

PRESS RELEASE

ESMA TRV: market conditions improve, as systemic risks persist

The European Securities and Markets Authority (ESMA) published today its [Trends, Risks, Vulnerabilities \(TRV\)](#) Report and a [Risk Dashboard](#) for the second quarter of 2013.

The TRV examines the performance of securities markets in the first half of 2013, assessing both trends and risks in order to develop a comprehensive picture of systemic and macro-prudential risks in the EU, to assist both national and EU bodies in their risk assessments. ESMA's TRV contributes to promoting financial stability and enhancing consumer protection by regularly looking into cross-border and cross-sector trends, risks and vulnerabilities, both at the wholesale and retail level.

The TRV finds that EU securities markets and investment conditions in the EU have improved for a second quarter in a row since the 4th quarter of 2012, although systemic risk persisted at medium to high levels. Amongst other risk factors, uncertainty remained high due to concerns over funding sources, low interest rates and recent market fluctuations, resulting in increased market risk, while liquidity, credit and contagion risk continue to be significant.

Steven Maijoor, ESMA Chair, said:

“While the easing of stress in financial markets is a positive sign, systemic risks in the EU remain high and uncertainty in the international market environment has risen. Valuations in securities markets, volatility in fund flows, and continuity issues around financial benchmarks remain a matter of concern. Faced with these issues regulators and market participants should remain vigilant.

“ESMA's work on identifying those risks facing Europe's securities markets is an important component in the European System of Financial Supervision's efforts to foster recovery in its markets and promote financial stability.”

The TRV identifies the following key trends for the first half of 2013 in EU securities markets:

- **Securities markets:** market conditions improved moderately while issuance was subdued with equity prices declining and inter-bank lending increasing. The second quarter saw an increase in sovereign borrowing costs, and corporate bonds; covered bonds and securitised products were subdued;
- **Collective investments:** asset managers benefited from improved market conditions, mainly driven by bond, equity or alternative funds whereas money market fund assets decreased. Overall, leverage remained moderate but capital inflows were volatile reflecting a decline in investor sentiment; and
- **Market infrastructures:** trading on EU venues increased in early 2013. Central clearing of interest rate swaps continued to grow. Potential continuity issues around financial benchmarks give rise to concerns.

Key risks identified in the Report, and published separately in the Risk Dashboard, include:

- **Liquidity risk:** even though policy action helped to reduce liquidity risks in main market segments, others rose, leaving the overall liquidity risk at high levels;
- **Credit risk:** securities markets in the EU saw a reduction in issuance volumes, mainly in asset classes with higher risk and longer maturities. Despite recent debt refinancing, overall credit risk remains high;
- **Market risk:** equity and bond markets risks increased driven by rising concerns over the valuation of assets; and
- **Contagion risk:** the risk of contagion between market segments remained unchanged, while the level of credit default swap exposures declined.

In addition, the TRV presents in-depth analyses on four specific topics:

- First evidence on the impact of the Short-Selling Regulation on securities markets;
- Contagion risks and the network structure of EU CDS exposures;
- Overview of the EU UCITS industry; and
- Overview of bail-in and contingent capital securities.

Next steps

As part of its on-going market surveillance, ESMA publishes its TRV semi-annually, complemented by its quarterly risk dashboard.



Notes for editors

1. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).
2. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

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