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

PRESS RELEASE

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- Credit terms remained broadly unchanged for almost all counterparties but are expected to tighten significantly the next reference period
- Financing collateralised by euro-denominated securities continued to decline
- Valuation disputes saw a strong increase
- Terms and conditions in secured financing and OTC derivatives markets were, on balance, broadly unchanged compared with one year ago

Against the background of the emerging coronavirus (COVID-19) crisis during the latter part of the review period December 2019 to February 2020, price and non-price credit terms offered to non-financial corporations, insurance companies and hedge funds tightened somewhat in both the securities financing market and the OTC derivatives market. Terms and conditions for banks and sovereign counterparties remained almost unchanged or eased somewhat on account of improving liquidity conditions. However, survey respondents expect credit terms and conditions to tighten significantly for all counterparty types over the next three months, in particular for banks and dealers. Respondents also reported a material increase in the volume of valuation disputes with banks and dealers.

The maximum amount and maturity of funding offered against euro-denominated securities continued to decline, especially for funding secured with high-quality government, corporate and covered bonds and, to a lesser extent, asset-backed securities. Haircuts increased for most collateral types. However, financing rates/spreads decreased somewhat for funding secured by all types of collateral except equities, convertible securities and high-yield corporate bonds. Respondents reported the strongest increase in collateral valuation disputes over a three-month reference period – for all collateral types except domestic government bonds – since the launch of the survey in 2013.

For all types of non-centrally cleared OTC derivatives, initial margin requirements increased, liquidity and trading deteriorated materially, and valuation disputes rose.

As a result of the developing coronavirus (COVID-19) crisis, many respondents submitted their survey responses for the period December 2019 to February 2020 after the 5 March 2020 deadline. These respondents finalised their feedback against the background of the rapidly evolving crisis. It cannot be excluded that these respondents took these developments into account in their submissions.

As in previous years, the March 2020 survey also included a number of special questions designed to offer a longer-term perspective on credit standards by comparing current conditions with those observed one year ago. Respondents reported that, on balance, terms and conditions in the secured financing and OTC derivatives markets remained broadly unchanged from the previous year, having tightened slightly for hedge funds and investment funds while easing for sovereigns, banks and dealers. In net terms, credit standards for secured funding eased relative to a year ago, while non-price conditions in OTC derivatives markets eased somewhat for most types of derivatives over the same period.

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 March 2020 survey collected qualitative information on changes between December 2019 and February 2020. 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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SESFOD survey

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