

# The December 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms

## Summary

The December 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms collected qualitative information on changes in credit terms as well as conditions in securities financing and over-the-counter (OTC) derivatives markets between September 2025 and November 2025.<sup>1</sup> In addition to the core questions, the survey included a set of special questions on dealers' provision of equity financing and synthetic equity exposure to hedge fund clients.

## Core Questions

(Questions 1–79)<sup>2</sup>

With respect 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 largely unchanged, on net, across all counterparty types. Roughly one-fifth of dealers reported that the intensity of efforts by hedge funds to negotiate more favorable price and nonprice terms increased somewhat.
- Attention devoted to managing concentrated credit exposure to dealers and other financial intermediaries (such as large banking institutions) remained basically unchanged. Nearly all dealers reported that changes in the practices of central counterparties, including margin requirements and haircuts, had no or minimal influence 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, on net, over the past three months for all counterparty types.

With respect to clients' **use of financial leverage**, dealers reported that the use of leverage remained basically unchanged, on net, for all client types (see the exhibit "Use of Financial Leverage").

In **OTC derivatives markets**, the volume and duration of mark and collateral disputes remained basically unchanged, on net, for most types of contracts. However, about one-fifth of dealers reported an increase in the volume of such disputes for OTC derivatives contracts referencing

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<sup>1</sup> The 19 institutions participating in the December 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 4, 2025, and November 17, 2025.

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

equities. Dealers indicated that nonprice terms in master agreements, initial margin requirements, and the posting of nonstandard collateral remained basically unchanged, on net, from the previous quarter.

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

- The terms on securities financing were reported as basically unchanged, on net, for all collateral types.
- About one-third of dealers reported an increase in demand for funding of equities, and roughly one-fifth of dealers reported an increase in demand for funding of high-grade and high-yield corporate bonds. Approximately one-fifth of dealers reported that the demand for term funding of high-grade corporate bonds, high-yield corporate bonds, and commercial mortgage-backed securities increased somewhat. The demand for funding, including term funding, of other collateral types remained basically unchanged on net (see the exhibit “Measures of Demand for Funding and Market Functioning”).
- About one-fourth of dealers reported that liquidity and market functioning improved somewhat for high-grade corporate bonds.
- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the period across all collateral types.

### **Special Questions on Dealers’ Provision of Equity Financing and Synthetic Equity Exposure to Hedge Fund Clients**

(Questions 81–88)

Hedge fund equity exposures have reportedly increased significantly over the past two years. In this quarter’s special questions, dealers were asked about their provision of equity exposure to hedge fund clients, including through both margin loan financing and the provision of synthetic equity exposure through derivatives.<sup>3</sup> The survey included separate questions for single- and multi-manager fund structures; for fundamental, quantitative, and sector-focused equity strategies; and on the financing of equities related to artificial intelligence (AI). Almost all dealers responded to the special questions.

One-half of respondents reported increased **demand for equity exposure** from single-manager hedge funds over the past two years, compared to about three-fifths reporting increased demand from multi-manager hedge funds. Regarding fund strategies, about one-half of respondents reported increased demand from hedge funds following fundamental equity and quantitative equity strategies, while roughly one-fifth reported that demand from hedge funds following sector-focused/concentrated equity strategies increased somewhat.

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<sup>3</sup> Equity financing mechanisms typically include margin loans or securities lending transactions. Synthetic equity exposure is usually provided through total return swaps or other OTC derivative contracts referencing equities.

On balance, dealers reported that **price and nonprice terms** offered on equity exposure to single- and multi-manager hedge funds remained basically unchanged over the past two years. For hedge funds following fundamental equity and quantitative equity strategies, dealers reported that price and nonprice terms offered on equity exposure remained basically unchanged on net. For hedge funds following a sector-focused/concentrated equity strategy, dealers reported that price terms remained basically unchanged, on net, but one-third of dealers reported that nonprice terms tightened somewhat over the past two years.

One-third of dealers reported that the notional amount of **synthetic equity exposure** they provide to hedge fund clients had increased somewhat relative to traditional prime brokerage financing transactions over the past two years. One-half of these dealers indicated that the greater potential for internalization or netting of positions was the most significant factor that contributed to the increase. Improved access to foreign markets for hedge funds was also cited as a contributing factor by most of these dealers.

Two-thirds of dealers indicated that the demand from hedge fund clients for equity exposure to **AI-focused stocks** had increased relative to other sectors over the past two years.<sup>4</sup> Dealers reported that the price and nonprice terms offered to hedge fund clients for exposure to AI-focused stocks remained basically unchanged, on net, relative to other sectors.

Finally, the survey asked about the practice of **internalization**, in which dealers match customer positions internally with offsetting customer positions.

- Two-thirds of dealers reported that they offer more favorable price terms for clients when the potential for internalization is high. However, dealers reported that the ability to internalize equity positions had no significant impact, on net, on the nonprice terms offered to hedge fund clients.
- All dealers reported that the potential for internalization was at least somewhat important in their decisionmaking process when onboarding new hedge fund clients or expanding relationships with existing clients.
- Almost all dealers reported that their reliance on internalization (as a share of total sourcing for client exposure) remains about the same when providing equity exposure to hedge fund clients in periods of high market volatility.

*This document was prepared by Phillip Monin, Division of Monetary Affairs, Board of Governors of the Federal Reserve System. Assistance in developing and administering the*

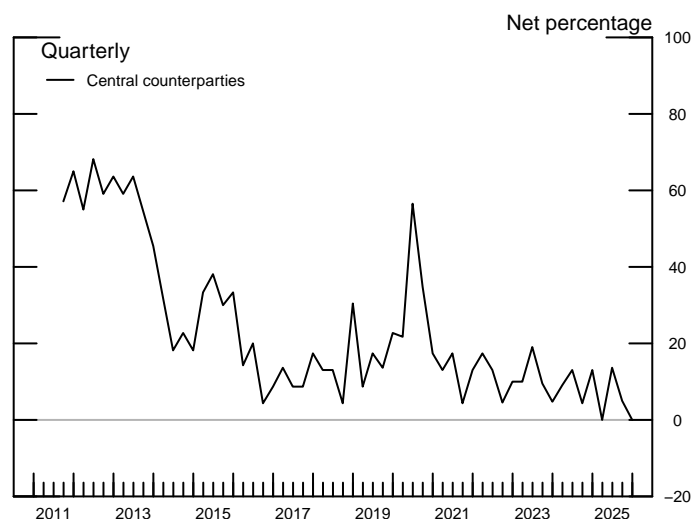
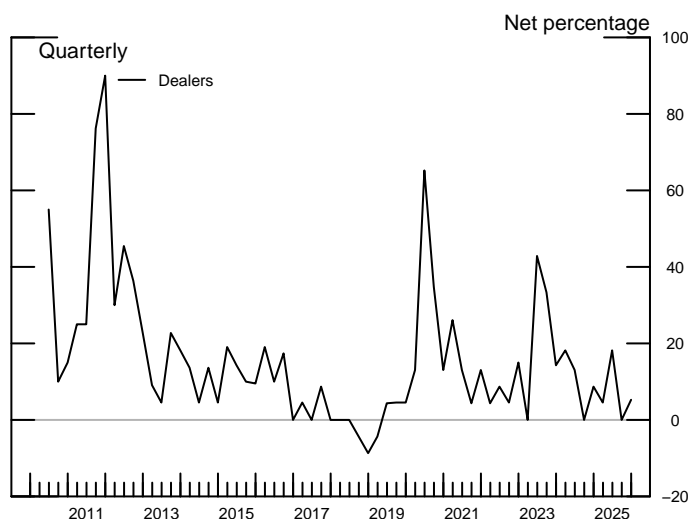
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<sup>4</sup> “AI-focused stocks” refers to companies that derive significant revenue from AI-specific products or services, are leaders in developing core AI technologies, have made substantial investments in proprietary AI research, or provide critical infrastructure for AI systems. These companies may span various Global Industry Classification Standard sectors, including but not limited to Information Technology and Communication Services, but exclude those that merely use AI as an ancillary part of their business.

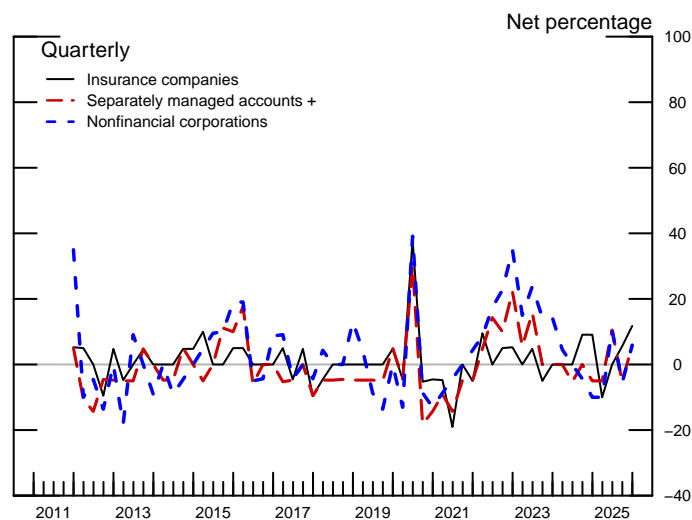
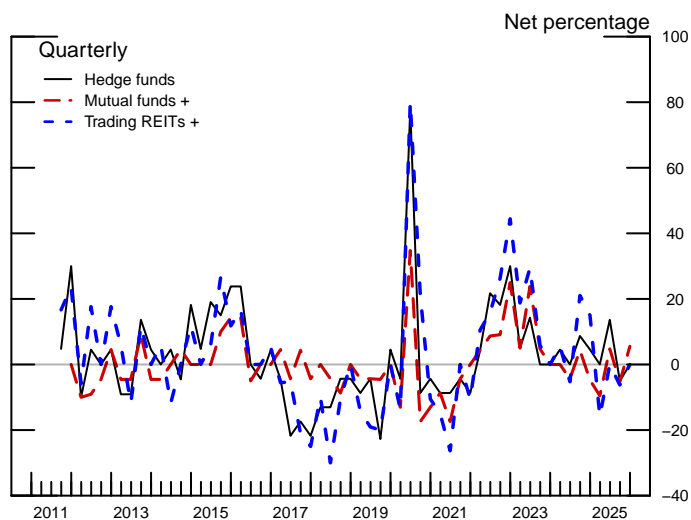
*survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.*

# Management of Concentrated Credit Exposures and Indicators of Supply of Credit

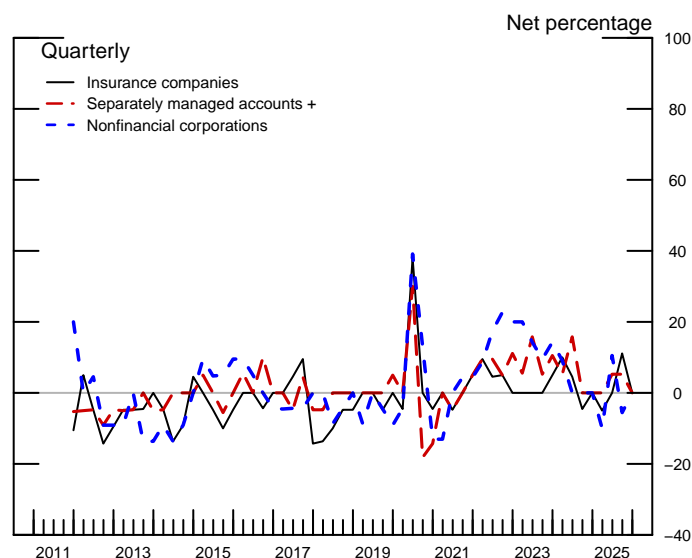
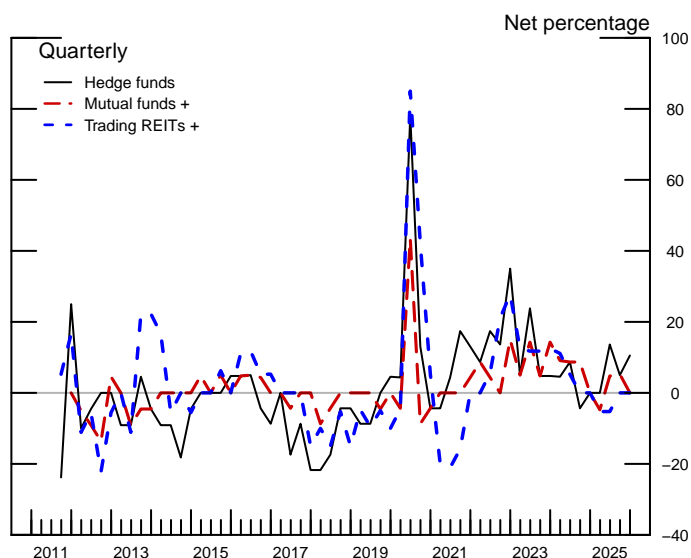
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



Respondents tightening nonprice terms to the following:



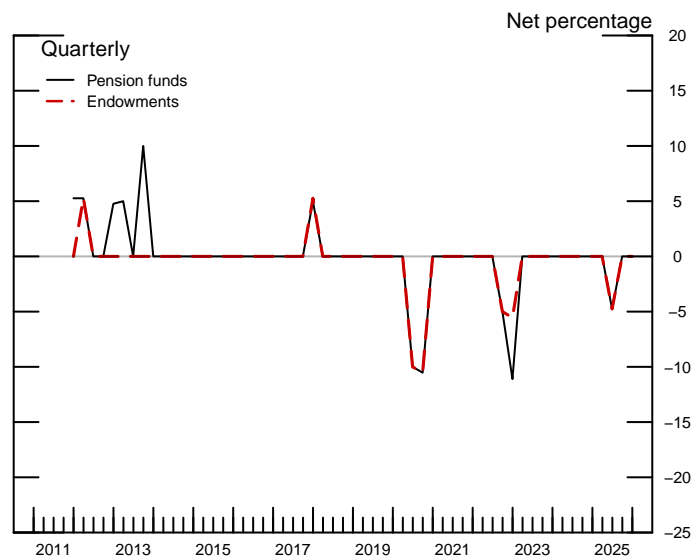
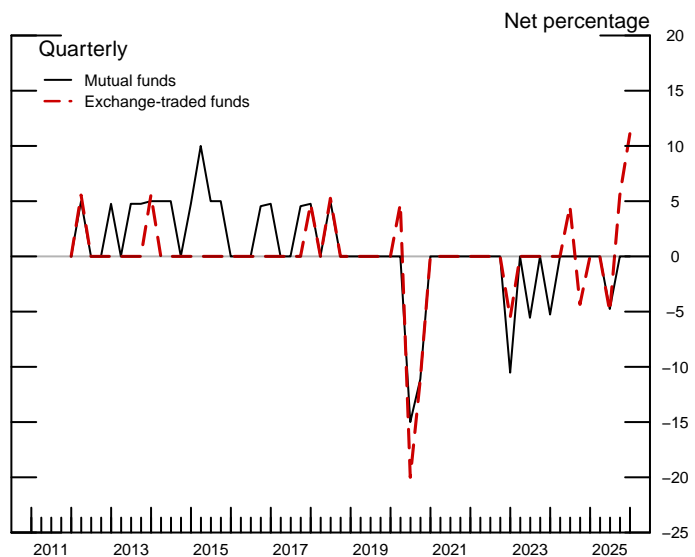
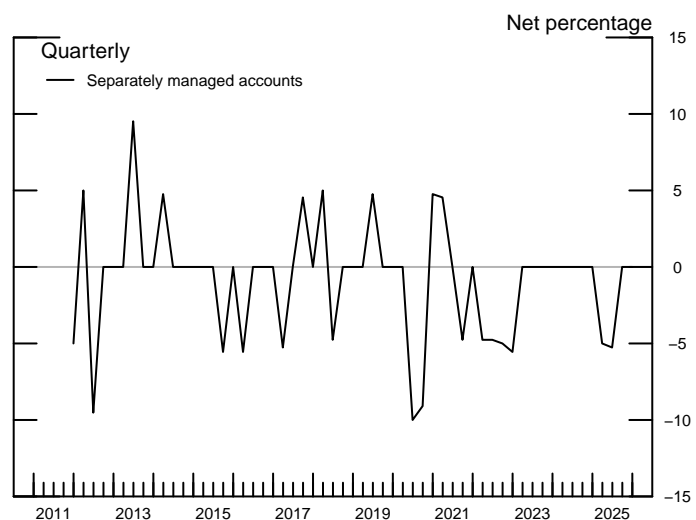
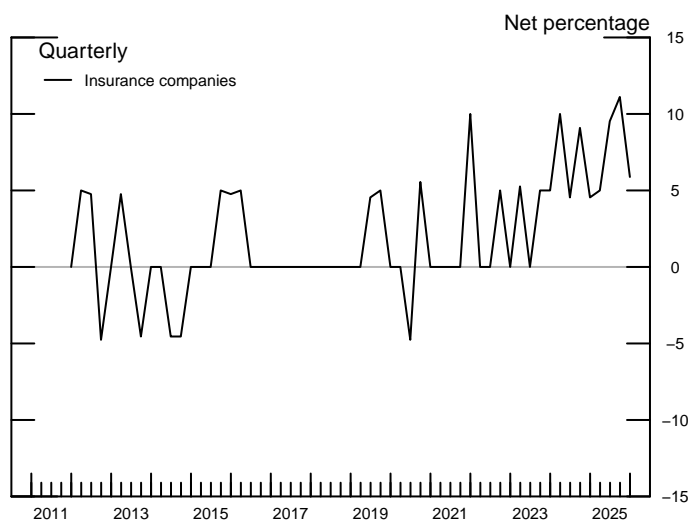
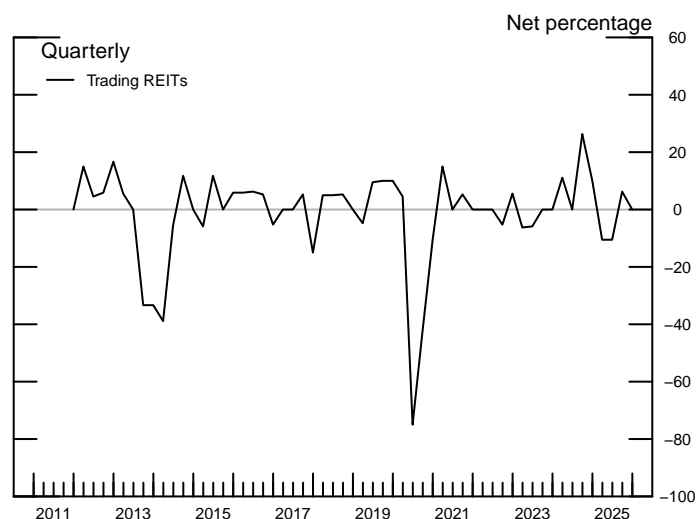
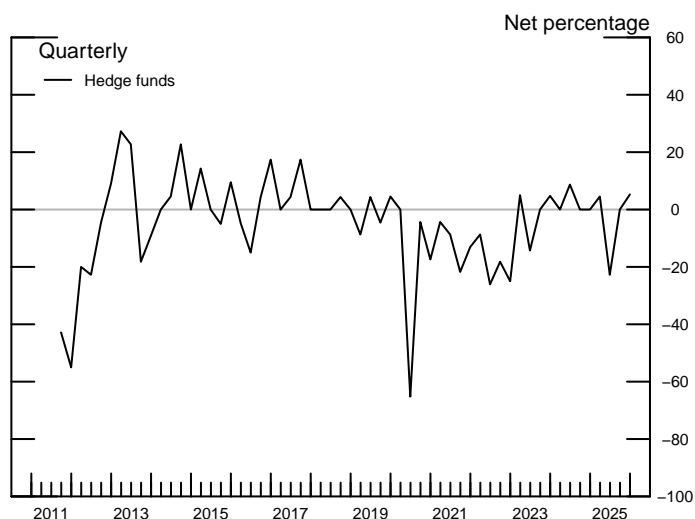
Note: REIT is real estate investment trust.

+ 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:

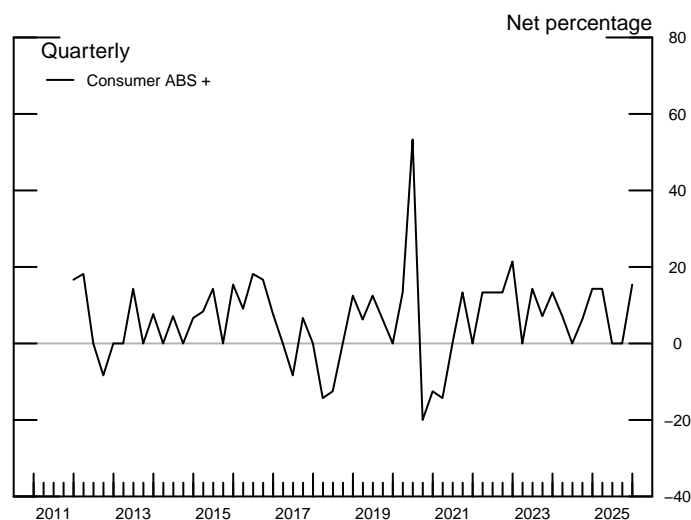
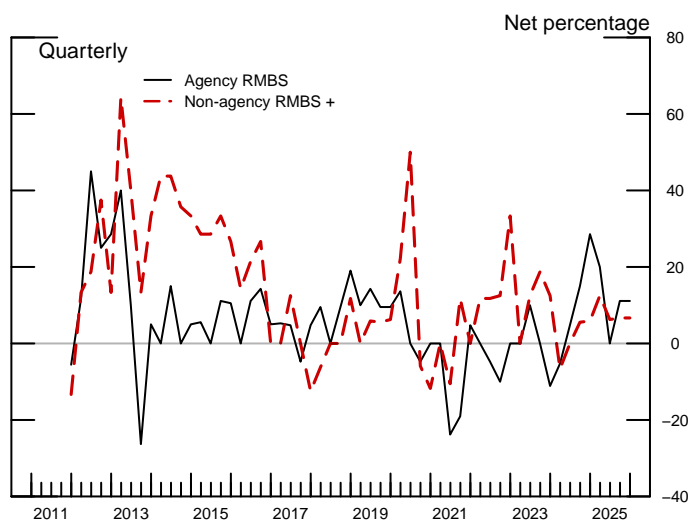
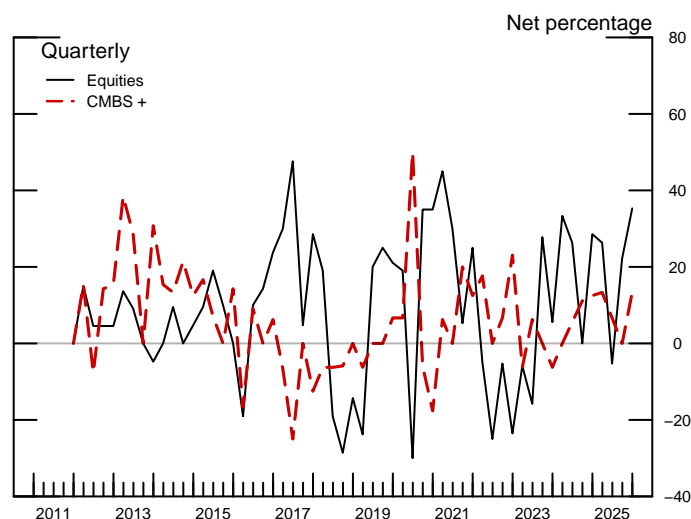
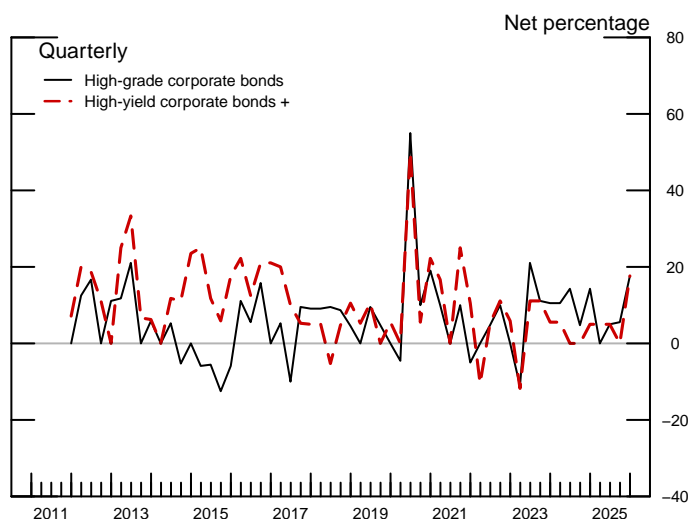


Note: REIT is real estate investment trust.

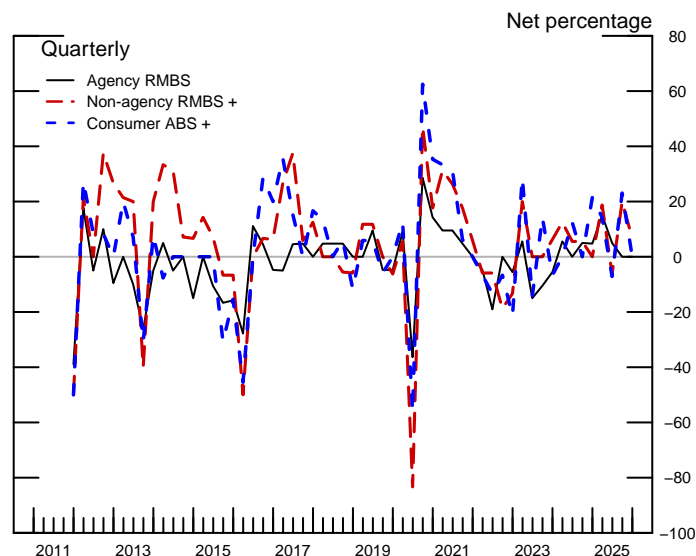
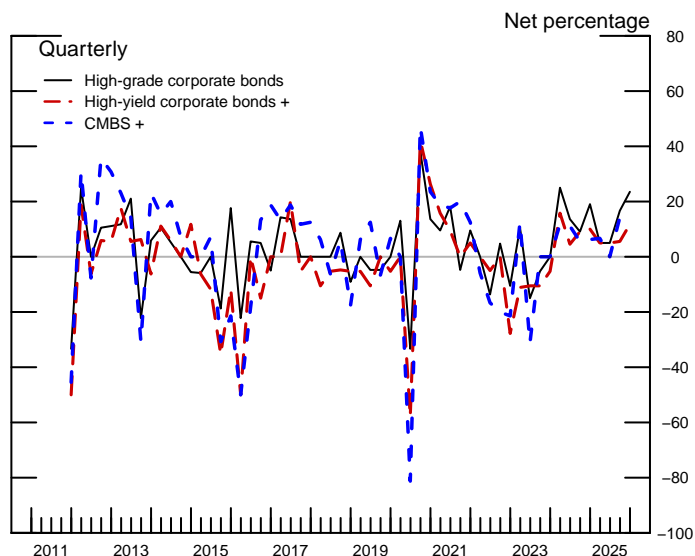
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

# 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.