AUTORITÉ DES MARCHÉS FINANCIERS

07 July 2016

The AMF publishes its 2016 risk mapping

Brexit-related uncertainty, effects of a low interest rate environment, risk of a sharp re-pricing of assets, structural changes in markets: the AMF has drawn up a mid-2016 current state assessment of the main risks to markets, retail investment, collective investment and the financing of the economy.

The AMF has published its tenth risk mapping in a very particular context: the United Kingdom's vote in favour of Brexit. This unparalleled situation of a country leaving the European Union heralds a period of uncertainty whose effects can already be felt on markets (higher volatility and risk premia). While the United Kingdom is today still a member of the European Union, future negotiations with the European Council over the terms of its withdrawal will be important for the activities of management companies and investment services providers. As such, the risk mapping focuses on the conditions and areas in which UK providers could potentially be eligible to continue to operate in Europe under a "third country" regime. Beyond that, Brexit raises questions over the clearing of euro-denominated contracts and market supervision.

In spite of renewed or stabilised growth in some regions, these uncertainties come on top of risks already identified by the AMF in its previous risk mappings, some of which appear more important in 2016:

- The implementation by central banks of new measures to support growth has created an environment of very low interest rates in the euro area. Brexit further increases the likelihood that this situation will prevail for a long time to come. This environment could

undermine banks' and insurers' economic models and prompt investors to take on more risk and invest in illiquid assets.

- The hypothesis of a sharp re-pricing of financial assets appears more relevant than in 2015; such a re-pricing could be triggered by the onset of an event not anticipated by markets, against an uncertain geopolitical backdrop. On the bond market, for example, the number of securities now offering negative yields and the near-total disappearance of risk premium point to a disconnect between borrowers' situations and valuations.
- Neither stable global growth nor the lack of inflation have lowered credit risk, and higher debt is not easily translating into productive investment able to revive growth.
- Certain structural changes underway on markets, such as the concentration of risks within clearing houses and growth in passive management, call for particular vigilance.

At the same time, other risks identified in the past appear to be stabilising, or reducing, such as market fragmentation and difficulties experienced by companies – especially SMEs – in accessing market funding.

About the AMF
The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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