

PRESS RELEASE

ESMA maintains market risk indicator at highest level

The European Securities and Markets Authority (ESMA) latest risk report has found that overall market risks for European securities markets remain high with the market risk indicator remaining at *very high* – the highest level – with a stable outlook, while liquidity and contagion risk remain at *high* with a stable outlook.

The details are outlined in its Trends, Risks and Vulnerabilities Report No. 1 2016 (TRV) on European Union (EU) securities markets, which covers market developments from June to December 2015.

ESMA's market risk indicator was initially raised to *very high* in September 2015. This was in response to ESMA's identification of mounting risks posed by excessive asset valuations in EU and elsewhere, a weakening growth outlook in emerging markets, and commodity market volatility.

This risk assessment has since been validated by:

- a 19% drop in EU share prices peak-to-trough, a decline in stocks of EU financials by 27%, as well as marked distortions in commodities and emerging economy markets; and
- a 50% drop in fund inflows, EUR 11bn outflows from bond funds, a 30% decline in average monthly equity fund returns, and a three-year high in fund return volatilities.

Steven Maijoor, ESMA Chair, said:

“ESMA initially raised its market risk indicator to very high in 2015, in response to potential emerging risks we had identified around asset valuations, falling growth and volatility in the commodity markets. This analysis has been borne out by subsequent market developments and justifies its maintenance at very high.”



Overall, key risk sources remain the uncertainty of emerging market developments, in particular China, continued downward pressure on commodity prices, especially oil, and on commodity-export oriented emerging economies, reinforced by potential weaknesses in market functioning.

The topical vulnerabilities report features risk analyses around the following issues:

- MREL/TLAC requirements and implications for investments in bail-in instruments;
- Identifying risks and assessing benefits of financial innovation;
- The central clearing landscape in the EU; and
- Collateral scarcity premium in European repo markets and the drivers of the cost of obtaining high-quality collateral in the EU.

Next steps

ESMA, as part of its on-going 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. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets. The mission is based on the three objectives of:

- investor protection;
- orderly markets; and
- financial stability.

It achieves these objectives through four activities:

1. assessing risks to investors, markets and financial stability;
 2. completing a single rulebook for EU financial markets;
 3. promoting supervisory convergence; and
 4. directly supervising specific financial entities.
2. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with NCAs and securities markets regulators, in particular the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA).

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