EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

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Results of the June 2023 Survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

- Credit terms and conditions tightened for all types of counterparty between March and May 2023
- Resources and attention dedicated to managing concentrated credit exposures to banks and dealers increased
- With the exception of domestic government bonds, financing rates/spreads increased for funding secured against all types of collateral

Overall credit terms and conditions in the securities financing and OTC derivatives markets tightened for all types of counterparty between March and May 2023. This was a continuation of the developments observed over the previous eight quarters and was in line with the expectations expressed in the March 2023 survey. The tightening of credit terms and conditions was most pronounced for banks and dealers and insurance companies. Survey respondents mainly attributed this tightening to a deterioration in general market liquidity and functioning – and, to a lesser extent, concerns about an expected deterioration in the financial strength of counterparties and reduced competition from other institutions. Respondents expected overall credit terms to tighten further over the period from June to August 2023. Importantly, 40% of respondents reported that the amount of resources and attention dedicated to managing concentrated credit exposures to banks and dealers had increased over the review period.

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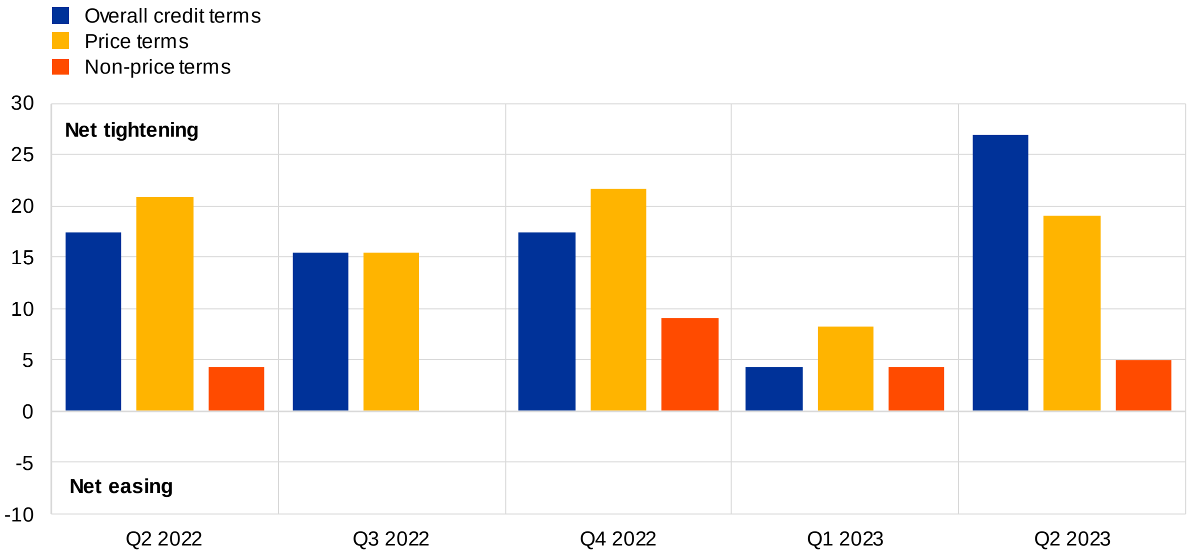
Chart 1

Changes in overall credit terms and price/non-price terms offered to counterparties across all transaction types

(Q2 2022 to Q2 2023; net percentages of survey respondents)



Source: ECB.
Note: Net percentages are calculated as the difference between the percentage of respondents reporting "tightened somewhat" or "tightened considerably" and the percentage reporting "eased somewhat" or "eased considerably".

Turning to financing conditions for various types of collateral in securities financing transactions, survey respondents reported a mixed picture as regards the maximum amount of funding offered against euro-denominated collateral. While respondents also reported a mixed picture as regards the maximum maturity of funding for average clients, a significant percentage of respondents reported an increase in the maximum maturity of funding secured against domestic government bonds for most-favoured clients. With the exception of domestic government bonds, financing rates/spreads increased for funding secured against all types of collateral. The most pronounced increases in financing rates/spreads were observed for asset-backed securities, high-quality non-financial corporate bonds and high-yield corporate bonds. Respondents also reported an increase in overall demand for funding, which was even more pronounced for funding with a maturity of greater than 30 days.

Finally, turning to non-centrally cleared OTC derivatives, survey respondents reported that initial margin requirements had decreased for commodity derivatives, but few changes were reported for other types of derivative. Survey respondents reported a mixed picture as regards the maximum amount of exposure and the maximum maturity of trades. Liquidity and trading deteriorated

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somewhat for foreign exchange derivatives, credit derivatives referencing corporates and structured credit products, and total return swaps referencing non-securities. Finally, survey participants reported an overall decline in the volume, duration and persistence of valuation disputes.

The results of the June 2023 SESFOD survey, the underlying detailed data series and the SESFOD guidelines are available on the European Central Bank's website, together with all other SESFOD publications.

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 June 2023 survey collected qualitative information on changes between March and May 2023. The results are based on the responses received from a panel of 27 large banks, comprising 14 euro area banks and 13 banks with head offices outside the euro area.

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