EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

14 April 2021

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

- Credit terms and conditions slightly eased for all counterparty types except hedge funds, while hedge fund use of financial leverage increased
- Maximum maturity of funding increased for many types of collateral, while haircuts and financing rates/spreads decreased for funding secured by all types of collateral
- Demand for funding continued to weaken across all collateral types
- Overall terms and conditions for securities financing and over-the-counter derivatives transactions broadly unchanged compared with previous year but some divergence among different counterparty types

Overall credit terms and conditions slightly eased over the December 2020 to February 2021 review period. Respondents reported an easing of overall credit terms for each individual counterparty type except hedge funds, for which overall credit terms remained unchanged. The reported easing of overall credit terms was most pronounced for banks and dealers, followed by insurance companies. It was attributed to a general improvement in market liquidity and functioning, increased availability of balance sheet or capital, competition from other institutions, an increased willingness of institutions to take on risk, and the practices of central counterparties. Respondents expected overall terms to remain broadly unchanged over the March 2021 to May 2021 period.

The availability and use of financial leverage increased for hedge funds while the use of leverage by investment firms decreased. Pressure from all counterparty types to obtain more favourable conditions increased and was most pronounced from non-financial corporates. At the same time, there was no change in the provision of differential terms to most-favoured clients over the reference period.

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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While the overall view on the maximum amount of funding against different types of euro-denominated collateral was mixed, respondents reported that the maximum maturity of funding against euro-denominated collateral increased for many collateral types, that haircuts applied to euro-denominated collateral decreased for almost all types of collateral, and that financing rates/spreads continued to decrease for funding secured by all types of collateral.

A significant share of survey respondents reported that demand for funding of all collateral types continued to weaken further. The liquidity of collateral improved for most collateral types.

Respondents only reported limited changes with respect to non-centrally cleared over-the-counter (OTC) derivatives.

As in previous years, specific questions included in the March 2021 survey sought to provide a long-term perspective by comparing credit terms and conditions observed in early March 2021 with those observed and reported in the previous year (i.e. in early March 2020). Compared with the previous year, overall terms and conditions for securities financing and OTC derivatives transactions were broadly unchanged on balance but with some divergence among different counterparty types. In net terms, credit standards for secured funding eased compared with the previous year. Survey respondents reported that non-price conditions in OTC derivatives markets tightened for most types of derivatives relative to the previous year.

The March 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 March 2021 survey collected qualitative information on changes between December 2020 and February 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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