

KRM22



# The KRM22 Capital Markets Risk Sentiment Index

H2 2022

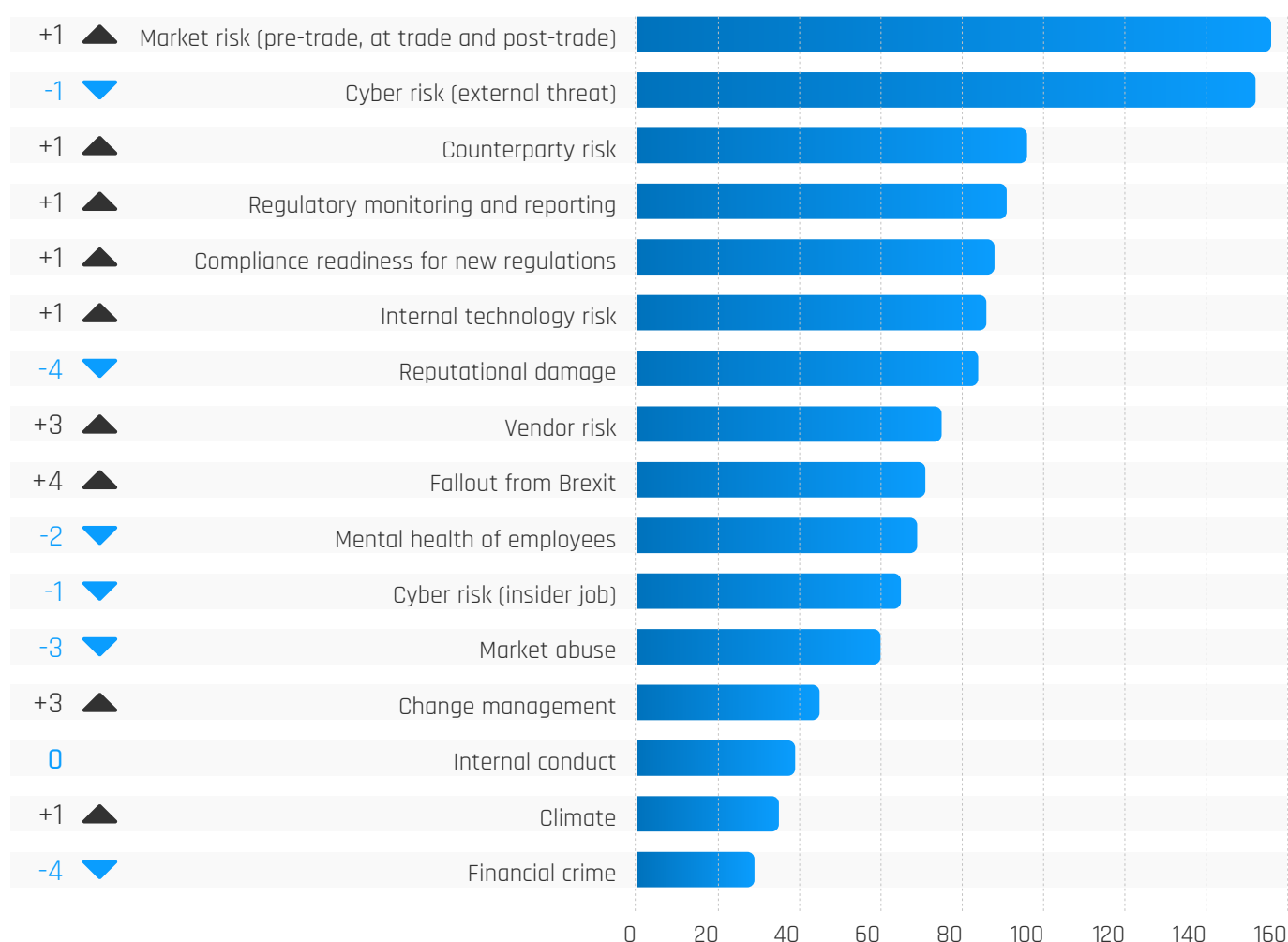
# The KRM22 Capital Markets Risk Sentiment Index

Market risk has become the top concern for senior capital market executives over the past 6 months, surpassing the threat of a cyber attack, the latest KRM22 Capital Markets Risk Sentiment Index has found.

The KRM22 Capital Markets Risk Sentiment index, compiled by Acuiti, is a twice-yearly barometer of how senior executives from across the global market perceive the threat

of a range of risk factors and how prepared they feel able to mitigate them. A total risk score is allocated to each factor based on the perceived threat reported by respondents to the survey (see box out on next page for methodology).

The H2 2022 survey, coming in the wake of a period of intense volatility across global markets, found that, for the first time, market



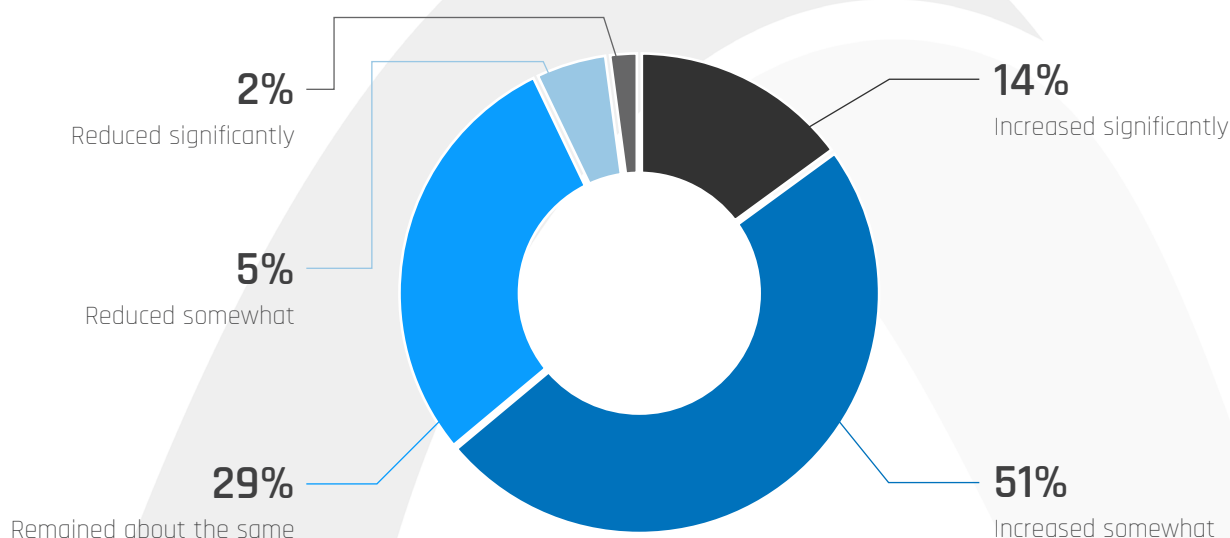
risk has become the primary concern for senior market practitioners.

The survey also found that concerns over counterparty risk had increased - rising to third in the index - as margin calls and sharp market moves in the wake of war in Ukraine and rising inflation increased pressure on companies ability to navigate markets. This time last year, counterparty risk was the 6th biggest concern.

The risk of fallout from Brexit has also risen up the index to 9th from 16th out of 16 this time last year and 13th in H1 2022 as the competition to become prime minister in the UK raised renewed threats to diverge from Mifid II and other EU rules.

Perceptions of vendor risk also increased during the past six months, rising three places in the Risk Index driven by increased concern from banks and proprietary trading firms.

## How has the overall risk level facing your business changed over the past six months?



The overall levels of risk reported by firms has continued to increase over the past six months with 65% of respondents reporting an increase in overall risk levels and 14% reporting a significant increase.

This compares with just 31% reporting increases in risk this time last year but follows a similarly sharp increase in risk levels reported in the H1 2022 survey, which coincided with the Russian invasion of Ukraine.

### METHODOLOGY

These findings are based on a survey of 116 senior respondents. To calculate the risk index, respondents were asked to rate the risk facing their business from low, medium, high and critical. Total responses for each risk were then split into a % with low risks being multiplied by -0.5, medium by 1, high by 2 and critical by 3 to arrive at the total risk score for each risk metric. All other findings outside the risk index are based on the % of respondents answering a specific question unless otherwise indicated.

# Levels of preparedness

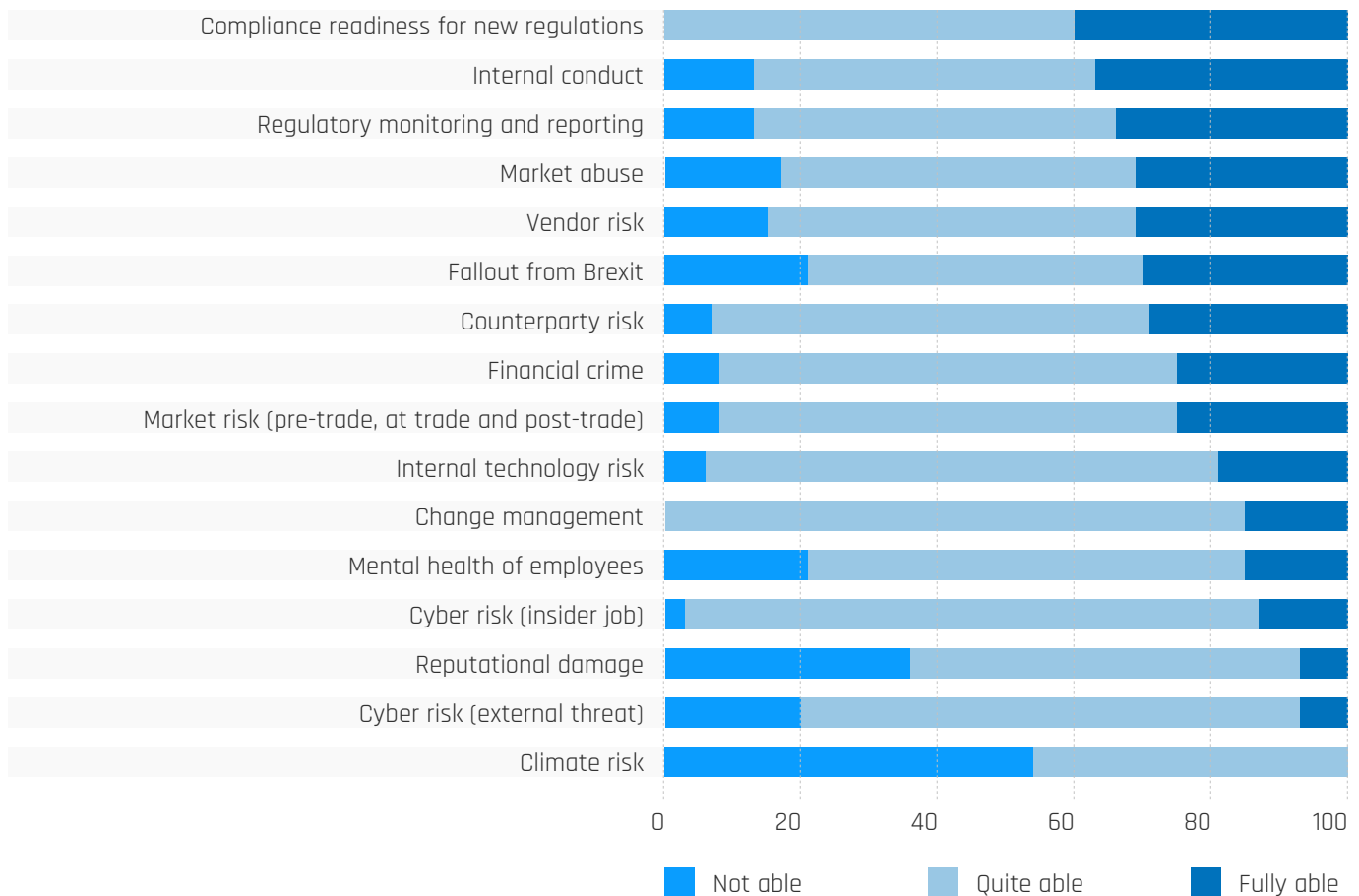
Respondents to the Risk Index survey were asked to rate how confident they were that their company's risk management strategies could mitigate the risks that they rated as high or critical.

The percentage of respondents who said that they were fully able to deal with the current levels of market risk dropped to 25% in this survey from 43% in the previous survey and 45% this time last year, a significant fall considering the increased threat posed by market risk.

Executives also reported being less confident in their ability to deal with cyber risk with just 7% saying that they were fully able to do so in this survey compared with 22% in H1 2022.

Respondents were least able to mitigate climate risk, a finding consistent with the two previous Risk Index reports. However, the ability to mitigate fallout from Brexit has increased with 30% of respondents who identified this as a top risk confident in their ability to deal with any disruption, a significant increase on the last report.

## To what extent is your company's risk management strategies able to mitigate the following risks?



## Top risks by company type:



1. Market risk  
(pre-trade, at trade and post-trade)
2. Cyber risk (external threat)
3. Regulatory monitoring and reporting
4. Counterparty risk
5. Vendor risk

### Banks



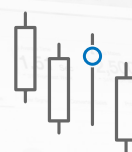
1. Cyber risk (external threat)
2. Market risk  
(pre-trade, at trade and post-trade)
3. Fallout from Brexit
4. Regulatory monitoring and reporting
5. Counterparty risk

### Brokers



1. Market risk  
(pre-trade, at trade and post-trade)
2. Cyber risk (external threat)
3. Market abuse
4. Counterparty risk
5. Climate risk

### Buyside



1. Market risk  
(pre-trade, at trade and post-trade)
2. Change management
3. Cyber risk (external threat)
4. Compliance readiness for new regulations
5. Vendor risk

### Proprietary trading firms

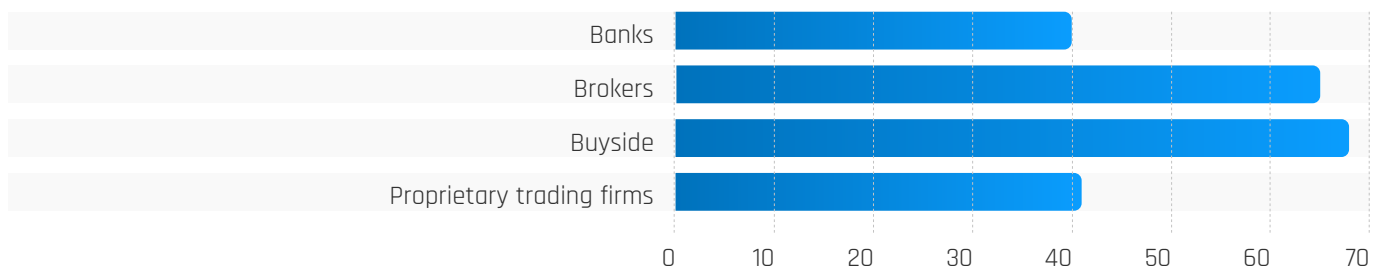
# Investment in risk

As a result of the elevated risk levels, investment in risk management is increasing. Overall around half of respondents said that they had increased spending in risk over the past six months. Proprietary trading firms had seen the biggest jump in investment with

41% increasing spending over the past six months compared with 7% in the H1 2022 report. Overall, the buy-side were increasing investment in risk at the fastest pace with over two thirds having done so. Brokers also continued to invest heavily in risk.

## Risk Investment Index

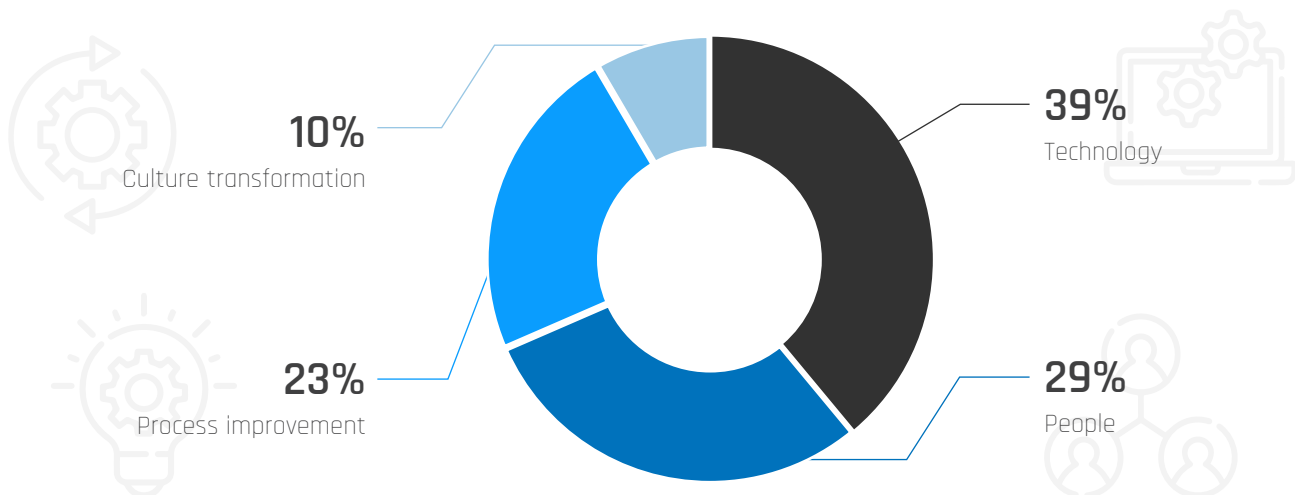
(% of respondents that had increased spending over the past six months)



Of those firms that increased investment in risk, 39% had predominantly invested in

technology, 29% in people and 23% in process improvement.

## Where has that increased spending gone?





# KRM22

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