

The December 2021 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The December 2021 Senior Credit Officer Opinion Survey on Dealer Financing Terms collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets. In addition to the core questions, the survey included a set of special questions about participation in the Fixed Income Clearing Corporation's (FICC) sponsored repurchase agreement (repo) services. The 23 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to non-dealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted between November 9, 2021, and November 22, 2021. The core questions asked about changes between September 2021 and November 2021.¹

Core Questions

(Questions 1–79)²

With regard to the **credit terms applicable to, and mark and collateral disputes with, different counterparty types across the entire range of securities financing and OTC derivatives transactions**, responses to the core questions revealed the following:

- Price and nonprice terms on securities financing transactions and OTC derivatives were generally unchanged across most classes of counterparties. For hedge funds, a small net fraction of dealers reported tightening of nonprice terms such as haircuts, maximum maturity, or covenants (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”). A small fraction of dealers indicated an increase in insurance companies’ efforts to negotiate more-favorable price and nonprice terms.
- Small fractions of respondents indicated that resources and attention devoted to managing concentrated credit exposure to dealers and central counterparties increased somewhat. However, almost all respondents indicated that changes in central counterparty practices have not affected, or have minimally affected, the credit terms they offer to clients on bilateral transactions that are not cleared.
- The volume and duration of mark and collateral disputes remained basically unchanged over the past three months for most counterparty types, although a small fraction of

¹ For questions that ask about credit terms, net percentages equal the percentage of institutions that reported tightening terms (“tightened considerably” or “tightened somewhat”) minus the percentage of institutions that reported easing terms (“eased considerably” or “eased somewhat”). For questions that ask about demand, net fractions equal the percentage of institutions that reported increased demand (“increased considerably” or “increased somewhat”) minus the percentage of institutions that reported decreased demand (“decreased considerably” or “decreased somewhat”).

² Question 80, not discussed here, was optional and allowed respondents to provide additional comments.

dealers indicated an increase in the duration of such disputes with mutual funds and exchange-traded funds.

With respect to clients' **use of financial leverage**, dealers indicated little change, on net, over the past three months for most types of counterparties. A small net fraction of dealers reported a decrease in the use of leverage by hedge funds (see the exhibit "Use of Financial Leverage").

With regard to **OTC derivatives markets**, responses to the core questions revealed the following:

- Nonprice terms in master agreements for OTC derivatives remained largely unchanged.
- The volume and duration of mark and collateral disputes remained largely unchanged over the past three months for most types of contracts. A small net fraction of respondents indicated an increase in the volume of mark and collateral disputes for foreign exchange derivatives. Furthermore, one-fifth of respondents reported an increase in dispute durations for commodity derivatives, while a small net fraction of respondents reported an increase in dispute durations for interest rate derivatives.

With respect to **securities financing transactions**, respondents indicated the following:

- For non-agency residential mortgage-backed securities, commercial mortgage-backed securities, and consumer asset-backed securities, between one-fifth and one-third of respondents indicated easing of funding terms, such as haircuts and collateral spreads, for both average and most-favored clients. For other asset classes, terms under which various types of securities are funded remained largely unchanged.
- On net, one-fourth of dealers reported increased demand for funding equities. Demand for funding of other asset classes was largely unchanged (see the exhibit "Measures of Demand for Funding and Market Functioning").
- On net, liquidity and market functioning for all asset classes remained unchanged.
- The volume and duration of mark and collateral disputes remained unchanged, on net, across all collateral types.

Special Questions on Participation in the FICC's Sponsored Repo Services (Questions 81–87)

The special questions asked about participation by dealers and their clients in the FICC's sponsored repo services. The FICC's sponsored Delivery-versus-Payment (DvP) service allows a sponsored member to submit bilateral DvP repo transactions for clearing with performance guaranteed by the sponsoring member. The recently launched sponsored general collateral (GC) service allows sponsoring members to transact repo trades with their sponsored members on a

GC basis in triparty markets.³ The questions asked about current usage of the sponsored DvP repo service, changes in usage of the sponsored DvP repo service during March 2020, and expectations of sponsored GC repo activity over the next several years.

With respect to **current usage of the sponsored DvP repo service**, dealers reported the following:

- About three-fifths of respondents indicated that they are currently sponsoring members in the sponsored DvP repo service.
- Almost all current sponsoring members cited *greater balance sheet efficiency and reduction in capital usage for sponsoring members* as the most important factor supporting the usage of the sponsored DvP repo service. *Increased financing availability or access to greater market liquidity for sponsored members* was cited by more than three-fifths of respondents as the second most important factor, while *reduction in operational risk for sponsoring members* was cited as a contributing factor.
- *FICC margin and liquidity requirements for sponsoring members* was cited by about one-half of total respondents as the most important factor limiting the usage of the sponsored DvP repo service. The *administrative burden for new repo agreements* and *other membership obligations and operations costs associated with central clearing* were commonly cited as the second and third most important factors, respectively.

With respect to **usage of the sponsored DvP repo service during March 2020**, dealers reported the following:

- Approximately one-fourth of current sponsoring members reported that their institution's sponsored DvP repo volume increased, on net, during March 2020.
 - *Greater balance sheet efficiency and reduction in capital usage* was cited by all respondents who reported an increase as the most important factor driving the increase. *Increased financing availability* and *counterparty diversification benefits for sponsored members* were also cited as contributing factors.
- The remaining roughly three-fourths of current sponsoring members reported no change to their sponsored DvP repo volume during March 2020.
 - *FICC margin and liquidity requirements, other membership obligations and operations costs associated with central clearing*, and the *administrative burden for new repo agreements* were the three most cited factors limiting sponsored repo volume.
 - One-half of the respondents that reported no change indicated they had very little sponsored repo activity during March 2020.

³ Each sponsored GC trade is required to be fully collateralized with eligible securities including U.S. Treasury securities, agency debentures, and agency MBS.

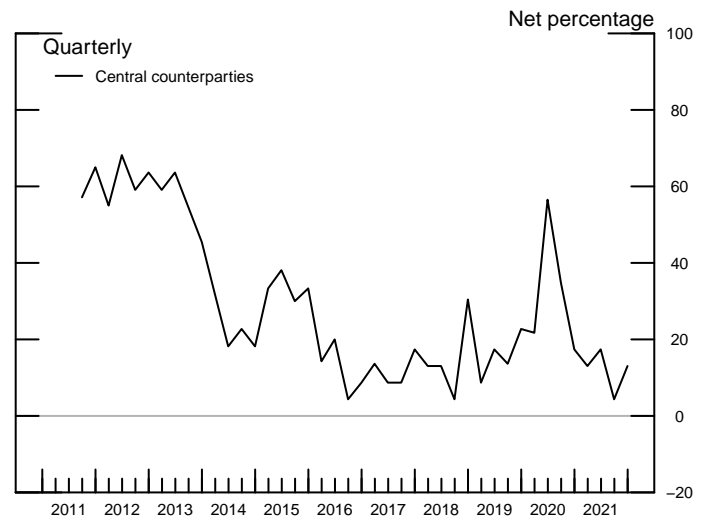
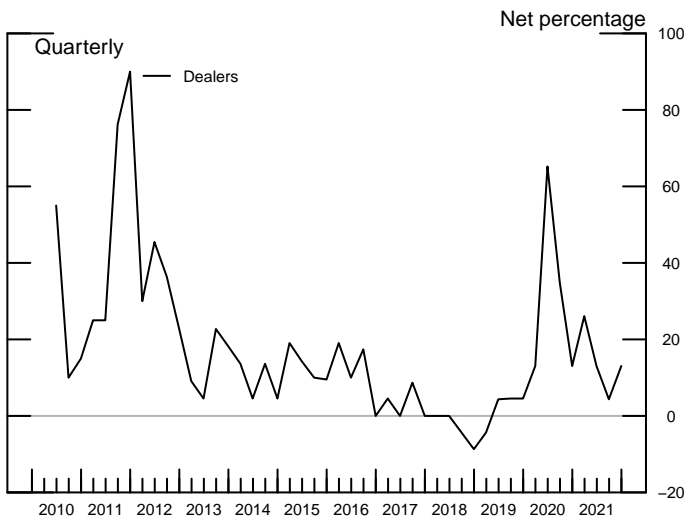
With respect to expectations for **sponsored GC repo trading activity** over the next several years, dealers reported the following:

- Among the three-fourths of respondents that reported that they expect growth in sponsored GC repo trading, about one-half expected *noncentrally cleared triparty activity* to be the most important source of sponsored GC repo trading activity, while about one-third expected *sponsored DvP activity* to be the most important source. *Noncentrally cleared bilateral activity* was also expected to be a contributing source.
- The remaining one-fourth of respondents reported that they do not expect much growth in sponsored GC repo trading.

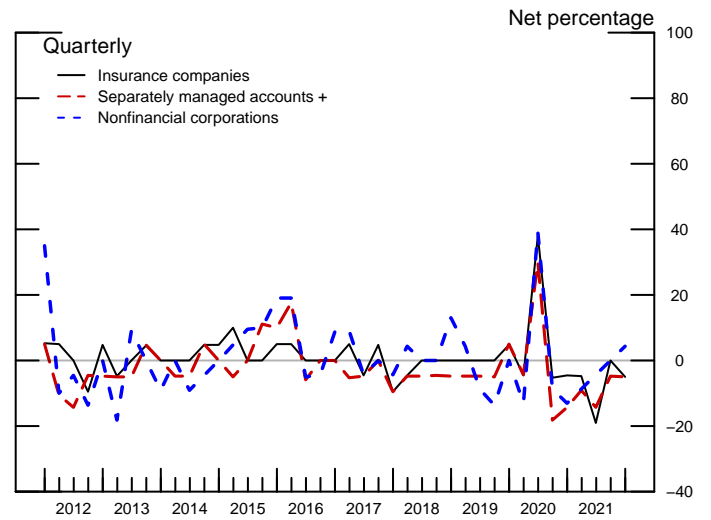
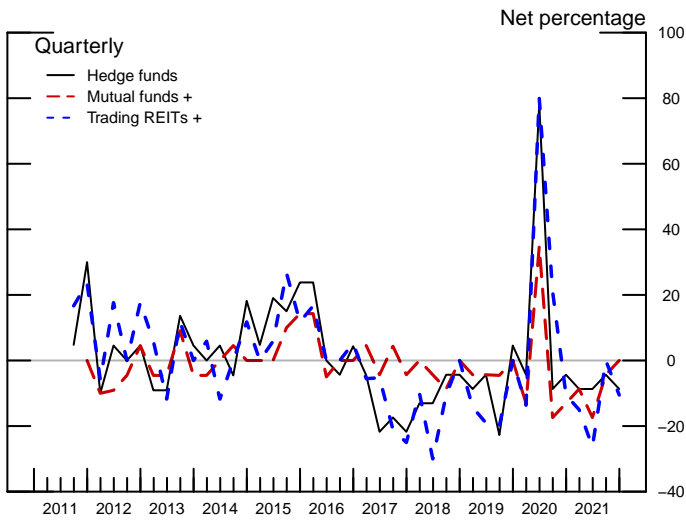
This document was prepared by Mary Tian, Division of Monetary Affairs, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.

Management of Concentrated Credit Exposures and Indicators of Supply of Credit

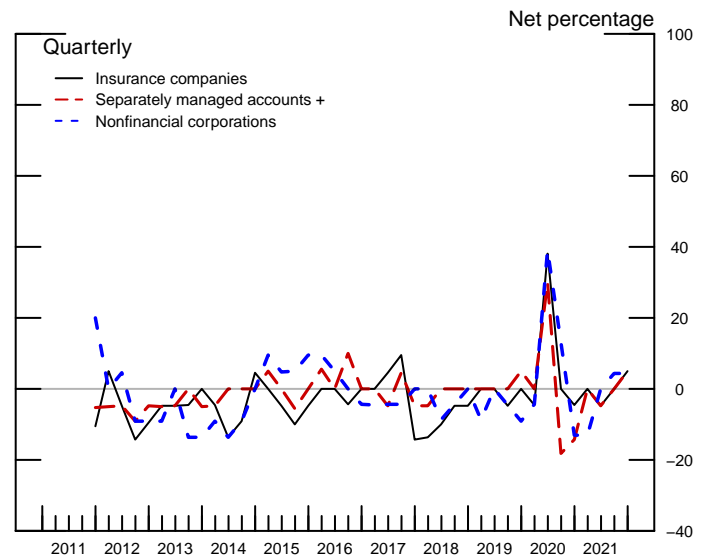
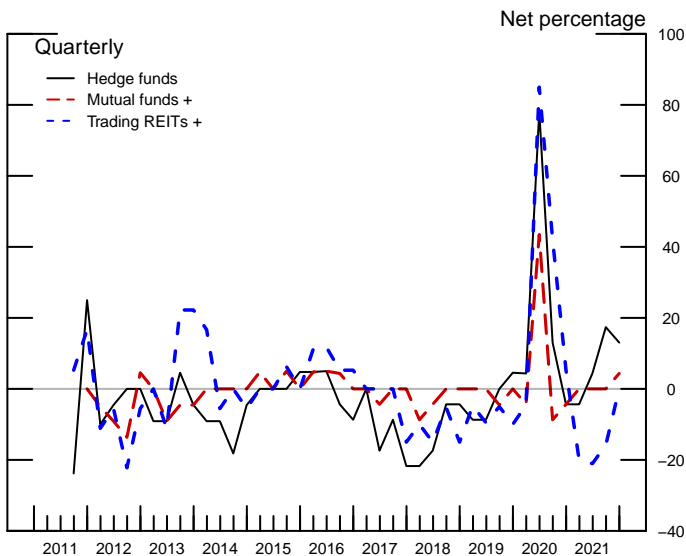
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



Respondents tightening nonprice terms to the following:



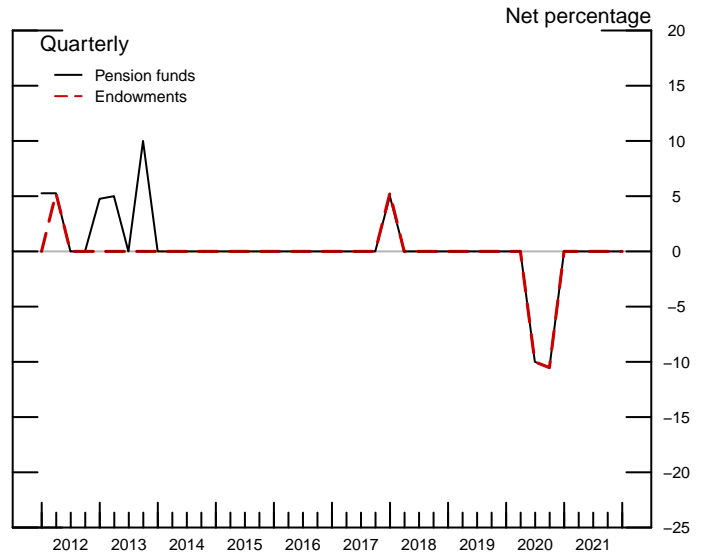
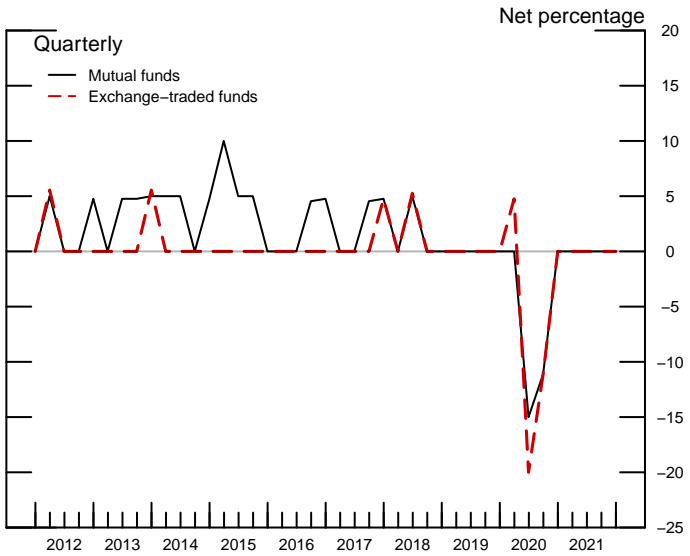
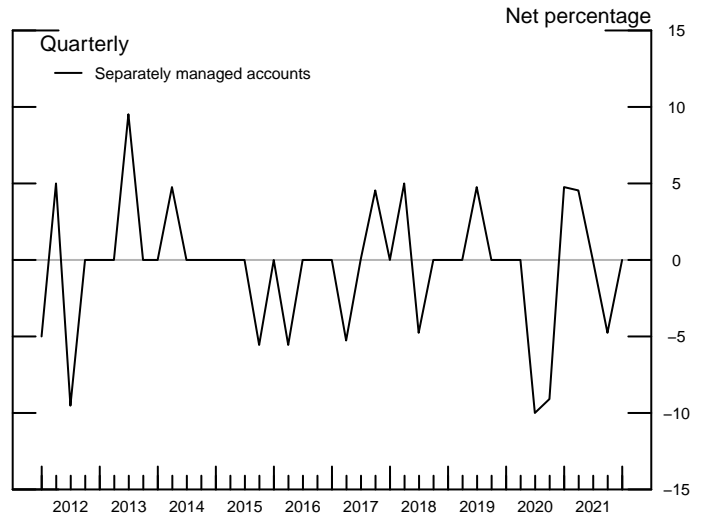
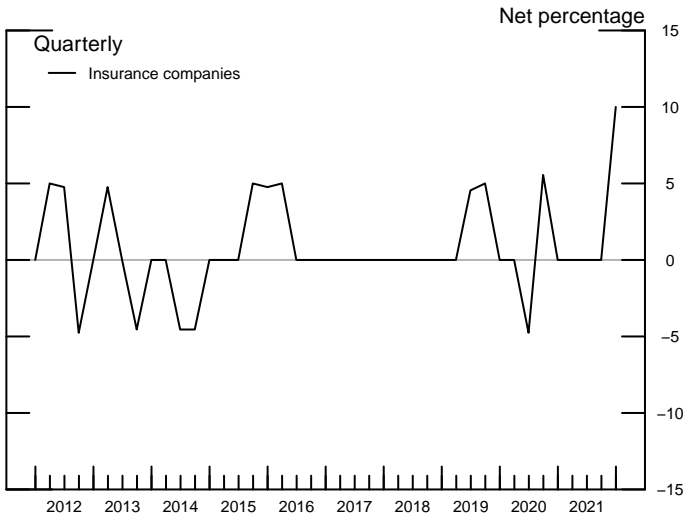
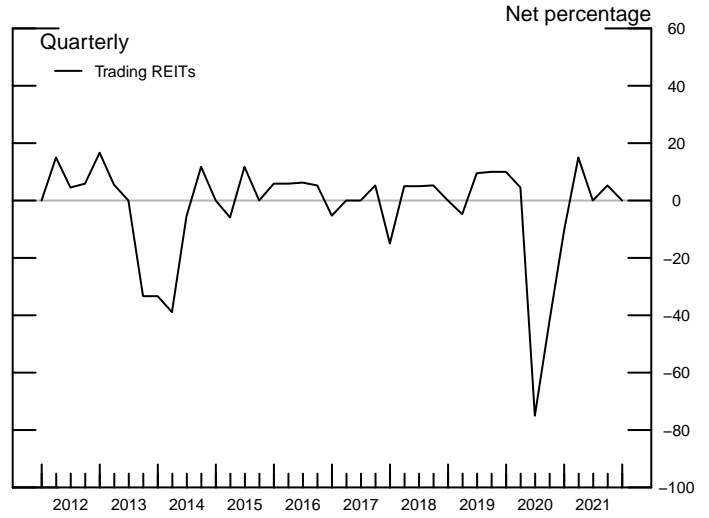
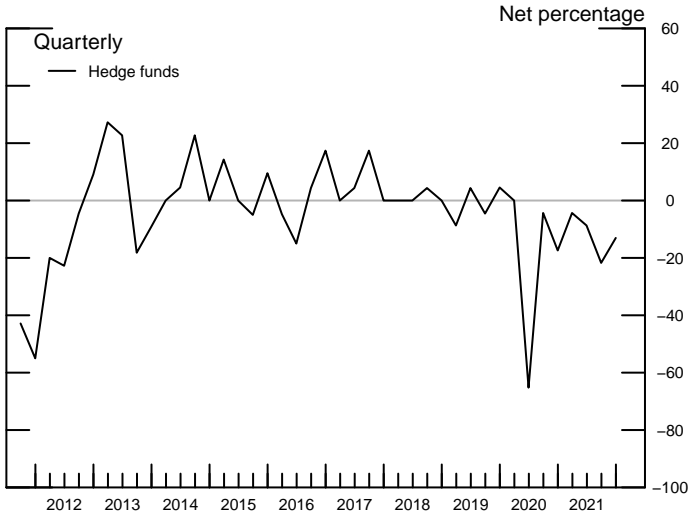
Note: REIT is real estate investment trust.

+ The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Use of Financial Leverage

Respondents reporting increased use of leverage by the following:

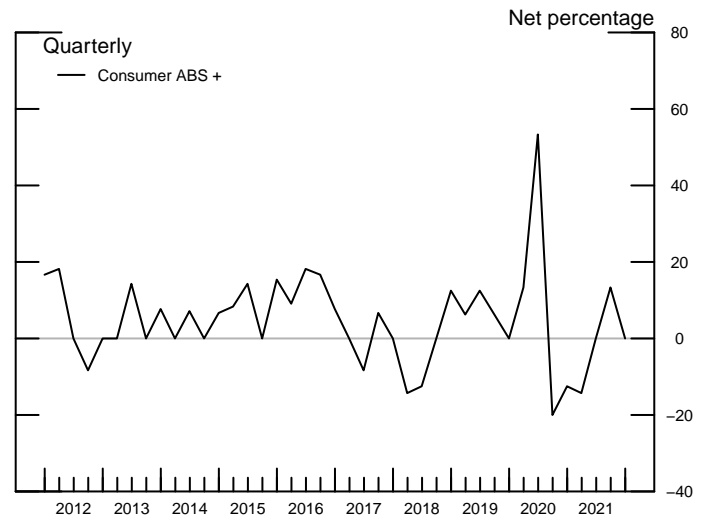
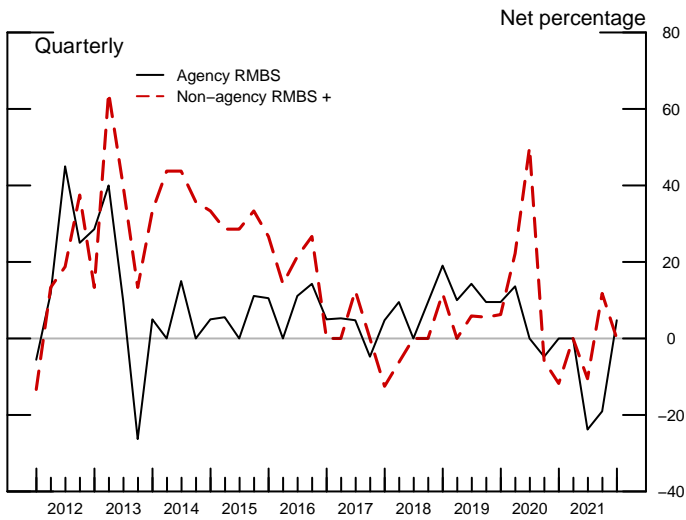
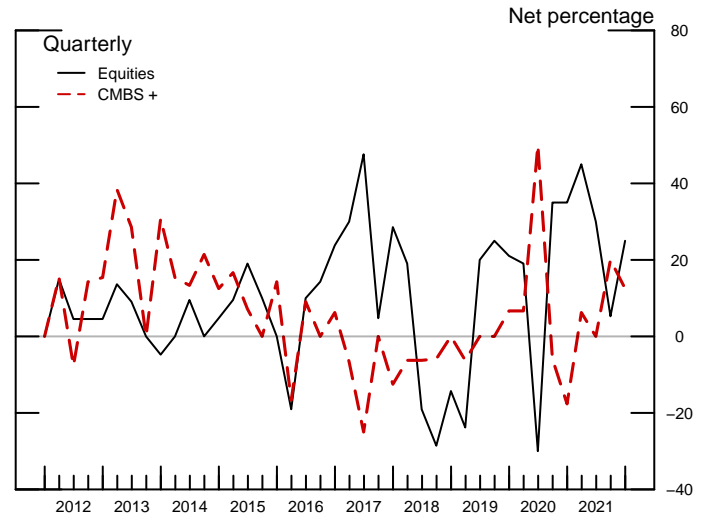
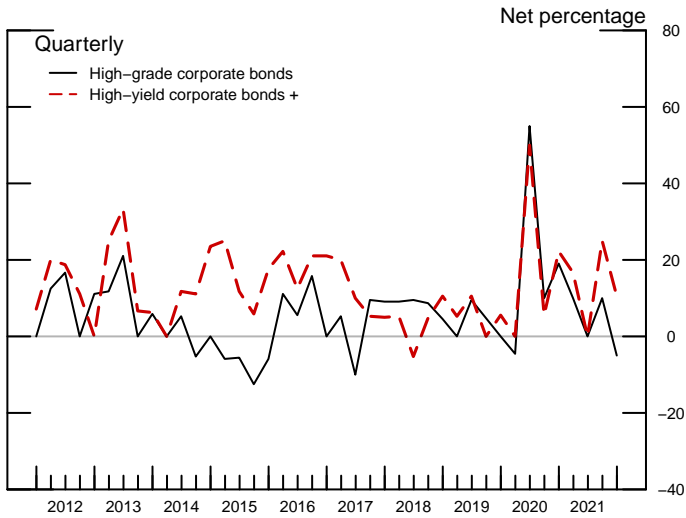


Note: REIT is real estate investment trust.

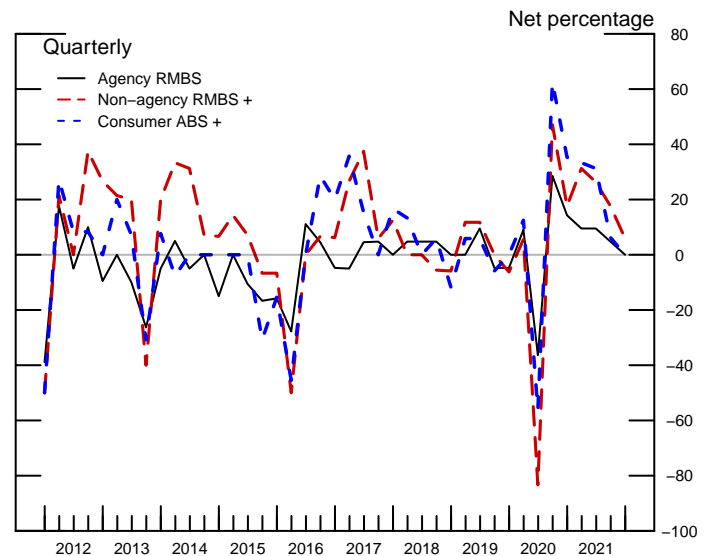
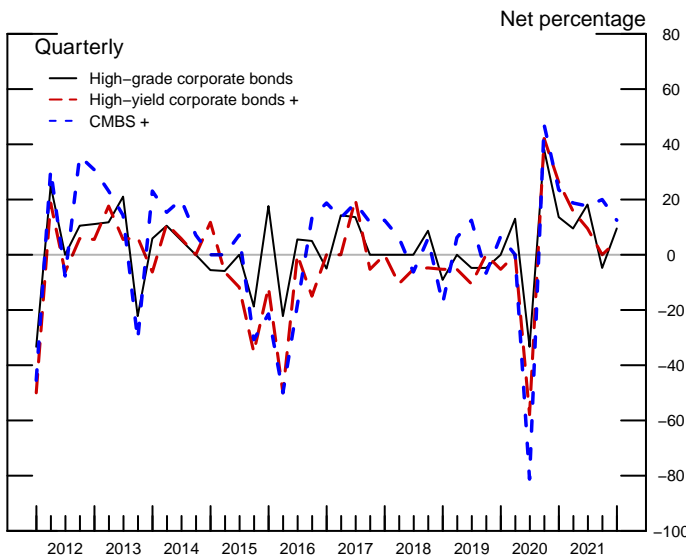
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:



Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:



Note: CMBS is commercial mortgage-backed securities, RMBS is residential mortgage-backed securities, and ABS is asset-backed securities. + The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.