

Volatility spikes underline fragilities and risks to EU securities markets and investors

The TRV, which covers the first half of 2018, finds that overall risk levels for the EU's securities markets remained stable but at high levels for most risk categories. Equity and bond volatility spikes in February and May reflected the growing sensitivities. ESMA also sees a deterioration in outstanding corporate debt ratings, and in corporate and sovereign bond liquidity.

The TRV identifies the following key risks in EU securities markets:

- **Market risk** remains at a very high level accompanied by very high risk in securities markets and elevated risk for investors, infrastructures and services. The outcome of the Brexit negotiations remains at this stage the most important political risk for the EU;
- **Credit risk** and **liquidity risk** remains high with a deterioration in outstanding corporate debt ratings, and deteriorating measures of corporate and sovereign bond liquidity; and
- **Operational risk** continues to be elevated with negative outlook, as cyber threats and Brexit-related risks to business operations remain major concerns.
- **Outlook:** Going forward, EU financial markets can be expected to become increasingly sensitive to mounting economic and political uncertainty from diverse sources, such as weakening economic fundamentals, transatlantic trade relations, emerging market capital flows, Brexit negotiations, and others. Assessing business exposures and ensuring adequate hedging against these risks will be a key concern for market participants in the coming months.

Finally, investor risks persist across a range of products. Under the MiFIR product intervention powers, ESMA restricted the provision of contracts for differences (CFDs) and prohibited the provision of binary options to retail investors. The new measures started to apply from 1 August 2018 and 2 July 2018, respectively.

Next steps

The TRV is published biannually, and examines the performance of securities markets, assessing both trends and risks in order to develop a comprehensive picture of systemic and macro-prudential risks in the EU, to assist both national and EU bodies in their risk assessments. ESMA also updates its Risk Dashboard every quarter.

ESMA's TRV contributes to promoting financial stability and enhancing consumer protection by regularly looking into cross-border and cross-sector

trends, risks and vulnerabilities, both at the wholesale and retail level.