



AUTORITÉ
DES MARCHÉS FINANCIERS

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The Autorités des Marchés Financiers publishes its 2015 edition of Risk and Trend Mapping for the Financial Markets and Savings

The financing of the economy, market organisation and intermediation, household savings and collective investment: in mid-2015 the AMF is drawing up a picture of main risks, among which are those linked to low interest rates and the schedule for the normalisation of monetary policy by the European Central Bank, as well as the possibility of sharp fluctuations in market liquidity conditions.

In the context of an improving economic environment in developed countries, influenced in particular by very accommodative monetary policies, the AMF notes, in its 2015 edition of Risk and Trend Mapping, that low interest rates are continuing to help release pressures on the solvency of companies and States. The favourable trend in stock markets, on the back of mergers and acquisitions being at their highest level since 2007, has been a supporting factor for share issues. However, the current period, which is exceptional given the level of interest rates, presents risks to financial stability. If this environment were to persist, it could erode the economic model of banks and insurers. Fund managers and, more generally, investors seeking higher returns could be tempted to reallocate portfolios or take excessive risks. Inversely, normalising this interest rate environment in the eurozone too quickly, or unexpectedly, could lead to a sharp re-pricing of assets. Volatility, in turn, could increase if market liquidity were insufficient, particularly on the bond market. Finally, the Greek situation presents direct risks whose effects on the markets seem limited for now, thanks to containment measures at the European level (Greek public debt carried by public

institutions in particular). It is rather the indirect effects on other fragile countries in the eurozone which call for vigilance, if ever markets priced a risk of eurozone exit followed by devaluation, hence a rise of interest rates.

Even with a favourable scenario providing gradual monetary normalisation in the eurozone, avoiding the previous pitfalls, risk could weigh heavily on financing long-term growth in France given stricter prudential requirements for banks. Offers of alternative financing will have to be favoured, particularly within the framework of the European Capital Markets Union initiative. The disintermediation movement also poses the danger of transferring risk towards the little -or less-regulated sectors of shadow banking. This is currently the subject of international work being carried out to understand the contribution of shadow banking to systemic risk, and to adapt the regulatory framework if necessary. Finally, very little of French household savings is held in shares, which is hampering more risky and more helpful investments for the economic growth in the long term.

Regarding market organisation, the AMF notes a stabilisation of stock market fragmentation between the different platforms. But the increase in volumes traded in derogation to pre-trade transparency prescribed by the Markets in Financial Instruments Directive (MiFID) has continued, albeit at a slower rate. Furthermore, the proportion of high frequency trading (HFT) in the total trading of French large caps slightly increased in 2014. The review of the MiFID directive should make it possible to better supervise HFTs and limit the increase in dark pools, the rapid growth of which could lead to a deterioration of the price-setting process. Concerning OTC derivative products, the gradual implementation of European reforms, such as the EMIR regulation, is also helping to reduce systemic risk and increase transparency in this segment, while appealing to the vigilance of regulators regarding clearing houses which de facto carry the counter-party risk.

 decription of risks

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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