Results of the March 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

PRESS RELEASE

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- Less favourable non-price terms for secured funding and for non-cleared OTC derivatives
- Worsened market liquidity for underlying collateral
- Less favourable credit terms than one year ago for most counterparty types

Survey respondents reported that credit terms offered to counterparties, both in the provision of finance collateralised by euro-denominated securities and in OTC derivatives markets, tightened for all counterparty types when comparing the three-month reference period from December 2016 to February 2017 with the previous three months. By and large, the tightening of non-price terms was as important as the tightening of price terms. Worsened market liquidity and functioning, the reduced availability of balance sheet or capital and increasing internal treasury charges for funding were the most frequently cited reasons why overall credit terms had become less favourable, in addition to the tightening of non-price credit terms due to the implementation of new regulatory requirements on margins for non-cleared OTC derivatives. Credit terms are expected to tighten further for all types of counterparty over the next three-month reference period between March and May 2017.

Regarding the provision of finance collateralised by euro-denominated securities, survey respondents indicated that credit terms such as the maximum amount and maximum maturity of funding decreased somewhat and that financing rates/spreads had increased for many collateral types, but particularly when government bonds were used as collateral. The liquidity and functioning of markets for the underlying collateral (as opposed to the securities financing market itself) deteriorated, on balance, for nearly all types of euro-denominated collateral, although the deterioration was most pronounced for government bonds.

Looking at patterns in credit terms over a longer horizon, compared with one year ago responses indicated less favourable overall credit terms for all types of counterparty except for banks and dealers. The tightening of credit terms was more pronounced with respect to non-price terms than for price terms. Also, overall credit terms for secured funding tightened year-on-year when government bonds, high-yield corporate bonds or equities were used as collateral. Survey respondents also reported less favourable non-price credit terms applied to OTC derivative counterparties relative to one year ago, in particular in the case of interest rate and foreign exchange derivatives.

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 March 2017 survey collected qualitative information on changes between December 2016 and February 2017. 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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