically:

- Across the entire range of securities financing and OTC derivatives transactions, a small net percentage of respondents indicated that offered price terms (such as financing rates/spreads) had become somewhat less favourable over the three-month reference period ending in November 2014, although the responses differed for the various counterparty types. In addition, responses continued to differ decidedly depending on where survey respondents are domiciled, with respondents domiciled within the euro area on balance reporting a continuation of the easing of price terms offered to banks and dealers, while survey respondents with headquarters outside the euro area continued to report less favourable price terms. Only a very small net percentage of responses indicate that offered non-price credit terms (including, for example, the maximum amount of funding, haircuts and cure periods, as well as covenants and triggers) tightened somewhat for some counterparty types.
- The credit terms offered in the provision of funding to clients that is collateralised by euro-denominated securities eased for most types of collateral over the September 2014 to November 2014 reference period. Respondents to the December survey indicated that both the maximum amount of funding as well as the maximum maturity of funding against euro-denominated securities

European Central Bank Directorate General Communications & Language Services
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu

as collateral had, on balance, increased over the three-month reference period ending in November 2014. While respondents indicated, in net terms, that haircuts for many types of euro-denominated collateral covered in the survey had remained basically unchanged, financing rates/spreads at which securities are funded decreased somewhat for many types of collateral. Demand by counterparties for the funding of all types of collateral on balance increased over the three-month reference period.

Responses to the December 2014 survey special ad hoc questions suggest (i) a decrease in overall market-making activities by large banks and (ii) a growing role for non-bank financial institutions. More specifically:

- Respondents' overall market-making activities decreased in 2014, driven by a decrease in market-making for government bonds and corporate bonds, while market-making activities for asset-backed securities and covered bonds on balance increased in 2014. A further decrease is expected in 2015, in particular in market-making activities for derivatives. Significantly more banks reported a "moderate" or "good" ability to act as a market-maker in times of stress for either debt securities or derivatives rather than a "very limited" or "limited" ability. Nonetheless, respondents' confidence in their ability to act as a market-maker in times of stress diminished over the past year.
- The growing role of non-bank financial institutions provides for additional liquidity under orderly market conditions, but most survey respondents did not expect these institutions to provide this liquidity under stressed market conditions owing to the absence of market-making obligations and a lower commitment to their client base. The use of high-frequency automated trading systems to submit prices on electronic trading platforms is increasing. While many respondents reported that the presence of high-frequency automated trading had a positive impact on the supply of short-term liquidity under normal market conditions, many also indicated that this presence was not a consistent source of liquidity in unfavourable market conditions.

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 2014 survey collected qualitative information on changes between September and November 2014. The results are based on responses 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 William Lelieveldt, tel.: +49 69 1344 7316.

European Central Bank Directorate General Communications & Language Services
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu