

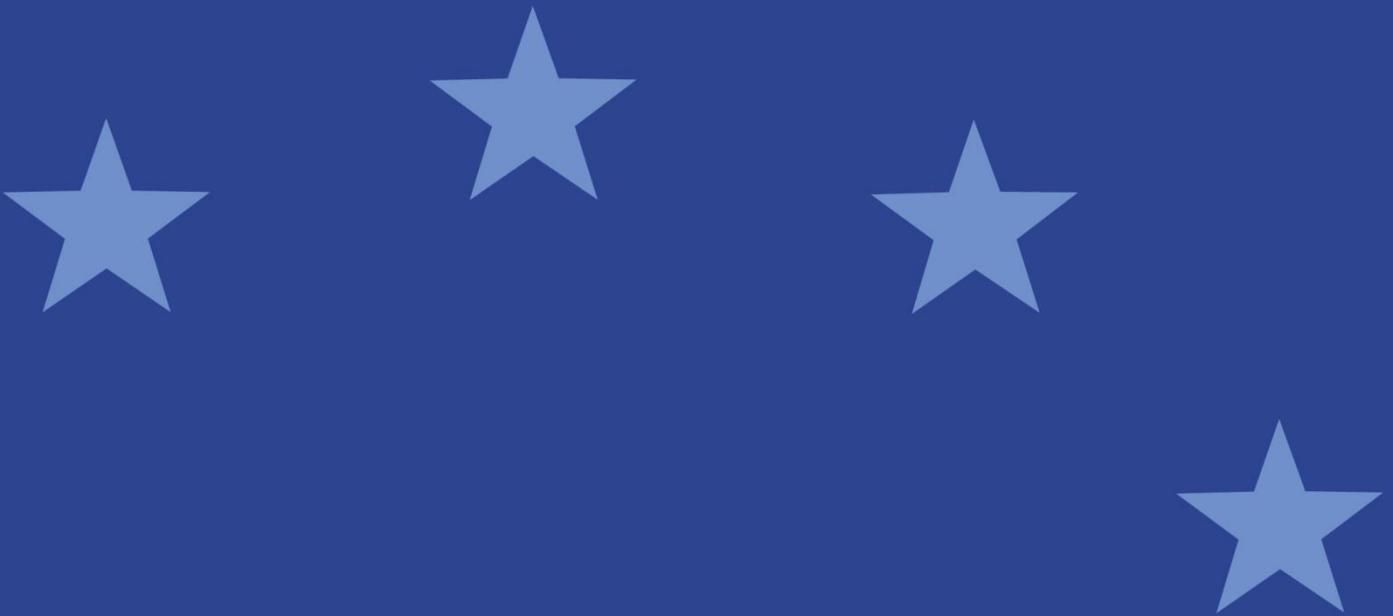


European Securities and  
Markets Authority

# ESMA Risk Dashboard

Risk up-date

13 July 2016



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ESMA Risk Dashboard  
Risk up-date of 13 July 2016

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# ESMA Risk Dashboard

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## Main risks

Risk segments	Risk categories		Risk sources		
	Risk	Risk	Change	Outlook	Change
Overall ESMA remit		Liquidity 	➔	↗	Macroeconomic environment 
Systemic stress		Market 	➔	↗	Low interest rate environment 
Securities markets		Contagion 	➔	↗	EU sovereign debt markets 
Investors		Credit 	➔	➔	Market functioning 
Infrastructures and services		Operational 	➔	➔	Political and event risks 

Note: Assessment of main risks by risk segments for markets under ESMA remit since last assessment, and outlook for forthcoming quarter. Assessment of main risks by risk categories and sources for markets under ESMA remit since last assessment, and outlook for forthcoming quarter. Risk assessment based on categorisation of the ESA Joint Committee. Colours indicate current risk intensity. Coding: green=potential risk, yellow=elevated risk, orange=high risk, red=very high risk. Upward arrows indicate an increase in risk intensities, downward arrows a decrease, horizontal arrows no change. Change is measured with respect to the previous quarter; the outlook refers to the forthcoming quarter. ESMA risk assessment based on quantitative indicators and analyst judgement.

ESMA's risk assessment has changed as a result of the outcome of the UK referendum on EU membership. While overall risk levels prevail for the time being, the outlook for the markets in ESMA's remit has deteriorated and market turbulences may continue to occur. Market, liquidity, and contagion risks may rise going forward, as political and event risks have intensified, and the macroeconomic environment may deteriorate. The market uncertainty triggered by the outcome of the referendum comes on top of an already fragile market environment, characterised by very high market and credit risks, especially in the securities markets, as documented in our Risk Dashboard No. 2, 2016, and we maintain our overall risk assessment at this stage.

## Risk levels

We maintain our assessment of risk levels in EU markets under ESMA remit, as documented in our Risk Dashboard No. 2, 2016, at this stage. In particular, the continued very high market and credit risk, especially in securities market, need to be taken into account.

As indicated in previous editions of our Risk Dashboard, the UK referendum had to be considered a source of uncertainty for financial markets. The UK leave vote resulted in severe market movements in equity, bond and currency markets in the aftermath of the referendum. Since then<sup>1</sup>,

- EU equity prices have fallen by 5%, EU financial services company stock prices have decreased by 19%, and equity price volatility has increased up to 35% on 24 June, while market turnover multiplied;
- the GBP has lost 10% to the EUR, 13% to the USD, and 17% to the JPY, while the EUR has also been impacted, losing 3% to the USD, and 8% to the JPY;
- spreads on EU sovereigns have tightened by 25 basis points to 135 basis points;
- the sovereign rating of the UK has been downgraded by two different CRAs;

- several open-ended UK real-estate investment funds suspended redemptions.

On a positive note, EU market infrastructures continued to function during the period, and no operational problems were reported.

## Risk outlook

The outcome of the UK referendum has changed our risk outlook for the current and next quarters. As the political discussion on the modalities of implementing the UK decision progresses, market uncertainty prevails as to

- the general economic outlook for the EU and the global economy;
- the long-term implications for financial markets, as well as any transitional issues;
- the further political impact and the nature of the roadmap for executing the decision.

Among the risk sources we monitor, these uncertainties are reflected in heightened risk in the macroeconomic environment, and a rise in expected political and event risks.

This uncertainty is reflected in continued very high market risks, and may translate into rising market, liquidity and contagion risks. In case of materialisation, such risks may also impact other segments in the ESMA remit.

<sup>1</sup> Cut-off date for the analysis is 8 July 2016.



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