European Securities and Markets Authority

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PRESS RELEASE

ESMA sees risk outlook deteriorate for EU securities markets

The European Securities and Markets Authority (ESMA) latest risk report has found that the overall assessment of risk levels in EU markets under its remit remains unchanged. Market and credit risks remain *very high* – the highest level – while liquidity and contagion risk remain *high*.

The risk outlook has deteriorated following the result of the UK referendum on EU membership. Market, liquidity and contagion risks may increase going forward, as political and event risks have intensified, and the macroeconomic environment may deteriorate. The deteriorating liquidity risk outlook reflects increased fund outflows following the referendum, leading to the suspension of redemptions in a number of open-ended funds holding UK commercial property. ESMA updated its risk outlook to reflect the outcome of the referendum.

The details are outlined in its Report on Trends, Risks and Vulnerabilities No. 2, 2016 (TRV) on European Union (EU) markets, which covers market developments from January to June 2016.

In the first part of the reporting period, key trends included high volatility in equity and commodity markets, reflecting valuation concerns, slower emerging markets growth and turmoil in the energy sector caused by falling oil prices. Volatile fund returns and a reassessment of credit risk premia also contributed to portfolio and investment fund outflows. Towards the end of the semester, the outcome of the UK EU referendum had a significant impact in foreign exchange and equity markets, while EU financial market infrastructures proved resilient.

The topical articles feature analyses around the following issues:

- Proxy advisors in the EU: Institutional investors increasingly make use of shareholder advice services. We provide an overview of the EU proxy advisory services market as part of ESMA's investor protection objective.

- Financial innovation scoreboard: ESMA uses a framework that provides a ranking relating product features to ESMA's objectives to prioritise which financial innovations require deeper analysis and potential policy responses.
- Circuit breakers in the EU: a first-time overview provided on their use by EU trading venues, and one of the main findings is that circuit breakers may help to increase market quality.
- Corporate bond market liquidity in the EU: no systematic trends were observed in liquidity levels in the period analysed, but episodes of decreasing market liquidity were found when wider market conditions deteriorate.
- Synthetic leverage in the asset management industry: evidence suggests that reliance by investment funds on leverage built through the use of derivatives may be on the rise, with potential financial stability implications.

Next steps

ESMA, as part of its ongoing market surveillance, will update its report semi-annually, complemented by its quarterly Risk Dashboard. The results of the report have also been shared with the European Commission, Parliament and Council.

Notes for editors

1. 2016/ESMA/1234 Report on Trends, Risks and Vulnerabilities No. 2, 2016
2. Risk Dashboard No 3., 2016
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:

   i. assessing risks to investors, markets and financial stability;

   ii. completing a single rulebook for EU financial markets;

   iii. promoting supervisory convergence; and

   iv. directly supervising specific financial entities.

4. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

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