

The June 2024 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The June 2024 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 between February 2024 and May 2024.¹ In addition to the core questions, the survey included a set of special questions about dealers' capacity to intermediate Treasury securities.

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 nearly all types of counterparties, the vast majority of dealers reported that both price and nonprice terms on securities financing transactions and OTC derivatives remained basically unchanged over the past three months (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”). For separately managed account counterparties, a small fraction of respondents indicated that nonprice terms tightened. Small fractions of respondents indicated that the intensity of efforts by real estate investment trusts and nonfinancial corporations to negotiate more-favorable price and nonprice terms increased over the past three months.
- Small fractions of respondents indicated that they increased the resources and attention devoted to managing concentrated credit exposure to other dealers and other financial intermediaries and to central counterparties and other financial utilities. More than one-half of respondents indicated that changes in central counterparty practices have affected to at least a small degree the credit terms they offer to clients on bilateral transactions that are not cleared.
- The volume, duration, and persistence 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**, responses to the core questions revealed the following:

¹ The 23 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 May 7, 2024, and May 20, 2024. The core questions asked about changes between February 2024 and May 2024.

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

- 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”).

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

- Nearly 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.
- A small fraction of dealers reported a decrease in the duration of mark and collateral disputes relating to OTC foreign exchange derivatives over the past three months. The volume, duration, and persistence of mark and collateral disputes remained basically unchanged for other types of OTC derivatives.

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

- The terms on securities financing were reported as being basically unchanged for most collateral types. One-fourth of dealers, on net, indicated an easing over the past three months of terms for collateral spreads for commercial mortgage-backed securities.
- About one-fourth of dealers, on net, indicated increased demand for funding of equities (including through stock loans) over the past three months (see the exhibit “Measures of Demand for Funding and Market Functioning”).
- A small fraction of dealers reported that liquidity and market functioning for high-grade corporate bonds improved over the past three months. The vast majority of dealers indicated that liquidity and market functioning for other types of securities remained basically unchanged.
- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the past three months across all collateral classes.

Special Questions on Treasury Intermediation Capacity

(Questions 81–94)

Dealers’ Treasury market intermediation activities, including both outright holdings and the provision of secured financing collateralized by Treasury securities, have increased notably over the past two years. In these special questions, dealers were asked about their capacity to intermediate Treasury securities, broadly defined as the ability to provide Treasury intermediation services to meet the demand of counterparties and clients in normal times and during periods of market stress. The first set of questions asked about dealers’ capacity to provide secured financing transactions collateralized by Treasury securities. A second set of questions asked about their capacity to use balance sheet to provide immediacy of execution in Treasury securities markets.

With respect to their **capacity to provide secured financing transactions collateralized by Treasury securities**, dealers reported the following:

- All respondents reported that they are currently active in providing secured financing collateralized by Treasury securities to counterparties and clients.
- Almost two-thirds of respondents reported that their capacity to provide secured financing collateralized by Treasury securities has increased over the past two years, and the remainder reported that their capacity has remained basically unchanged. Of those respondents who reported an increase, over one-half cited increased demand for this financing as the most important reason for the increase. Most also cited increased availability of balance sheet capital and increased participation in sponsored repurchase agreements (repos) or reverse repos as important reasons.
- About three-fourths of respondents indicated that they expect their counterparties' demand for secured financing collateralized by Treasury securities to increase over the next year. About one-half of respondents who expect an increase in demand cited changes in Treasury issuance as the most important reason for the increase, while almost one-third cited changes to the interest rate outlook as most important. About one-half of respondents who expect an increase in demand also cited changes in Federal Reserve securities holdings and changes in the composition of Treasury market investors as important reasons.
- Of the respondents who expect an increase in the demand for secured financing collateralized by Treasury securities over the next year, about three-fifths plan to increase their capacity to provide such financing. The respondents planning to increase their capacity reported planning a number of changes, including increasing the amount of capital or funds committed, increasing internal risk limits, and increasing the frequency at which these factors are reevaluated. Almost all of these respondents cited increased participation in sponsored repos or reverse repos as very important in supporting increased financing capacity over the next year. About three-fourths of these dealers also cited increased availability of balance sheet capital and increased central clearing of Treasury repo as very or somewhat important factors.
- Of the respondents who expect an increase in the demand for secured financing collateralized by Treasury securities over the next year, about two-fifths said that they plan to make no change to their capacity to provide such financing. Of these respondents, about three-fourths cited decreased availability of balance sheet capital as a very important factor limiting their ability to increase capacity. Most of these dealers also cited as important factors their decreased willingness to take on risk, decreased participation in sponsored repos or reverse repos, and decreased central clearing of Treasury repo.

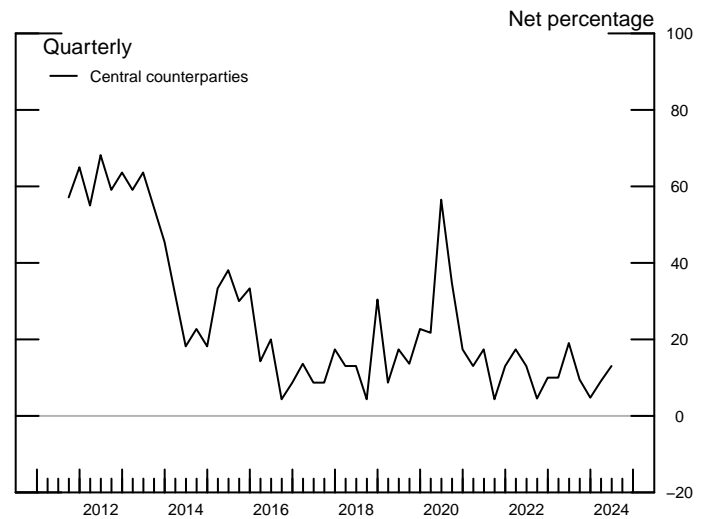
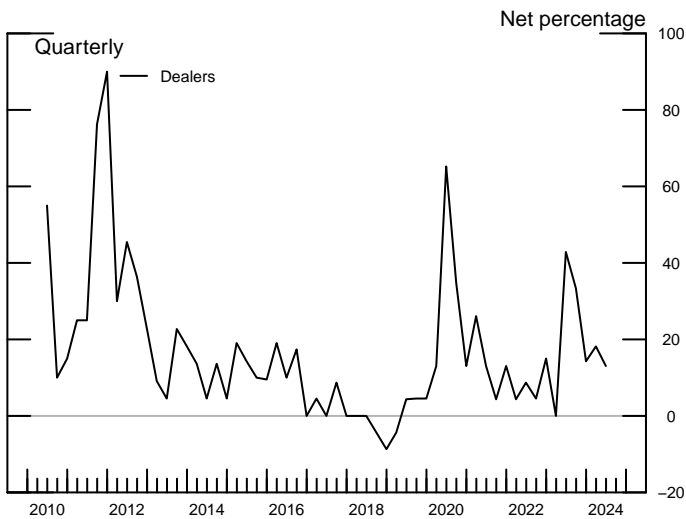
With respect to their **capacity to provide immediacy of execution in Treasury securities markets**, dealers reported the following:

- About four-fifths of respondents reported that they are currently active in providing immediacy of execution to clients and counterparties in Treasury markets.
- About one-half of the respondents who were active in this market reported that their capacity to provide immediacy of execution in Treasury markets has increased over the past two years, with the remainder reporting that their capacity for such activity remained basically unchanged. Of the respondents who reported increased capacity, over one-half cited increased demand for Treasury securities trading as the most important reason for the increase. Most respondents also cited increased availability of balance sheet capital and changes in their risk assessment of the Treasury market as important reasons.
- On net, about one-third of the respondents who were active in this market indicated that they expect their counterparties' demand for the buying and selling of Treasury securities to increase over the next year. About two-thirds of these respondents cited changes to the interest rate outlook as the most important reason, and a majority also cited changes in Treasury issuance as either the most or second-most important factor.
- Of the respondents who expect an increase in demand for the buying and selling of Treasury securities over the next year, nearly all plan to increase their capacity to facilitate this activity. Of those planning to increase their trading capacity, about three-fourths plan to increase the amount of capital committed, and about two-fifths plan to increase the frequency at which the amount of capital or funds committed is reevaluated. All of these respondents cited increased availability of balance sheet capital as very or somewhat important in supporting increased trading capacity over the next year. About three-fourths of these dealers also cited a more favorable risk assessment of the Treasury market and increased willingness of their firm to take on risk as very or somewhat important factors.

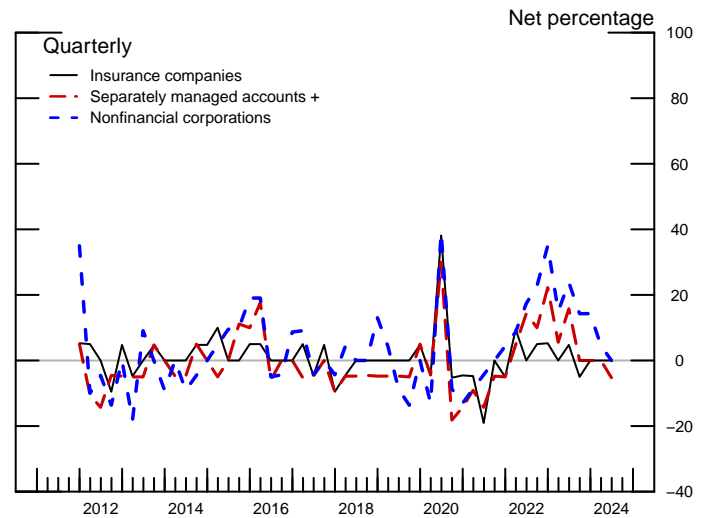
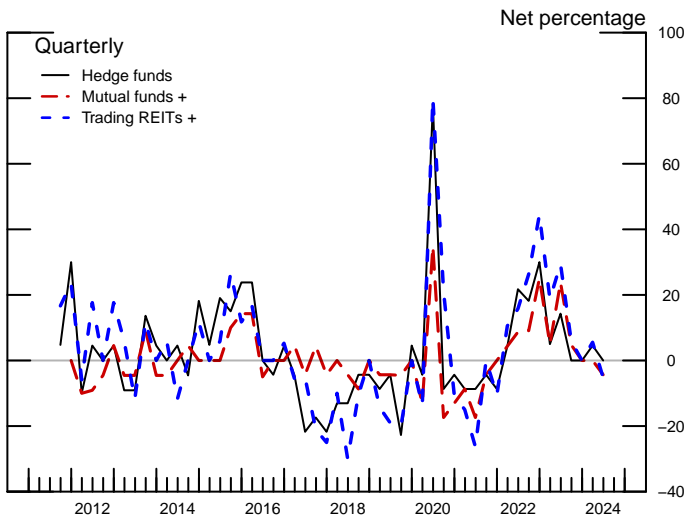
This document was prepared by Zack Saravay, Division of Monetary Affairs, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal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

Management of Concentrated Credit Exposures and Indicators of Supply of Credit

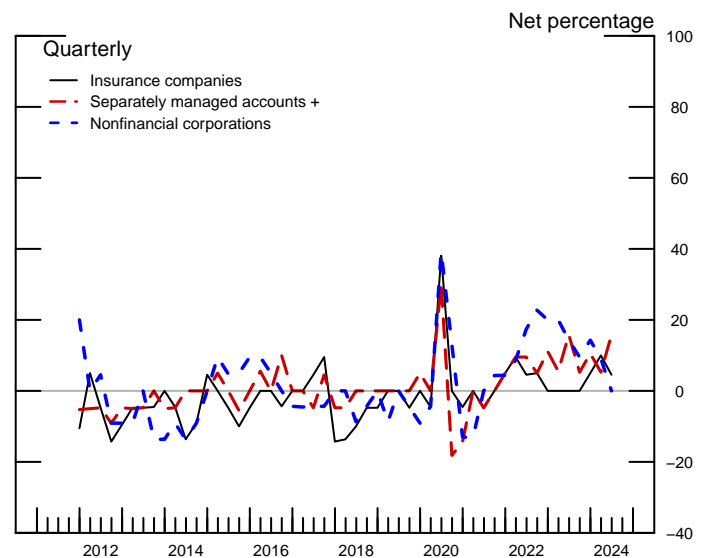
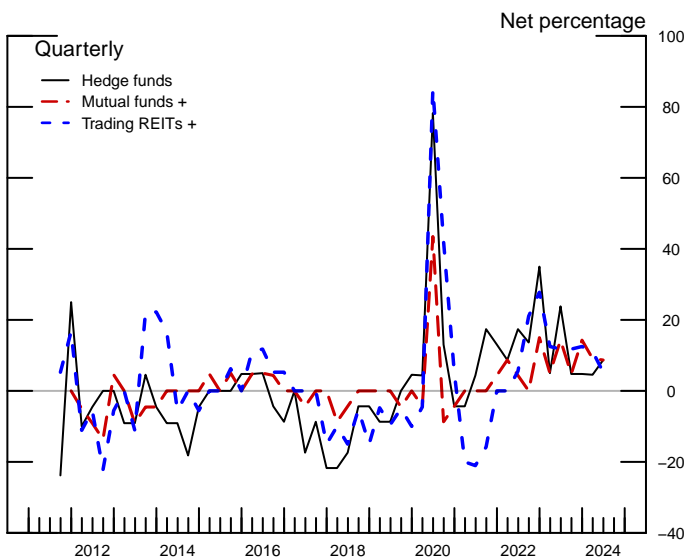
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



Respondents tightening nonprice terms to the following:



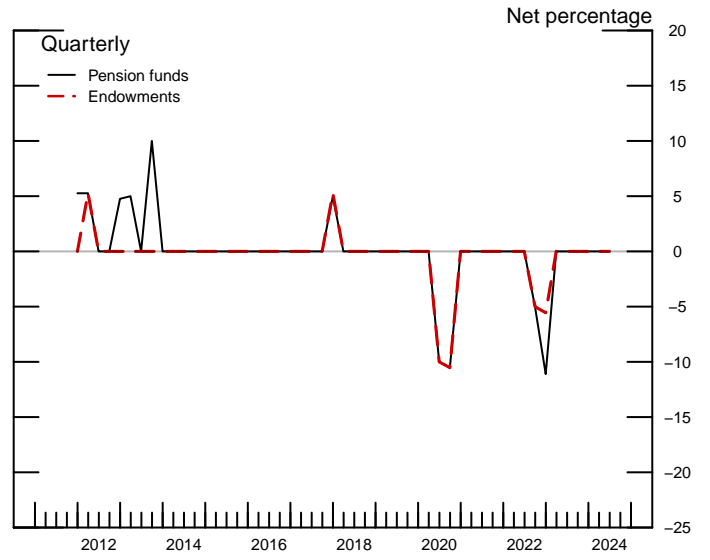
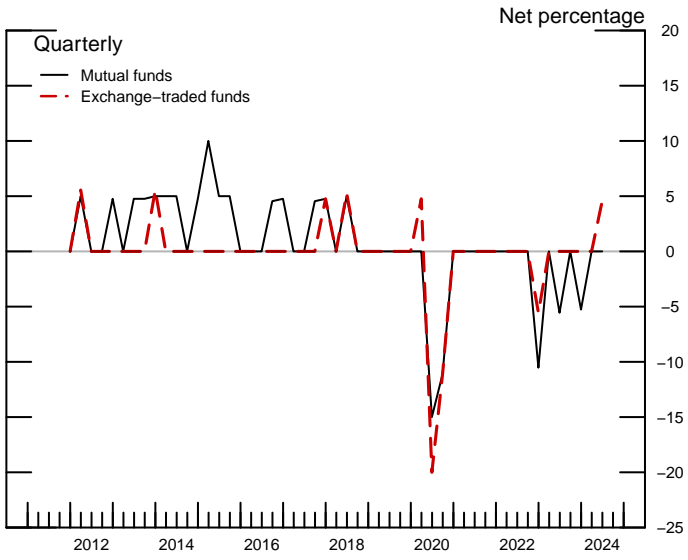
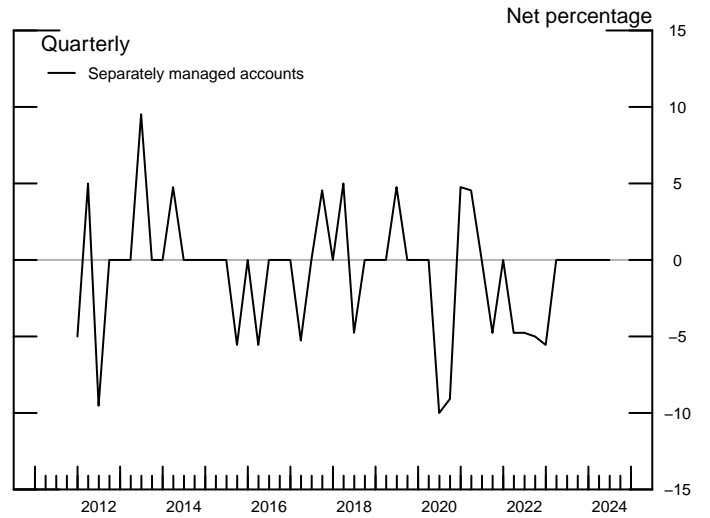
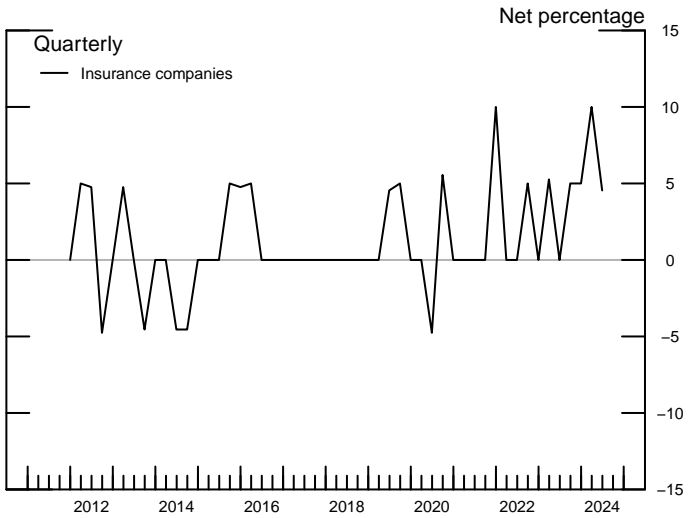
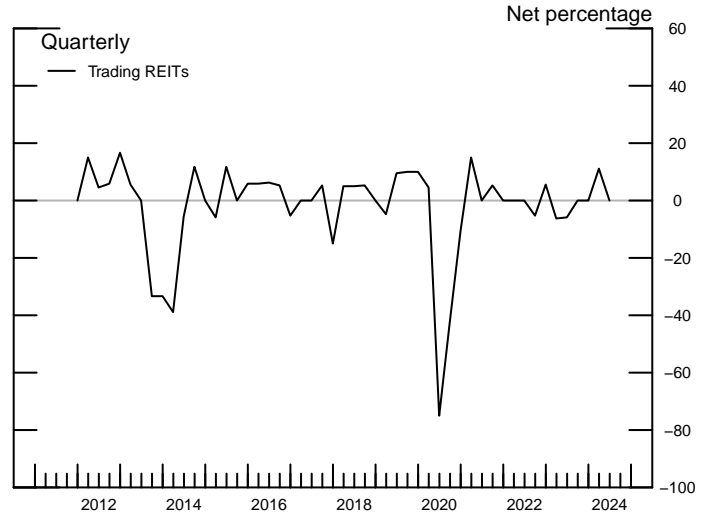
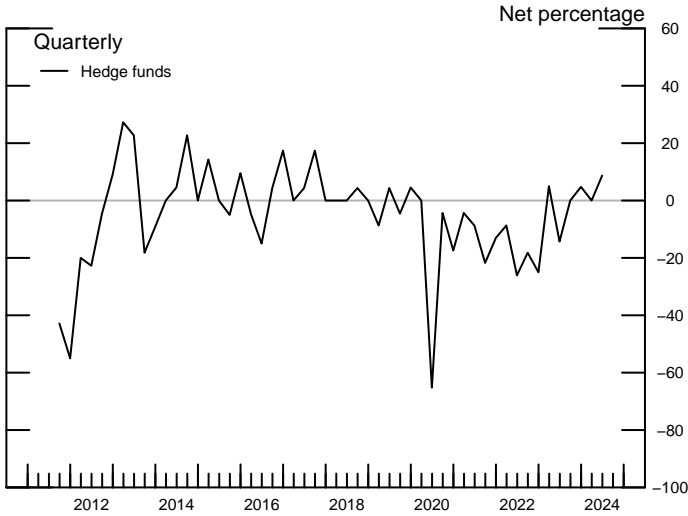
Note: REIT is real estate investment trust.

+ 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

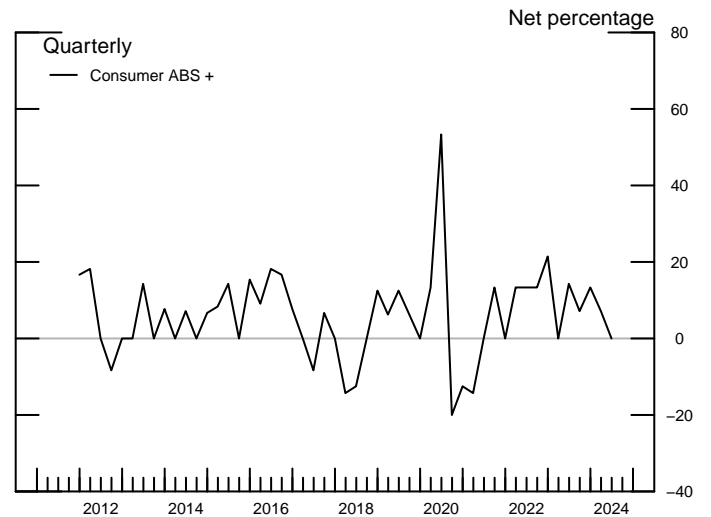
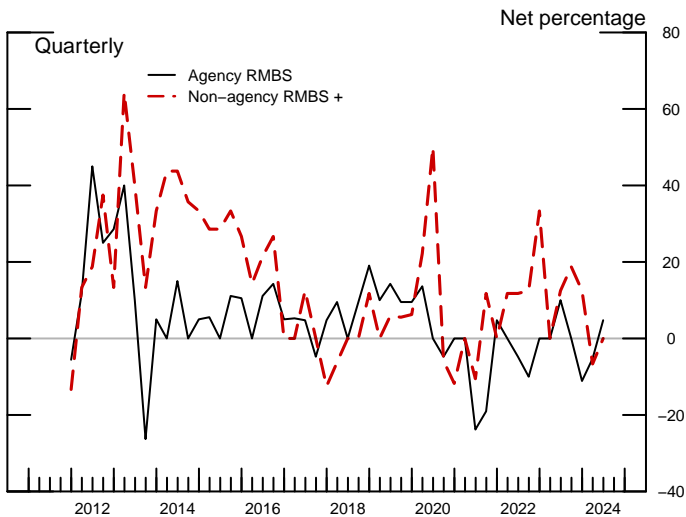
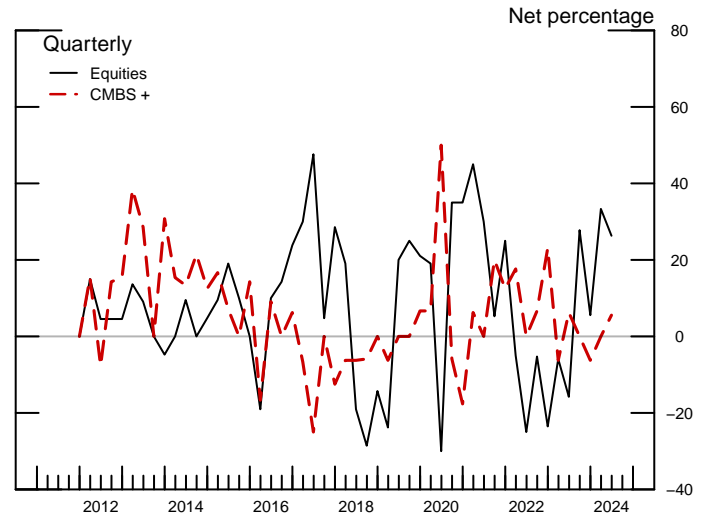
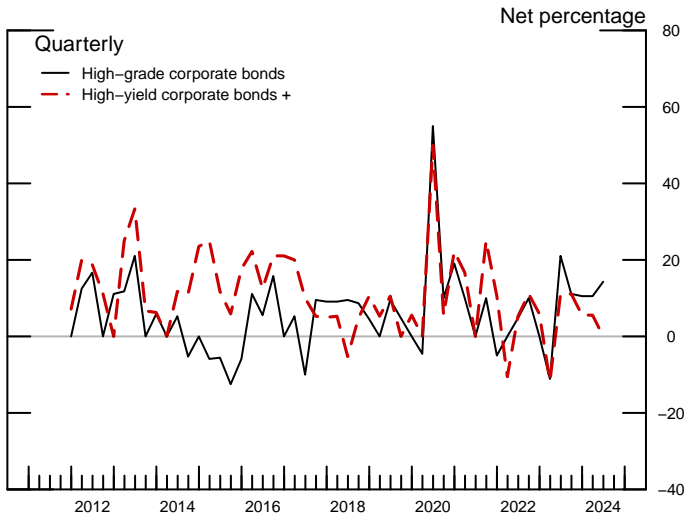
Respondents reporting increased use of leverage by the following:



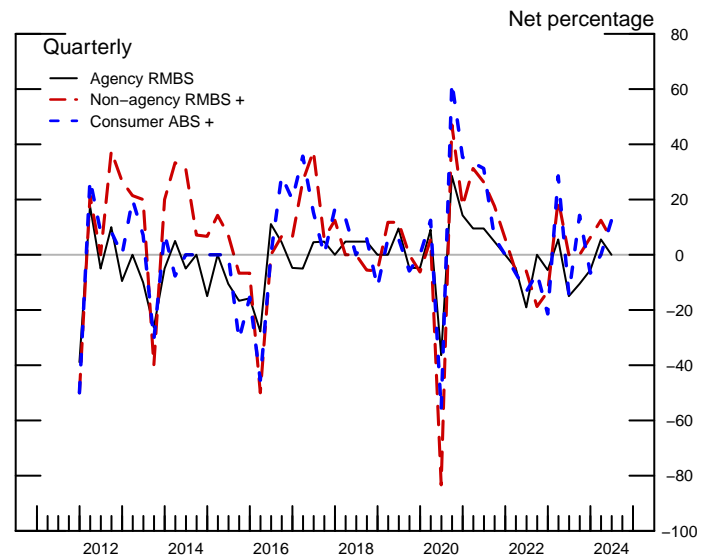
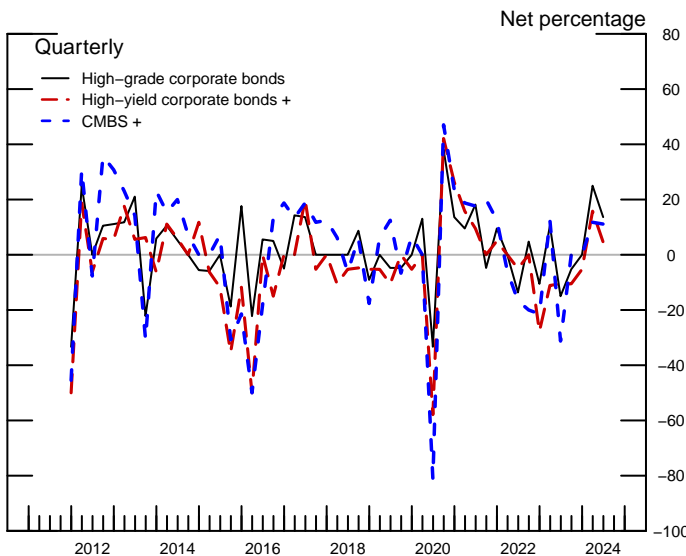
Note: REIT is real estate investment trust.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

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.