

## PRESS RELEASE

### ESMA raises its market risk indicator to highest level

The European Securities and Markets Authority (ESMA) has published today its [Trends, Risks and Vulnerabilities Report No. 2 for 2015](#) on European Union (EU) securities markets, covering market developments from January to June 2015. It has also published its [Risk Dashboard No. 3 for 2015](#).

Overall, market risks for the European securities markets have increased. ESMA's risk indicator for market risk is now at its highest level "very high". This increase is due to high volatilities and fluctuating performances across asset classes – all of which translates into elevated risks for investors, market infrastructures and the financial system at large.

ESMA's credit risk indicators remain unchanged at very high levels. While at a lower level, liquidity risk is expected to intensify further, while contagion and operational risk remain unchanged, at high and elevated levels respectively. Key overall risk sources remain: the improved but uneven economic outlook, ultra-low interest rates, high public sector indebtedness and potential weaknesses in market functioning.

Other key findings of the report are:

- **Greek emergency measures:** in June 2015, Greek authorities introduced trading suspensions and banned short-selling in order to address the country's debt situation. Despite being unprecedented measures, the five-week restrictions did not impact market functioning and infrastructures outside Greece in a critical way;
- The **EU investment fund industry** saw increased appetite for risk-taking, partly prompted by low-interest rates. This was reflected by strong inflows into more risky fund types and large fluctuations in the performance of most fund-industry segments. Asset managers' search-for-yields was accompanied by increased leverage, which nevertheless remains very low compared to other types of intermediaries;

- **Capital market financing** expanded further in the reporting period, but continues to play a more limited role in funding the EU economy compared to loan financing. This highlights the need to strengthen capital market financing with a view to achieving a more diversified financing base for the EU economy.

Besides updating on risk, ESMA's report also monitors possible vulnerabilities which are provided through specific in-depth analyses, these include:

- **Shadow banking:** as ESMA continues to monitor risks from the €6tn EU shadow banking system, this report proposes a focused approach to better measure its size. The report proposes amended indicators for the asset management industry, and especially bond funds, which will make it easier to disentangle core funds from funds conducting bank-like activities;
- **Market liquidity:** given the recent concerns around structural and cyclical weaknesses in market liquidity, ESMA's report looked at how liquidity in sovereign bond markets is affected by funding constraints of primary dealers; and
- **Alternative funding:** in relation to the EU's efforts to explore alternative funding sources for the economy, ESMA investigated both the potential and risk of bank-loan mutual funds as a source of lending, complementing traditional bank lending. ESMA investigated the US market in order to identify potential implications for Europe.

### **Next steps**

As part of its ongoing market surveillance, ESMA 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 August 2015 Report on Trends, Risks and Vulnerabilities [https://www.esma.europa.eu/system/files/esma\\_trv\\_2-2015.pdf](https://www.esma.europa.eu/system/files/esma_trv_2-2015.pdf)
2. ESMA is an independent EU Authority 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).
3. 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.

Further information:

### **Reemt Seibel**

Communications Officer

Tel: +33 (0)1 58 36 42 72

Mob: +33 6 42 48 55 29

Email: [reemt.seibel@esma.europa.eu](mailto:reemt.seibel@esma.europa.eu)