

## PRESS RELEASE

### **ESMA sees improved securities market conditions, although risks remain elevated**

The European Securities and Markets Authority (ESMA) has published its first [Report on Trends, Risks and Vulnerabilities](#) No. 1, 2014, and its [Risk Dashboard](#) for 4Q 2013. The report looks at the performance of EU securities markets, assessing both trends and risks in order to develop a comprehensive picture of systemic and macro-prudential risks in the EU that can serve both national and EU bodies in their risk assessments.

Overall, ESMA's report finds that EU securities markets and investment conditions in the EU improved in the second half of 2013, based on better macro-economic prospects, which also contributed to reduced systemic risk in that period. However, overall risks remained at high levels for EU securities markets as reflected in by the rapid propagation of uncertainty from emerging markets (EM) countries to EU markets early 2014.

Steven Maijoor, ESMA Chair, said:

“Stress in EU securities markets has decreased, but key markets and investors continue to face substantive risks. As we remain vigilant about monitoring these vulnerabilities, global re-pricing risks as well as a better understanding conduct and operational risks will be a particular concern going forward.”

#### **Key developments in EU securities markets, fund industry and infrastructures:**

- **Securities markets:** securities markets performed positively in the second half of 2013, with volatility decreasing. However, sensitivities prevailed during the reporting period especially surrounding the global economic outlook and potential fragilities in EM markets.
- **Investors:** following a substantial decline in the second quarter of 2013, fund flows returned to positive levels at the end of the year. Fixed-income funds experienced

outflows, whereas equity funds replicated the positive development of stock markets. Overall, mutual funds were hit harder than alternative funds.

- **Market infrastructures:** trading on EU venues remained in line with the first six months of 2013. The continuity of key financial benchmarks in the EU was a major concern for ESMA, even though the withdrawal of banks from interbank interest reference rate panels was largely halted during the reporting period.

ESMA also monitors market developments which may present future vulnerabilities. The Report provides in-depth analyses on five topics:

- **High-frequency-trading (HFT):** the report examines HFT in EU equity markets, based on a sample of 100 stocks traded in nine EU countries, and finds that HFT activity accounted for around 22% of the value traded and for 60% of orders and is concentrated on Multilateral Trading Facilities. Overall, HFT seems to be positively related to volumes traded, fragmentation, prices and tick sizes and negatively related to volatility;
- **Structural vulnerabilities due to low interest rates:** the report looks into the impact of the current phase of low interest rates. It finds that it encourages investors to favour particular asset market segments such as fixed income products. In terms of risks, the reports identifies revaluation, liquidity and additional counterparty risks once the low interest rate environment comes to an end;
- **First evidence from ESMA's Central Rating Repository:** ESMA analyses whether and how the financial crisis had an impact on the CRA industry and the structure of CRAs' ratings portfolios. The report looks at the performance of the ratings, finding significant heterogeneity across asset classes, with corporate non-financial ratings appearing to perform much better than ratings of financial institutions and structured finance instruments;
- **EU Central Securities Depositories (CSDs) – systemic considerations:** this article concerns complex and extensive interdependencies between CSDs, financial market infrastructures, and the wider financial sector. This may support efficiency and financial stability in normal times, for example by promoting financial market integration and diversification. Subsequent rearrangements in business structures, however, can lead to a redistribution of risks and possibly change their nature, with potential implications for resilience and shock-propagation in times of crisis; and



- **Stress-testing of investment portfolios:** since the onset of the financial crisis, stress testing has become an integral part of the risk management of investment portfolios. A stress testing programme that has the input and buy-in not only of an investment company's risk management team but also its portfolio managers and senior management is the one most likely to better position its portfolios for major market events.

### **Next steps**

As part of its on-going market surveillance, ESMA will update its report semi-annually, complemented by its quarterly Risk Dashboard.



## **Notes for editors**

1. 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).
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.

Further information:

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