Il termometro dei mercati finanziari (18 gennaio 2019)

19/01/2019 08:44

L'iniziativa di Finriskalert.it "Il termometro dei mercati finanziari" vuole presentare un indicatore settimanale sul grado di turbolenza/tensione dei mercati finanziari, con particolare attenzione all'Italia.

Il termometro dei mercati finanziari						
18-gen-19	Legenda					
Valutazione complessiva		Calma		↑	in miglioramento	
		Turbolenza		↔	stabile	
		Tensione		↓	in peggioramento	
Mercati italiani	18-gen	11-gen	04-gen	28-dic	21-dic	Tendenza
Rendimento borsa italiana	2.17	2.43	2.77	-0.40	-2.72	↓
Volatilità implicita borsa italiana	18.19	20.48	22.08	24.14	23.28	↑
Future borsa italiana	19640	19195	18695	18230	18185	↑
CDS principali banche 10Ysub	577.81	574.40	588.04	577.35	575.78	↔
Tasso di interesse ITA 2Y	0.32	0.49	0.49	0.49	0.55	↑
Spread ITA 10Y/2Y	2.41	2.38	2.40	2.26	2.28	↔
Mercati europei	18-gen	11-gen	04-gen	28-dic	21-dic	Tendenza
Rendimento borsa europea	2.11	0.93	1.85	-0.47	-2.97	↑
Volatilità implicita borsa europea	13.57	16.29	17.90	20.32	18.66	↑
Rendimento borsa ITA/Europa	0.05	1.51	0.92	0.07	0.26	↓
Spread ITA/GER	2.47	2.68	2.68	2.51	2.57	↑
Spread EU/GER	0.90	1.03	1.03	0.97	0.97	↑
Politica monetaria, cambi e altro	18-gen	11-gen	04-gen	28-dic	21-dic	Tendenza
Euro/Dollaro	1.137	1.148	1.141	1.143	1.141	↑
Spread US/GER 10Y	2.52	2.52	2.45	2.50	2.54	↔
Euribor 6M	-0.236	-0.236	-0.237	-0.237	-0.238	↔
Prezzo Oro	1284	1290	1283	1278	1260	↑
Spread 10Y/2Y Euro Swap Curve	0.97	0.97	0.97	1.00	1.01	↔

Significato degli indicatori

- Rendimento borsa italiana: rendimento settimanale dell'indice della borsa italiana FTSEMIB;
- Volatilità implicita borsa italiana: volatilità implicita calcolata considerando le opzioni at-the-money sul FTSEMIB a 3 mesi;
- Future borsa italiana: valore del future sul FTSEMIB;
- CDS principali banche 10Ysub: CDS medio delle obbligazioni subordinate a 10 anni delle principali banche italiane (Unicredit, Intesa San Paolo, MPS, Banco BPM);
- Tasso di interesse ITA 2Y: tasso di interesse costruito sulla curva dei BTP con scadenza a due anni;
- Spread ITA 10Y/2Y : differenza del tasso di interesse dei BTP a 10 anni e a 2 anni;
- Rendimento borsa europea: rendimento settimanale dell'indice delle borse europee Eurostoxx;
- Volatilità implicita borsa europea: volatilità implicita calcolata sulle opzioni at-the-money sull'indice Eurostoxx a scadenza 3 mesi;
- Rendimento borsa ITA/Europa: differenza tra il rendimento settimanale della borsa italiana e quello delle borse europee, calcolato sugli indici FTSEMIB e Eurostoxx;
- Spread ITA/GER: differenza tra i tassi di interesse italiani e tedeschi a 10 anni;
- Spread EU/GER: differenza media tra i tassi di interesse dei principali paesi europei (Francia, Belgio, Spagna, Italia, Olanda) e quelli tedeschi a 10 anni;
- Euro/dollaro: tasso di cambio euro/dollaro;
- Spread US/GER 10Y: spread tra i tassi di interesse degli Stati Uniti e quelli tedeschi con scadenza 10 anni;
- Prezzo Oro: quotazione dell'oro (in USD)
- Spread 10Y/2Y Euro Swap Curve: differenza del tasso della curva EURO ZONE IRS 3M a 10Y e 2Y;
- Euribor 6M: tasso euribor a 6 mesi.

I colori sono assegnati in un'ottica VaR: se il valore riportato è superiore (inferiore) al quantile al 15%, il colore utilizzato è l'arancione. Se il valore riportato è superiore (inferiore) al quantile al 5% il colore utilizzato è il rosso. La banda (verso l'alto o verso il basso) viene selezionata, a seconda dell'indicatore, nella direzione dell'instabilità del mercato. I quantili vengono ricostruiti prendendo la serie storica di un anno di osservazioni: ad esempio, un valore in una casella rossa significa che appartiene al 5% dei valori meno positivi riscontrati nell'ultimo anno. Per le prime tre voci della sezione "Politica Monetaria", le bande per definire il colore sono simmetriche (valori in positivo e in negativo). I dati riportati provengono dal database Thomson Reuters. Infine, la tendenza mostra la dinamica in atto e viene rappresentata dalle frecce: ↑, ↓, ↔ indicano rispettivamente miglioramento, peggioramento, stabilità rispetto alla rilevazione precedente.

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PRIIPs: true transparency at

last?

a cura di Deloitte Italia

18/01/2019 10:07

The Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation went live with MiFID II in January 2018, introducing requirements for firms to disclose specific information on certain investment products or services. The regulation's main objective is to help investors assess the money value of these investments and make more informed decisions.

Some important issues have arisen since the implementation of KID and a process of regulatory review has been activated by the ESAs (European Regulatory Authorities).

This article aims to assess whether the PRIIPs regulation has created transparency and comparability across investment products, and the implications in the relationship with retail clients, on the basis of the observation of the market application of the new regulatory framework.

New Forms of Disclosure for PRIIPs

PRIIPs include a wide range of products such as investment funds, investment trusts, insurance-based investment products, structured investments (i.e bonds with derivatives components), and structured deposits.

Under the regulation, manufacturers/issuers are obliged to produce a Key Information Document (KID) for each product in scope.

The KID must be provided in the investors' local language and be published on the company website prior to the product being offered to retail investors. Any distributor or financial intermediary, who sells or provides advice to a retail investor about PRIIPs, or receives a buy order on a PRIIP from a retail investor, must provide him/her with a KID.

KIDs are standardized three page documents built to answer the following four questions:

- What is the product?
- What are the risk?
- What are the costs?
- What do I get in return?

The document provides specific information such as the aggregated charges associated with the product as well as a breakdown of costs, riskiness, and the simulation outcome of different performance scenarios. All the information is summarized in the document and the net effect of the costs included is presented as an annual percentage reduction in yield.

For UCITS funds that meet the definition of PRIIP, a transitional period was planned until 31 December 2019, and has recently been voted for an extension by another two years [1].

Proposed changes for PRIIPs

Since its implementation, Manufacturers and Distributors have experienced several issues related to the following topics:

- Performance scenarios methodology;
- Calculation of "Transaction costs";
- Different representation of cost and charges between PRIIPs and MiFID II.

In October 2018, the ESAs sent the European Commission a letter to propose how to tackle the key issues which have arisen since the implementation of KID. In November, the ESAs issued a consultation paper on targeted amendments to the Delegated Regulation covering the rules for KID. The consultation paper addresses, in particular, amendments to the information regarding investment products' performance scenarios.

While the abovementioned consultation was still open, representatives of the funds industry have increased their lobby strongly supporting a delay in the application of PRIIPs to UCITS funds to the 2022 horizon, finally voted by the ECON committee last December. It is worth mentioning that nothing has changed in the current regulation therefore, as of January 1st 2022, a retail investor investing in a UCITS product will be given two different documents: the KIID for UCITS and the KID for PRIIPs. However, the Commission has been given one more year to finalize their Level 1 review (by 31 December 2019) with the expectation to address the question of the overlapping.

Performance Scenarios

PRIIPs requires the financial industry to inform retail clients on the possible evolution of their investment under different future scenarios, to assess the possible product losses or gains in different market conditions. The intention is to increase both client's awareness on the products' risks and the comparability with other similar financial instruments.

The regulation requires four performance scenarios in which the financial industry has to report the incomes or losses in absolute terms (assuming an investment of tenthousands euros) over different time periods, until the product's maturity or the recommended holding period expires. Absolute gains and losses have to be illustrated adjusted for the costs the client would incur.

A favorable scenario, a moderate scenario, an unfavorable scenario, and a stressed scenario aim to depict clearly, through a forward looking approach, the evolution of investment losses and gains depending on the possible future market movements. While for some instruments the performance scenarios work well, this would not be the same for others. Some products are reporting incoherent performance scenarios (example below extracted from the KID of a certificate on "Eurostoxx 50" index.)

Scenarios (10.000 EUR investment)		1 year	3 years	4 years 1 month (maturity)
Stress Scenario	What you might get back after costs	6,022 €	5,843 €	5,630 €
	Average Return each year	-33%	-27%	-22%
Unfavourable Scenario	What you might get back after costs	7,814 €	5,970 €	10,200 €
	Average Return each year	21%	15%	0.49%
Moderate Scenario	What you might get back after costs	9,517 €	10,435 €	10,435 €
	Average Return each year	-4.83%	1.43%	1.05%
Favourable Scenario	What you might get back after costs	10,547 €	10,870 €	11,305 €
	Average Return each year	5.47%	2.82%	3.05%

The forward-looking approach of the performance scenarios failed due to the dependence on the assumption that *historic returns will continue in future*. The simulation of the future performance scenarios is driven by the historic returns the product has had over its recommended holding period. Looking at the equity markets over the last years characterized by a strong positive performance, the KID's performance scenario methodology could bring positive results also under the unfavorable scenario. The investor could misinterpret such performance scenarios, considering these products less risky than others and able to grant a profit also during negative market conditions.

Consideration of "Transaction costs"

In the PRIIP KIDs, recurring costs, including the transaction costs, must be disclosed in percentage terms. The PRIIPs delegat act sets out how firms should calculate actual transaction costs: they must be determined using an "arrival price", which requires firms to calculate the difference between the bid/ask midpoint price where a trade is first submitted, and the final execution price of the same trade. This means that the costs disclosed are often heavily influenced by market movements and, in some cases, have resulted in some firms disclosing negative figures for their transaction costs. These negative figures may lead investors to draw inaccurate conclusions about the desirability of certain funds and the true brokerage charges which they will ultimately bear.

Different representation of cost and charges between PRIIPs and MiFID II

With the introduction of PRIIPs, MiFID II has also introduced a requirement for firms to disclose an aggregate cost figure across all financial instruments in pre-sales activities. The MiFID perspective is different and covers all kinds of investors (not only retail as for PRIIPs) and the entire service value chain (e.g. cost of distribution, cost of service) where incentives paid or received by the distributor have to be reported. For the first time investors receive the overall cost of investing.

Differently from PRIIPs, no format template or guidelines have been foreseen by the regulation. Thanks to PRIIPs and MIFID II investors should now have a much wider set of costs and charges figures across a much wider set of investments. Nevertheless, full comparability and transparency is still very far.

Conclusion and impacts for firms

It is evident that PRIIPs has still not reached its purpose, with significant issues emerging that are limiting the new Regulatory framework from expressing its potential.

While Regulators have already activated the process to review the requirements, firms are free to take additional steps to help investors navigate the new set of information provided to them and reduce the possibility of inaccurate interpretation. Such steps could include:

- reporting all information in one place consistently with the investment process (e.g. presenting all information together with the investment proposal)
- explaining how various cost and charges figures and risk indicators are calculated and why differences can exist;
- explaining why they are required to produce these information and warning the customer about its limitations.

Alessandro Mastrantuono | Director Deloitte Consulting

Emanuele Meo | Senior Manager Deloitte Consulting

Donato Masi | Manager Deloitte Consulting

Notes

[1] At the beginning of December 2018, the Committee on Economic and Monetary Affairs of the European Parliament (ECON committee voted to postpone the PRIIPs application to UCITS to 2022 (initially scheduled for 2020).

BIS: Global Banking, Financial Spillovers and Macroprudential Policy Coordination

18/01/2019 11:05

There is growing evidence that international financial spillovers have become a two-way street. They occur not only from the major advanced economies to the rest of the world, but also, and increasingly, from a group of large middle-income countries to advanced economies. Because financial markets are prone to amplification effects, and because business and financial cycles remain imperfectly synchronised across countries, this new environment creates the potential for shocks in one jurisdiction to be magnified and transmitted to others through short-term capital flows. In turn, these flows may exacerbate financial instability in both originating and recipient countries, thereby creating a case for international macroprudential policy coordination. The Bank for International settlement (BIS) focuses on measuring how large the gains from such coordination are likely to be.

The BIS contribution develops a model to assess the gains from international macroprudential policy coordination. Financial integration is imperfect and a global bank in the core region lends to banks in the periphery. The model is calibrated for two groups of countries, the major advanced economies and a group of large (systemically important) middle-income countries, which have been identified in recent studies as generating significant reverse spillovers (or spillbacks) to advanced economies.

The results show that the welfare gains from macroprudential policy coordination are positive, albeit not large, for the world economy. In addition, these gains tend to increase with the degree of international financial integration. However, depending on the origin of shocks, they can be asymmetric across regions. The fact that gains are not large and that coordination does not necessarily benefit all parties raises a general question about incentives for them to remain voluntarily in a cooperative agreement.

Global Banking, Financial Spillovers, and Macroprudential Policy Coordination (PDF)

ESMA: survey to NCAs on legal qualification of crypto-assets

18/01/2019 10:57

The European Security and Markets Authority (ESMA) undertook a survey of National Competent Authorities (NCAs) in the summer of 2018 in order to better understand the circumstances under which crypto-assets may qualify as financial instruments in the EU, ESMA .

The survey questions were designed to determine the way in which a given Member State had transposed MiFID II into its national law and based on that transposition whether a sample set of six ICO crypto-assets qualified as 'financial instruments' under their respective national laws. The questions referred to the types of financial instruments under MiFID II and took into account each element of the MiFID II definitions of such financial instruments. Also, there were questions on other national rules likely to apply to crypto-assets and the possible future regulatory treatment of crypto-assets and ICOs.

NCAs provided answers to the survey, including the 27 EU Member States (all except Poland), Liechtenstein and Norway. Some NCAs did not provide responses to all questions. In particular, some NCAs considered that the information available was not sufficient to qualify the six crypto-assets. Others have seemingly not formed a view on certain questions yet, because the crypto-asset phenomenon is still nascent and evolving.

There is currently no legal definition of 'crypto-assets' in the EU financial securities laws. A key consideration of the legal qualification of crypto-assets is whether they may qualify as MiFID II financial instrument. The existing EU financial regulation establishes a comprehensive regulatory régime governing the execution of transactions in financial instruments.

In an effort to determine the legal status of crypto-assets and determine possible applicability of EU financial regulation ESMA undertook a survey of NCAs in the summer of 2018 with the aim to collect detailed feedback on the possible legal qualification of crypto-assets as financial instruments. The survey questions were designed to determine the way in which a given Member State had transposed MiFID II into its national law and, based on that transposition, whether a sample set of six crypto-assets issued in an ICO qualified as 'financial instruments' under their respective national laws.

The sample crypto-assets reflected differing characteristics that ranged from investment-type (crypto-asset cases 1 and 2), to utility-type (case 5), and hybrids of investment-type, utility-type and payment-type crypto-assets (cases 3, 4 and 6). Pure payment-type crypto-assets were not included in the sample set on purpose.

Noteworthy, the vast majority of respondents considered that the qualification of all crypto-assets as financial instruments would have unwanted collateral effects, meaning that there may be a need to distinguish between the different types of crypto-assets. This is understandable considering the variety of crypto-assets being issued. Among the reasons given were

- the existing regulation was not drafted having these instruments in mind;
- acknowledging them as financial instruments would grant them potentially unwanted legitimacy;
- the needed supervisory tools and resources may not be in place.

The vast majority of NCAs agreed that all crypto-assets should be subject to some form of regulation. There was little consensus as to whether a bespoke regulatory régime for those crypto-assets that do not qualify as financial instruments should be designed within the scope of MiFID or outside of it. There were as well diverging views regarding the extent of that regulatory régime, although with a broad consensus on that at minimum all crypto-assets should be subject to anti-money laundering laws.

Legal qualification of crypto-assets – survey to NCAs (PDF)

EBA publishes final guidance regarding the exposures to be associated with high risk

18/01/2019 10:35

The European Banking Authority (EBA) published its final Guidelines regarding the types of exposures to be associated with high risk under the Capital Requirements Regulation (CRR). Through these Guidelines, the EBA aims not only to enable a higher degree of comparability in terms of current practices in identifying exposures associated with high risk, but also to facilitate the transition to the upcoming regulatory revisions, noting that the forthcoming implementation of the revised Basel standards will only apply as of 2022.

The Guidelines consist of two sections. The first one clarifies the notions of investments in venture capital firms and private equity, which the EBA has taken the initiative to provide for the purpose of these Guidelines only. This step was triggered by the lack of guidance available to the public on these notions and because definitions are deemed necessary to ensure harmonisation on the types of exposures that are considered as investments in venture capital firms and private equity.

The second section specifies the types of exposures listed under Article 128 (3) of the CRR, which should be considered as high risk and provides stakeholders with a clear identification scheme to follow in their process of identification of exposures associated with high risk. This guidance will encourage institutions to single out and specify those individual exposures that carry a high risk of loss as items of particularly high risk and, therefore, structurally different from common exposures of the same original asset class.

Guidelines on specification of types of exposures to be associated with high risk (PDF)

Basel Committee endorse revisions to finalised market risk capital framework

18/01/2019 10:25

At its meeting in Basel on Monday 14 January 2019, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed a set of revisions to the market risk framework and the Committee's strategic priorities and work programme for 2019.

The revisions to the market riskframework endorsed by the GHOS today enhance its design and calibration by:

- introducing a simplified standardised approach for banks with small or non-complex trading portfolios;
- clarifying the scope of exposures that are subject to market risk capital requirements;
- enhancing the risk sensitivity of the standardised approach by revising the treatment of foreign exchange risk, index instruments and options;
- revising the standardised approach risk weights applicable to general interest rate risk, foreign exchange risk and selected credit spread risk exposures;
- revamping the assessment process to determine whether a bank's internal risk management models appropriately reflect the risks of individual trading desks (the so-called profit and loss attribution test); and
- revising the requirements for identifying risk factors that are eligible for internal modelling and the capital requirement applicable to risk factors that are deemed non-modellable.

These revisions were informed by the Committee's quantitative impact analyses. Once implemented, the revised framework is estimated to result in a weighted average increase of about 22% in total market risk capital requirements relative to the Basel 2.5 framework. By contrast, the framework issued in 2016 would have resulted in a weighted average increase of about 40%. The share of risk-weighted assets (RWAs) attributable to market risk remains low, at around 5% of total RWAs.

The revised market risk framework will take effect as of 1 January 2022, concurrent with the implementation of the Basel III reforms endorsed by the GHOS in December 2017. A description of the background, objectives and overall impact of the market risk framework is set out in an accompanying explanatory note.

The GHOS also endorsed the Committee's strategic priorities and work programme for 2019. The Committee's work programme for 2019 focuses on four key themes: (i) finalising ongoing policy reforms, and pursuing targeted new policy initiatives where needed; (ii) evaluating and monitoring the impact of post-crisis reforms and assessing emerging risks; (iii) promoting strong supervision; and (iv) ensuring full, timely and consistent implementation of the Committee's post-crisis reforms.

"The final revisions to the market risk framework provide additional clarity to the Basel III post-crisis reforms, and allow banks and supervisors to implement the framework in a timely manner. Looking ahead, the Committee will increasingly focus on evaluating post-crisis reforms and addressing new and emerging vulnerabilities in the banking system" said Mario Draghi, GHOS Chairman and President of the European Central Bank.

Minimum capital requirements for market risk (PDF)

Explanatory note on the minimum capital requirements for market risk (PDF)

EBA: report on cost and performance of structured deposits

15/01/2019 12:04

The European Banking Authority (EBA) published today a report on the costs and performance of structured deposits in the European Union (EU). The report is a response to a request the EBA had received from the EU Commission as part of the implementation of it Capital Market Union Action Plan and concludes that the market for structured deposits in the EU appears to be limited in size and that data on costs and performance is not widely available. The report, therefore, also sets out the steps the EBA will take to enhance the data quality in the future.

As part of the implementation of the Capital Markets Union Action Plan, in October 2017, the European Commission sent a formal request to the three European Supervisory Authorities (EBA, ESMA and EIOPA) to issue, by the end of 2018, reports on the cost and past performance of the main categories of retail investment, insurance and pension products.

The request specified that the reports should be based on data reporting that is already required by Union or national law and should include a description of data gaps and other difficulties faced during the development of the report, including any potential recommendations for the future reporting cycles.

The only product category in the EBA's consumer protection remit that is included in the request are structured deposits, which are deposits that are linked to an underlying asset but are repayable at par at maturity. The report includes a mapping of the specific regulatory requirements on pre-contractual disclosure and/or reporting applicable to structured deposits at European and national level and also identifies the data sources that would be required to fulfil the request. The report arrives at the view that the market for structured deposits in the EU is limited in size and that data on costs and performance is not widely available. It concludes by setting out steps that the EBA will take to obtain more accurate and standardised data in the future and, in so doing, enhance the reliability and overall quality of its response.

Report on cost and past performance of structured deposits (PDF)

