EUROPEAN CENTRAL BANK
EUROSYSTEM

Press release

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Results of the December 2021 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

- Financing conditions in securities financing markets continued to ease for most collateral types, but credit conditions in OTC derivatives markets tightened
- Market-making activities had decreased for both debt securities and derivatives over the past year but were expected to broadly increase in 2022
- Market participants expressed very low confidence in their ability to act as market-makers for corporate bonds in times of stress

As for securities financing transactions, survey participants reported a continued easing of financing conditions. This overall tendency could be seen in the net percentages reporting slightly higher or unchanged maximum amounts, the maximum maturity of funding for most types of euro-denominated collateral, and in decreasing rates/spreads for funding against most collateral types. Haircuts applied to euro-denominated collateral had increased slightly or were unchanged for almost all types of collateral. Respondents also reported weaker demand for funding for most collateral types.

Turning to non-centrally cleared over-the-counter (OTC) derivatives, respondents reported that initial margin requirements had increased slightly for many types of OTC derivative, and that liquidity and trading had deteriorated for many OTC derivative types.

The overall credit terms and conditions offered by banks to counterparties tightened slightly over the period from September to November 2021. A small net percentage of respondents reported less favourable overall credit terms for all counterparty types. While price terms tightened across the board, non-price terms tightened only for insurance companies and non-financial corporations. The overall tightening continues the development reported in previous quarters but contrasts with the expectations expressed in the last survey. Looking ahead, a small net percentage of respondents to the December

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

survey expected a further tightening of price terms for all types of counterparty over the period from December 2021 to February 2022, while non-price terms were expected to ease for most types of counterparty.

The December 2021 survey included a number of special questions about market-making activities. Survey respondents reported that market-making activities had decreased for many types of debt security and derivative over the past year, but were expected to broadly increase in 2022. Respondents cited competition from other banks as the main driver of changes in market-making activities over the last year and willingness to take on risk as the main driver of expected changes in market-making activities in the year ahead. Respondents expressed confidence in their ability to act as market-makers in times of stress for many asset classes – broadly confirming their assessment of the past two years – with the important exception of corporate bonds, for which they expressed very low confidence. Compared with the December 2020 survey, more respondents reported a “very limited” or “limited” ability to act as market-makers in times of stress for the categories “other government bonds” (i.e. lower quality government bonds) and “high-yield corporate bonds”.

The December 2021 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 2021 survey collected qualitative information on changes between September and November 2021. The results are based on responses from a panel of 26 large banks, comprising 14 euro area banks and 12 banks with head offices outside the euro area.

For media queries, please contact William Lelieveldt, tel.: +49 69 1344 7316.

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Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu