

ESMA 1Q18 RISK DASHBOARD SEES COMPLEX PRODUCTS AND VOLATILITY AS KEY RISKS

Consumer risks posed by complex products key concern

ESMA remains concerned about risks posed to investors, which have been mounting across a range of products. Therefore, ESMA has, following its earlier risk alert on Initial Coin Offerings (ICOs), issued a pan-EU warning to consumers regarding the risks of buying Virtual Currencies. To protect investors from undue risk-taking, ESMA also brought in a temporary prohibition of Binary Options and leverage restrictions on Contracts for Difference (CFDs) using its new product intervention powers under the Market in Financial Instruments Regulation (MiFIR).

Overall high levels of risk persist

In 1Q18, equity markets in the EU and elsewhere saw significant price corrections, with a 6% drop in EU stock prices in the week of 5 February alone, and the return of market volatility. ESMA's Risk Dashboard also raises concerns about persisting very high market risks. These risks result from asset over-valuations in equities as well as market uncertainty as the period of ultra-low interest rates draws to a close.

ESMA's outlook for liquidity, contagion and credit risk remains unchanged at high. Operational risk continues to be elevated, with a deteriorating outlook, as Brexit-related risks to business operations and vulnerabilities to cyber-attacks rise.

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