EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

16 October 2015

Results of the September 2015 survey on credit terms and conditions in euro-denominated securities financing and OTC derivatives markets (SESFOD)

- Less favourable price terms being offered to counterparties across the entire spectrum of securities financing and OTC derivatives transaction types for the fourth consecutive quarter.
- Liquidity and functioning of markets for the underlying collateral has deteriorated for many types of euro-denominated collateral covered in the survey.

Survey respondents reported less favourable price terms offered to counterparties across the entire spectrum of securities financing and OTC derivatives transaction types for the fourth consecutive quarter. While previous SESFOD surveys over the past year had indicated that the overall tightening was initially driven solely by banks domiciled outside the euro area, responses to the June 2015 and September 2015 surveys show that euro area-domiciled banks are now also contributing to the overall tightening of price terms. Worsened general market liquidity and functioning, limited balance sheet availability to back up transactions and increased internal treasury charges for funding at the respondent's institution were cited as the main reasons for the tightening of price terms. Survey respondents pointed to worsened general market liquidity and functioning, and lessened competition from other institutions as explanations for non-price terms becoming less favourable. Both price and non-price credit terms are expected to tighten further over the next three-month reference period from September 2015 to November 2015.

Respondents reported that the liquidity and functioning of markets for the underlying collateral (as opposed to the secured funding market itself) has deteriorated for many types of euro-denominated collateral covered in the survey over the June-August 2015 review period, following a similar deterioration reported in the previous survey. From a longer-term perspective, more than 60% of survey respondents reported that overall liquidity and market functioning in secondary markets has decreased relative to five years ago, in many cases considerably. A reduction in liquidity was reported for nearly all asset classes

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covered by the survey and was mostly attributed to a reduced willingness on the part of banks to provide capital for market-making services as a result of either regulatory changes or changes in internal risk-management practices. More than half of survey respondents expect liquidity and market functioning to decrease further for all asset classes covered by the survey over the next two years.

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 September 2015 survey collected qualitative information on changes between March and May 2015. 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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