The December 2023 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The December 2023 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS) collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets between mid-August 2023 and mid-November 2023.[1] In addition to the core questions, the survey included a set of special questions about changes in participation in the Fixed Income Clearing Corporation's (FICC) sponsored repurchase agreement (repo) services since the fourth quarter of 2021.

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:

- For nonfinancial corporations, mutual funds, exchange-traded funds, pension plans, and endowments, small fractions of dealers reported that they tightened nonprice terms on securities financing transactions and OTC derivatives. A similar small fraction of dealers reported that they tightened price terms for nonfinancial corporations. Price and nonprice terms for all other counterparty types were generally unchanged over the past three months (see the exhibit "Management of Concentrated Credit Exposures and Indicators of Supply of Credit"). A small fraction of dealers indicated an increase in hedge funds' and insurance companies' efforts to negotiate more-favorable price and nonprice terms.

- A small fraction of respondents indicated that they increased the resources and attention devoted to managing concentrated credit exposure to dealers. Almost all respondents indicated that changes in central counterparty practices have had either minimal or no effect on 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 all counterparty types.

With respect to clients' **use of financial leverage**, nearly all dealers reported that the use of financial leverage remained basically unchanged over the past three months for all types of counterparties (see the exhibit "Use of Financial Leverage").

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[1] The 21 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to nondealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted between November 7, 2023, and November 20, 2023. The core questions asked about changes between mid-August 2023 and mid-November 2023.

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

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

- All dealers reported no changes in nonprice terms in master agreements.

- Nearly all dealers reported no changes in initial margin requirements for all types of OTC derivatives.

- The volume of mark and collateral disputes remained basically unchanged over the past three months for all types of OTC derivatives. One-fifth of respondents indicated an increase in the duration and persistence of mark and collateral disputes for commodity derivatives.

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

- Nearly all dealers indicated that securities funding terms remained largely unchanged over the past three months for all types of securities collateral.

- The vast majority of dealers reported that demand for funding remained basically unchanged for all types of securities collateral (see the exhibit "Measures of Demand for Funding and Market Functioning"). One-fifth of dealers reported that demand for term funding of consumer asset-backed securities increased, while a smaller fraction reported that demand for term funding of non-agency residential mortgage-backed securities increased.

- Nearly all dealers indicated that liquidity and market functioning for all types of securities remained basically unchanged over the past three months.

- The volume, duration, and persistence of mark and collateral disputes remained unchanged, on net, across all collateral types.

Special Questions on Changes in Usage of the FICC's Sponsored Repo Programs since 2021:Q4
(Questions 81–93)

The FICC's sponsored services allow sponsored members to execute and settle repo transactions in eligible securities on existing platforms via a sponsor. The 2021:Q4 SCOOS special questions first asked about usage of the sponsored Delivery-versus-Payment (DVP) and sponsored general collateral (GC) repo services. Since then, sponsored-service volumes have grown substantially and are at or near peak levels. In the special questions, dealers were asked about changes in their institution's and their clients' participation in the FICC's sponsored repo services since 2021:Q4 and expectations of sponsored repo activity over the next year. In addition, dealers were asked to rate the importance of various factors in their decision on whether to participate in sponsored DVP and sponsored GC repo services.

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

- About three-fourths of respondents reported that their institution is currently active in sponsored DVP, an increase from the three-fifths of respondents who were active in sponsored DVP in 2021:Q4.

- Nearly all institutions currently active in sponsored DVP reported that the total volume of their sponsored DVP repo trades with hedge fund clients, as a fraction of their overall repo volumes with hedge fund clients, increased since 2021:Q4. Two-thirds of active institutions reported an increase in sponsored DVP repo fractions with money market fund and other asset manager clients, while the fraction with broker-dealer clients remained basically unchanged.

- All institutions that reported an increase in sponsored DVP repo volume since 2021:Q4 cited “greater balance sheet efficiency and reduction in capital usage” and “increased financing availability or access to greater market liquidity for clients” as important factors for the increase. Meanwhile, all institutions that reported no change in sponsored DVP repo volume cited “administrative burden for new repo agreements,” “FICC margin and liquidity requirements,” and “other operational costs associated with central clearing” as very important factors for the lack of increase. These factors were also the three most important factors cited in 2021:Q4 for limiting usage of sponsored DVP.

- Among the institutions active in sponsored DVP, one-half of respondents reported that they are equally likely to collect or deliver margin to their cash-lending sponsored counterparties, while one-fourth reported they generally neither collect nor deliver margin to such counterparties. For cash-borrowing sponsored counterparties, about one-fifth of respondents reported they generally collect margin, about one-third reported they are equally likely to collect or deliver margin, and about one-fifth reported they generally neither collect nor deliver margin.

- Of the approximately one-fourth of respondents who are not currently active in sponsored DVP, “lack of client interest in the sponsored DVP service” and “lack of anticipated benefits for your institution” were most frequently cited as very important factors in their decision not to participate.

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

- About two-fifths of respondents reported that their institution is currently active in sponsored GC.

- Among the institutions currently active in sponsored GC, three-fourths reported that the total volume of their sponsored GC repo trades with money market fund clients, as a fraction of their overall repo volumes with money market fund clients, increased since 2021:Q4, while one-half reported an increase in the sponsored GC repo fraction with other asset manager clients. In contrast, the sponsored GC repo fraction with hedge fund and broker-dealer clients remained basically unchanged.

- All or nearly all institutions that reported an increase in sponsored GC repo volume since 2021:Q4 cited “greater balance sheet efficiency and reduction in capital usage,” “operational efficiencies from the triparty platform,” and “increased financing availability or access to greater market liquidity for clients” as important factors for the increase.

- In contrast, all institutions that reported no change in sponsored GC repo volume cited “onboarding complexities associated with the sponsored GC repo service” and “administrative burden for new repo agreements” as very important factors. Nearly all of the approximately three-fifths of respondents who are not currently active in sponsored GC also cited these factors as important reasons in their decision not to participate.

With respect to **expected usage of the sponsored DVP repo service over the next year**, dealers reported the following:

- Two-thirds of respondents indicated that they expect their institution’s volume in total sponsored DVP repo trades to increase. All or nearly all such respondents cited “preparation for potential regulatory changes,” “greater balance sheet efficiency and reduction in capital usage,” and “increased financing availability or access to greater market liquidity for clients” as important factors for the expected increase in sponsored DVP repo volume.

- The remaining one-third of respondents all expected their institution’s sponsored DVP repo volume to remain basically unchanged over the next year.

With respect to **expected usage of the sponsored GC repo service over the next year**, dealers reported the following:

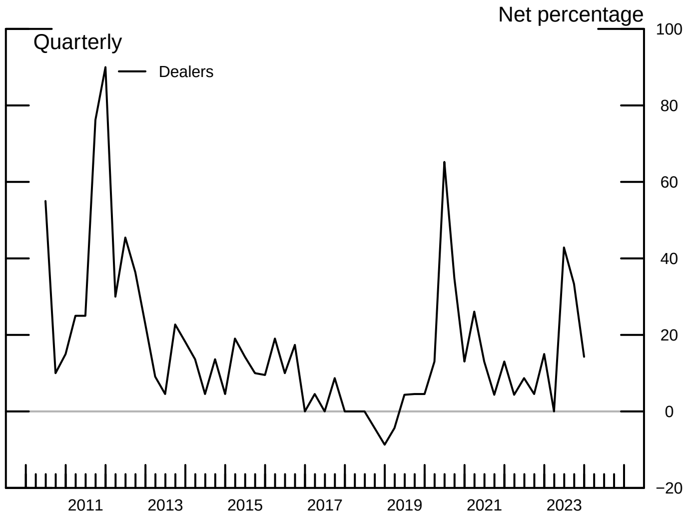
- Slightly over one-half of respondents indicated that they expect their institution’s volume in total sponsored GC repo trades to increase. All or nearly all such respondents cited “preparation by your institution for potential regulatory changes” and “greater balance sheet efficiency and reduction in capital usage” as important factors for the expected increase in sponsored GC repo volume, similar to factors cited by those expecting an increase in usage of sponsored DVP.

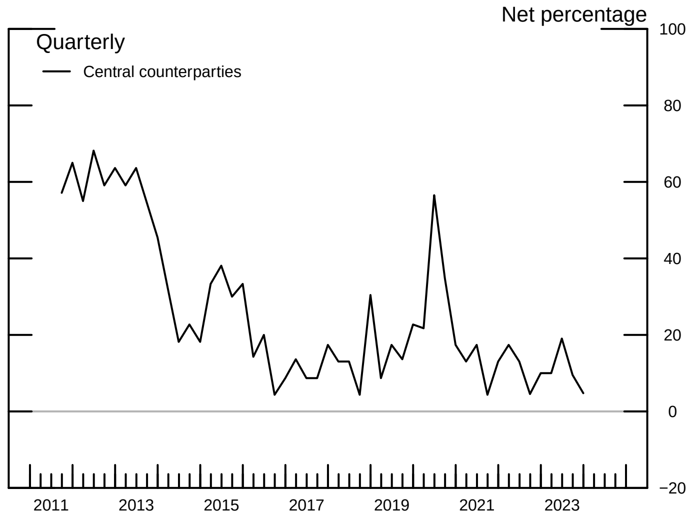
- The remaining respondents all expect their institution’s sponsored GC repo volume to remain basically unchanged over the next year. “FICC margin and liquidity requirements” and “limited demand for the GC repo service from clients” were cited most often as very important factors for the expectation of unchanged volume.

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.

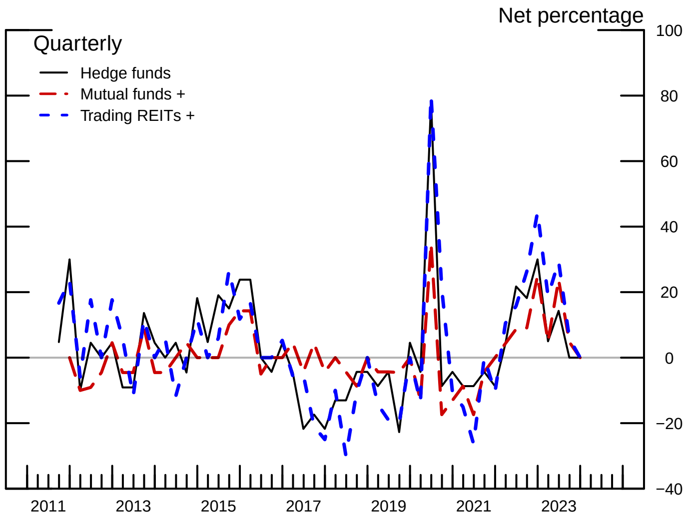
Management of Concentrated Credit Exposures and Indicators of Supply of Credit

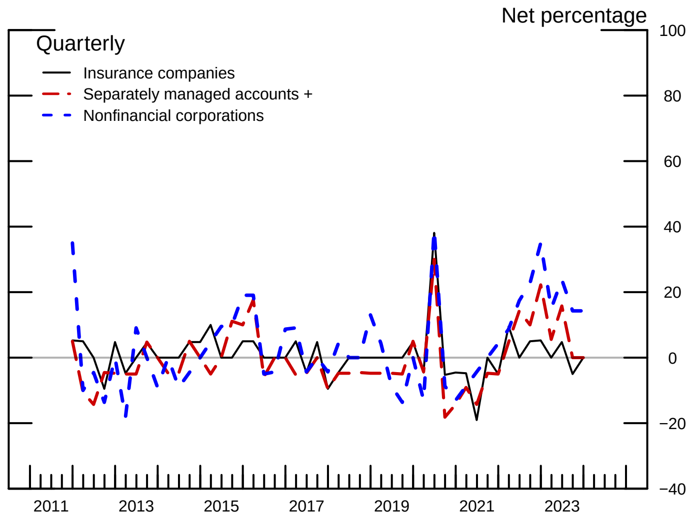
Respondents increasing resources and attention to management of concentrated exposures to the following:



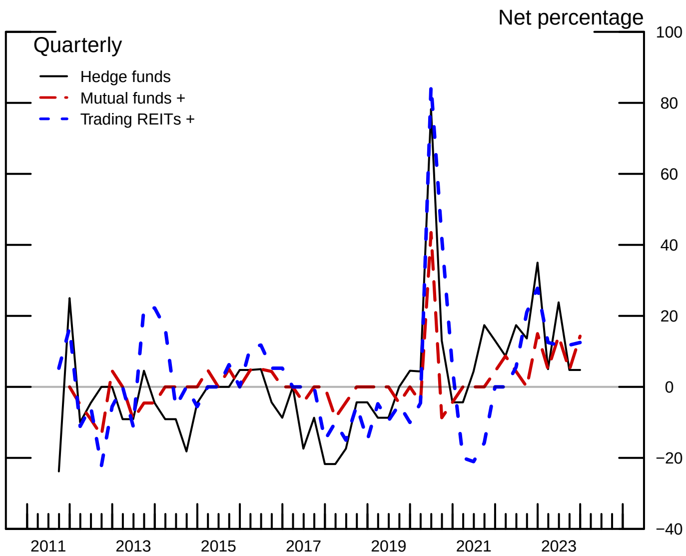


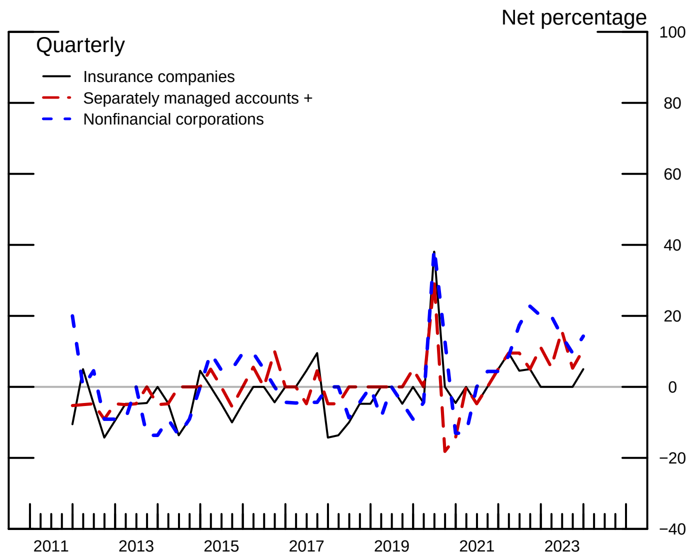
Respondents tightening price terms to the following:





Respondents tightening nonprice terms to the following:

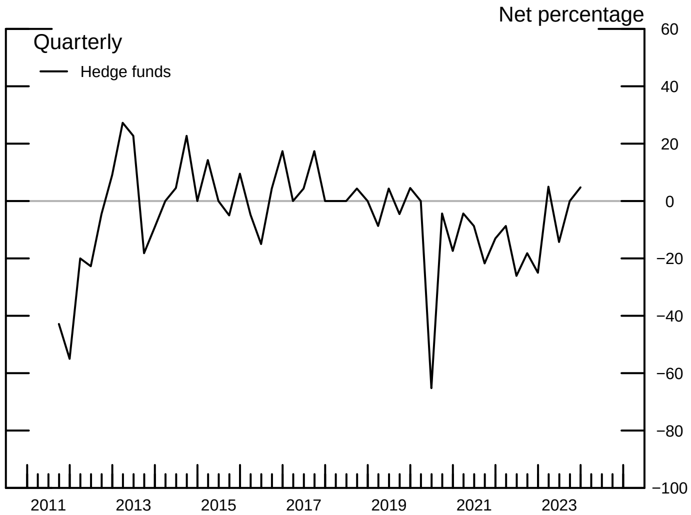


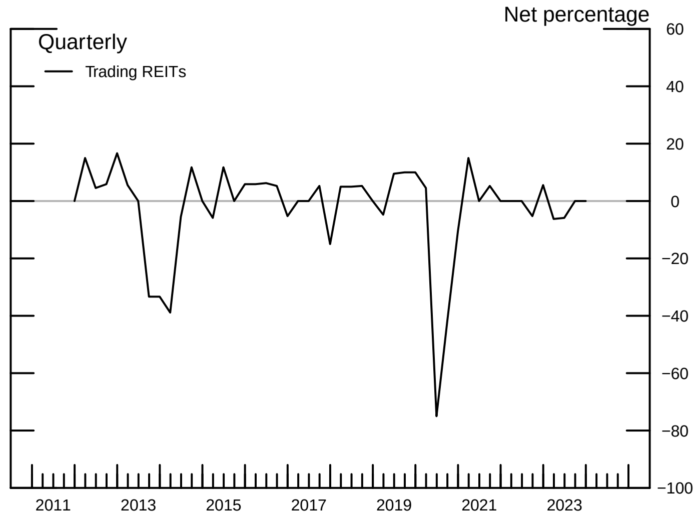


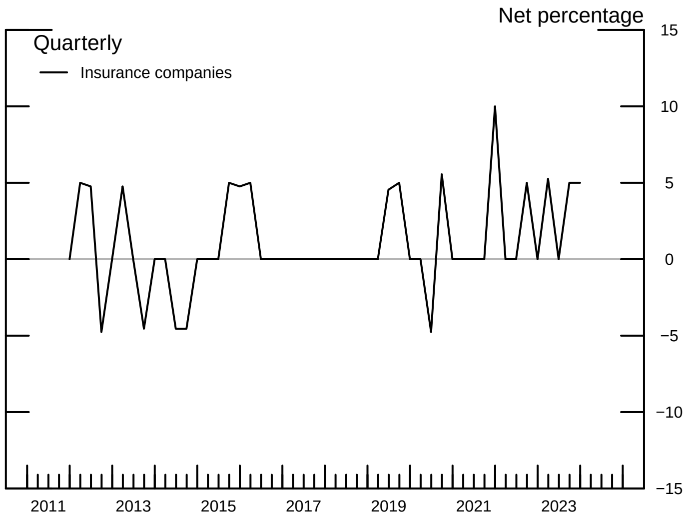
Note: REIT is real estate investment trust.
+ The question was added to the survey in September 2011.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

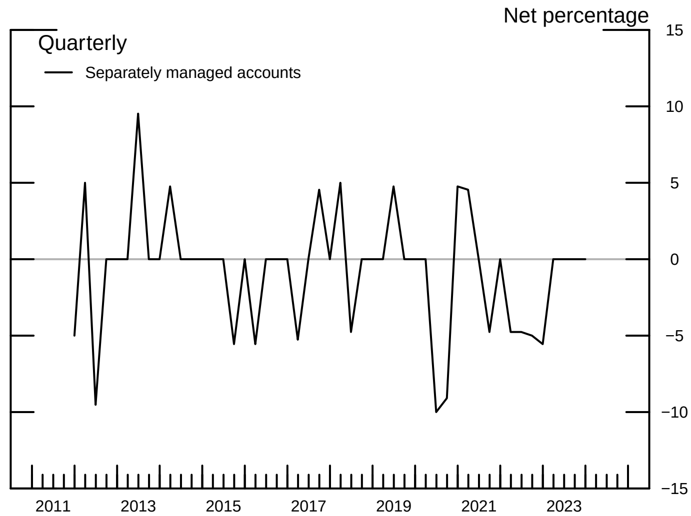
Use of Financial Leverage

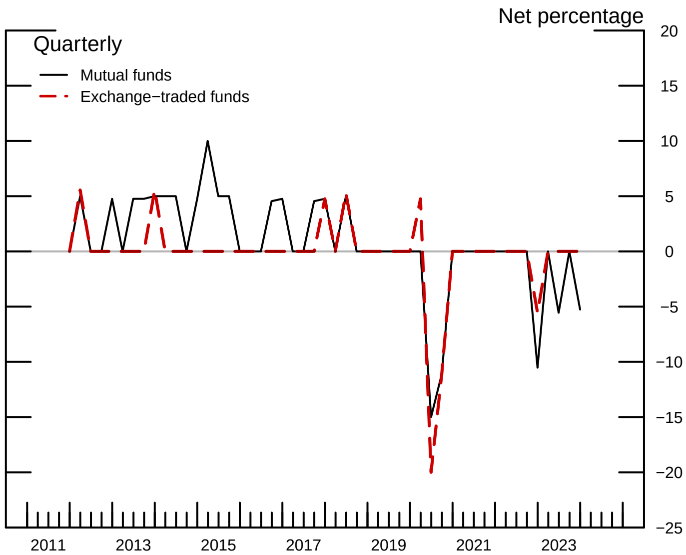
Respondents reporting increased use of leverage by the following:

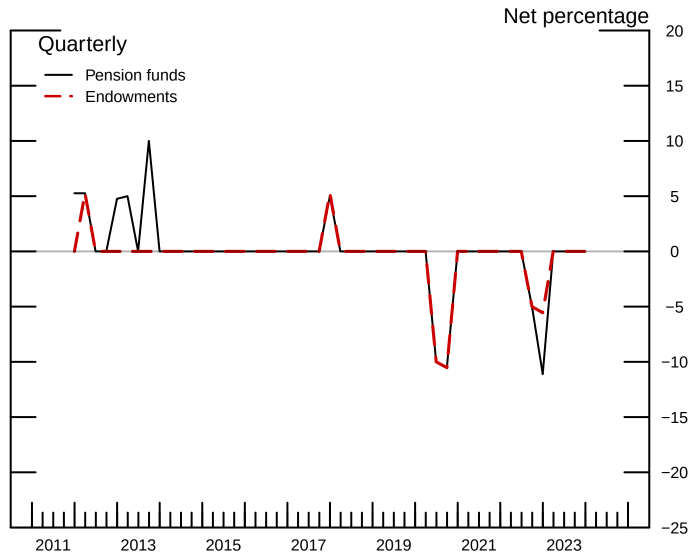








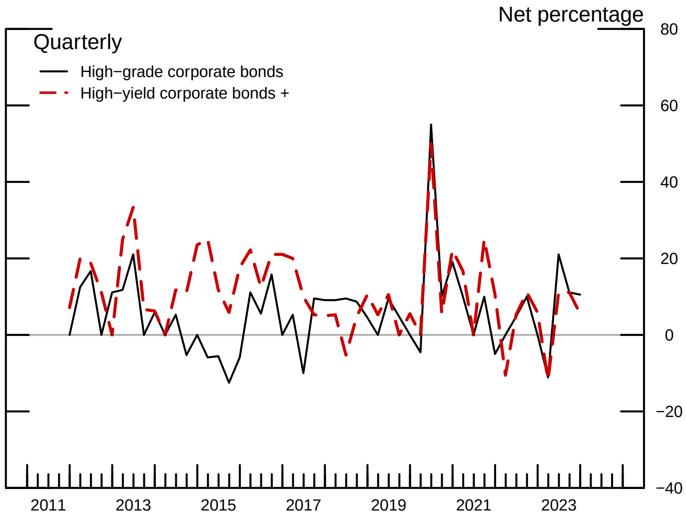


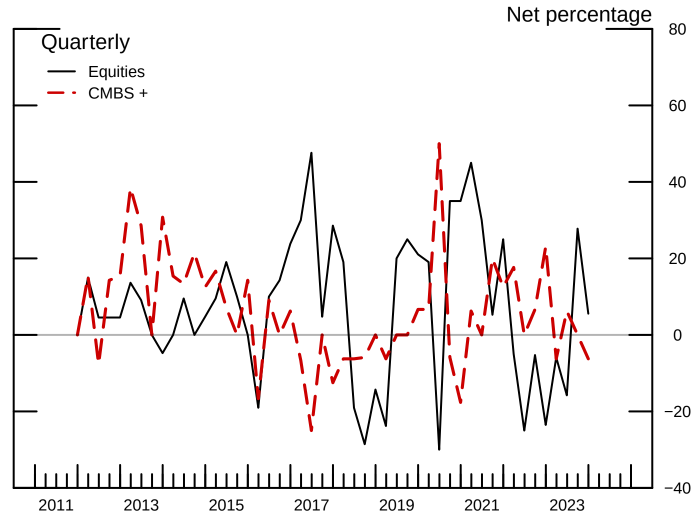


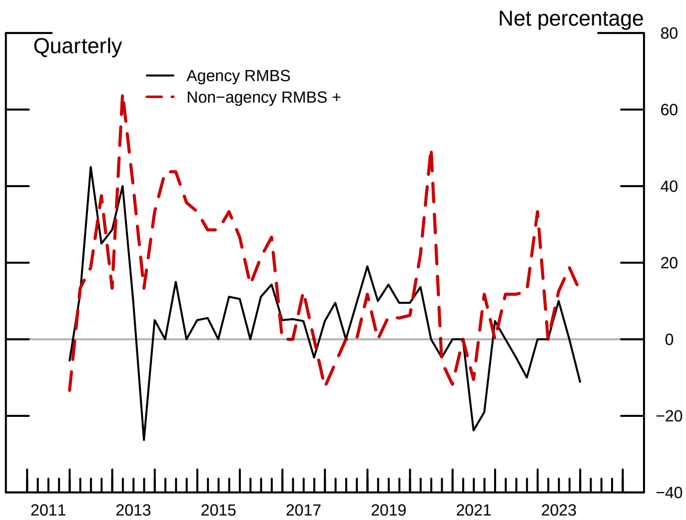
Note: REIT is real estate investment trust.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

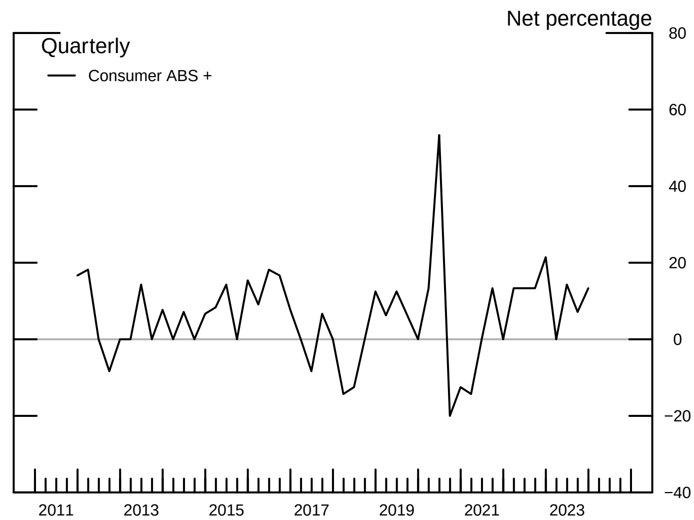
Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:

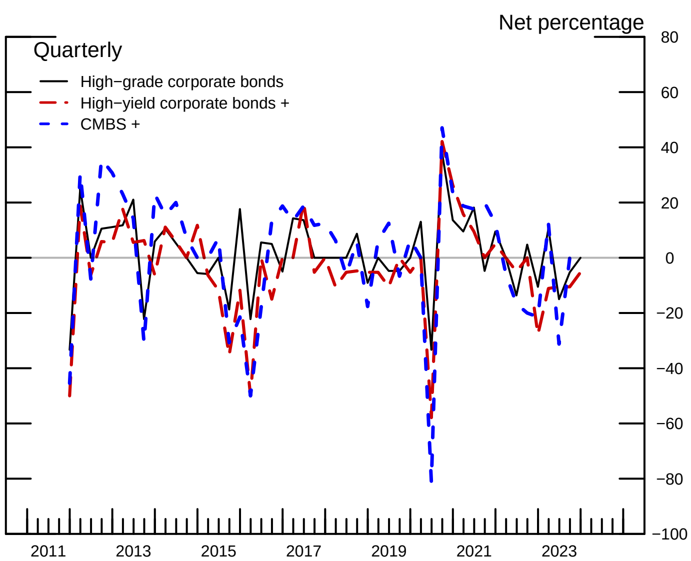


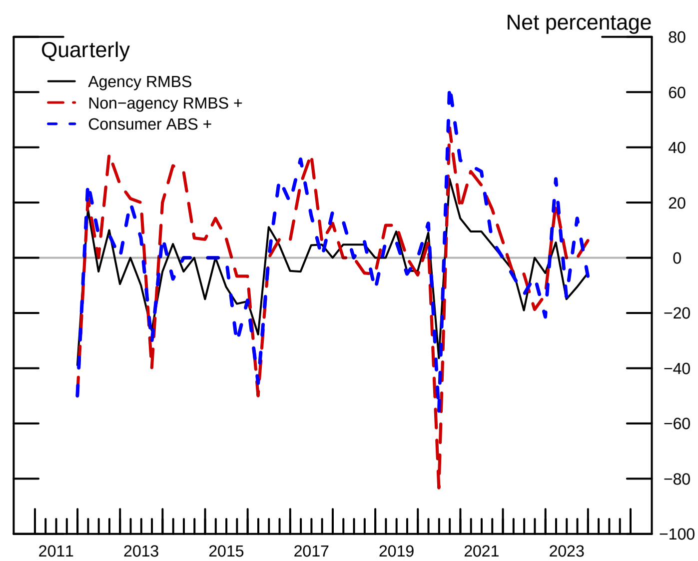






Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:





Note: CMBS is commercial mortgage−backed securities; RMBS is residential mortgage−backed securities; 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.