EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

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

- Overall credit terms and conditions tightened slightly for all counterparty types
- While financing conditions in securities financing markets continued to ease for most collateral types, credit terms in OTC derivatives markets tightened

Overall credit terms and conditions tightened slightly in both securities financing and over-the-counter (OTC) derivatives markets over the June 2021 to August 2021 review period. Survey respondents reported a tightening of overall credit terms for all counterparty types. Both price and non-price terms tightened somewhat for all counterparty types, and in particular for investment funds, hedge funds and insurance companies.

Respondents attributed the less favourable price terms mainly to a general deterioration in market liquidity and functioning, a decreased willingness of institutions to take on risk, and internal treasury charges for funding. They attributed the less favourable non-price terms mainly to a decreased willingness of institutions to take on risk, greater competition from other institutions, a general deterioration in market liquidity and functioning, and a reduced availability of balance sheet or capital.

With regard to securities financing transactions, respondents reported an ongoing easing of credit terms in securities financing markets across most collateral types, with increased maximum amounts of funding, increased maximum maturity of funding, decreased haircuts to collateral and, most notably, a continued decrease in financing rates/spreads for funding against almost all collateral types. Demand continued to weaken for funding against almost all collateral types, but in particular against government bonds and asset-backet securities.

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

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With regard to non-centrally cleared derivatives markets, respondents reported increased initial margin requirements for OTC derivatives, while liquidity and trading was broadly unchanged for the most part. Valuation disputes showed a moderate increase in volume as well as in duration and persistence.

The September 2021 survey included special questions aimed at determining the main purposes for which counterparties use OTC derivatives and securities financing transactions. Counterparties use OTC derivatives for a variety of purposes, depending on counterparty type, but they use securities financing transactions mainly for yield enhancement. While non-financial corporations, sovereigns, and bank and dealers use OTC derivatives almost exclusively for hedging purposes, hedge funds use them predominantly for speculation.

For counterparties that use OTC derivatives for yield enhancement and/or speculation, interest rate derivatives are the instrument of choice, while for counterparties that use securities financing transactions for yield enhancement and/or speculation, high-quality government, sub-national and supra-national bonds are preferred.

The September 2021 SESFOD, the underlying detailed data series and the SESFOD guidelines are available on the European Central Bank website together with all other SESFOD publications.

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 September 2021 survey collected qualitative information on changes between June 2021 and August 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.

European Central Bank
Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
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