



EUROPEAN CENTRAL BANK

EUROSYSTEM

# PRESS RELEASE

19 January 2016

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

- Less favourable credit terms being offered to counterparties across the entire spectrum of securities financing and OTC derivatives transaction types.
- Liquidity and functioning of markets has deteriorated for many types of euro-denominated collateral covered in the survey.
- Banks have decreased their market-making activities over the past year and expect further cutbacks in 2016.

Survey respondents reported less favourable price and non-price credit terms offered to all counterparty types covered by the survey over the three-month reference period ending in November 2015, in particular for counterparties which are hedge funds. Credit terms are expected to tighten further for all counterparties over the next three-month reference period, in some cases considerably.

The maximum amount and the maximum maturity of funding in securities financing transactions have decreased for many types of collateral. The reduction in the maximum amount of funding was most evident when government bonds and high-quality corporate bonds are used as collateral, while the reduction in the maximum maturity of funding was most pronounced when high-yield corporate bonds are used as collateral. Financing rates/spreads increased when high-yield corporate bonds are used as collateral, while they remained basically unchanged for most other collateral types.

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The use of central counterparties (CCPs) has increased somewhat for securities financing transactions when government bonds, high-quality and high-yield corporate bonds, and covered bonds are used as collateral. Survey respondents reported an increase in the level of resources and attention devoted to the management of concentrated credit exposures to CCPs in particular.

The deterioration in market liquidity and functioning reported in the June 2015 and September 2015 SESFOD surveys accelerated over the September-November 2015 reference period and is most evident for government bonds, high-yield corporate bonds, high-quality financial corporate bonds, high-quality non-financial corporate bonds and covered bonds.

A considerable number of respondents indicated a decrease in their market-making activities over the past year, especially for government bonds and high-quality corporate bonds, with expectations of a further decrease in 2016. Respondents' confidence in their current ability to act as a market-maker in times of stress is strongest for government bonds and weakest for high-yield corporate bonds and asset-backed securities. Compared with previous years, fewer banks characterised their ability to make markets in times of stress as "good", and more banks characterised it as only "moderate". Results show a strong deterioration in respondents' ability to act as a market-maker in times of stress, particularly for high-yield corporate bonds.

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 December 2015 survey collected qualitative information on changes between September and November 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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