

How important is capital market integration for the SIU?

1. The need to further develop and integrate EU capital markets

The chair opened the discussion by noting that building a truly integrated European market is essential to ensure that capital markets effectively serve both companies and citizens in line with the objectives of the Savings and Investments Union (SIU) and to strengthen the EU's position in a shifting global order.

Several panellists agreed that further developing and integrating European capital markets would improve the financing of the European economy and support long-term growth.

A regulator highlighted that the sense of urgency around the SIU has increased sharply. The widening investment gap for infrastructure, the green and digital transitions and Europe's defence capabilities, estimated in the Draghi and Letta reports at around €800 billion per year, has made capital market development and integration not just a financial priority, but a matter of strategic autonomy and political necessity.

An industry speaker noted that the SIU goes further than CMU by placing stronger emphasis on connecting Europe's vast pools of savings with its strategic investment needs, which requires deeper market integration. Fragmentation still hampers the mobilisation of long-term capital – particularly retail savings – towards key EU priorities such as the energy and climate transitions, infrastructure investment and innovation in new technologies and AI. A more integrated market would open broader opportunities for investors and ensure that Europe's growth is financed increasingly by European rather than external capital.

An official suggested that greater clarity is needed regarding the objectives of further EU capital market integration and the pace that should be adopted. This requires a fact-based approach to identify where fragmentation persists, an assessment of their impact, and a determination of where further integration could deliver tangible benefits for capital market development, investors, and firms.

Another official noted that Europe's attractiveness also depends on the implementation of sound economic policies across the Union and on maintaining a competitive business environment, beyond the scope of SIU.

2. Current state of EU capital markets

2.1 Level of fragmentation and market development

An industry speaker stressed that the EU trading landscape, shaped by two decades of MiFID reforms,

now comprises around 500 execution venues. While this proliferation has fostered competition, it has also fragmented liquidity and weakened the level playing field across venues, for instance between lit exchanges and systematic internalisers (SIs) which operate under more flexible rules notably for midpoint execution. Post-trade fragmentation also remains significant. The issue lies less in the number of CSDs, as three groups handle over 90% of volumes, than in the persistence of national legal and fiscal barriers that continue to impede cross-border integration. Drawing on recent research from Oliver Wyman, the industry speaker also pointed out that intra-market fragmentation within national cash equity markets between SIs, dark pools, and payment-for-order-flow models now exceeds fragmentation between national markets.

The industry speaker further highlighted the structural underperformance of EU capital markets. Only about one-tenth of global IPOs take place in Europe (and fewer if Sweden is excluded), while retail participation and market capitalisation relative to GDP remain low, indicating substantial untapped potential for growth.

A second industry speaker observed that, although institutional trading is already highly integrated, fragmentation persists in the retail market. Institutional investors can access markets throughout Europe via a combination of pan-European venues and national exchanges, supported by healthy competition among different trading models. Some platforms consolidate national markets, while others offer access to multiple instruments from a single jurisdiction. By contrast, retail markets still differ markedly between member states with limited cross-border flows, hindering the creation of a genuinely single retail market with seamless access for investors and the ability to create sufficient scale. The post-trade environment also remains significantly fragmented and will require particular attention to meet the objectives of the SIU.

A third industry speaker emphasised that Europe's capital markets remain far more fragmented than those of the United States, the traditional benchmark. While major financial centres such as Luxembourg, Ireland, the Netherlands, and the larger EU markets handle a significant amount of cross-border activity, many Southern, Central, and Eastern European (CEE) markets remain primarily domestic and less developed.

2.2 Progress achieved through ongoing CMU and SIU initiatives

An industry speaker noted that the SIU already covers a wide range of actions and is gaining political momentum. Among the most significant policy developments is the new draft European securitisation legislation which would simplify due-diligence and transparency requirements and adjust bank capital and liquidity

rules. These changes would make it easier for banks to participate in securitisation markets and broaden participation by investors and issuers. Europe's publicly placed securitisation market remains only about one-fifth the size of that of the US, and middle-market CLOs (collateralised loan obligations), a key funding instrument for US mid-caps, quite different from those that contributed to the 2008 financial crisis, are only now emerging in Europe. In parallel, market-driven initiatives, such as the agreement among eight CEE countries supported by the EBRD to pool market infrastructure, show encouraging momentum. Maintaining this combination of policy and market-led initiatives is essential to achieve lasting progress.

An official expressed optimism about the broader prospects for further financial integration in the EU. Over the past fifteen years, significant progress has been made in the banking sector, and similar efforts are now needed in capital markets. The establishment of a single definition and reporting standard for non-performing loans (NPLs) by the EBA exemplifies successful regulatory and supervisory convergence, which enabled the emergence of a secondary market for these loans and helped reduce NPL levels in several Member States. The Banking Union (BU) has also advanced, particularly through the SSM, but remains incomplete, as capital and liquidity still cannot move freely within cross-border groups and the banking market integration has not significantly progressed. Completing the BU and advancing the SIU are mutually reinforcing objectives, both essential to a fully integrated and efficient European financial system.

A regulator added that despite perceptions of slow progress, the CMU has already delivered tangible results for the development of capital markets, notably through the Listing Act.

3. Priorities for further integrating and developing EU capital markets

3.1 A pragmatic and step-by-step approach

An official emphasised the need for a pragmatic and politically realistic approach to the SIU. Deep integration would ideally rest on broad legal and fiscal harmonisation, but experience shows that such reforms are politically sensitive and often stall because of national implications. While there is broad consensus on the SIU's objectives, progress in areas such as corporate law, insolvency, taxation, and pensions is challenging, as it involves complex social and political choices that extend beyond financial services policy. A more feasible approach is to focus on what can be agreed among finance ministers and to advance incrementally through successive refinements that gradually remove barriers and frictions. From this perspective, the SIU Strategy already contains the right elements, though its success will partly depend on how forthcoming initiatives, such as the market integration and pension packages, are designed and implemented. Another official agreed that advancing the SIU should follow a gradual, step-by-step process.

A regulator underlined that achieving the SIU ambition will require strong political commitment, particularly from national finance ministries. Clear timelines and convergence milestones should be established, much as was done for the creation of the euro, to maintain momentum and accountability. The EU should however pursue an integration model suited to its own diversity, deepening cross-border cooperation while keeping local markets active and dynamic, rather than seeking to replicate the fully integrated structure of the US. The chair noted that the comparison with the creation of the euro is particularly relevant, as the clarity of objectives and ambitious timelines at that time helped to galvanise collective progress.

An industry speaker noted that fragmentation and the appropriate policy response should be considered separately for each asset class and trading protocol, rather than applied uniformly across all markets. Measuring fragmentation and its impact remains difficult, as the availability and quality of data vary widely across segments.

3.2 Strengthening investor demand and participation

An official emphasised that legal harmonisation is not sufficient for achieving deep and liquid capital markets. Structural demand constraints, which are largely rooted in Europe's pension systems, must also be addressed. Unlike the US, where pension funds play a central role as long-term providers of liquidity, Europe's retirement landscape remains dominated by Pillar 1 state pensions, leaving limited space for private capital accumulation, and only 17 member states have developed substantial Pillar 2 occupational schemes.

A second official agreed that deepening Europe's capital markets requires developing long-term sources of funding, including private pension systems. Pension funds, given their long-term liabilities, can provide the "patient capital" essential for market development and OECD data show a clear correlation between the size of national pension funds and the depth of capital markets. Progress can be achieved within a reasonable timeframe through targeted policy nudges, such as automatic enrolment and life-cycle investment default options that give younger savers higher equity exposure and gradually rebalance portfolios with age, while respecting individual choices and national social security systems.

An industry speaker concurred that deepening liquidity requires greater citizen participation in the capital market. The Commission's proposed Investment and Savings Account represents a step in the right direction but, in its current form, would exclude products such as derivatives and cryptoassets. Such product restrictions may discourage investors from using the EU framework and divert some trading activity towards non-EU or unregulated platforms.

Another industry speaker added that regulation should better reflect the diversity of investors, offering greater flexibility for institutional trading while ensuring that retail investment is supported by a simple, transparent and easy to navigate framework. Europe should aim for a market structure where active retail participation and sophisticated institutional activity coexist on fair and competitive terms.

A third official cautioned that, while channeling more household savings into the European economy is essential, greater market integration alone will not achieve this goal. For those already investing in European capital markets, consolidation could help lower costs and improve long term returns. However, most households still hold their savings in bank deposits, and domestic bias due to greater familiarity with local firms and local media coverage continues to drive investors' preference for local markets. Developing domestic markets before gradually integrating them at European level is therefore the most effective path forward. In parallel, it is necessary to ensure that these savings and investments fuel the EU economy. The official also stressed that digitalisation will be key to attracting new investors, particularly younger generations, with the EU's Distributed Ledger Technology (DLT) pilot regime providing a solid foundation for this transition.

The chair acknowledged the need to balance greater integration and interoperability at the EU level with maintaining strong local engagement, as both dimensions are essential to make EU capital markets more accessible and attractive to companies and citizens alike.

3.3 Improving market structure

An industry speaker suggested that "re-pooling" liquidity to channel it more effectively to the real economy should be a key priority. In the trading space, a fundamental discussion is needed on how Europe's market structure should evolve and how transparency and waiver regimes should apply, given the current dispersion of activity across venues operating under non-equivalent rules. At the post-trading level, the measures proposed to reduce fragmentation should be pursued, including an optional 28th regime, a stronger CSD passporting regime and closer coordination of supervisory colleges by ESMA. The T2S platform could also be better leveraged to enhance integration and resilience, for instance by incentivising its use through fee rebate mechanisms. In addition, a more pragmatic European competition policy is needed to allow market-led mergers to proceed when justified, rather than blocking them as has occurred in the past.

Another industry speaker underlined that consolidation and competition should be viewed as complementary rather than opposing forces in driving market efficiency. Consolidation can lower costs and improve access, while competition remains essential for innovation and discipline. Market outcomes, however, depend largely on the regulatory framework that defines the competitive landscape. Maintaining a level playing field between multilateral venues and OTC markets is essential, ensuring that exchanges are not restricted from activities permitted to OTC operators. The experience of the US, where a narrow definition of exchanges has fuelled the expansion of OTC trading, illustrates the risks of regulatory imbalance. The chair agreed that the needs of different parts of the financial system must be considered, as they differ not only across geographies but also between categories of investors.

An official cautioned that regulators must ensure that structural reforms at the trading or post-trading level

enhance, rather than compromise, investor protection and financial stability.

4. The role of more integrated and effective supervision

A regulator stressed that the current supervisory architecture remains one of the main obstacles to market integration, hindering consistency and efficiency, and that moving towards a more unified European supervisory architecture should be a key priority of the SIU project. We should not wait for another crisis to revise the existing architecture, that entails significant costs. EU-level supervision should include large pan-European market infrastructures, as well as large asset management groups.

In the asset management sector, the absence of a genuine pan-European group concept prevents consolidated supervision of financial stability risks and deprives firms of the efficiencies of intragroup delegation, still treated in the same way as third-party outsourcing. In this respect, asset-management regulation lags behind the banking framework. Similar shortcomings exist in the crypto-asset market, where the lack of an EU-level supervisory approach under MiCA for cross-border cryptoasset service providers has encouraged regulatory shopping, creating potential investor-protection risks. ESMA has launched peer reviews to identify issues, but these lack binding force and cannot prevent divergent implementation of EU rules, a key source of complexity.

Stronger tools for supervisory convergence tools are needed to ensure more consistent implementation and better policy outcomes. Without them, legislators tend to compensate by producing overly prescriptive and detailed rulebooks, especially for retail investors, which raises both complexity and costs. A more integrated supervisory framework would allow for simpler, principles-based regulation and greater convergence without full centralisation. National authorities should, however, retain a key role through delegated responsibilities and in supervising smaller entities, following the Banking Union model.

An industry speaker considered that the key supervisory question in the SIU is not whether supervision should be centralised or national, but how to make it more effective at the EU level. A practical step would be to centralise regulatory data collection at ESMA, which could act as a hub for sharing this data with the national competent authorities (NCAs), including insights on the extent of market fragmentation and ways to reduce it in line with SIU objectives. This would help build a stronger evidence base, improve understanding of fragmentation and support more targeted policy responses.

The industry speaker also suggested that "no-action" powers should be added to the EU framework. Such tools allow supervisors to suspend temporarily the application of a rule if flaws are detected, giving time to correct them before unintended consequences arise. As market changes and regulatory production accelerate,

supervisors need such flexibility to remain agile and responsive. Any move toward more integrated supervision should however maintain the current cooperative, dialogue-based culture, rather than moving towards a centralised box-ticking oversight.

An official supported a balanced path between centralisation and national oversight, favouring gradual evolution over abrupt change. Centralising data collection at ESMA level and feeding the information back to NCAs to avoid duplicate reporting, could be a pragmatic first step, as already practiced between the SRB and the SSM. The ultimate goal is effective and enforceable convergence, not centralisation. Currently, the ESAs can conduct peer reviews or identify breaches of EU law but lack binding powers to enforce compliance. This framework should evolve to enable EU-level intervention when convergence is not achieved.

Another official considered that supervisory convergence in Europe is achievable, but supervision should primarily remain at the national level, with rules applied in a way that reflects the specific circumstances of each market. Europe's 27 capital markets are at very different stages of development, making the continued involvement of NCAs essential to account for this diversity.

Wrap up

The chair closed the session by outlining the main priorities identified during the discussion: accelerating the development of supplementary pension schemes; promoting fair competition, interoperability, and consolidation among trading and post-trading infrastructures; creating a centralised hub for regulatory data; and enhancing supervisory convergence while empowering authorities to act with greater agility. Harnessing technology to attract younger investors and drive further integration was also suggested. The chair concluded that achieving deeper integration will require collective ambition and maintaining a sense of urgency from all stakeholders to ensure that Europe's capital markets deliver effectively for citizens and companies alike.