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

3 March 2021

- Overall credit terms and conditions unchanged but some divergence between price and non-price terms
- Substantial decreases in financing rates/spreads for funding secured by all types of collateral except equities
- Weaker demand for funding across all types of collateral except equities
- Market-making activities increased in 2020 for both debt securities and derivatives owing to risk-taking and the growing importance of electronic trading platforms

Following significant changes in the previous three reporting periods, overall credit terms and conditions remained broadly unchanged over the September 2020 to November 2020 review period. At the same time, there was some divergence between price and non-price terms. Whereas price terms tightened slightly for all counterparties except banks and hedge funds, non-price terms eased on balance for all counterparty types. Respondents reported an easing in overall credit terms for each individual counterparty type. This was in line with the expectations expressed in the September 2020 survey. Looking ahead, a small net percentage of respondents expected overall terms to tighten over the December 2020 to February 2021 period.

Pressure from all counterparty types to obtain more favourable conditions increased, being most pronounced from hedge funds and non-financial corporates, while the provision of differential terms to most-favoured clients rose slightly over the reference period for almost all counterparty types but in particular for hedge funds.

Participants in the survey reported that the maximum amount of funding increased slightly or was unchanged on balance for many types of euro-denominated collateral. The maximum maturity of funding against euro-denominated collateral increased for most collateral types. Haircuts applied to euro-denominated collateral decreased for almost all types of collateral. Following the significant decreases reported in the previous SESFOD summary, respondents reported further substantial decreases in financing rates/spreads for funding secured by all types of collateral except equities. Demand for funding of all collateral types except equities continued to weaken. The liquidity of collateral improved for most collateral types.

Respondents also reported that initial margin requirements remained unchanged for almost all OTC derivatives except for credit derivatives referencing sovereigns. They reported very few changes for the maximum amount of exposure and maximum maturity of trades. Liquidity and trading deteriorated for commodity, foreign exchange and equity derivatives. However, a small net percentage of survey respondents reported an improvement in liquidity and trading for credit derivatives. Finally, the posting of non-standard collateral increased slightly.

The December 2020 survey included a number of special questions about market-making activities. Survey respondents reported that market-making activities increased for both debt securities and derivatives over the past year. Notable exceptions, for which market-making activities decreased, were asset-backed securities, high-yield corporate bonds and high-quality financial corporate bonds. Respondents reported willingness to take on risk and the growing importance of electronic trading platforms as the main drivers of changes and expected changes in market-making activities. Respondents expressed strong confidence in their ability to act as market-makers in times of stress for all asset classes. They reported willingness to take on risk as the main reason for banks’ ability to act as market-makers in times of stress.

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 December 2020 survey collected qualitative information on changes between September 2020 and November 2020. 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.

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