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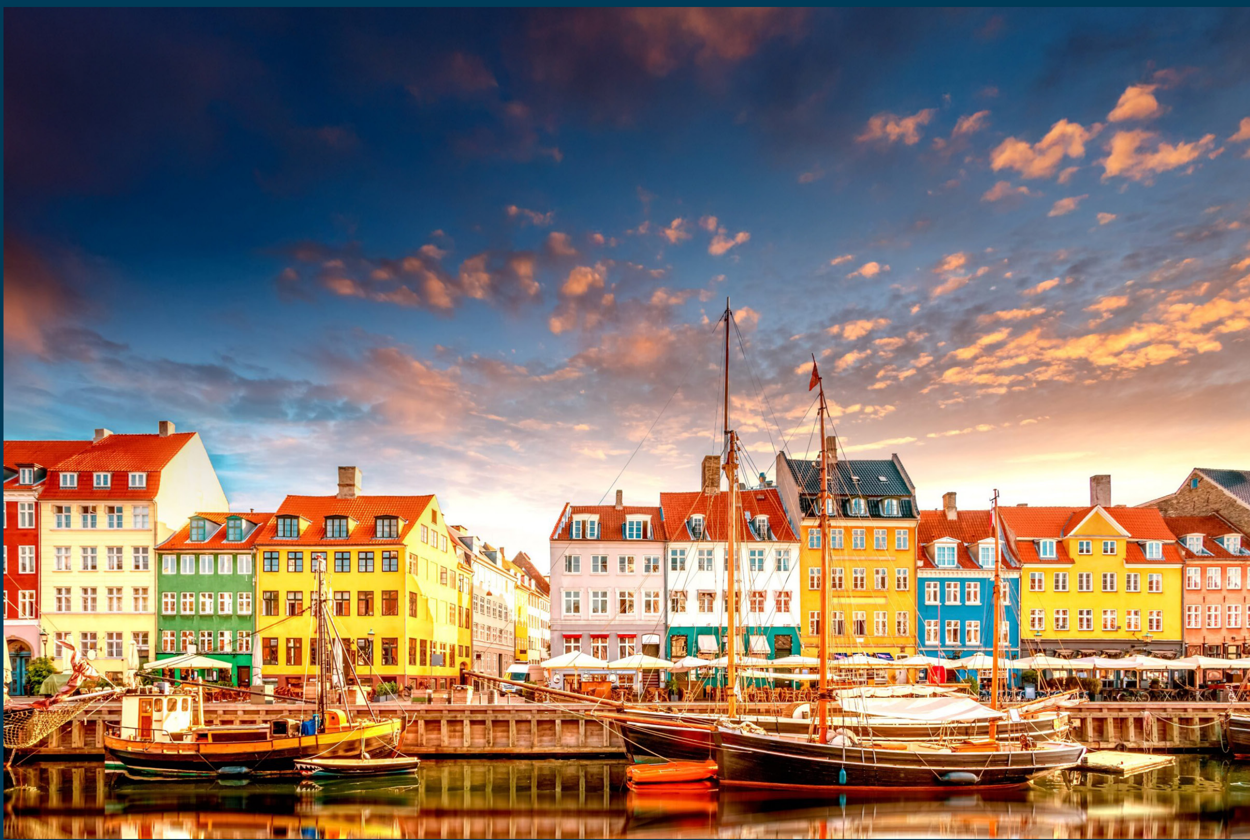
FINANCIAL FORUM COPENHAGEN SEPTEMBER 2025

Organised in association with the Danish Presidency of the Council of the EU

Summary



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Foreword

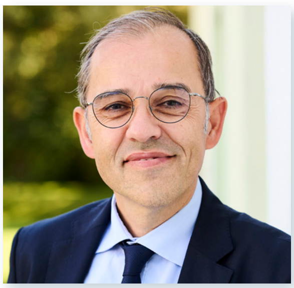
The Eurofi September 2025 Financial Forum took place in Copenhagen ahead of the informal Ecofin meeting and was organised in association with the Danish Presidency of the Council of the EU.

Over 1200 participants from the public and private sectors attended the Forum, which featured 42 panel discussions, as well as speeches and exchanges of views with key representatives from government, European and international public institutions, regulatory and supervisory authorities, industry, and civil society.

The Forum addressed Europe's macroeconomic challenges, including the impact of current global trade tensions, and examined major regulatory and supervisory developments in the financial sector at both European and global levels. Several sessions also explored key industry trends such as digitalisation and sustainable finance, along with their related policy implications. The priorities and tools for delivering effective simplification of European financial regulation and supervision were also discussed.

The following pages contain summaries of the Forum's panel discussions and transcripts of the speeches delivered during this event. These provide a comprehensive overview of the current trends and issues affecting the financial sector and the policy measures needed to address them. We hope you find this summary informative.

This report, together with the other documents published for the Forum - including the latest editions of the Monetary and Macroeconomic Scoreboards and the September issue of the Eurofi Views magazine - are available on our website, www.eurofi.net.



Marc Truchet
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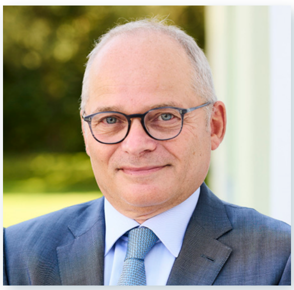
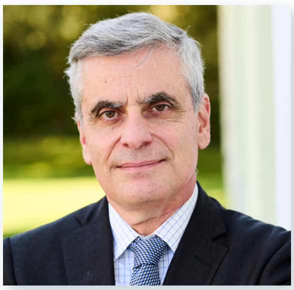


Didier Cahen
Secretary General



Jean-Marie Andrès
Senior Fellow

Sessions

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Sessions

I

ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU

Global trade and economic tensions: impacts on the EU

1. Varying impacts of the EU-US trade agreement in Member States

1.1 Competitiveness and sovereignty

Competitiveness is a prerequisite for preserving economic sovereignty, particularly in a context of declining international cooperation. He recalled that the European Commission has launched several initiatives to strengthen the EU's competitive position, including the Competitiveness Compass, the Green Industrial Deal, and the Union of Skills.

Around 20% of EU exports are destined for the United States, supporting approximately five million jobs. Exporters and importers may be able to absorb part of the impact of tariffs and the dollar's depreciation by compressing their margins, which would prevent these changes from being immediately reflected in prices. However, this strategy would likely increase pressure to renegotiate the agreement.

If margins cannot be compressed and costs are passed on to consumers, the consequences could be negative in the short term, although potentially less damaging in the long run. According to Commission estimates, the overall impact on EU employment will be relatively contained, with potential export reductions in the range of 5% to 8%. Nevertheless, such external shocks typically affect countries and sectors unevenly, creating differentiated pressures across the Union.

1.2 Short-term gain; long-term pain

A regulator argued that, from a market perspective, the EU–US trade agreement is viewed positively overall, mainly because it helped avert a worse outcome. Its immediate economic impact appears limited, it has reduced uncertainty, and Europe is performing comparatively well relative to other regions. This perception clearly supports short-term growth.

However, this optimistic assessment does not address the underlying competitiveness challenges, particularly in sectors that have historically underpinned European productivity, such as manufacturing and automotive. If these sectors experience disproportionately negative effects, the EU's long-term growth potential and competitiveness could be structurally weakened.

Additional external risks also persist, including Chinese overcapacity, closer strategic alignment among BRICS countries, and geopolitical tensions that could further disrupt established trade patterns.

Against this backdrop, the agreement may indeed be beneficial in the short term, but it should be regarded as a net negative over the longer horizon, due to its potential to deepen existing structural vulnerabilities. Following 2 April, strong capital outflows were observed. The traditional "dollar smile" pattern no longer applies, as the dollar's safe-haven status has weakened. Instead of large portfolio reallocations, investors are increasingly hedging against depreciation, purchasing insurance and diversifying their exposures. Notably, demand for European assets—particularly bonds—has increased, reflecting shifting risk perceptions.

1.3 Adapting to divergent impacts across countries and sectors

An industry representative opened by underlining a fundamental shift in global trade dynamics: whereas past trade policy relied on broad multilateral agreements built on consensus and long-term stability, the current environment is increasingly characterised by frequent bilateral agreements, narrower in scope and negotiated over shorter cycles, and prone to renegotiation. This evolution requires greater agility from both EU Member States and European companies.

Although any trade agreement helps reduce uncertainty, it inevitably entails economic redistribution effects. The overall growth impact of the EU–US agreement is modest, which reflects the EU value-added exports of 1% of GDP. However, the distribution of this impact is highly uneven across Member States and sectors. For example, Ireland sends approximately 8% of its value-added exports to the US, while Denmark sends about 2%, compared to the EU average of 1%. This illustrates why national contexts and sectoral structures matter greatly in determining the agreement's real impact in the economy.

At the corporate level, the need for agility is even more pronounced. A survey of over 900 major EMEA (Europe Middle East and Africa) firms found that 10% are directly affected by tariffs through changes in costs, revenues or financing conditions. In the US, the equivalent figure is 18%, suggesting that the burden is shared on both sides of the Atlantic.

Sectoral exposure also differs significantly. The EU automotive industry is particularly vulnerable: around 20% of its value-added exports go to the US, and its profitability is projected to decline by €10 billion in 2025, equivalent to roughly one-fifth of the sector's annual profits. By contrast, the pharmaceutical industry is less affected thanks to significant local US manufacturing and higher profit margins, which offer greater room for adjustment.

The agreement also involves major headline commitments. By 2028, the EU has pledged to invest \$600 billion in the US and to purchase \$750 billion worth of US energy. Meeting this target would require tripling annual EU energy imports from the US, covering 85% of Europe's needs. Such volumes could place significant strain on US export capacity, creating new bottlenecks and dependencies.

1.4 External pressures fuel uncertainty, volatility and economic fragmentation

1.4.1 Potential worsening of low-growth and high-debt trends

An official acknowledged that there have been positive macroeconomic developments within Europe, notably the completion of the disinflation process. The ECB has reached its terminal rate of 2%, and rising real wages, combined with easier financial conditions, are expected to support domestic consumption and investment.

However, US trade measures represent a significant headwind for European economies. It is estimated that the impact of tariffs through reduced external demand will lower EU GDP by 0.2% in 2026, while persistent uncertainty could subtract a further 0.2%. In addition, the appreciation of the euro compounds the challenges faced by European exporters.

Another source of concern is the potential decoupling of China and the US, which could lead to significant trade diversion effects. Current tariff levels are projected to increase EU imports by 1.5%. Thus far, however, most diverted trade flows have been redirected to ASEAN countries, rather than to the EU, limiting potential benefits.

Europe's medium-term growth outlook remains weak. Addressing this requires improving productivity and growth potential, not just per capita income. Long-term spending pressures are set to intensify, driven by demographic ageing—which affects pensions and healthcare—alongside defence requirements and the financial demands of the green and digital transitions.

Without decisive fiscal measures, average EU debt levels could double within 15 years, reaching 135% of GDP, and potentially exceeding 155% when weighted by country size. This trajectory is unsustainable, making fiscal action and structural reforms imperative.

1.4.2 Uncertainty, volatility and fragmentation

An official cautioned that, despite the trade agreement, a high degree of systemic uncertainty persists, contributing to market volatility and the risk of global economic fragmentation.

One clear indicator of this is the marked increase in sovereign bond yield volatility, which, at the end of last year, reached above pre-crisis and pre-pandemic levels, complicating accurate pricing and risk assessment. Moreover, during the pandemic, median OECD sovereign yields in the primary market were close to zero. In 2024, they averaged around 4%, reflecting a fundamentally different interest rate environment.

Additionally, a large proportion of corporate and sovereign bonds will mature within three years. Refinancing this debt at higher market rates will increase cumulative interest payments, which, for OECD sovereigns, are already higher than defence spending. This combination of higher volatility, elevated borrowing costs and compressed refinancing timelines risks amplifying fragmentation pressures within the EU financial system.

Stronger international cooperation is essential to mitigate these risks. Without coordinated policy responses, divergences in financing conditions and economic performance across Member States could widen further, undermining both financial stability and the cohesion of the single market.

1.5 Nordic outlook

An industry representative presented the perspective of a pan-Nordic financial institution operating across borders, noting that its outlook is shaped by specific Nordic characteristics, particularly the small size and high openness of the region's economies. As a result, Nordic countries rely heavily on the EU's capacity to act as a unified player in addressing external risks.

The existence of the EU–US trade agreement is viewed positively from a Nordic standpoint. By securing preferential access to the US market, EU Member States avoid the higher tariffs imposed on other countries, which helps sustain transatlantic trade flows. US demand for EU imports is expected to remain robust, given the structural constraints on expanding US domestic production.

For Denmark, exports to the US represent around 2% of GDP, while the total export share is approximately five times higher. A substantial portion of these exports is produced in the US but recorded as Danish exports under national accounting rules. These activities fall outside the scope of the trade agreement, creating potential vulnerabilities that are particularly significant for smaller economies. The Nordic perspective underscores the need for broader analytical frameworks that go beyond traditional trade definitions to capture evolving international production and investment patterns. Smaller countries remain more exposed to external shocks and therefore depend on effective collective EU action to mitigate risks and maintain economic resilience.

2. Fiscal discipline, structural reforms and EU initiatives

2.1 Europe's growth agenda

2.1.1 National reforms and EU integration

An industry representative stressed that a combination of national and EU-level reforms is essential to address Europe's structural challenges effectively. Given the significant divergence in country-specific dynamics, tailored national solutions must be complemented by coordinated EU action.

Individual nations continue to face several socio-economic challenges and differ in their capabilities. France continues to face persistent fiscal pressures, now compounded by recent political instability, which could slow efforts to reduce deficits and exacerbate already high debt and borrowing costs. By contrast, while Germany also faces growth challenges, it benefits from greater fiscal space, allowing it to tackle growth challenges more flexibly. Italy and Spain, despite weaker credit profiles than larger economies, are showing gradual improvement, highlighting the need for differentiated national policy approaches.

Demographic ageing is a shared challenge across the EU and beyond. Currently, 2.7 working-age people support each person over 65 in the EU, but this ratio is expected to fall to 2:1 within two decades, requiring comprehensive productivity strategies to increase labour participation. Denmark's initiatives in this area offer relevant insights. However, degree of the challenge varies across the EU, and hence solutions also vary nationally.

Several cross-border challenges also call for coordinated EU responses, particularly in areas intersecting with national policies. These include innovation, regulatory simplification, and capital market deepening. Although the EU creates around 10% more start-ups than the US, it often struggles to scale them, not only due to funding gaps but also because of regulatory fragmentation.

Additional barriers include limited access to financing, fragmented capital markets, and a more conservative investment culture compared to the US. European pension funds allocate around 7% of their venture capital funding to new ventures, versus 20% in the US. While European households save 35% more than their American counterparts, a smaller share of these savings is invested in financial assets. According to an ECB study, aligning EU household allocations with US levels could unlock €350 billion in additional capital for innovation.

Finally, private credit—currently around €500 billion assets under management in Europe — nearly 30% of global private credit AUM — could play an active role in the development of a securitisation market, provided EU and national policymakers strike the right balance between opportunity and risk when interpreting Europe's growth potential.

2.1.2 EU, national and budgetary reforms

An official emphasised that Europe has the capacity to address its structural challenges - including low productivity, insufficient growth, and fiscal sustainability - through a coordinated set of reforms at both EU and national levels.

Three main reform levers were highlighted:

1. European-level reforms should focus on product market integration to enable firms to operate at scale and ensure labour mobility. Advancing the Savings and Investment Union (SIU) will help allocate risk capital more efficiently. A European energy strategy that increases renewable capacity while ensuring sufficient baseload power is also essential to lower energy prices sustainably.
2. Domestic structural reforms can significantly boost growth. If each Member State were to close half the gap with the best performers in five priority areas, EU GDP could increase by around 6%. Achieving this requires strong political commitment.
    - The first priority is labour: developing a skilled, flexible workforce that can move between sectors. Denmark's flexicurity model offers a compelling example.
    - The second priority is fiscal reform, particularly concerning pension systems and public investment management in Eastern European countries.
    - The third involves business regulation and innovation, supported by further progress on the Capital Markets Union (CMU).
3. Reforming the EU budget is also crucial. The Commission proposes making it more performance-based, with increased support for European public goods. This would involve raising spending from 0.4% to 0.9% of GNI, particularly in defence, R&D, and energy infrastructure, thereby enhancing policy effectiveness and lowering costs for Member States.

All these objectives are achievable, but political obstacles must be overcome and compensation mechanisms provided for those negatively affected by reforms

2.1.3 Managing global debt

An official explained that sustained long-term growth relies on two core pillars: sound fiscal policies and deep structural reforms. This is particularly pressing given the unprecedented scale of global debt.

Global outstanding bonds now amount to around $100 trillion, of which 65% are sovereign and 35% corporate, following record annual issuance of $25 trillion in 2024. Crucially, a significant share of this debt will mature within the next three years and will likely have to be refinanced at higher interest rates. Rising geopolitical and economic tensions could magnify refinancing risks.

The OECD Global Debt Report 2025 underscores that governments can justifiably intervene during crises with expansionary fiscal policies. Despite this, after the 2008 financial crisis and the COVID-19 pandemic, debt levels were not subsequently reduced, leaving fiscal positions structurally more fragile.

At the same time, monetary policy shifts have transformed the investor base. Over the past four years, the share of OECD sovereign bonds held by central banks diminished by 10 percentage points, increasing the share of price-sensitive investors, such as households and foreign entities.

Several policy instruments could help address these challenges. Expanding retail investor participation, both direct and indirect, could enhance financial stability and reduce sovereign vulnerabilities to sudden shocks in financial markets. For example, investment savings accounts could mobilise household savings more effectively. Boosting investors' financial literacy is necessary to support these efforts.

Strengthening occupational pension funds with limited withdrawal options and creating incentives for long-term equity investment are also key. Moreover, following the financial crisis, much of the rise in corporate bond issuance was channeled into share buybacks and dividends, rather than productive investment, a pattern that must change.

2.1.4 European initiatives to strengthen growth and resilience

A regulator noted that limited fiscal space - due to spending pressures, higher interest rates, and increased demands on public resources for defence and security - makes it essential to mobilise private capital and pursue European-level initiatives to support growth and resilience.

Proposals for the Savings and Investment Union (SIU) are expected soon, alongside a comprehensive set of new Commission initiatives later in the year. While the

Commission aims to deepen the single market, certain areas, such as pensions, remain under national competence, which constrains regulatory harmonisation.

Progress will therefore depend heavily on bottom-up dynamics, requiring financial education, greater awareness among policymakers, and innovative solutions tailored to national specificities that currently hinder market integration. While some services are best delivered at the national level, a creative approach is needed to build towards a genuinely European market. Political education on the SIU is also crucial to generate broad support.

Regarding the EU budget, the existing flexibility mechanisms, national prioritisation, and new strategic focus mark a bold step forward. The Commission's proposal deserves recognition for its ambition and pragmatism, which could make EU-level financing more effective in supporting structural transformation.

2.2 Building a more competitive and resilient Europe

2.2.1 Completing the EU internal market for consumers

An industry representative argued that enhancing the functioning of the EU internal market is a central priority for strengthening competitiveness and resilience. While some Member States resist further integration, often citing consumer protection concerns, a fully integrated single market would ultimately benefit consumers the most through lower prices, greater choice, and enhanced competition.

An official highlighted that reducing intra-European trade barriers by the equivalent of a 1.5 percentage point cut in ad valorem tariffs could offset much of the negative impact of US trade measures. Similarly, reducing trade costs for other partners by 3 percentage points, from their current level of around 85%, would further cushion the shock. These calculations demonstrate that, while the external headwinds are significant, they are not insurmountable if Europe deepens its internal economic integration.

2.2.2 The need for cooperation between Member States and the Commission

An official stressed that strong cooperation between Member States and the European Commission is essential to deliver meaningful progress on competitiveness and resilience. A bottom-up approach, similar to that used for the Savings and Investment Union (SIU) and the Capital Markets Union (CMU), should be prioritised. Such an approach would strengthen ownership of projects at the national level and encourage Member States to align their priorities with European objectives.

Effective cooperation also requires ensuring clarity and consistency in interpretation between national authorities and EU institutions, so that initiatives can be implemented uniformly across the Union.

2.2.3 Long-term resilience requirements

An official observed that there is broad consensus at Eurofi that uncertainty remains the greatest risk to Europe's long-term resilience, and that the mere existence of the EU–US trade deal is valuable. However, addressing long-term strategic challenges is equally critical.

Security and energy dependencies affect the EU as a whole and cannot be addressed by individual Member States alone. Active participation in global supply chains is essential, but neither most EU countries nor the US have the capacity to sustain large deficits indefinitely.

The EU must therefore pursue open strategic autonomy, combining economic strength and defence capabilities to engage internationally on more equal terms.

Europe's long-term success will depend on competitiveness, productivity, and a more proportionate regulatory framework. This requires a pragmatic acceptance of shifting global realities and a focus on building partnerships rather than barriers. For both the EU and its Member States, the strategic task is to build bridges, deepening cooperation and positioning Europe more effectively on the global stage.

2.2.4 Lessons from the Nordics

An industry representative underlined the importance of focusing on practical implementation measures, drawing lessons from Nordic experiences.

Denmark's flexicurity model has proven highly effective but requires substantial financial investment, particularly in active labour market policies. Adjusting the retirement age is also crucial for addressing demographic challenges, strengthening public finances, and supporting sustainable growth. The Danish approach questions the widespread assumption that longer lifespans must necessarily entail lower retirement incomes, instead encouraging extended workforce participation.

Nordic countries typically enjoy higher levels of political and societal trust, which has resulted in less fragmentation and more cost-effective crisis management, as demonstrated by their relatively efficient responses during the pandemic in terms of lockdowns, production losses, and public spending.

Key growth sectors in the region include pharmaceuticals, life sciences, green technologies, and the green transition, supported by high education levels and a strong start-up culture. With an effective policy framework, these industries can underpin sustainable growth. Moreover, profitable niches in traditional sectors, such as food production and shipping, highlight the importance of maintaining a broad and diversified economic base.

Policy priorities for EU finance amid rising uncertainty

1. A new strategic context: balancing geopolitics, economic priorities and policy trade offs

The speakers highlighted the evolving nature of Europe's priorities and the need to reconcile economic, sovereign and regulatory objectives amid growing structural tensions.

1.1 Balancing the EU's strategic objectives

The Chair opened the discussion by noting that there is broad agreement on the policies needed to strengthen the efficiency and resilience of the EU financial system — banking union, capital markets union (CMU), simplification and burden reduction. However, there is less consensus on the trade-offs that emerge in pursuing these goals. Uncertainty persists over whether to prioritise geopolitical or economic objectives, strategic autonomy or openness in financial services, and competitiveness in the financial sector or in the wider economy. Financial sector competitiveness does not necessarily translate into overall economic competitiveness. Calibrating regulation with the aim of enhancing economic competitiveness may at times conflict with financial stability. The ultimate objective is to achieve a fully integrated banking sector with centralised liquidity and capital management, yet it remains unclear how host countries' concerns over capital and liquidity outflows can be addressed. These are the perceived trade-offs — it is not yet certain whether they are real.

1.2 Embedding geopolitics into the financial agenda

1.2.1 European security as an economic driver

A public representative stressed the need to integrate a geopolitical perspective into financial policymaking. Given today's geopolitical environment, the management of Europe's economy and finances cannot continue on a business-as-usual basis. Competitiveness, resilience, digitalisation and the advancement of the CMU remain essential, but in Eastern Europe the most valued public good is security — including its military dimension. This demand for security will inevitably reshape Europe's economy. As President von der Leyen underlined in her recent State of the Union address, the EU must now reorient itself around the common good of European security.

1.2.2 Strategic sovereignty will reshape Europe's economy and finances

The public representative added that competitiveness and the CMU should not be overlooked in this evolving context. The escape clause in the Stability and Growth Pact (SGP) allows member states to raise defence expenditure, while the new Security Action for Europe (SAFE) initiative introduces collective borrowing for defence purposes. The European Investment Bank (EIB) is also breaking new ground by financing quasi-military projects and investing in critical infrastructure and raw materials. While the Eurofi sessions cover all major policy issues, it is vital to recognise that the EU itself is changing. Europe, long a pacifist project, is now rearming — a transformation with profound financial implications.

1.2.3 Geopolitics meets geoeconomics

The Chair observed that geopolitics and geoeconomics are increasingly inseparable. The EU's geopolitical relevance depends on the strength of its economy; a structurally weak economy cannot sustain global influence. As the EU strives for greater strategic autonomy, it may need to reconsider aspects of globalisation. Globalisation was originally driven by growth, but moving away from this model implies trade-offs that must be clearly understood.

1.3 Evolving policy priorities: from green and digital to defence

An official noted that the EU policy agenda has shifted from the green and digital transitions towards defence — a shift emblematic of the European political debate and of the shift in America's position. While all these objectives remain important, it is worth recalling that Russia's aggression in Crimea and Donbass began in 2014. The threat has been at Europe's doorstep for over a decade.

1.3.1 Beyond capital markets: structural issues in the economy

An official highlighted the broad consensus on advancing the CMU, though elements of the Savings and Investments Union (SIU) remain ill-defined. For example, while the need to expand pension funds is widely accepted, the new European label for savings products lacks clarity regarding its nature and distinction from pension funds. Some argue that Europe should emulate the dynamism of the United States, yet persistent issues around investable assets, labour market flexibility and economic competitiveness lie beyond capital markets themselves.

1.3.2 Clarifying the objectives and simplifying the rules

An official further observed that a key trade-off lies between national and European policies, particularly evident in cross-border consolidation. Member states often resist such transactions, creating multiple obstacles. This tension could be eased by clarifying the overarching objectives of EU financial policy. Certain aspects of the CMU remain vague, and the root causes of regulatory overload — volume, complexity and purpose — require clearer definition. Even recent EU texts are difficult to interpret. Industry and member states should submit concrete proposals to policymakers and help them adopt a more concrete and simpler approach. France and Spain's initiative to create the European Competitiveness Lab is a positive step. Although enthusiasm for competitiveness reforms has waned, they remain critical to success; meaningful progress requires active national engagement.

1.4 Regulatory simplification to enhance agility

An official cautioned that deregulation in the name of competitiveness is not the solution. Simplification is conceptually simple but difficult to achieve in practice. While the first layer of EU regulation appears clear, subsequent layers add complexity. Europe's decision-making process remains slow, compounded by a patchwork of national legislation. Strengthening intra-EU cooperation and encouraging more proactive engagement from member states could accelerate progress. Introducing incentive mechanisms might help bring more reluctant countries on board.

1.4.1 Integration and Faster Decision-making as Drivers of Competitiveness

An official observed that the deepening of the single market and the creation of a more integrated market will boost competitiveness and benefit businesses. The banking union and the capital markets union are essential components of this process. The EU decision making process is very slow and necessarily involves a considerable degree of compromise. These factors are major barriers to integration. It can take years to reach a conclusion on a regulation or proposal. Member states should try to remove some of their national biases and reach agreements more quickly.

1.4.2 Smarter regulation to support competitiveness

An official added that the debate should not oppose simplification to regulation. The key is to ensure that regulation delivers value. Simplification must not be an end in itself. All new EU initiatives should undergo "simplification checks" from the outset — a more effective approach than overregulating and simplifying afterwards.

1.5 Rejecting false trade offs: strategic autonomy and openness; banking and economic competitiveness; regulation and growth

An industry speaker argued that many of the perceived trade-offs are in fact misleading.

The first misconception is that strategic autonomy and open financial markets are incompatible. In reality, a jurisdiction's strategic autonomy depends on having a resilient, attractive and competitive financial sector — which cannot exist in isolation. Connectivity is essential: capital will always move towards open and efficient markets. Restricting flows or imposing capital controls would be economically self-defeating. Europe should therefore focus on making its markets more attractive, not less open. The key question is how to ensure that Europe's financial system and its broader economic framework are appealing to investors — their combination would form a powerful foundation for autonomy.

The second misconception is the opposition between strengthening banking sector competitiveness and broader economic competitiveness. Sustainable financial competitiveness requires a dynamic economy. Encouraging competition among financial institutions ultimately strengthens the sector and supports growth. However, simplification must not be equated with deregulation. Excessive and duplicate reporting obligations — often both national and EU-level — impose high costs and reduce efficiency. Policymakers frequently underestimate this burden.

Finally, there is a nuanced trade-off between regulation and growth. More regulation may protect stability but constrain growth; less regulation may stimulate activity but increase vulnerability. Striking this balance is crucial. The speaker observed, "the US may regulate too little, while Europe regulates too much." Europe will have to determine how far it is willing to adjust its level of protection to foster growth.

An official added that policy discussions increasingly reflect geopolitical considerations. Topics such as stablecoins and central bank digital currencies (CBDCs) are now routinely addressed in Eurogroup and ECOFIN meetings. While the European Stability Mechanism (ESM) has supported both retail and wholesale stablecoin projects, the debate has evolved into one concerning payments and clearing. Given that 99% of stablecoins are denominated in dollars, geopolitics is directly relevant. Europe must develop its own digital solutions - such as CBDC - to maintain competitiveness. As one minister noted, "Europe regulates digital assets; the US profits from them." This reality may require revisiting MiCA. There is no contradiction between strategic autonomy and openness: both must coexist if Europe is to remain attractive and competitive.

1.6 Closing the sovereignty gap: fragmentation and US dominance

An industry representative observed that simplification is not a zero-sum game. Theoretical trade-offs between protection and efficiency, or between stability and growth, do not necessarily hold in practice. In Europe, it is possible to combine financial stability, profitability, effective economic financing and sovereignty. Yet, outside retail banking, the top global players in asset management, capital markets, private equity and private debt are overwhelmingly American. European institutions still struggle to offer the full range of financial products required by European businesses. While European banks excel at providing loans, US institutions dominate private market activities. The lack of a unified retail banking market — fragmented by differing national behaviours, regulations, and host-home frameworks — remains a key constraint. These structural divergences cannot be eliminated by law.

1.7 Finding balance in a fragmented political and geopolitical context

The Chair concluded that framing policy debates in terms of trade-offs suggests binary choices, whereas most require balance. The real challenge is finding the right equilibrium. Public authorities often approach these questions from a theoretical perspective, while the private sector faces their practical implications. A central question emerging from the discussion is how to reconcile fostering competition with building global champions. Achieving this balance may appear simple in principle but will prove complex when translated into concrete legislative action.

2. Fragmentation and the political barriers to integration: delivering the SIU

The speakers then examined the political, institutional and operational levers needed to advance financial integration and overcome current national and geopolitical obstacles.

2.1 The geopolitical situation is complicating financial integration

An official stressed that today's geopolitical environment makes it harder to advance EU priorities. The EU and national governments remain absorbed by the war in Ukraine and shifting US positions. Washington's evolving stance on Russia and Ukraine is prompting pressure on Europe, notably on trade, that many in the EU find uncomfortable. Against this backdrop, it is difficult to galvanise leaders around banking union and capital markets union. Political change in several key Member States over the next two years will further shape the agenda yet may also clarify the value of the European project. Fragmentation has nevertheless eased: Italy's negative TARGET2 balance has fallen by almost €100 billion (around 25%), and Italian sovereign spreads have tightened to pre-crisis levels over the past year. Conditions are therefore favourable for renewed momentum — making banking markets less segmented, progressing common deposit insurance and addressing sovereign exposures. A shared position is needed to revitalise both CMU and banking union.

An official added that geopolitical turmoil may ultimately strengthen the European project by underscoring that there is no viable alternative to acting together. With the EU's closest ally frequently changing course, European countries have little chance on their own. Greater cohesion and pragmatism are required. The European Stability Mechanism (ESM) — sometimes misread as a "European Solidarity Mechanism" — is indeed a solidarity instrument; Europe should build on that foundation.

2.2 Balancing economic reform and geopolitics

The Chair observed that the remarks by one panellist imply a circular challenge: the EU struggles to address economic weaknesses because it is preoccupied with geopolitics, yet geopolitical issues cannot be resolved without a stronger economy. An official agreed, emphasising that public authorities and private actors must be more proactive and less reactive. Once proposals are agreed, the next task is to convince the "political masters" in Brussels — a point the Chair endorsed.

2.3 Learning from successful national models

A public representative underlined the importance of the SIU. CMU began a decade ago, but SIU is a more substantial follow-up. Europe holds about €10 trillion in deposits that are not being channeled into productive investment. Full centralisation — ideally via a single platform with common deposit insurance and supervision — is not a magic fix. Retail investors in Poland, for instance, still need local brokers. One pragmatic route is to promote successful national models, such as those in Sweden and Denmark. Sweden's framework has already inspired reforms in Poland, but EU-level replication is constrained when tax incentives are involved, as taxation remains a national prerogative. The EU can recommend, not impose, changes in this area.

An official noted that the branding "Savings and Investments Union" resonates with citizens. European banks are resilient and profitable, as shown by the EBA's latest stress test, which should support progress on a common European deposit insurance. To make savings products more attractive, the EU could draw on Sweden's harmonised investment account model with flexible features. Encouraging Member States to adopt proven practices may be more effective than prescribing detailed product rules at EU level.

An official agreed that "Savings and Investments Union" is clear and relatable. The aim is to create a horizontal enabler — an ecosystem to channel investment towards EU strategic objectives. While there is broad consensus on the objective and the ecosystem's design, implementation will face obstacles. The Commission has shown welcome ambition to deliver several SIU actions by 2025. With the next Presidency taking over in January, it is essential to keep up the pace and secure tangible progress quickly.

The Chair concluded that there are reasons for both optimism and caution: geopolitics should push Europe towards greater integration, yet institutional capacity to focus on economic integration remains limited.

2.4 Overcoming political barriers and the home host paradigm

An industry speaker argued that breaking the deadlock on banking union and accelerating SIU is ultimately a political choice. Technical and financial obstacles mask a lack of political will to move beyond mistrust towards solidarity. The home–host paradigm is the primary barrier: it entrenches fragmentation and prevents the emergence of European champions. There is no trade-off between fostering competition and growing champions — the two are complementary. Competition is the discipline that keeps champions safe and sound.

While Europe waits for political alignment, markets will evolve. Some consolidation is occurring at national level. The landscape differs markedly from when discussions on banking union and CMU began fifteen years ago: private equity has grown significantly, and private credit is entering Europe at scale, largely driven by non-European institutions operating nationally. This is not yet a union, but momentum is building. These developments may generate the pressure needed to catalyse the political will Europe requires.

3. Strengthening financial sovereignty and laying the macroeconomic foundations

The speakers outlined the structural and macroeconomic conditions required to support European financial integration — including the efficient circulation of capital within cross-border groups, the mobilisation of long-term savings, and the need for fiscal credibility and monetary stability.

3.1 Rethinking regulation and enabling consolidation: building a stronger banking sector

An industry representative underlined the central role of regulation. He noted that European prudential rules tend to be risk-adverse rather than risk-sensitive, a characteristic also found in consumer protection and client-focused regulation. In some areas, such rules are not fit for purpose, to the detriment of both institutions and clients.

To strengthen Europe's banking sector, consolidation is indispensable. Europe still counts too many banks, which limits efficiency and competitiveness. Facilitating consolidation requires removing persistent barriers to integrated capital and liquidity management — including large exposure limits, the ring-fencing of capital and bail-inable assets, national resistance to liquidity pooling, and a fragmented macroprudential framework. Addressing these constraints would allow European banks to achieve economies of scale and scope, enhance their financing capacity within the single market and reinforce their global competitiveness. Only through deeper integration can the EU banking sector attain the scale, resilience and innovative capacity needed to compete globally while supporting Member States' economies.

3.2 Structural barriers to European financial sovereignty

An industry representative further stressed that declining market shares of European financial institutions in key segments represent a threat to European sovereignty. Advancing banking union requires tackling the home–host dilemma. Ring-fencing continues to restrict the free movement of capital and liquidity within cross-border groups. A recent study estimates that between €200 and €300 billion of capital and liquidity are currently immobilised as a result of these national constraints — a situation that undermines the efficiency of the European system.

The Savings and Investments Union (SIU) is an important step forward, yet the EU still lacks a robust source of long-term and illiquid savings, typically provided by pension funds. This remains a key difference with the United States, where large companies benefit from the significant inflows of household savings into pension funds every year. Mobilising similar long-term capital in Europe is essential to strengthening financial autonomy.

3.3 Restoring fiscal discipline and rethinking monetary policy

A market expert identified the first key policy question as whether the EU should cut interest rates. He expressed scepticism about such a move, noting that liquidity remains abundant and inflation is still persistent. Even an inflation rate of 2.5 % to 3 % may seem moderate, but if sustained, it becomes highly destabilising. In such conditions, lowering rates could stimulate consumption and further entrench inflation expectations. Policymakers must fully understand the consequences of easing monetary policy prematurely.

The second challenge concerns the interaction between monetary and fiscal policy. Several European countries are pursuing expansionary policies simultaneously. The combination of large deficits and loose monetary conditions risks fuelling inflation and undermining credibility. To restore stability and prevent fiscal dominance, public expenditure must be curtailed, and fiscal and debt policies realigned with long-term growth objectives.

While increased defence spending is unavoidable, it will add to public debt. Some argue that higher deficits can be offset by corresponding increases in public borrowing, but persistent reliance on debt is unsustainable. Financing non-revenue-generating expenditure through borrowing leads ultimately to an impasse. Improving public financial management and reducing debt levels are thus indispensable to safeguarding the Union's future.

Finally, long-term instruments are offering increasingly high yields, reflecting investors' growing doubts about the effectiveness of fiscal and monetary policy in an environment of lingering inflation and elevated deficits. Investors are demanding significant premiums to hold long-term bonds and prefer short-term securities or equities instead.

The question for Europe is whether to accept market scepticism or to act decisively. Without addressing structural weaknesses in fiscal frameworks, continued reliance on borrowing will soon become untenable. As Jacques de Larosière concluded, a strong Europe requires strong Member States.

Wrap up

The Chair concluded that the discussion exposed a paradox: Europe currently seems ill-equipped to confront its geopolitical, macroeconomic and structural challenges simultaneously. These constraints complicate EU decision-making but make it all the more urgent. The real trade-off for policymakers is between postponing difficult choices and acting decisively while conditions still allow it.

Monetary policy in an uncertain inflation environment

The session examined the evolution of monetary policy in the euro area in the context of increased uncertainty and structural transformation. After a period of disinflation, monetary policy has stabilised, but the economic environment is still characterised by complex structural changes, ambiguous inflation dynamics and increased geopolitical risks.

The discussion then focused on the interaction between monetary and fiscal policies. While the ECB provides monetary stability, the fiscal positions of member states, demographic trends, security spending and climate-related investment needs are diverse and create significant challenges that could affect future monetary policy.

Finally, the panel addressed the implications of financial innovation for monetary sovereignty. While the rapid development of stablecoins offers opportunities, it also poses growing systemic risks. In contrast, the digital euro emerges as a strategic response, combining resilience, safety and innovation within a European framework.

The following sections examine these dimensions in turn, from monetary policy strategy to fiscal coordination and the implications of financial innovation

1. A stable monetary stance facing an uncertain and changing environment

The Chair noted that, despite an environment marked by deep structural changes and significant economic uncertainties, monetary policy has remained relatively stable over the past year. The ECB's inflation projections have shown little variation from one period to the next, with inflation expected to approach the target in the medium term.

There is broad agreement that the policy rate is now within a neutral range, although concerns persist about weak economic growth in the EU. Market-implied expectations of the future policy rate have shown limited volatility in recent months, and inflation expectations remain firmly anchored. The financial sector continues to demonstrate resilience, yet there is a risk of underestimating latent vulnerabilities. Key questions remain as to whether inflation will remain at target in the long run and whether structural shifts could raise the risk of persistent deviations. Ongoing structural transformations, such as US tariff measures and recurrent supply shocks, may require further policy adjustments.

1.1 A balanced outlook with upside and downside risks means that vigilance and data dependence remain key

A Central Bank official stated that the ECB expects inflation to converge towards its 2% target, though evolving trade patterns and tariff effects continue to generate substantial uncertainty. A meeting-by-meeting policy approach remains essential to observe how firms and prices respond to recent shocks and policy shifts. The ECB's latest projections for euro area inflation, published in September 2025, confirm that headline inflation currently stands at 2.1% and is expected to settle at 1.9% by the end of the projection horizon. The relative stability of this outlook is reassuring, yet considerable uncertainty persists, particularly regarding the impact of global trade dynamics and US tariffs on inflation worldwide. While US consumer inflation may rise, firms are currently absorbing much of the tariff burden. Underlying price pressures have nonetheless increased since the start of the year and may eventually feed through to consumers. Conversely, inflation indicators in China and the euro area remain subdued, with eurozone import prices declining due to a stronger euro.

The implications of shifting trade dynamics for global and euro area inflation remain ambiguous. Trade fragmentation, policy uncertainty, and changes in supply chains could either dampen or fuel price pressures. These developments point towards a more uncertain and potentially volatile inflationary environment.

The latest inflation outlook appears broadly balanced, with risks on both the demand and supply sides. Inflation is at target and economic activity remains resilient, although potential growth remains a concern. Stable financing conditions and recovering lending place the euro area in a favourable position to absorb shocks and respond if risks materialise. Navigating this uncertain context requires data-driven, meeting-by-meeting decisions. Vigilance remains essential to track how firms adapt to recent shocks, to monitor economic and inflation trends, and to remain attentive to shifts in broader policy settings.

1.2 Post-disinflation outlook shaped by structural uncertainties and ambiguous inflation effects

The Chair suggested that the euro area's monetary policy position is currently favourable. Christine Lagarde's recent remarks confirmed that the disinflation process has largely concluded, while acknowledging ongoing uncertainties stemming from potential demand and supply shocks. Although inflation dynamics have changed, major challenges remain. After years of undershooting targets, the euro area now faces a structurally different environment that may have altered the underlying drivers of inflation.

A Central Bank official noted that inflation projections for 2026 and 2027 are in line with the price stability objective, even though significant uncertainties remain and risks are tilted to the upside. Vigilance is crucial in addressing these uncertainties, as reflected in the ECB Governing Council's meeting-by-meeting approach. Maintaining flexibility and continuously assessing evolving scenarios are key, when determining the appropriate level of the three key policy rates.

Several structural factors are influencing inflation and growth in ways that differ from a decade ago. Europe's potential growth has declined, and demographic trends, such as an ageing population, may further weigh on growth and inflation developments in unpredictable ways. Similar uncertainty surrounds other developments, including the green transition and artificial intelligence. It remains too early to assess whether these forces will exert upward or downward pressure on prices. A cautious, data-dependent approach therefore remains the most effective way to manage both short-term and medium-term structural inflation challenges.

1.3 Uncertainty across all horizons calls for enhanced scenario analysis

A Central Bank official emphasised that uncertainty now pervades the short, medium- and long-term outlook, as well as the structural landscape. Key sources of uncertainty include digitalisation, artificial intelligence, demographic change, trade tensions, regional conflicts with global repercussions, and the rise of stablecoins. Climate risks, although difficult to quantify, add further complexity to policy decisions, making it harder to rely on traditional assumptions when setting interest rates. During its strategic review, the ECB examined these challenges in depth, leading to the integration of expanded scenario analysis into its decision-making process. Balancing risks has become increasingly complex, as these different uncertainties can drive inflation in opposite directions. Scenario analysis therefore plays a vital role in improving understanding of future developments.

Following Russia's invasion of Ukraine, the ECB conducted scenario analyses to gauge the inflationary impact of the conflict. More recent scenarios assess the consequences of global trade measures and arrangements, which have become central to policy assessment. In this context of persistent uncertainty, the meeting-by-meeting, data-dependent approach remains appropriate.

The link between scenario analysis and financial stability is also critical for setting monetary policy. Such analyses can complement institutional stress tests, such as those conducted by the EBA, ensuring that the financial system maintains sufficient stability for effective policy transmission. They provide a bridge between monetary policy and financial stability assessments, underlining their growing importance in today's volatile environment.

The Chair concluded that panelists broadly agreed the euro area's monetary policy is well positioned to address current challenges. The meeting-by-meeting approach, once focused primarily on validating inflation models and projections, has evolved to interpret new shocks and adjust policy accordingly in a context of heightened uncertainty.

1.4 Decisive monetary action needed in both low and high inflation regimes

The Honorary Chairman of Eurofi observed that although the ECB's approach may appear to follow its usual course, it reflects a more balanced consideration of inflation dynamics. Persistent and energetic action is required not only in low-inflation periods but also when inflation is excessively high. The zero-lower-bound constraint now appears less pressing, possibly due to structural factors that have raised the equilibrium interest rate over the past five years. Nevertheless, it would be unwise to assume the ECB will abstain from maintaining low rates, particularly given recent rate reductions that have tempered expectations of imminent policy shifts.

The ECB should continue to identify the structural factors driving inflation — notably protectionist measures, disruptions to free trade, customs duties affecting supply-side costs, and demographic trends. It remains committed to non-conventional policy frameworks, although growing fiscal activism and rising public expenditure call for greater prudence in monetary policy.

Markets also play a role in shaping monetary conditions. The rise in long-term bond yields reflects investors' demand for higher risk premiums to finance expanding public spending. While recent stability in inflation figures has influenced policy, an excessive focus on low rates should be avoided, as uncertainty continues to shape inflation expectations and policy outcomes.

2. Policy coordination and fiscal challenges in a shifting landscape

2.1 Fiscal–monetary interplay remains central to euro stability

A Central Bank official reflected on the complexity of the relationship between fiscal and monetary policy, recalling debates from the time of the euro's creation. Then, as now, the interaction between fiscal and monetary policies was regarded as central to the stability and viability of the common currency. Despite facing challenging periods over the past 25 years, the euro has proven to be a stable and resilient currency.

The ECB remains firmly committed to its mandate of maintaining price stability, yet prudent vigilance is required regarding the impact of fiscal developments on inflation and growth. Member States are required to comply with EU fiscal rules, though heterogeneity among national fiscal positions complicates the overall picture. In the past, Germany was criticised for underinvestment, whereas current concerns focus on the potential fiscal impulse from Germany and other countries in the coming years. A balanced approach is therefore needed, one that recognises the diversity of fiscal stances and the asymmetry of economic conditions across the euro area.

When assessing the current fiscal–monetary interplay, a cautious and context-specific approach remains essential, acknowledging both national differences and the importance of maintaining credibility.

2.2 Fiscal challenges threaten to unsettle a stable monetary landscape

A Central Bank official agreed that the risk of fiscal dominance is a concern, with upward pressure on public expenditure stemming from ageing populations, rising healthcare costs, climate transition measures and broader investment needs. These challenges are compounded by the high level of public debt, averaging around 90% of GDP across the EU, and by several Member States recording deficits exceeding 3%.

This fiscal context contrasts with the relative stability of the monetary policy environment. Ensuring prompt and credible compliance with fiscal rules is therefore critical to safeguarding the sustainability of the EU's economic and monetary framework.

The Chair underlined the importance of adherence to fiscal discipline alongside the ECB's commitment to its 2% inflation target.

2.3 Monetary stability under threat from evolving structural and fiscal pressures

The Honorary Chairman of Eurofi highlighted the central role of monetary authorities in preserving price stability amid a highly uncertain environment. Economic threats are dynamic and evolving, driven by demographic trends, security concerns and climate change, all of which carry significant implications for monetary policy. Fiscal and monetary policies are deeply interlinked, and the growing fiscal imbalances in certain countries — notably France, where high debt levels and large deficits persist — are a source of concern. Rising security and defence needs will also increase fiscal pressure, indirectly influencing monetary conditions.

Caution is warranted in interpreting global monetary developments, particularly the recent easing stance of the US Federal Reserve. The tightening of the US labour market reflects structural and political factors, such as immigration policy, rather than purely economic dynamics. This challenges the assumption that a tighter labour market automatically justifies lower interest rates. A more comprehensive analysis of underlying drivers - including market expectations and longer-term inflationary trends - is required to understand these developments.

The Chair acknowledged the inherent prudence of central bankers and their heightened awareness of structural and fiscal challenges. Without corrective fiscal measures, projections suggest that Europe's aggregate debt could more than double over the next 15 years, reaching around 155% of GDP on a weighted basis.

3. Financial innovation and the future of monetary sovereignty

3.1 Stablecoins: opportunities and growing systemic challenges

A Central Bank official underlined the potential benefits of financial innovation, including its capacity to enhance efficiency and consumer choice. While central bankers, regulators and supervisors often approach innovation cautiously, progress should not be unduly constrained. Unbacked cryptocurrencies are unlikely to rival central bank money because of their inherent price volatility, which prevents them from functioning as money. Stablecoins, however, represent a possible exception, as they are backed by assets and are gaining prominence, particularly in the United States. Their growing use could generate substantial risks for financial stability and monetary policy.

Liquidity risk is a primary concern, as disruptions in stablecoin markets could spill over into the broader financial system through collateralised assets such as government bonds. Historical precedents involving money market mutual funds illustrate how such spillovers can disrupt bond markets and affect commercial banks through shared asset exposures. Stablecoins may also complicate the transmission of monetary policy. Runs on stablecoin issuers could trigger market turmoil, particularly in sovereign bonds, thereby raising questions about monetary sovereignty.

Regulation is central to addressing these challenges. However, the cross-border nature of stablecoins demands coordinated international oversight, which remains difficult given divergent regulatory frameworks in the United States, Asia and Europe. Current regimes are still high-level and will likely require further refinement as the risks become clearer. Stablecoins should therefore be prioritised in financial stability surveillance and regulatory monitoring over the coming years.

The Chair noted that financial innovation offers valuable opportunities but also introduces new risks requiring careful management. The launch of the digital euro aims to modernise cash, providing citizens with the possibility of making digital payments using central bank money. Yet, this initiative has also met with reservations among certain stakeholders.

3.2 Digital euro: a safe and resilient step into the digital era and a strategic response to crypto assets and stablecoins

A Central Bank official emphasised that the digital euro could enhance certainty and confidence, particularly in retail transactions and cash-related payments. This innovation marks a significant step into the digital age, responding to growing demand for digital payment solutions and declining reliance on physical banknotes. Through the creation and circulation of the digital euro, the ECB demonstrates its commitment to adapting to evolving consumer preferences while maintaining monetary stability.

The digital euro combines resilience with efficiency, offering advantages such as cost competitiveness, enhanced privacy, and security. As an ECB-backed instrument, it shares the same safety and reliability as cash, making it one of the most secure forms of money available. Core banking functions would remain largely intact, with banks continuing to play a pivotal role in the payments ecosystem through account-linked digital euro services.

This new form of money would benefit both the banking sector and the broader economy. Notably, it could be used even without internet connectivity, offering a safeguard against cyber risks and ensuring continuity of access for consumers.

A Central Bank official concurred with these points, noting that the term “crypto assets” is preferable to “cryptocurrencies,” since many such instruments function as assets rather than currencies, while stablecoins represent a distinct category. He stressed that stablecoins must not undermine financial stability or disrupt monetary policy transmission.

The digital euro also constitutes a strategic response to the rapid growth of digital assets. Unlike stablecoins, the digital euro would be central bank money, guaranteed by the ECB, thereby ensuring trust and stability. Moreover, it could serve as a foundational platform for further financial innovation within the financial system. A balanced debate is required to weigh benefits and implications. Ultimately, the timing of the introduction of the digital euro will depend on political decisions by EU finance ministers and the European Parliament, underscoring the need for informed and comprehensive deliberation.

The Chair concluded that introducing the digital euro could reduce fragmentation in the single market by providing a unified payment instrument across member states, thereby facilitating cross-border transactions and reinforcing market integration and Europe's monetary sovereignty.

Adjusting EU frameworks to unleash long term institutional capital

1. Despite public long term investors, long term finance in the EU remains under pressure

Despite abundant private savings and the active involvement of domestic and EU public financial institutions, such as the Groupe Caisse des Dépôts (CDC), Kreditanstalt für Wiederaufbau (KfW) and the European Investment Bank (EIB), the EU continues to face difficulties in directing capital towards productive long-term investment.

1.1 Long term finance under pressure: geopolitical uncertainty and insurance sector shifts

An official explained that the current macroeconomic environment is unfavourable to long-term capital allocation. Geopolitical uncertainty generates a liquidity premium, prompting investors to hold capital in reserve to address unforeseen events. As a result, they are reluctant to commit funds to long-term projects. When risk is mispriced, the supply of long-term financing declines. In addition, the financial system's efforts to reduce risk have produced unintended consequences. Concerns regarding long-term guarantees in the insurance sector have led insurers to transfer risk to consumers. Since insurers must match assets with liabilities, larger players have shown diminished appetite for long-term assets, further weakening demand for long-term finance.

1.2 Idle savings, persistently low rates and structural weaknesses: Europe's struggle to boost long term investment

A market expert noted that prospects for long term investment in Europe appear positive given the high level of private savings, but much of this capital is not channelled into productive investment and remains unproductive, with around €10 trillion held in bank deposits.

He pointed out that weak growth and chronic underinvestment are closely linked to the prolonged period of low and negative interest rates. Demand-boosting policies, including deficit-financed redistribution, have reduced productivity, increased indebtedness, encouraged liquid savings rather than long-term investment, transferred capital to the United States, and delayed structural reforms. Geopolitical uncertainty has further reinforced savers' caution. The Inflation Reduction Act has diverted major projects to the US, while the deployment of NextGenerationEU funds has been slowed by administrative complexity, cumbersome procedures and skills shortages.

A deeper structural challenge lies in the underdevelopment of pension and sovereign wealth funds in most EU countries. Unlike the US or Canada, Europe lacks large, stable domestic long-term investors capable of supporting equity financing and investment in strategic sectors.

1.3 The unique role of public long term investors in Europe's future

An industry speaker stressed that public long-term investors are essential to financing major projects, particularly when private finance is insufficient.

Firstly, the long-term horizon of large projects requires investors able to convert short-term savings into long-term capital. Institutions such as the CDC fulfil this role by transforming sight deposits and popular savings into loans with maturities of 50 to 80 years, relying on stable funding and their ability to carry risk on their balance sheets. Secondly, long-term projects are inherently perceived as risky because they involve future outcomes, and today's future is more uncertain than ever. Long-term investors address this by diversifying their portfolios and assessing risk and return over extended horizons.

Thirdly, these institutions integrate externalities into project assessments, looking beyond immediate financial returns and turning today's risks into tomorrow's opportunities. A former CEO of CDC referred to this mindset as le goût de la brèche or "the appetite for breakthrough".

Finally, public long-term investors play an anchoring role. Their participation can catalyse further investment by attracting additional financiers to major projects. The CDC was created in the aftermath of the Napoleonic Wars to restore trust and channel French savings into long-term investments. In today's context of uncertainty and rapid transformation, their role remains as relevant as ever.

2. Europe's long term finance challenge: actors, hurdles and structural gaps

2.1 Boosting long term finance: overcoming prudential hurdles and revitalising securitisation

An industry representative underlined that European commercial banks remain central to credit intermediation and long-term financing. However, risk pricing in the banking sector has undergone a profound transformation following well-intentioned prudential reforms such as Basel III. These reforms have increased the cost of longer-term financing and limited banks' capacity to mobilise deposit funding. The key challenge is to improve the velocity of financing.

Securitisation offers a way to enhance banks' capacity to extend credit, use capital more efficiently and transfer risk to non-bank entities. Since the global financial crisis (GFC), however, both the stigma attached to securitisation and regulatory constraints have led to a sharp decline in activity. In this context, the Savings and Investments Union (SIU) proposals aim to strengthen banks' ability to transfer risk to non-banks by easing capital requirements and allowing long-term investors, such as pension funds and insurers, to assume a larger share of risk. A scorecard assessment indicates that the SIU reforms could significantly accelerate the circulation of capital within banks and make securitisation investments more attractive for EU insurers. Fitch Ratings estimates that insurers' solvency charges for securitised products would fall by 60 % to 70 % under the proposed revisions.

Nevertheless, the new proposals remain 12 times less capital efficient for a "AAA" rated securitisation bond than the regime applied to US life insurers and around 1.3 times less efficient than those applicable to Korean and Japanese insurers. This clearly raises concerns regarding the level playing field. While the SIU proposals are well-intentioned and could support greater mobilisation of capital, questions remain about their practical implementation. There appears to be room for considerable disagreement between stakeholders, and as always, the details will be decisive.

2.2 The role of insurers in long term investment: opportunities and challenges

2.2.1 Insurers can provide risk-bearing capacity and partner with public financial institutions

An industry speaker noted that insurers are naturally inclined to invest over the long term given the structure of their business model. The key question is whether their contribution should take the form of funding or risk capital. Their balance sheet has two sides: the asset side, which deploys liquidity, and the liability side, which usually absorbs most of their capital. Assets are typically managed for asset–liability matching. Because of the volatility of claims, non-life insurers and in particular reinsurers must maintain high levels of liquidity on the asset side. On the liability side, they can offer risk-bearing capacity through 'unfunded' credit insurance.

Insurance companies often operate in close partnership with other institutions. Munich Re, for instance, has longstanding relationships with major public financial institutions, based on a shared understanding of investment horizons and long-term risk management. In this ecosystem, banks and public institutions are the clients, while insurers act as risk-sharing partners. By leveraging their balance sheets, insurers can help attract additional private capital to large projects.

2.2.2 Regulatory impediments to participation in equity, private and securitised markets

An industry speaker stressed that capital requirements are typically assessed against short-term risk. This leads insurers to avoid securitisation as some AAA-rated tranche charges can exceed those for long-term equity, leading insurers to rather invest in highly rated government or corporate bonds. Also, regulatory equity risk capital is largely determined by short-term fluctuations, but over a 40-year horizon, a diversified equity portfolio is inherently not so risky. Analysing the worst performance of such portfolios over any 40-year period in the past 150 years would illustrate this.

Securitisation also presents limited risk for long-term investors. European securitised products did not generate losses for institutions that were not forced to sell during the global financial crisis. From an asset–liability matching perspective, capital requirements should therefore reflect more the duration of the investment horizon.

A market expert added that investing in non-listed companies remains challenging for insurers. Higher claims volatility requires them to hold substantial liquidity, while the cost of evaluating individual non-listed investments is prohibitive. In the United States, 17 % of life insurers' assets are invested in securitised products, compared with only 0.3 % in Europe. Current EU rules discourage insurers from participating in this market, as the risk is borne by the buyer rather than the issuing bank. If instruments such as covered bonds were integrated into securitised structures, the underlying risk would remain with the issuer. This adjustment could incentivise European insurers to participate more actively and reduce the gap with their US counterparts.

2.3 Regulation, risk and Europe's struggle to foster equity investment

An official observed that prudential regulation has had the unintended effect of diverting European savings towards the United States. These funds increasingly flow into lightly regulated hedge funds and business development companies, while European banks provide loans to these entities. Risk has not disappeared; instead, banks have lost the opportunity to channel these funds into equity financing within Europe.

Close monitoring is essential, as new players are rapidly emerging and scaling innovative business models. Europe's regulatory framework appears to be pushing banks towards alternative strategies, with risk reappearing in new forms. Equity investment is inherently long term and requires a framework that rewards risk-taking within a stable economic and regulatory environment. During and after the pandemic, when companies or sectors generated high profits, political debate often turned to windfall taxation. This undermines investor confidence, as investors cannot be sure their returns will be preserved. While policymakers frequently emphasise the importance of fostering an equity investment culture, they underestimate the extent to which such measures damage that very culture.

2.4 Financing growth: the challenge of SME reluctance towards capital markets

An official highlighted that small and medium-sized enterprises (SMEs) in the EU are generally reluctant to use capital markets. Owners often prefer to maintain control rather than raise additional capital. This issue must be addressed if capital markets financing is to expand. An official (Sebastian Thomasius) added that all EU member states need to make capital markets more attractive to SMEs.

3. Fostering long term investment

3.1 Bridging the pension gap: insurers, equity, securitisation and fund structures

3.1.1 Strengthening the EU's pension systems

An industry speaker observed that most national pension systems in EU countries are 'pay-as-you-go' Pillar 1 schemes, which do not generate investable funds. Significant savings can only be channelled into long-term equity through Pillar 2 or Pillar 3 arrangements, which need to be strengthened but are generally determined at national level. These systems will also only allocate significant shares to long-term equity if they give-up formal guarantees and conversely require a minimum allocation to riskier assets linked to the investment horizon and diversification requirements.

An industry representative (Monsur Hussain) explained that defined benefit (DB) pension schemes tend to have long investment horizons, enabling them to assume more risk and support long-term financing solutions. Their risk-bearing capacity is therefore substantially higher. By contrast, defined contribution (DC) funds usually operate over shorter horizons, with empirical evidence demonstrating that policyholders tend to adopt conservative investment strategies, leading DC schemes to make more cautious allocations. Consequently, lifting investment limits for alternative assets in DC funds might not trigger a significant change in practice.

Increasing the scale of pension funds would likely, however, generate major benefits. Larger pools of capital provide much greater risk-bearing capacity in absolute terms. Australia offers an instructive example: with a population below 30 million, its pension fund sector is similar in size to that of the EU. Australian pension assets, currently just under USD 3 trillion, are expected to reach around USD 7 trillion by 2035. This greater scale has a transformative effect on investment allocation, regardless of individual savers' conservatism, with a clear tilt towards longer-term financing assets.

An official highlighted that the German government is developing a policy known as Frühstart Rente ('early start pension'), a subsidised securities account for children aged six to 18, offering a €10 monthly contribution for investment. Funds would be locked in until retirement. By familiarising young people with the opportunities and risks of equity investment, it could help cultivate a new generation of investors.

3.1.2 Fixing the prudential rules on long-term equity and securitisation

An industry speaker stressed that regulatory frameworks such as Solvency II, the Institutions for Occupational Retirement Provision II Directive (IORP II) and the accounting treatment of long-term investment should better reflect the nature of these assets within asset–liability matching when applying capital requirements. Current treatment of long-term equity and securitisation is inadequate.

For securitisation, capital requirements should be linked to fundamental credit risk rather than to spread risk. As the European Commission rightly proposes, lowering these requirements must be accompanied by measures to maintain sufficient liquidity and avoid forced sales during market stress. Regulation must remain prudent.

Non-life insurers primarily deploy capital on the liability side but can also provide risk capital. Allowing them to invest in significant risk transfer (SRT) securitisation using the simple, transparent and standardised (STS) framework should help recycle bank capital and increase the financing available to the economy. Because the insurance industry is unfunded, this capital will support long-term, low-yielding assets such as housing and infrastructure. Credit funds are unlikely to take on these assets as many such funds depend on bank leverage to achieve sufficient returns. In contrast, diversified deployment of insurance capital can stabilise the banking system and reduce the risk of systemic vulnerabilities re-emerging 'through the back door'.

An official noted that targeted regulatory adjustments can have a tangible impact. The reform of the European Long-Term Investment Funds (ELTIF) Regulation illustrates this clearly. Initially, ELTIFs struggled to gain traction. Following the reforms, however, they expanded rapidly and continued to grow. Greater flexibility and closer alignment with investor needs have significantly enhanced their appeal. Between 2023 and 2024, assets under management in ELTIFs increased by around 38%, accompanied by a marked rise in fund launches.

3.2 From grants to blending: maximising the impact of EU investment

3.2.1 Public institutions as catalysts for private investment

An official underlined that public institutions play a crucial role in infrastructure investment. When a public body supports a project, it signals its investment potential. However, public institutions should not fully replace private capital. Total private investment should exceed the level that would have occurred without public intervention. Financial support must be provided on market-based terms, linked to private co-investment whenever possible, and should not distort competition. Through this approach, public institutions can effectively mobilise private capital to support structural transformation and foster economic growth.

3.2.2 Leveraging the Multiannual Financial Framework (MFF) to boost investment

An industry speaker explained that public institutions can play a greater role in addressing the EU's fiscal constraints. With national and European budgets under increasing pressure, grants alone are no longer sufficient to support long-term investment. Blending mechanisms, which combine grants with equity, loans or guarantees, should therefore be expanded.

The most recent MFF introduced a guaranteed mechanism under InvestEU and piloted blending through the Connecting Europe Facility (CEF). The next MFF offers an opportunity to scale up these initiatives. This approach is facilitated by a network of long-term European public investors capable of acting as implementing partners. Such instruments enable public institutions to attract private capital and generate stronger leverage effects.

3.2.3 Improving the Capital Requirements Regulation (CRR)

An industry speaker stressed that the regulatory framework could also incentivise long-term investment. Equity exposures are considered particularly risky and are subject to high capital charges. There is, however, one exception: when banks invest in equity through legislative programmes, capital requirements are capped at 100 % of the exposure value. The European Commission could clarify that this treatment also applies to the equity holdings of public promotional banks. This would ensure that banks and co-investors benefit from the 100 % ceiling and send a strong signal that long-term investment is essential to Europe's competitiveness.

Wrap up

The Chair noted a broad consensus on the challenges facing long-term investment. While these challenges are significant, numerous potential solutions have been identified. It is essential to continue reflecting on these issues and testing different approaches. Some failures are inevitable, but persistence is crucial. Inaction is the only option that must be avoided.

Simplifying EU financial regulation

This session took stock of the main sources of regulatory complexity and explored how simplification can be achieved without compromising the core objectives of the EU financial framework.

Introduction: Occam's razor versus political reality

The Chair underlined the complexity of the simplification debate. Recent media coverage has increasingly invoked Occam's razor, the philosophical principle that the simpler of two explanations for the same phenomenon is preferable. This idea provides a useful lens for assessing whether EU legislation could achieve its objectives through more concise and streamlined rules. Despite a broad consensus in favour of simplicity, regulatory frameworks continue to grow more complex. Understanding the reasons behind this trend is essential for identifying ways to introduce meaningful change.

1. Simplifying without weakening

1.1 What should be simplified

A policy-maker stressed that any attempt to simplify regulation must start with a clear understanding of the sources of existing complexity. It is equally important to identify precisely which elements should be simplified and to establish accountability. EU processes are by nature more complex than those within individual Member States.

Determining what to simplify is particularly difficult in the financial sector, where a robust regulatory framework has demonstrably strengthened institutional resilience. Nevertheless, it is legitimate to ask whether this framework has become excessively burdensome.

Meaningful simplification requires collective engagement by legislators, regulators, supervisors and stakeholders. The multitude of legislative requests from stakeholders also needs to be taken into account. Achieving progress depends on a cooperative mindset, strong political will and the courage to implement change.

The Chair noted a widespread tendency to attribute gold-plating to other jurisdictions while failing to acknowledge it at home.

1.2 The burden of overly detailed rules

An industry representative observed that excessively prescriptive rules impose significant compliance burdens, diverting resources from business growth, economic support and the management of real risks. One concrete example is the level of detail required in supervisory reporting under the Digital Operational Resilience Act (DORA). There are more than 90 data fields for third-party information and ICT providers. These fields do not provide equivalent value to supervisors, while the cumulative cost for firms exceeds that of a more focused data set.

Under the Anti-Money Laundering (AML) Regulation, the draft regulatory technical standards on risk profiling contain 156 data points for inherent risks and 120 for AML controls. Although level-one texts allow some flexibility, level-two regulations tend to add further layers of inflexible requirements.

Supervisory authorities and the forthcoming Anti-Money Laundering Authority (AMLA) each operate under their own mandates. This raises the question of whether such prescriptive legislation leaves sufficient discretion for case-by-case application. Complexity is also heightened by the EU's implementation of the BCBS 239 guidelines and disclosures mandated in the ECB's guide on climate related and environmental risks.

1.3 Digitalisation and other sources of regulatory complexity

An official underlined that the economy and society are inherently and increasingly complex. While regulation is often perceived as burdensome, economic strength also stems from the stability that rules provide. Regulatory frameworks reflect real-world complexity and must adapt to new challenges, particularly technological ones.

The crypto-assets sector illustrates this evolution. Some actors have proposed a dedicated supervisory body for crypto activities. However, the aim of the Markets in Crypto-Assets Regulation (MiCA) is to ensure these new services, as part of the financial system, are supervised by the relevant financial market authority.

Complexity is also fuelled by different market segments requesting tailored rules for their specific needs, and by domestic stakeholders seeking additional clarifications on proposed legislation. This dynamic results in increasingly detailed and fragmented rule-making, as national agencies - being closer to the market - add further layers to respond to these demands.

1.4 Simplifying EU supervision

An industry representative argued that the EU often treats the development and application of rules as a substitute for effective risk supervision. There is a reluctance to repeal outdated regulations and replace them with more appropriate measures, leading to regulatory accumulation and subsequent legislative interventions.

The involvement of multiple European Supervisory Authorities (ESAs) and national competent authorities (NCAs) in the same areas creates fragmentation and inconsistency. Macroprudential buffers illustrate this, as NCAs retain competence in this field, working against the objective of a single supervisory mechanism focused on prudential oversight.

1.5 Complexity driven by implementation layers

An industry representative explained that much of today's regulatory complexity stems from the compromises needed to preserve local banking structures across 27 Member States while pursuing deeper integration. While financial stability and competitiveness are both important, the current framework focuses primarily on the former.

Level-one texts are generally well designed, but additional layers introduced during implementation such as level two measures, level three guidance and FAQs, increase complexity. Regulatory philosophy has also evolved from the restrictive Meroni doctrine—limiting agency powers to what was explicitly legislated—to the more permissive manifest error rule, which grants broader discretion that can only be challenged in clear cases of error.

DORA illustrates how cultural approaches to implementation often prioritise stability over efficiency. While ensuring safety is essential, excessive caution can dampen innovation and economic activity.

1.6 Regulatory simplification

An official noted that deprioritising low risks, as is being done in the United States, is challenging in Europe because any incident in the financial market typically triggers demands for greater security, particularly for consumers and investors. Political dynamics therefore tend to favour more stringent rules.

An industry representative highlighted that the EU regulatory environment differs from those in other jurisdictions. While the US is not necessarily a model, its approach and the UK's secondary competition mandate warrant attention.

In the AML sphere, FinCEN's modernisation efforts in the US aim to establish a more risk-based framework by deprioritising lower risks. This principle could be relevant for Europe.

Simplification does not mean stepping back from regulation but reallocating resources more intelligently. For example, real-time monitoring could replace some periodic reporting requirements. Greater investment in digital technologies could help streamline risk management and supervisory processes.

2. Priorities and tools to deliver effective simplification

2.1 Regular assessments and principles-based regulation

An industry representative suggested that periodic assessments should be undertaken to identify obsolete provisions that no longer support effective risk management. This could be accompanied by a temporary pause in new financial sector legislation, limited to what is strictly necessary, to allow for a thorough evaluation of existing rules and a shift towards principles-based supervision.

Transitioning from a compliance-based to a principles-based approach requires courage, as it entails accepting that not every rule breach will be addressed. The key question is whether this model can support financial stability in the most efficient way for both regulators and the regulated, by creating a simpler environment.

Reporting should also be calibrated appropriately. For example, sustainability is a global issue and should be monitored at group level. A mechanism could be introduced to flag instances of gold plating, allowing a review to determine whether such practices should be applied across the EU or challenged at Member State level.

A policy-maker explained that the Commission is considering how principles-based approaches could be integrated without compromising on clarity and financial stability. This is an ongoing process.

The Chair noted that trust is central to this question. Current processes often prescribe how outcomes must be achieved, reflecting a lack of confidence in actors to deliver results independently.

2.2 Critical review, discipline and clarity

An official stressed that a regulatory pause should not simply postpone implementation but involve a critical evaluation of existing regulations as well as texts under negotiations. Political discipline and rigorous scrutiny of level-one legislation are essential. The Council' of the EU's rapid progress on the sustainability omnibus, with a general approach achieved within five months, illustrates this discipline. If the European Parliament acts similarly, matters can be resolved quickly. Such efforts reflect constructive collective self-criticism and demonstrate co-legislators' ability to act swiftly on these important matters.

Clarity is equally important and so is a shared responsibility between co-legislators and market participants, to be exercised both at level one and across European supervisory agencies at the level 2. Common supervision can also offer opportunities for simplification, especially in the case of systemic and cross-border actors.

The Chair observed that a lack of clarity often stems from fears that unidentified risks might emerge, leading to pre-emptive legislative measures. These are then elaborated at level two, reflecting a broader lack of institutional trust. While safety and security remain priorities, this comes at the expense of competitiveness.

At the EU level, there are both short- and long-term plans, and multiple task forces have been set up. Each ESA has its own simplification task force, which will eventually produce reports.

2.3 Embedding proportionality and industry engagement in EU regulation

An industry representative underlined the importance of proportionate regulation, noting that this dimension can sometimes be overlooked. Tools such as cost–benefit analyses and ex post reviews, conducted before full implementation, could support this objective.

An industry representative stressed that applying proportionality requires focusing on the balance between value added and administrative burden, along with supervisors trusting in equivalent outcomes. It should not be determined by firm size alone, nor by imposing identical requirements on all institutions; the real need for each tool should be assessed.

Impact assessments should play a central role in clarifying problem statements that new legislation is being designed to solve before that legislation is proposed. Regulation should focus on managing risks rather than seeking to regulate client opportunities such as the proposed Financial Data Access (FiDA) regulation.

An industry representative added that the proliferation of soft law currently leaves no pre-litigation remedies. A structured feedback loop to ensure industry engagement should be introduced. She also highlighted that the EU is unique in limiting the involvement of senior industry practitioners in agencies and rule-making processes, which may hinder simplification efforts.

An industry representative further noted that industry must also take responsibility for advocating change and clearly articulating its priorities. Resources currently concentrated on compliance need to be freed up to focus on educating clients, investing in growth, deepening capital markets, enhancing innovation capacity and maintaining a forward-looking risk focus. Trust in the industry should not be taken for granted, and continued investment in governance. self regulation and good risk culture is essential. Transparent and ongoing dialogue is therefore critical.

The Chair emphasised the importance of industry expertise at national level, especially in smaller countries, and of forums such as Eurofi for exchanging knowledge and perspectives.

2.4 The role of level two legislation

2.4.1 Political scrutiny and dialogue when drafting technical detail

A policy-maker reported that the simplification agenda is gaining momentum. This is positive, but a balance must be maintained. While the need for simplification is widely recognised, not all aspects of legislation should be affected. A Commissioner for Simplification has been appointed, and each Commissioner is required to report annually on their simplification achievements.

Initiatives such as the Sustainable Omnibus Package aim to address legislative complexity by identifying elements that complicate implementation, including double reporting and overlaps. These initiatives are not comprehensive overhauls but focused. The sustainable finance omnibus is a good starting point, but not every legislative area will follow this model. Legislating everything at level one would worsen the situation, as technical detail is often needed in financial regulation.

The drafting of level two legislation is often left to technical experts, raising concerns about the practicality of outcomes. This process requires closer scrutiny by those affected and more structured dialogue. This does not mean outsourcing drafting to users, but rather shifting the approach taken by drafters.

An industry representative proposed renaming the Commissioner for Simplification as the Commissioner for Deduplication.

2.4.2 Critically assessing empowerments

A policy-maker underlined that quality should take precedence over quantity. The Commission made an inventory of level two acts following legislation adopted between 2019 and 2024. This exercise identified 430 empowerments across key areas, including banking, AML and markets.

It would be useful to critically examine these empowerments to determine whether all are necessary or whether some could be postponed, given the challenges they pose for drafters, implementers and supervisors. Discussions between the Commission, Parliament and Member States have been productive. Ultimately, it is important to recognise that not everything requires regulation. Although checks and balances are in place, an overly legalistic mindset can make the system more complex. A cultural shift is also needed in this regard.

2.5 The 28th regime

The Chair questioned whether eliminating level two and three legislations would be the right path towards simplification.

An industry representative proposed a more radical alternative: establishing a "28th regime," an opt-in pan-European rulebook for large, cross-border financial institutions operating in multiple jurisdictions. National authorities could then apply simpler, streamlined regimes to smaller, domestically focused banks that do not pose systemic risks. This two-tier structure would enable domestic banks to remain responsive to local needs, while providing internationally active banks with a coherent EU framework.

The Chair noted the challenges of aligning the 28th regime with national frameworks, citing solvency regulations as an example.

An official added that while there are frequent calls to design entirely new regulatory architectures, starting from scratch is not feasible because the system evolves continuously and is shaped by past developments.

The Chair concluded by noting two recurring dynamics: the belief that gold plating is always happening elsewhere, and the conviction that national specificities justify special treatment.

Do EU policies balance risk, growth and competitiveness effectively?

The session explored how EU financial policies can strike the balance between risk mitigation, competitiveness and sustainable growth. While the panelists acknowledged that financial stability is essential, there was agreement that excessive risk aversion and regulatory complexity are constraining innovation and long term investment. The speakers called for a more proportionate, harmonised and principles based regulatory framework that encourages productive risk taking and retail participation. Strengthening the links between policymakers, regulators and industry, simplifying legislation, and drawing inspiration from national initiatives such as Sweden's retail savings model and Spain's market reforms will be key to reigniting Europe's competitiveness and deepening its capital markets.

1. Reconciling stability, risk and competitiveness

The panelists called for a redefinition of the relationship between stability and growth in Europe, combining a balanced approach to risk taking with a stronger focus on productive and sustainable investment.

1.1 Financial stability as the foundation of growth and competitiveness

A regulator observed that financial stability, growth and competitiveness are not opposing objectives. On the contrary, stability is a prerequisite for both. The EU benefits from a highly advanced financial regulatory framework, but supervisors must continue to underline the cost of financial crises at a time when the policy debate increasingly focuses on growth.

As part of the Savings and Investments Union (SIU) proposals, the Commission will issue recommendations on best practices in areas beyond its direct competence, such as taxation and pension systems. The focus should not rest solely on new directives or regulations: successful models already exist within the EU and can serve as examples. While there is scope to achieve more within the current framework, the question arises whether its overall complexity could be reduced.

1.2 Building a healthy financial system where trust, risk and innovation coexist

An industry representative argued that a certain degree of risk is necessary, provided that it does not endanger financial stability. Retail investors understand that capital market investment involves risk, and US investors, for instance, accept individual losses as a natural element of market participation without expecting public protection given the broader net benefits seen.

Trust, frequently mentioned throughout the conference, is also key for regulators: they must place greater confidence in the system itself. Post-crisis regulations have undoubtedly stabilised the EU financial sector, but the objective cannot be to eliminate every potential risk. The EU cannot and should not aspire to a zero-risk environment.

1.3 Distinguishing between investors and consumers

An official underlined that financial stability remains the cornerstone of national financial policies. While aspects of regulation can be adjusted, stability must remain the central value of the system.

He drew attention to the essential distinction between investors and consumers. Investors are, by definition, willing to take risks. Consumers, by contrast, need safe products and services. Financial regulation must reflect this difference by allowing a reasonable level of risk taking. Achieving this balance, however, is politically difficult: citizens demand both opportunities for risk and state protection when losses occur.

1.4 Rebalancing risk and growth in EU financial regulation

Regulation should reflect actual business risks and avoid deterring liquidity and innovation. Excessive regulatory expansion drains resources from productive growth, compelling firms to limit their size or relocate outside Europe.

An industry speaker stressed that while risk mitigation should support growth and investment, in practice it often hinders both. The Investment Firms Regulation (IFR), intended as a proportionate prudential regime, has instead discouraged firms from expanding by imposing heavier obligations beyond certain thresholds. Similarly, since the introduction of MiFID II, compliance and risk functions have grown exponentially without a corresponding increase in underlying risk. Excessive internal spending on compliance now crowds out investment in innovation. A genuinely risk-based and proportionate regulatory approach is required, alongside efforts to reduce fragmentation.

1.5 Reorienting Europe's financial priorities towards long term investment

Sustaining innovation, competitiveness and growth depend on strengthening pensions, retaining savings and reinforcing financial institutions. Europe's strength lies not in consumption but in production — and both sides of the economy must work in concert.

An industry representative stressed that investment risk should always be assessed in relation to the investment's time horizon. To channel savings into long-term assets, the European pension market must be further developed. Equally, a significant portion of European savings must be invested within the European economy thereby creating a virtuous circle: incentives attract capital to European firms, enabling them to invest in innovation and the green transition, thereby enhancing productivity and competitiveness. Higher expected returns then attract additional savings. This concept should underpin the proposed European financial label.

Finally, strong European financial institutions are indispensable. Supporting them is as crucial as financing defence. They play a key role in reinvesting savings locally. In this regard, the mandate of European supervisory authorities should include supporting the competitiveness of financial actors.

After decades focused on consumer protection, Europe must rebalance its priorities. The continent's strength will not come from having 450 million consumers, but from enabling 450 million producers.

2. Simplifying and harmonising the EU financial regulatory framework

Building on the debate about reconciling stability and competitiveness, the panelists discussed how to make the EU regulatory framework simpler, more coherent and proportionate.

2.1 Beyond reporting, a step towards competitiveness

A regulator acknowledged that the EU's regulatory framework has become highly complex — a consequence both of the post-crisis response and of the EU's intricate legislative process. Negotiations involving numerous stakeholders tend to be lengthy and often produce overly complicated outcomes that are difficult to implement.

There is, however, broad agreement among European institutions and national authorities on the need for an ambitious programme of simplification and burden reduction. Progress has been made through initiatives such as the Omnibus package, yet much remains to be done. Reporting is an area where immediate gains are possible: firms could substantially reduce the number of data points submitted. Nonetheless, narrowing the overall scope of entities required to report would be a mistake. Simplifying reporting requirements is only the first step; the deeper challenge lies in addressing the fundamentals of the framework — notably market structure and the investor journey. Achieving rapid and meaningful progress will require broad consensus among stakeholders.

An industry representative emphasised the need to reduce the burden on listed companies, particularly SMEs, noting that similar debates are underway in the US. Another speaker added that comparable reforms are already being pursued in Italy.

2.2 Accelerating change and simplification in EU financial regulation

2.2.1 Simplification as a driver of efficiency and retail participation

Progress in retail investment and reporting, notably through the Omnibus initiative, demonstrates that simpler rules can improve both transparency and competitiveness. A regulator underlined that the EU must accelerate its legislative process. Simplification has now become a key political objective, supported by a gradual change in mindset, even if implementation remains slow. Retail investment is one of the areas where tangible progress can be achieved. The Commission's Omnibus proposal linked to the Corporate Sustainability Reporting Directive (CSRD) has been a success and could serve as a model for further initiatives.

2.2.2 Prioritising and streamlining regulation across sectors

The speaker highlighted that more could be done to simplify capital buffer requirements. The current system — with different buffers in each member state — creates unnecessary complexity. A more streamlined structure with one microprudential, one macroprudential and one resolution buffer could simplify the system without reducing capital levels.

She also pointed out that the new Anti-Money Laundering Authority (AMLA) is preparing to start operations, with numerous Level 2 mandates. Without clear prioritisation, there is a risk of creating a multitude of secondary legislative texts that might later be withdrawn, wasting effort and resources.

2.3 Eliminating divergent interpretations

A single harmonised framework under the European Securities and Markets Authority (ESMA) would enhance consistency, fairness and market efficiency. Regulators should accept a balanced level of risk and avoid interventions that hinder market development and innovation.

An industry speaker stressed that eliminating inconsistencies in regulation is essential. A principles-based approach to regulation and supervision can only function if applied uniformly across the EU. Divergent national interpretations have many causes — some structural, others political — and require a formal governance process for resolution. Cooperation among national competent authorities (NCAs) should be strengthened, and ESMA could play a decisive role in arbitrating interpretative disputes. Firms must be able to rely on a single, coherent interpretation instead of facing today's uneven playing field.

2.4 A bottom up approach to simplification and legislative consistency

An official explained that Poland favours a bottom-up legislative process. Through a national deregulation mechanism, private companies can propose amendments to legislation — a process that has already produced around 20 parliamentary bills. At the European level, a similar approach could begin with improved interoperability and cooperation between market infrastructures.

He noted that discrepancies in legal definitions are a frequent source of fragmentation. Divergent applications of EU law often stem from inconsistent terminology across member states. Harmonising definitions would help ensure a more coherent implementation of EU legislation.

2.5 Incentivising cooperation

The official observed that the political process tends to emphasise safety over risk. During the previous Council Presidency, numerous legislative files were discussed with multiple stakeholders, including Eurofi, but national priorities often prevailed as member states sought to maximise perceived benefits for their citizens. This dynamic creates a strong bias towards risk aversion, at the expense of growth and competitiveness.

He underlined that the procedure for handling policy proposals is critical. One of the key questions is always when new legislation will actually be enacted — often two to three years later. If stakeholders were incentivised to accelerate decision-making, progress on even the most complex policy priorities could become achievable.

3. Strengthening European capital markets and retail participation

Building on this discussion, several speakers underlined that regulatory coherence and better coordination between national and European authorities are only part of the solution. Simplification and consistency must ultimately translate into more dynamic and accessible financial markets.

The next part of the session therefore examined how Europe can leverage these regulatory improvements to deepen its capital markets, enhance retail participation and support long-term competitiveness.

3.1 The European Competitiveness Lab and the 28th regime

A regulator explained that initiatives such as the European Competitiveness Lab aim to enhance the efficiency of the European legislative process. The current policymaking framework does not always produce the intended outcomes. When an initiative is supported by only a few member states, it can first be implemented outside the formal legislative process and later extended to others. Developing EU-level legislation becomes easier when a functioning product already exists.

Several member states have achieved positive results with national savings account schemes, which could serve as useful models. Similarly, the "28th regime" - promoted by the Spanish Minister of Finance - represents a promising avenue for experimentation and gradual convergence.

3.2 Simple products and fair access

A regulator highlighted that the retail investment market should remain a key focus for the European Commission. To maximise the benefits of the Retail Investment Strategy (RIS), investors need straightforward and accessible products, and processes must be simplified for both intermediaries and investors. Achieving this will require regulatory adjustments and product innovation.

An industry representative underlined the importance of developing retail savings account schemes, citing the Swedish model as a success story. Retail investors using this model understand the level of risk involved. Its simplicity and effectiveness make it a candidate for broader adoption across Europe.

The regulator added that the Commission should also focus on improving market infrastructure. Reviving liquidity on exchanges would make public markets more attractive for listings, enhancing transparency, equal access and price formation. Success depends on the effective interaction between public and private markets. The Commission is exploring interoperability initiatives but must remain cautious about intra-market fragmentation.

An industry speaker observed that MiFID II has inadvertently shifted trading activity away from transparent "lit" venues. Retail investors are increasingly channelled into products that are neither listed nor traded on open order books. This trend stems from a lack of fair access, with retail clients often directed towards structured products offered by private institutions rather than transparent market instruments.

3.3 Reforming the liability framework and fostering stronger public private collaboration

3.3.1 Reforming the liability framework

An industry representative noted that discussions on increasing retail participation have been ongoing for years, yet little progress has been made. Without reforming the liability framework, no real change will occur. A modernised framework would promote long-term investment and naturally lead to greater financial literacy. Education should be seen as a consequence of participation, not a prerequisite.

While regulation remains essential, it must be viewed strategically in a globally competitive market. For over a year, the policy debate has centred on simplification — a welcome but insufficient step. Europe's competitiveness ultimately depends on how it regulates its financial services sector.

3.3.2 Strengthening public–private collaboration

The speaker emphasised that global competition requires closer collaboration between European policymakers, regulators, public authorities and industry stakeholders to shape the future financial ecosystem. This ecosystem must be able to compete internationally. Achieving this demands that EU regulators integrate competitiveness and long-term growth into their mandates, alongside - but not subordinate to - consumer protection.

3.4 From risk aversion to action: lessons from Spain and the Nordics

An industry speaker argued that Europe has become excessively risk-averse and that its regulatory framework remains overly complex. In an increasingly competitive global financial environment, robustness and resilience are essential, but competitiveness must guide legislative priorities.

While the need for greater retail participation in equity markets is well understood, progress has been slow. Examples from Spain and the Nordic countries provide practical insights. Spanish regulators, despite operating within a strict regulatory regime, maintain close dialogue with market participants to strengthen and modernise their market infrastructure. Regulators must recognise firms' operational needs and the importance of competitive solutions.

Sweden's retail savings account system stands out as a particularly effective national initiative, driving the success of its SME market. Other member states could replicate this model to encourage wider retail participation. The key message, he concluded, is that Europe must move from debate to action.

The Chair concluded that, although numerous initiatives are underway at both national and EU level and consensus on simplification has been achieved, frustration persists over the slow pace of legislative progress. Firms are seeking clarity within an increasingly complex regulatory environment, while the broader societal culture of risk aversion continues to constrain growth. As he summarised, while public authorities rightly aim to protect citizens, the cumulative effect of excessive prudence is to entrench risk aversion across the European economy as a whole.

Overall, the discussion highlighted that achieving the right balance between stability, competitiveness and growth will require both regulatory pragmatism and political determination. Moving from a culture of risk aversion to one of responsible risk taking is essential for Europe to mobilise its savings, deepen its capital markets and strengthen its global economic position. The challenge now lies in translating these shared principles into concrete and coordinated policy action at both national and European levels.

Sessions

II

BANKING AND INSURANCE REGULATION

Improving the competitiveness of the EU banking sector

1. A persistent competitiveness gap with the United States

The competitiveness of European banks improved in 2023 and 2024, but it remains below that of their US counterparts mainly due to economic and structural factors.

1.1 European banks are resilient and increasingly profitable

1.1.1 European banks are performing well despite geopolitical fragmentation

An industry speaker underlined that sustainable profitability is essential to attract investors and finance strategic initiatives such as digitalisation. The profitability of the banking sector has improved in recent years, with EU banks performing comparably to their US counterparts. They have maintained momentum despite falling interest rates and declining net interest income, illustrating their resilience to current geopolitical and macroeconomic headwinds, including tariff policies and growing political fragmentation.

A Central Bank official concurred, noting that the European banking sector has made significant progress over the past decade. Ten years ago, it was in a fragile position with very high levels of non-performing loans (NPLs). The sector proved its strength during both the Covid crisis and the market turbulence of March 2023. However, the leading institutions in terms of market activity remain US-based.

1.1.2 Profitability and resilience alongside continuing structural dependencies

A Central Bank official stressed that matching the profitability of US banks would require replicating the US regulatory environment, which would not be appropriate for the EU. EU banks are currently close to record profitability, with return on equity exceeding 10%. Sustaining this performance requires continued focus on cost management, customer relations, product offerings and innovation. Banks must also keep investing in digitalisation, the green transition and infrastructure to preserve long-term profitability.

The EBA recently completed its 2025 stress testing exercise, covering 64 banks representing 75% of EU banking sector assets. The results showed that the sector would remain resilient even in the event of capital losses exceeding €500 billion. Combined with the current profitability levels, this suggests that the sector's overall health is robust.

Nonetheless, several structural dependencies persist. There are concentration risks in areas such as cloud services and infrastructure, which are largely provided by major US firms. EU payment systems and card schemes are also closely tied to US markets. Moreover, EU companies rely heavily on external investment banks, capital pools and non-bank financial intermediaries for capital market intermediation. These dependencies represent a vulnerability for the sector.

1.2 Economic constraints and persistent structural gaps

1.2.1 Europe trails the US in growth and profitability

The Chair reminded participants that the EU economy has been steadily losing ground to the United States. Over the past 25 years, GDP per capita has risen by 25% in Europe compared with 38% in the US. The profitability of EU banks remains below that of their US and UK counterparts. Even in wholesale financial markets, where European financial integration is most advanced, European banks are not the main players. Only three banks under the Single Supervisory Mechanism (SSM) rank among the top 10 fee-generating investment banks in Europe.

A Central Bank official noted that the strength of US capital markets expands the addressable market for US banks and enables them to reach greater scale, giving them a clear competitive advantage over their European peers.

1.2.2 Size matters: advancing the single market to bridge the competitiveness gap

A public representative argued that strengthening the competitiveness of the European banking system should be a central objective for the European Commission and Parliament. Achieving this requires scale. The creation of a genuine single banking market must be treated as a political priority. Yet in recent months, the Commission has shown limited ambition to advance this agenda. While it may be possible to trade off competitiveness and stability in the short term, this balance is unsustainable in the medium term. Consolidating the single market remains the most effective way to enhance the competitiveness of the European banking sector without undermining financial stability.

An industry speaker strongly endorsed these remarks, emphasising that completing the single market in banking is fundamental for Europe's competitiveness.

1.2.3 Profitability is determined by economic strength and scale, not tweaks to prudential regulation

A Central Bank official underlined that the performance of the banking sector reflects the strength of the underlying economy. This was the key finding of a report by Oliver Wyman for the European Banking Federation (EBF) in 2023.

A regulator noted that European banks likely face a heavier regulatory burden than U.S. peers, but the issue should not be oversimplified. Two main roots were identified: over-complexity of rules, which calls for simplification but is hindered by a lack of trust among market actors and member states; and stringency of prudential requirements, which reflect political and social choices rather than purely technical considerations.

The current framework has successfully prioritized stability and crisis prevention, arguably more than in the U.S., but this raises the question of whether society now seeks a rebalancing between stability and competitiveness. Broader values such as economic sovereignty may also need to be considered, as building strong, profitable banks is essential for the Union's resilience. This could imply greater acceptance of risk in the banking sector.

Simplification remains a priority and is relatively easier to achieve, while broader deregulation is more complex, rooted in cultural and political factors.

2. Structural and regulatory factors are undermining scale

Regulatory complexity, internal barriers and fragmentation within the EU are holding back the growth and competitiveness of European banks.

2.1 A heavy and fragmented EU regulatory framework

2.1.1 The complexity of regulation and the EU's internal barriers are undermining bank competitiveness

An industry representative agreed that European banks face a heavier regulatory burden than their global competitors. A recent study commissioned by the EBF estimated that discretionary decisions by European and national supervisors increase EU banks' common equity tier 1 (CET1) requirements by €273 billion — an increase of over €100 billion in the past three years — despite the resilience of the European banking system during this period.

Several factors explain this additional burden. First, the regulatory framework itself is excessively complex, with a macroprudential system characterised by a "millefeuille" of buffers. Second, persistent internal barriers continue to limit the cross-border circulation of capital and liquidity. The output floor introduced under Capital Requirements Regulation 3 (CRR3) has added a new layer of restriction. These national and prudential barriers fragment the European banking sector, increase costs, reduce efficiency and weaken competitiveness.

2.1.2 Market fragmentation and prudential complexity are limiting scale

A Central Bank official observed that the EU regulatory framework is more intricate and detailed than the US system. According to SSM assessments, capital requirements for large European banks would actually be higher under the US framework. The EU system reflects its specific institutional structure, marked by national differences within the euro area. The use of directives has contributed to fragmentation in the application of EU rules, affecting banks' products, services and client markets, and ultimately limiting scale. To address this, regulations should be preferred over directives.

Differences in underlying rules have led to a variety of supervisory practices across member states. Greater harmonisation therefore requires more detailed and consistent supervisory approaches. Achieving scale is essential for competitiveness, both in financial services markets and within the banking sector itself.

A public representative highlighted that there are two distinct types of complexity in the EU regulatory framework. The first stems from market fragmentation: national barriers, macroprudential rules, supervisory practices and the lack of a common deposit insurance scheme. The second reflects the EU's prudential approach, which diverges in certain respects from Basel standards. Ultimately, the absence of a single market is the core reason for the competitiveness gap. Internal barriers and lack of scale significantly increase the complexity of operating in the EU. Efforts to simplify regulation should therefore focus on reducing the complexity arising from this incomplete single market.

2.1.3 Overcomplex rules and lack of trust restrict EU banks' competitiveness

A regulator noted that while European banks likely face a heavier regulatory burden than U.S. peers, this is not the sole reason for the profitability gap. Scale and economic structure are decisive factors, and internal trade barriers within the Union act as a significant constraint. Facilitating cross-border consolidation is essential, as banking is inherently a business of scale.

The speaker cautioned against deregulating the prudential framework, which has ensured resilience and stability during recent crises. However, some concerns raised by the private sector are valid: reporting obligations have become excessively burdensome, and the impact of non-financial regulation, such as rules on AI and data protection, should also be considered, given their influence on productivity.

An industry speaker added that part of the regulatory burden arises from extensive requirements on transaction reporting, supervisory data and cross-border compliance. In some cases, EU banks face overlapping and duplicative obligations with limited added value. Streamlining the framework — as envisaged in the ongoing European Securities and Markets Authority (ESMA) consultation — would enable market participants to focus more on innovation, client service and strategic development.

2.2 Divergent implementations of Basel III: a competitiveness handicap for EU banks

The Basel framework has a significant impact on competitiveness. Rules on software capital, for instance, illustrate how regulation can penalise investment in digitalisation. An industry speaker noted that investors are not fully recognising or rewarding the performance of EU banks. This is not primarily due to cost structures or business models, but rather to the regulatory requirements they face. The average CET1 buffer in Europe stands at 470 basis points, meaning EU banks hold 4.7% more capital than required by their risk profiles in anticipation of the Basel III output floor. By contrast, the UK is adapting its framework, and the US appears to be moving towards deregulation. While the European framework is robust, US simplification has freed up around €100 billion of CET1 capital, giving US banks greater flexibility. Although sustainable profitability is vital for resilience, Basel III rules effectively penalise traditional balance-sheet lending, which remains the main channel for financing growth in Europe.

An industry representative underlined the distinct characteristics of the European banking sector and stressed that Europe should avoid “gold plating” its rules. The postponement of the Fundamental Review of the Trading Book (FRTB) is a welcome step, and the prudent valuation framework should also be reconsidered, as it can reduce capital ratios by up to 50 basis points. Specialised lending — critical for Europe's climate transition — is constrained by input floors on loss given default (LGD) under CRR3. These parameters prevent banks from adequately distinguishing between risk profiles, thereby limiting financing for projects that are in fact less risky.

An industry speaker further highlighted that under the EU framework, investments in software and digital client applications incur a 50% capital deduction, whereas in the US the deduction is zero. As a result, digital investments by EU banks are 50% more costly. This requirement is not mandated by Basel. Since digitalisation and AI investments strengthen resilience and bring wider economic benefits, such capital charges risk leaving European banks reliant on outdated systems. In turn, this diminishes their resilience and reduces the value delivered to businesses and citizens.

2.3 Global competition and the level playing field

An industry speaker stressed the importance of ensuring that global financial institutions operate on a genuinely level playing field. Enhanced cooperation between local and regional regulators is needed to ensure comparable prudential requirements across jurisdictions.

A Central Bank official explained that US banks providing loans to European households or companies must comply with European standards. With the forthcoming Capital Requirements Directive 6 (CRD6), additional restrictions will be imposed on the direct provision of banking services from the US to the EU. This will have competitive implications, as US banks seeking to compete in core banking will need to meet EU requirements. It should also be noted that the Basel Committee currently considers the EU to be partially non-compliant with Basel III, a factor that needs to be considered when discussing further complicates the global competitive landscape.

3. Strategic simplification and regulatory adjustment

3.1 Strategic simplification, not deregulation, will drive competitiveness

Competitiveness must not be confused with deregulation. Simplification is about making targeted strategic adjustments while maintaining resilience and assessing the cumulative regulatory impact. The Chair stressed that strengthening the competitiveness of EU banks and financial markets is essential for a more competitive European economy. However, this is not a deregulation agenda. Beyond capital requirements, the EU framework is marked by costly complexities, an incomplete banking union and insufficient cross-border consolidation.

An industry speaker agreed that simplification should focus on intelligently adjusting the regulatory framework rather than dismantling it. European banks currently intermediate only 30% of the European bond market, raising concerns about strategic autonomy and the control of European debt trading. The European Commission should consider whether this situation is sustainable and resilient and examine how targeted regulatory changes could help without undermining financial stability. The aim is not to replicate the US framework. As demonstrated in March 2023, the EU banking sector has performed well under its current robust rules. However, this is an opportune moment to address the technical constraints that affect European banks' competitiveness relative to their international peers.

A Central Bank official emphasised that complexity can be reduced without weakening resilience. The SSM intends to adopt a more risk-based supervisory approach, focusing annual assessments on selected priority areas rather than covering every topic each year.

An industry speaker noted a broad consensus that EU regulation is overly complex, both in absolute and relative terms. Yet there is no comprehensive understanding of the cumulative impact of this complexity. A structured assessment is needed, starting with baseline capital requirements, then examining the effects of national fragmentation, internal barriers and Level 2 measures. Only once the cumulative impact is understood can meaningful discussions on simplification take place.

3.2 Streamlining the Regulatory Framework

A Central Bank official highlighted that reporting requirements offer clear opportunities for simplification. Introducing multiple regulatory changes within a single year places an excessive cost burden on the industry; grouping changes together would facilitate implementation. Additionally, Level 2 and Level 3 texts — drafted in the aftermath of the global financial crisis — could be simplified and clarified, as concision was not their original focus. Using regulations rather than directives would help reduce fragmentation.

However, the most powerful driver of competitiveness lies in the development of capital markets. Equity financing is better suited to riskier economic activities. As long as the EU economy remains heavily reliant on bank financing, it will struggle to support these activities at scale.

3.3 Adapting supervision and leveraging technology

3.3.1 Supervision must be simplified, proportionate and risk based

An industry representative stressed the need for proportionate, risk-based supervision anchored in materiality. Excessive administrative burdens can arise when supervisory expectations go beyond existing regulatory requirements. The intensity and frequency of supervisory engagements should reflect the size and business model of each institution.

The Commission is expected to publish a report on the banking system in the single market in 2026. This report should not exclude discussions on issues such as gold plating and the level playing field, as these can materially constrain competitiveness. Ambitious reform of securitisation is also essential. The Commission has already put forward a promising proposal, which will play a key role in advancing the Savings and Investments Union (SIU).

3.3.2 Overcoming scale constraints through technology

A Central Bank official pointed out that Europe's slow population growth limits banks' ability to expand their customer base through traditional means. This underlines the need to "work smarter". Digitalisation, automation and AI tools can offer solutions for both the industry and supervisors by improving cost efficiency. The lower the cost of supervision, the more effectively it can be conducted.

The AI Act is now in force. The ECB has conducted a high-level analysis of potential conflicts between banking regulation and the AI Act and has not identified any significant obstacles so far. These technologies could therefore support both supervisory effectiveness and industry adaptation to scale constraints.

4. Competitiveness as a policy objective

4.1 Balancing resilience, competitiveness and strategic autonomy

Europe needs to reassess the balance between resilience and profitability, and place competitiveness at the core of its regulatory framework to safeguard strategic autonomy. A regulator underlined that it is still unclear whether there is sufficient political or societal willingness to recalibrate this balance. In the short and medium term, a trade-off exists between stability and competitiveness. Policymakers and public authorities must engage in an open and transparent discussion with stakeholders about the extent of long-term resilience they are prepared to trade in favour of profitability and competitiveness.

Given the evolving global context, other strategic considerations may also need to be factored in. To ensure Europe's economic sovereignty, the development of large-scale financial institutions may be necessary. Such institutions require adequate profitability and competitiveness, which may entail accepting a higher level of risk within the banking sector.

An industry speaker stressed that regulation can only safeguard European strategic autonomy if it simultaneously mitigates risks and enables banks to compete globally. The regulatory framework for cryptoassets is a case in point: if it is not enhanced, clients may shift to jurisdictions where they are less protected. A more immediate way to strengthen competitiveness would be to extend TARGET2 operating hours, thereby increasing European market independence. As the US moves towards deregulation, the competitive gap is likely to widen. Without action, the EU risks losing strategic autonomy in financial services.

An industry representative added that competitiveness objectives should be more explicitly embedded in the EU regulatory framework. This could involve incorporating competitiveness into regulators' mandates, as in the US and the UK, or conducting systematic competitiveness assessments for new regulations.

4.2 Simplification alone will not close Europe's competitiveness gap

A public representative observed that some stakeholders equate "competitiveness" with "simplification". In reality, simplification is only one component of a broader competitiveness agenda. The banking sector has significant scope for improvement in this area.

While it is reasonable to reduce administrative burdens and to simplify regulation within the current framework of the incomplete banking union, genuine progress depends on addressing the fragmentation of the single market itself. Simplification of the single market remains a critical step towards closing Europe's competitiveness gap.

Simplifying EU banking regulation and supervision

The session explored how to simplify the EU banking regulatory and supervisory framework while preserving financial stability and competitiveness. Participants highlighted that robust prudential standards and adherence to international norms must remain the foundation of Europe's resilience, but that simplification is necessary to improve efficiency and coherence.

Discussions focused on reducing unnecessary complexity in the capital and resolution frameworks, enhancing proportionality and risk-based supervision, and strengthening consistency across regulatory layers. Several speakers underlined that completing the banking union and deepening the single market remain essential to achieving meaningful simplification.

Attention also turned to operational aspects - data, reporting and coordination among authorities - where streamlining processes and eliminating duplication could significantly reduce compliance burdens. Finally, panellists pointed to political and structural obstacles, notably trust deficits and national sovereignty concerns, which continue to delay integration. Simplification, they agreed, should not mean deregulation, but rather a more coherent, transparent and efficient European framework that reinforces both resilience and competitiveness.

1. A clearer, more effective regulatory framework

1.1 Adherence to international standards and preservation of capital neutrality

A regulator emphasised that robust prudential regulation remains a cornerstone of Europe's banking resilience, and that simplification should never be mistaken for deregulation. Efforts to reduce complexity must go hand in hand with adherence to international standards and the adoption of a single rulebook for Europe, while maintaining capital neutrality. The goal is to enhance the effectiveness of the current framework without undermining resilience.

One key priority is to remove unnecessary gold-plating, double-counting and overlaps, and to eliminate superfluous complexity in both rules and supervision. Simplification begins with identifying what is redundant. Another objective is to advance the banking union, which is seen as an essential lever for substantial simplification.

1.2 Structural rethinking over layering

The Chair recalled that proportionality is a recurring theme in European regulatory debates, often discussed but seldom translated into action.

An official noted that the very need for simplification demonstrates that the current framework is overly complex. This complexity is not accidental; it reflects deliberate design choices and the EU's institutional structure. While all actors call for simplicity, the desire for exemptions by national supervisors multiplies complexity across 27 Member States, compounded by the three institutional layers — Commission, Council and Parliament.

When new legislation builds on an already intricate framework, it is legitimate to question why it would be any less complex. Proportionality is essential, yet it requires nuanced application across prudential, conduct, AML, ESG and resolution domains — some of which lend themselves better to proportionality than others.

Any Commission proposal must be carefully calibrated. Member States and industry bodies will first assess their compatibility with the regime and seek clarity on implementation, consolidation, and transitional arrangements. The simpler the framework, the greater the demand to be included. However, any gaps must be compensated for. Although everyone agrees on the need for proportionality and simplicity, discussions will inevitably focus on how to address these gaps. Sound justification and fine calibration are therefore indispensable.

1.3 Proportionality, risk-based approaches and better coordination across regulatory layers

A regulator expressed strong support for the high-level principles put forward — greater proportionality, risk-based supervision and consistency across regulatory layers. Yet, fragmentation within the EU means that what is seen as desirable in some jurisdictions may be considered essential in others, complicating harmonisation. Nevertheless, efforts must persist. The high-level ECB taskforce is examining regulation, supervision and reporting, with a particular focus on clarifying responsibilities between levels one, two and three.

Next year's Supervisory Review and Evaluation Process (SREP) reform is expected to yield simplification benefits. Within supervision, the Single Supervisory Mechanism (SSM) is advancing several workstreams aimed at streamlining authorisation procedures, internal model validation and reporting, in collaboration with the European Banking Authority (EBA).

Achieving meaningful change will take time. The post-crisis risk aversion threshold may have reached its limit, opening space for a more risk-based approach. Strengthened coordination among authorities is required to ensure a shared understanding of requirements.

An industry representative welcomed the taskforce's work, underlining the link between financial resilience and competitiveness. Key drivers include layering, review, alignment and prioritisation. Behavioural aspects should also be considered, and the ECB has already expanded its analytical scope in this direction.

These reflections on proportionality and coordination paved the way for a deeper look at structural reforms designed to strengthen the EU's competitiveness.

2. Structural and regulatory reform to boost competitiveness

2.1 Reviewing capital and resolution frameworks

2.1.1 Addressing vertical and horizontal complexity

A regulator noted that several areas lend themselves to simplification. First, vertical complexity arises from the multitude of buffers within the capital stack — a difficult aspect to modify but one that clearly requires review. Secondly, the coexistence of total loss-absorbing capacity (TLAC) and the minimum requirement for own funds and eligible liabilities (MREL) adds horizontal complexity to the resolution framework, suggesting opportunities for streamlining: Aligning MREL with TLAC is essential.

Eliminating the maximum distributable amount (MDA) triggers in both the MREL and leverage frameworks would enhance buffer usability and reduce reliance on non-risk-based management buffers, which could instead be integrated into existing risk-adjusted or Pillar 2 requirements. Renewed efforts are also needed to facilitate cross-border liquidity and capital mobility within Europe.

2.1.2 Balancing global consistency, resilience and capital stack complexity

A regulator explained that work is ongoing to define the guiding principles, notably the need to maintain global consistency and to assess the implications of doing so. The aim is to avoid disproportionate Basel implementation across all institutions.

Evidence can be provided where the framework does not function effectively, particularly concerning vertical and horizontal layers of the capital stack. A recent paper highlighted the operational difficulties caused by the cumulative nature and interaction of these layers. A holistic approach is needed to clarify the requirements and their future direction for supervised entities. These issues will be examined in the broader context of global standards and the preservation of overall resilience.

2.1.3 Strengthening confidence and competitiveness

An industry representative underlined that the EU's regulatory framework is demanding, combining multiple layers of capital, liquidity, resolution and ESG requirements. Without a structured review, it is difficult to maintain alignment and avoid duplication.

The taskforce should prioritise proportionality and risk-based approaches. Similar risks should be treated consistently across capital, liquidity and resolution regimes, with priorities clearly defined to focus on the most material risks. Benchmarking against global standards is also essential to ensure international consistency and to simplify levels 2 and 3.

A well-calibrated review could strengthen confidence in the EU banking framework, improve capital allocation, lower long-term funding costs, and enhance resilience. Reducing redundancy does not weaken stability; it allows supervisory focus to be directed where it matters most. The overarching objective should be to enable EU banks to support the real economy more effectively and compete globally, particularly with peers in the US and Asia.

2.1.4 Structural challenges in the EU

An industry representative described the perspective of a Japanese bank headquartered outside the EU. While recognising the EU's importance, the institution prioritises growth in the Americas and Asia-Pacific, where expected returns are higher. Within the EU, profitability and risk-adjusted returns lag behind other regions, reflecting both internal factors and high operational costs linked to fragmentation and regulation.

Nevertheless, the bank remains committed to supporting the EU, notably through infrastructure investment, which it considers vital to long-term regional stability. Large international institutions have a role to play in Europe's development. However, internal competition for capital requires clear evidence of economic viability to justify continued investment in the EU.

2.2 Strengthening the single market

A public representative distinguished between two forms of complexity in the European banking system: that stemming from European regulation itself, and that resulting from the incomplete banking union.

Some have proposed a "one in, one out" approach, whereby new regulation replaces existing rules; others even suggest a "one in, two out" model. Yet, the simplification needed to achieve a genuine banking union would rather require a "one in, 27 out" approach — removing national layers that still hinder the single market's full efficiency.

2.2.1 Tackling complexity in levels 1, 2 and 3

A public representative observed that the relationship between levels 1, 2 and 3 is often non-linear. Trilogues cannot capture every technical detail, and with 27 Member States and several political groups in Parliament, finding consensus on precise wording remains complex. Because many delegated acts are approved at the political level, not all provisions can be defined in level 1 legislation. Part of the responsibility therefore falls to the EBA and the Commission, even though legislators do not always fully assess the agencies' work or have the capacity to monitor their daily implementation. The supervisory framework also needs review, as multiple supervisors with different tools and mandates coexist, most of them at national level. Not all have authority to define or interpret certain provisions. Both the banking union and the single market must therefore be simplified and made more coherent.

2.2.2 Improving levels 2 and 3

A regulator stressed that progress toward a genuine single market has been impeded by persistent shortcomings. Although Europe has a single rulebook, a single supervisor, and a banking union, it still lacks a fully integrated market. The ongoing debate on simplification must avoid worsening fragmentation.

One improvement area lies in the drafting of levels 2 and 3. A proliferation of mandates has led to excessive delegation of what should remain political choices at level 1, while level 1 itself sometimes over-specifies technical detail. In response, the EBA has introduced a methodology to prioritise and assess mandates, aiming to deprioritise 20% of existing requirements. The Commission has also proposed adjustments to reduce the impact of certain mandates on banks. Clarifying regulatory language is crucial. Provisions initially expressed as optional often evolve into mandatory obligations at levels 2 and 3. A recent SREP peer review found that although proportionality was embedded in the guidelines, it was later constrained by supervisory interpretation. This must be addressed: proportionality should be risk-based and aligned with each institution's risk profile, both in reporting and rule application.

2.2.3 Short-term duplication in reporting and long-term aspirations

A regulator distinguished between short-term issues and long-term objectives in reporting. The Joint Banking Reporting Committee (JBRC), with the ECB and statistical authorities, is developing a common data dictionary and a single reporting scheme. However, it remains unrealistic to expect banks to report each data item only once to a single authority.

Proportionality already exists in reporting — for instance, Small and Non-Complex Institutions (SNCIs) are subject to only about 30% of the requirements applied to larger banks. Yet, duplication persists, and the cost–benefit of certain reporting remains unclear. The EBA plans to create a directory of reporting requests with national competent authorities (NCAs) to help reduce the burden. A more holistic regulatory approach is needed. Level 2 mandates are handled by policy subgroups across 27 Member States, and while each mandate may be sound individually, their cumulative effect can be inefficient. Discussions on releasable buffers and their coordination should also follow a more integrated logic.

The current framework could be improved by ensuring that these issues are not left to individual authorities. Stronger alignment between financial stability and single market objectives is also necessary. National supervisors tend to focus on domestic stability, making it difficult for banks and micro-prudential authorities to fully promote single market integration.

While regulatory simplification remains a priority, data and reporting processes also require modernisation to achieve genuine efficiency.

3. Data, reporting and implementation tools

3.1 Ensuring a level playing field

An industry representative stressed that sound risk management is vital for firms seeking sustainable growth. Several areas of regulation and supervision would benefit from simplification. Maintaining harmonisation and a level playing field in banking and regulatory standards remains essential to prevent competitive distortions stemming from divergent international rules. Regulation should also be proportionate, reflecting institutions' size, business models and risk profiles. Flexibility within established frameworks is necessary to foster growth and should be calibrated to the material risks taken by each entity.

Resource-intensive reporting processes should be streamlined to remove duplication, inconsistencies and unnecessary compliance costs — particularly for smaller institutions, where consolidated group reporting could suffice. Reporting and supervisory requirements should apply proportionately, taking into account entity size and the operational capacity of EU subsidiaries and branches of third-country groups.

The Chair noted the difficulty of balancing proportionality with prudential oversight, while preserving a level playing field within the EU. An industry representative highlighted the importance of reviewing both the content and method of data requests. The current volume of regulatory reports and ad hoc supervisory demands is substantial. While data are valuable for effective risk management, it is necessary to distinguish between essential and merely desirable requirements through cost–benefit analyses adapted to different types of banks.

3.2 From fragmentation to efficiency

An industry representative outlined three core principles for more effective regulation: single submission and data sharing across authorities, proportionality calibrated to risk and complexity, and full clarity over the volume and purpose of reported information

These principles could be implemented through common definitions that replace today's fragmented EU rules and guidance. Investment in regulatory technology (RegTech) will be crucial to enable centralised data collection and seamless information sharing, though this will also require a strong focus on system security. Overlapping reporting obligations should be eliminated so that firms are not required to submit similar data in multiple formats to different authorities. Regular feedback-loop testing should also be introduced to verify that supervisors effectively use the data collected.

Expected benefits include more consistent, risk-focused data for supervisors, reduced compliance and operational costs for banks, and enhanced efficiency and international competitiveness for the EU financial sector. Simplification should not be equated with deregulation; rather, it should aim to produce a more coherent and credible framework.

3.3 The ECB taskforce's role and key challenges

An industry representative observed that a lack of coordination among authorities - and even within supervisory teams - contributes to duplication, inconsistencies and conflicting requirements. Several initiatives are under way to address this, including a new agreement enabling the European Supervisory Authorities (ESAs) to share and reuse data, although national authorities remain outside its scope.

The high-level ECB taskforce will therefore play a crucial role in identifying duplication and reassessing reporting requirements. Two major challenges lie ahead: ensuring effective stakeholder alignment among numerous actors, and simplifying the simplification process itself to make reform both operational and sustainable.

While progress in data and reporting can enhance efficiency, achieving lasting simplification ultimately depends on addressing the political and structural barriers that continue to limit European banking integration.

4. Political and structural integration challenges

4.1 Delays from trust deficits and national sovereignty concerns

A public representative recalled that, during negotiations on the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), the European Parliament broadly supported the introduction of provisions to facilitate the use of the waivers to enable more flexible capital and liquidity allocation across the banking union. However, these proposals met strong resistance in the Council, reflecting a persistent lack of trust among Member States and ongoing concerns over national sovereignty.

Similarly, while the Parliament's Committee on Economic and Monetary Affairs (ECON) approved the establishment of a European Deposit Insurance Scheme (EDIS), progress has remained blocked within the Council. This stalemate continues to impede improvements in cross-border capital mobility and liquidity management within the EU. The home/host divide remains a major structural obstacle to deeper banking integration.

4.2 Ring-fencing, capital mobility and competitiveness

An industry representative noted that ring-fencing regulations may not fully apply to firms without fully developed EU models. Positive developments have been observed within the banking union, where reduced ring-fencing has led to more efficient capital allocation. Nonetheless, some elements risk undermining EU competitiveness, which is particularly concerning given Europe's need to attract more global capital to finance its growth and transformation.

Third-country banking groups would benefit from national authorities retaining the ability to grant capital and liquidity waivers to branches under their supervision, provided reciprocal arrangements exist in other jurisdictions. Such measures would enhance intra-EU funding transfers.

Supervisory colleges and crisis management groups remain effective mechanisms for information sharing and coordination, resulting in more efficient supervision, better-informed decision-making and increased transparency. The Single Resolution Board (SRB) also plays a positive role by offering a single point of entry for resolution coordination.

4.3 National specificities and supervisory differences

An official observed that, despite several years of the Single Supervisory Mechanism (SSM) and harmonised regulation, cross-border banking activity in the EU remains limited. While financial market regulation is largely aligned, macroprudential policy still allows a degree of national discretion. This raises the question of whether differences in supervisory practices also constrain cross-border operations. National regulators may have legitimate grounds for differentiated approaches, reflecting local market specificities.

These issues warrant further analysis. Establishing a single supervisor would not necessarily solve them, as national expertise would still be required. Existing coordination frameworks — such as supervisory colleges and the EBA Board of Supervisors — already facilitate information exchange, and their effectiveness would not fundamentally change under a centralised model. The key question is what tangible benefits further centralisation would bring, given that structural changes often entail additional costs.

The Chair concluded by noting broad agreement that the current regulatory framework remains excessively complex, largely due to misaligned incentives and divergent interpretations across 27 authorities, each promoting its own perspective and definitions. The guiding principle should therefore be to reduce complexity while preserving the core objectives of existing legislation.

Measures to break the Banking Union deadlock

While significant progress has been made with the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the banking union remains incomplete. Persistent national ring-fencing measures, the absence of a European Deposit Insurance Scheme (EDIS), and the lack of fully integrated cross-border banking groups continue to expose structural vulnerabilities. These shortcomings are not merely technical but stem from a deeper political stalemate.

The session explored the underlying reasons behind this lack of progress, reviewed the main achievements and remaining gaps in the EU resolution framework, and discussed practical solutions to advance the completion of the banking union.

1. Political stalemate despite broad consensus

1.1 Four key actors

A public representative noted that four key actors are responsible for the lack of progress on the banking union: the European Commission, the European Parliament, the European Council, and businesses, including banks. The latter often favour a fragmented market, where they enjoy local dominance, over a genuinely integrated single market that could expose them to greater competition but would be economically more efficient. Such attitudes give governments the political justification to block further integration.

The new legislative term has just begun, and the Commission will soon present proposals. Substantial changes are required from Member States in particular, while the industry must clarify its long-term interests.

Simplification should not be seen as a substitute for genuine reform aimed at creating a fully functional single market. Unifying 27 national rules into one framework demands a clear commitment to strengthening the EU — a commitment not universally shared.

1.2 National priorities and the absence of EDIS

This speaker further stressed that broader systemic changes are necessary to make progress. The absence of EDIS complicates decisions on granting waivers. Some Member States are not part of the full banking union, yet they continue to pursue national priorities in negotiations, which makes consensus difficult.

The banking union is intended to reinforce the single market for banks. Failing to complete it results in reduced competition and higher costs for households and businesses. If we are unable to complete this, the EU will struggle to deal with bigger issues. One of the most significant economic errors, however, lies in the absence of a unified energy market, which generates substantial daily costs across Europe. Developing a functional electricity market would be far more complex than building a single market for banking, making the lack of progress in the latter even more illogical.

1.3 Fragmentation without banking union

1.3.1 Breaking the sovereign–bank link

An industry representative emphasised that the debate on the banking union is ultimately about completing the single market. The current EU structure relies on economic actors that are intermediaries for local treasuries, which still exert significant influence over outcomes.

The banking union was designed to break the link between sovereign debt, treasuries, banks, and the financing of the economy — a goal that remains incomplete. The ratification of the amended European Stability Mechanism (ESM) treaty concerning the backstop for the Single Resolution Fund (SRF) has not yet been finalised. The current situation reflects political deadlock rather than technical obstacles.

1.3.2 Channelling the savings horizon toward medium-term investments

An industry representative recalled that the Draghi report estimated that €1.2 trillion of funding capacity within the financial sector — including banks, insurance companies and capital markets — needs to be mobilised. Unlocking this capacity would stimulate growth and competitiveness. The timing is favourable, as the EU appears determined to respond to these challenges. The necessary measures have already been extensively analysed and implementing them could make a significant contribution to economic progress.

2. 10 Years of Crisis Management: From Framework to Credibility

2.1 The resolution framework's credibility

A regulator agreed that a robust regulatory framework is essential to safeguard financial stability. He stressed that the Single Resolution Mechanism (SRM) is relatively recent, only 10 years ago, but it has worked hard to establish trust in the resolution framework.

The effectiveness of the SRM has already been demonstrated through successful resolutions of Banco Popular Español (BPE) and Sberbank, which protected taxpayers and preserved financial stability. Within the structure of a single SSM and SRM comprising a central authority and 21 participants, it is surprising that the home/host divide persists. Each Banking Union country's systemic institutions are under the direct supervision of the SSM as well as the SRM- central bodies and national authorities already work together.

2.2 Supervisory and resolution cooperation and trust are well established

A Central Bank official stressed that trust is fundamental to financial stability, encompassing depositor confidence, interbank trust, and the confidence of stakeholders, including supervisors. From a supervisory and resolution perspective, trust is not the main obstacle: the SSM and SRM are fully operational and aligned around common objectives. The real barriers are political and regulatory.

Before the banking union, there was no integrated supervisory framework. Establishing cooperation among national competent authorities (NCAs) was a core challenge, which has now been met. The existence of a memorandum of understanding between supervisory and resolution teams, joint country visits by the SSM and SRB chairs, and joint testing with institutions illustrate the high level of structured cooperation and information sharing.

NCAs actively contribute to decision-making within the SSM and SRB, including through working groups. The achievements of joint supervisory and resolution teams provide tangible evidence of trust and effective collaboration.

2.3 Legal enforceability and trust

The Chair asked whether legal enforceability is essential for building trust between Member States and regulatory authorities, allowing recourse to the European Court of Justice. An official responded that several ECJ rulings have confirmed the legitimacy of actions taken during past crises. Legal challenges are inevitable in resolution (or liquidation) cases.

Case law contributes to a credible framework. Where appropriate, banks have been allowed to enter liquidation, with authorities obliged to justify their actions.

Again, trust is the keyword. This is why the SRB, and NRAs have a clear strategy to deepen relationships, build trust within and beyond the banking union, and demonstrate a unified commitment to financial stability.

2.4 Rethinking home/host distinctions

This speaker explained that, from a regulatory standpoint, home/host distinctions should not apply within the banking union, where national borders are no longer relevant. The SRM and the SSM are not favouring any particular segment or region; their objective is to build resilience across the banking union, taking proportionality and national specificities into account while fostering trust.

Building trust requires the confidence of both investors and customers, since crises often start with withdrawals. To preserve financial stability, it is essential to show that the mechanism functions effectively and that authorities act in coordination.

A united front is also needed to convey credibility abroad. In fact, there is a ringfencing risk when crises are cross-border. The SSM and SRM are actively engaging with all relevant foreign counterparts to be ready to act in coordination in a cross-border crisis.

3. Completing the banking union

3.1 Unlocking the full benefits

3.1.1 Building for European sovereignty

An industry representative argued for adopting a more outward-looking perspective, similar to the US approach to regulatory reform, which is not merely incremental. While significant progress has been made in the euro area, political deadlock persists, and financial stability remains a matter of trust.

Beyond financial stability and economic growth, European sovereignty must be addressed as a potential way to break the political impasse. Strong European banking and financial institutions are vital to financing internal needs and reducing external dependencies. A strong economy requires strong banks. Building European strength could help overcome current restrictions, including Member States' internal political struggles, while supporting technological advancement.

European sovereignty must also be understood against the backdrop of a more conflict-prone global environment. Bolder measures may be needed to remove the obstacles to creating European financial champions and ensuring that European financing needs are met by European actors. Achieving the necessary scale and profitability is essential to support technological progress and global competitiveness. At present, global competitors are larger and benefit from greater freedom of action.

3.1.2 Protecting consumers and strengthening financial stability

A regulator emphasised the need to complete the banking union. In resolution, we have a simple unified framework. In liquidation instead, harmonisation remains limited to the legal aspects but, economically, depositors are more at risk in countries with worse-funded DGSs. EDIS would address this disparity.

The regulator also added that, beyond EDIS, the crisis management toolkit should be reinforced by liquidity backstops to the Single Resolution Fund. Recent crises have shown that liquidity needs in resolution may be very substantial. The more comprehensive and more flexible is the crisis management toolkit the lower the risk for financial stability.

Harmonization goes hand-in-hand with subsidiarity. From a governance standpoint, it is key to recall that, in a crisis, decision-making is carried out by the SRB together with the NRAs. For example, during the Banco Popular resolution, Spanish and Portuguese authorities participated jointly in the decision-making process.

3.2 The need for a roadmap

3.2.1 Taking a step-by-step approach

The Chair questioned whether a "big bang" approach to implement a comprehensive package before 2028, aligned with the President's timeline, or a more incremental strategy would be most effective.

An industry representative noted that while a comprehensive package is desirable for large banks, it is unlikely. Steady progress can still yield positive outcomes. The SSM and SRB have been successfully established and are functioning well. Home/host distinctions are increasingly artificial, given that joint supervisory teams under the ECB ensure consistent oversight of significant entities.

While the SRB has advanced considerably, a critical gap remains: liquidity backstops during resolution, and EDIS is not yet operational. Given EU governance structures, incremental progress is the most realistic approach, provided steps are taken swiftly.

3.2.2 Overcoming structural obstacles

The Chair highlighted that no major banking crisis has occurred in recent years and that the US is rolling back some regulations. Europe should adopt a more positive view of its own achievements.

A Central Bank official stressed that correctly framing the problem is essential for identifying solutions. Structural impediments — notably the absence of EDIS, the lack of an ESM backstop for the Single Resolution Fund, and hurdles in the CMDI review — hinder progress on both the banking union and single market.

These deficiencies lead to limited use of liquidity waivers, which are the only cross-border waivers available and are granted under strict conditions. In a stressed situation, rather than resolution, a pre-resolution scenario arises, raising the question of burden-sharing, which undermines the purpose of the banking union.

The roadmap can be gradual but must also be comprehensive, addressing capital and liquidity efficiency and simplification, while achieving shared positions on key structural issues. Banking consolidation must also be discussed, focusing on diversifying shareholder bases and building solid structures that enhance stability. Supervisory and resolution frameworks must be consistently applied to all significant subsidiaries and branches.

3.2.3 Respecting national specificities

The Chair noted the upcoming Commission report on the banking union and asked how the project could be completed by 2028.

An official explained that discussions are ongoing at the Eurogroup Working Group. Supervision plays a crucial role in national economies, fostering stability and trust. A gradual approach is needed, underpinned by a clear roadmap.

Home and host responsibilities must be defined, preserving local supervisory influence due to national financing contexts and past taxpayer interventions. Capital allocation must be clarified to ensure appropriate distribution of risks and liabilities. The banking sector needs diversification and sustainable growth, alongside robust capital markets. A holistic approach is required to avoid over-concentration in the strongest Member States.

3.3 EDIS and financial integration

3.3.1 The free movement of capital and liquidity

An industry representative underlined that EDIS is vital for consumers, providing uniform protection through a common funding mechanism. However, facilitating capital and liquidity flows across the eurozone is even more crucial. Cross-border banking groups must manage these resources holistically. Crises often trigger domestic ring-fencing, exacerbating sovereign debt challenges and impacting the economy.

Integration requires removing obstacles, including fragmented consumer protection and taxation rules, and addressing liquidity in resolution, which is essential to preserve critical functions and confidence.

EDIS is positive but insufficient on its own. Integration resembles M&A activity, usually justified by synergies. In the current market, cost synergies are limited, and revenue synergies are not valued, limiting incentives. Preconditions must be created to enable banks to operate within a genuine single market, particularly for SMEs and retail clients.

An industry representative added that EDIS, while not the single most significant factor, remains a crucial missing component. The four pillars of the banking union are unified supervision, a resolution mechanism, EDIS, and financial integration. The first three are tools to achieve the fourth. EDIS would enhance consumer confidence by enabling cross-border account access but would have limited broader impact alone.

3.3.2 Removing ringfencing

An industry representative noted that capital does not flow easily between countries, leading to missed investment opportunities. Removing intra-group capital and liquidity barriers would have a greater immediate effect, as these resources would be pooled.

He warned, however, that insufficient funding of EDIS could undermine trust. In the US, access to Treasury funds, later reimbursed by banks, ensures sufficient funding and preserves confidence. In Europe, funds remain frozen, limiting banks' lending capacity.

3.3.3 A hybrid EDIS model

An official stressed the importance of national economic perspectives and the Commission's role. Support for a hybrid EDIS model dates back to 2017. EDIS, the third pillar, should resume swiftly. Progress has already been made in supervision and taxpayer protection, as seen in Slovenia after the global financial crisis.

The first step is to complete the common backstop to the SRF, followed by a robust regulatory framework clearly allocating home and host responsibilities. Joint visits and a unified supervisory approach are needed to strengthen financial stability.

National DGSs should not bear excessive risks from subsidiaries, provided capital remains at group level. A balance must be struck to avoid contagion between parents and subsidiaries, which can distort competition. Entity-level prudential control remains essential alongside consolidated supervision.

3.3.4 Prioritising EDIS to unlock financial flows

A public representative argued for prioritisation. The EU often struggles to set clear priorities, diluting impact. If EDIS is crucial to unlocking financial flows and fostering competition, it should be given highest priority. Actions that unblock current issues and set direction are welcome, but incremental steps must yield tangible results for financial groups to operate effectively.

3.3.5 The market's need for solutions

A regulator noted that it is important to move towards an EDIS-like solution, even if stopping short of the original proposal. Market evolution calls for a better pan-European deposit protection. For instance, depositors already shop around the EU for better interest rates on deposits. Also, cross-border activities by new banks highlight gaps in consumer awareness and DGS coverage.

A package to address these gaps should be introduced swiftly. Market forces are likely to drive solutions faster than anticipated by some policymakers.

EU bank crisis management framework

1. EU crisis management framework: where do we stand?

1.1 A welcome political agreement on CMDI

The Chair welcomed the political agreement on the Crisis Management and Deposit Insurance (CMDI) package, noting that this is good news and expressing the hope that the package will be finalised swiftly.

An industry representative emphasised that compromises were necessary on all sides to reach this agreement, given the wide range of competing priorities.

An official highlighted that, despite divergent positions between the Council and Parliament, and even within the Council itself, a difficult political compromise on CMDI has been achieved. Technical work to finalise the package is progressing well. Implementation will require the transposition of two directives into national law, which must respect the spirit of the agreement and avoid gold plating. The CMDI package should be viewed as a stepping stone towards further deepening the banking union, in line with the Eurogroup's June 2022 statement.

A central bank official pointed to the substantial progress achieved in Europe over the past decade, notably the establishment of the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB), which provide the EU with effective crisis management tools. The CMDI agreement represents a major advance in completing the banking union.

1.2 CMDI: a new tool to strengthen financial stability

The Chair explained that the new "bridge-the-gap" tool can be useful, after all MREL has been used up, to support market exits whilst protecting depositors and taxpayers, thereby supporting EU financial stability. Nobody knows whether SRB may need it for the banks in its remit, but its availability is reassuring. The CMDI package also introduces a number of technical refinements that will make resolution planning more efficient and coherent. However, it does not alter the minimum requirement for own funds and eligible liabilities (MREL).

1.3 EDIS: still a missing piece of the banking union puzzle

The Chair underlined that while CMDI applies across the European Union, it is particularly significant for the banking union. With CMDI nearing completion, the moment is appropriate to reopen discussions on the European Deposit Insurance Scheme (EDIS).

Although views diverge on its necessity, a model based on three pillars - supervision, crisis management and resolution, and EDIS - would provide a single, coherent system to protect depositors throughout the EU in the event of liquidation.

1.4 Addressing liquidity in resolution: another remaining gap

An official noted that the political agreement on CMDI signals renewed confidence in the banking union project. Nevertheless, two major gaps remain that could undermine trust and amplify disruption during a crisis.

The first concerns funding in resolution. In addition to establishing a public backstop, a new tool is needed to provide liquidity during resolution—the so-called "Monday morning problem". The European Stability Mechanism's (ESM) backstop to the Single Resolution Fund (SRF) addresses this issue and is now operational.

The second gap is the lack of a common deposit insurance scheme. Rather than relying on ad hoc crisis responses, arrangements should be agreed in advance to prevent contagion and limit systemic risk. Well-designed liquidity arrangements exist in some jurisdictions, with the Nordic framework standing out as particularly effective. However, all involve some form of government support, which poses challenges in the EU institutional context. Addressing this complex issue will require strong and coordinated action across Member States.

2. Expectations for the political trilogues

2.1 CMDI: political compromise followed by rapid technical progress

A regulator observed that the speed and quality of the technical discussions have been impressive, although the process is not yet complete. It is expected that the remaining work will be finalised within the next month. One outstanding issue concerns the scope of the public interest assessment (PIA).

2.2 Public interest assessment: clarity without overreach

An industry representative referred to the "elephant theory" as a way to conceptualise the PIA. Just as an elephant may be hard to describe but is instantly recognisable, cases where resolution is in the public interest will be clear. The PIA should remain aligned with the political compromise, and the scope of resolution should not be expanded, as this could undermine national deposit guarantee schemes (DGSs).

An industry representative added that resolution authorities now have the possibility to apply the framework to mid-sized banks that would previously not have fallen within its remit. However, it is essential to remember during finalisation that most banks, particularly smaller ones, will continue to be liquidated under normal insolvency proceedings. Imposing resolution frameworks, including MREL requirements, on these institutions would be inappropriate. The resolution framework is designed for the few, not the many.

He also stressed that the framework is not an arena for experimenting with new uses of DGS funds. "Bridging the gap" forms part of crisis management evolution, but the use of DGS funds in resolution remains subject to strict conditions. In practice, DGS funds are already being used in resolution, and the ways in which this is done are evolving within the system.

2.3 Retaining super-preference: essential for safeguarding the role of DGSs

An industry representative underlined the critical role of DGSs within the CMDI framework. It is essential to maintain the super-preference for covered deposits and DGSs. In the event of insolvency, this preference enables efficient payouts to depositors. Once payouts are made and reimbursed, DGS funds are replenished.

Authorities have previously indicated a need for greater flexibility in using available instruments. As the requirements governing the use of DGSs in resolution cases are being defined, it is crucial to uphold the core principle of the crisis management directive: losses must first be borne by the shareholders and creditors of the institutions concerned.

2.4 Confirming the role of the institutional protection scheme (IPS) in EU crisis management

An industry representative highlighted that the political compromise on CMDI allows IPSs to operate within the CMDI framework, which is a positive development. IPSs, with their early warning mechanisms and preventive measures, enhance the resilience of the European banking system.

An industry representative added that IPSs also function as a type of DGS and contribute to strengthening financial stability.

2.5 Providing predictability through timely completion

The Chair stressed that, while technical discussions should not be rushed, stakeholders need predictability and clarity. A speedy completion of the CMDI process would help build confidence. A lengthy transition period will be required to transpose the package into national legislation, which further underscores the importance of completing the project promptly.

3. Remaining gaps and priorities for the future

Emerging systemic risks call for a more agile response and a reconsideration of the EU resolution toolbox to address new threats.

3.1 Strengthening EU crisis management in the face of emerging risks

A central bank official stressed the need for supervisors and resolution authorities to work closely together to ensure that stress testing for cybersecurity and geopolitical risks is appropriate and effective. Recent experience in the United States has shown how the digital era accelerates bank runs.

An official noted that increasing interconnections between banks and non-bank financial institutions (NBFIs) have turned banks into conduits for central bank liquidity to investment funds during periods of stress. NBFIs are becoming more leveraged and share exposures with banks. They are also major investors in MREL debt, meaning that shocks in one area can spread rapidly across the system. A credible framework must therefore include tools to address risks arising from NBFIs and mitigate the potential for systemic liquidity crises.

The ESM is adapting its risk assessment framework and reviewing simulation exercises to better capture new risks and spillover effects.

A regulator confirmed that the current resolution toolbox is effective for addressing known risks such as capital and liquidity shocks. However, new threats are emerging. A cyberattack on a systemically important financial institution (SIFI) or a critical infrastructure bank that corrupts its data would be particularly serious: the institution might lose visibility over its balance sheet and be disconnected from payment systems, likely resulting in failure.

In such a scenario, resolution authorities would face major challenges. Traditional tools - such as bail-in, replacing management or injecting capital and liquidity - would be inadequate. This highlights the need for an EU-level review of the resolution toolkit, similar to those conducted for the BRRD and CRD. Historically, policy responses have prepared for "the last war," which centred on capital losses and liquidity shortages. Future crises may present different challenges.

The Chair acknowledged that cyber risk is not new, but its frequency and potential impact are increasing.

3.2 Four priorities for the future

An official identified four key priorities. First, firepower: the SRF backstop must be finalised, with or without amendments to the ESM Treaty. Second, further harmonisation of bank insolvency regimes to reduce costs and delays while maximising value. Third, the creation of a harmonised framework for liquidity support in resolution. Although this is a sensitive topic, it needs to be addressed in detail. Fourth, state aid: once CMDI is finalised, subsequent developments will fall under the Commission's remit, and communication should remain aligned with BRRD rules.

3.3 Boosting competitiveness: simplification, proportionality and tackling sensitive issues

An official underlined that competitiveness is a political priority and a pressing issue for the banking sector. European banks are losing market share both globally and within the EU. In response, the Commission has accelerated its competitiveness report, now expected in 2026.

The main objective should be to simplify and improve the operating environment for banks, including by addressing sensitive issues such as ring-fencing practices. A more effective application of proportionality could also strengthen competitiveness. Although this remains contentious between sovereigns and banks, it should not be avoided. Lessons from past financial and sovereign debt crises must be heeded. As the Danish proverb goes, "a small fire that warms you is better than a large one that burns you."

A central bank official cautioned that cross-border liquidity and capital waivers require careful consideration, as liquidity may not flow as expected during periods of stress. Host–home dynamics are likely to come under strain in a crisis. Without enforceable, unconditional intra-group support mechanisms in resolution planning, relaxing safeguards on cross-border liquidity and capital waivers could expose smaller host countries to disproportionate risks.

3.4 A holistic, competitiveness-driven approach to completing the banking union

An official stated that boosting the competitiveness of EU banks will be difficult without completing the banking union and fully leveraging the single market, one of the EU's greatest assets.

Four principles should guide this process. First, a holistic approach recognising the interdependence of the three core workstreams. Second, a consensual process, as recommended in the Eurogroup statement, to build trust and foster stakeholder ownership. Third, applying proportionality and focusing on systemically important entities that would benefit most from an improved internal market. Fourth, ensuring that competitiveness remains the guiding principle, with each measure evaluated on its contribution to competitiveness.

The design of EDIS should be approached with creativity and openness. A phased implementation or an opt-in/opt-out model could be considered, provided proportionality is respected. A particularly positive outcome would be if the banking union became so attractive that non-Eurozone countries chose to join.

4. EDIS: debates, approaches and realities

The Chair recalled that discussions on EDIS began 10 to 15 years ago and that divergent views on its necessity remain pronounced.

4.1 The necessity of EDIS is in question

An industry representative stressed that funding and resolution capacity - particularly the public backstop - is the most critical element for effective crisis management. Since EDIS was first proposed in 2010, major changes have taken place, especially regarding DGSs.

The legislative framework has established a unified system of DGSs across the EU, with harmonised definitions and ex ante funding, enabling payouts within seven days.

Supervision arrangements are also relevant: only the largest banks are directly supervised by the ECB, while the majority remain under national supervision. This creates a disconnect between the idea of a single EDIS fund and the reality of national supervisory structures. In addition, the presence of government bonds on banks' balance sheets must be taken into account. For EDIS to function effectively, risks across national banking systems would need to converge to a comparable level.

4.2 Prioritising simplification and predictability over new reforms

An industry representative highlighted that the current policy focus is on simplification. EDIS and crisis management have been debated for 15 years. Following three years of negotiations, a new crisis management framework has been agreed. Banks will need time to fully understand, discuss and implement this new framework. In this context, prioritising simplification and predictability is preferable to launching new reform discussions.

The Chair suggested that establishing a single European deposit guarantee scheme is a form of simplification.

4.3 EDIS: political divisions, economic challenges and procedural realities

An industry representative pointed out that, politically, Friedrich Merz recently stated his opposition to EDIS if it undermines well-functioning national systems. A Eurogroup discussion in 2022 also concluded that a consensual approach would be required, but there is currently no political agreement on EDIS, making a way forward difficult.

From an economic standpoint, strengthening banks' financial capacities would support EU competitiveness. Free movement of capital, one of the four freedoms of the Schengen Treaty, remains an incomplete goal for cross- border banking groups. The home–host issue persists, and regulatory fragmentation hampers competitiveness. For example, the absence of a single, standardised framework and the existence of multiple parallel rulebooks for smaller and medium-sized banks are problematic.

Procedurally, deposit protection and resolution are closely linked. Completing the CMDI package - including finalising technical details and transposing it into national law - will take several years. EDIS discussions should therefore be paused and reconsidered later if needed.

4.4 EDIS: a step-by-step approach is the responsible path forward

A central bank official stressed that completing the banking union will not be possible without EDIS. An "all or nothing" approach will not revive the debate; a phased strategy is the most responsible path. This could start with a common liquidity backstop, followed by a reinsurance system under which national schemes could access European funds subject to strict eligibility criteria. Political courage and financial solidarity will be essential.

Full mutualisation of deposit insurance, without first addressing governance, risk convergence and supervisory alignment, could undermine rather than enhance stability. For smaller countries with limited DGS resources, unconditional pooling of liabilities would pose significant risks without ensuring fair support or operational clarity.

5. Ways forward for building confidence in the EU resolution framework

The Chair emphasised the importance of confidence in the framework and trust among all actors in the system.

An official reminded participants that the purpose of the banking union is to create a safer and more resilient banking system that supports both stability and growth. While the banking union has delivered on stability, a lack of integration has constrained growth.

An official argued that European institutions such as the SSM and the SRB, which have demonstrated their effectiveness, should be entrusted with broader powers.

An industry representative noted that improving EU competitiveness- particularly by removing barriers - will reinforce trust and confidence in the framework.

A regulator proposed the development of a common EU framework for cyber risk.

An industry representative stressed that the implementation of early warning and prevention systems in all European banking groups would increase the financial stability in the European banking system.

A central bank official underlined that completing the banking union, introducing EDIS and ensuring that stress testing adequately covers emerging risks are key steps to strengthening confidence.

Macroprudential framework review

This session highlighted the broad agreement on the need to reform the EU macroprudential framework. While Europe's macroprudential system has become more robust since the global financial crisis (GFC), it remains overly complex, fragmented and inconsistent. The speakers called for stronger coordination between micro and macro level supervisors, simplification through the merging of buffers and clearer governance within the existing institutional framework. Some participants suggested that the European Systemic Risk Board (ESRB) could play a coordinating role to foster consistency across jurisdictions. Ultimately, the aim is to move from a defensive stability agenda to a more competitive and resilient European framework that supports sustainable growth in an increasingly uncertain global environment.

1. A fragmented, uneven and inconsistent framework

1.1 Inconsistent buffer calibration and decentralised decision making

A central bank official noted that the measures introduced to strengthen the macroprudential framework after the GFC have created a system that has so far proved resilient. However, there is still room for improvement. The use of divergent methodologies across EU countries might result in overlapping buffer applications, while decentralised decision-making could be problematic. It should be possible to reconcile country-specific circumstances with a harmonised EU approach, yet national specificities and harmonisation often fail to align. Following the pandemic, national competent authorities (NCAs) adopted a more proactive stance towards cyclical buffers but approaches still differ markedly across member states. Some countries apply systemic risk buffers (SyRBs) to all assets, others only to certain classes, and some do not use them at all. This creates a level-playing-field issue: banks of comparable size and footprint in the EU face varying buffer requirements depending on their jurisdiction. As the European Commission has observed, these divergences cannot be fully justified by country-specific factors such as market size or concentration.

1.2 NCAs are best placed to tailor macroprudential measures to local circumstances

A central bank official argued that regulatory authorities possess an appropriate range of tools to address systemic, structural, general and sectoral risks. These include the countercyclical capital buffer (CCyB), the SyRB, and buffers for global and regional systemically important banks (G-SIBs and R-SIBs). EU legislation also provides additional instruments, such as higher risk weights for banks exposed to real estate or using standardised models, and increased loss-given-default (LGD) parameters for those employing internal models. In addition, some member states have introduced borrower-based measures (BBMs) under national law. BBMs, being more intrusive, can be difficult to activate.

A central bank official firmly rejected the idea that macroprudential tools should not be applied at national level. The EU comprises highly diverse economies with differing financial cycles; these tools must therefore be calibrated nationally. Nevertheless, the process for activating such measures can be cumbersome and excessively lengthy. It is important to rely on robust indicators, sound methodologies and transparency. However, imposing uniform methodologies or common trigger events would effectively create two conflicting rulebooks. Indicators rarely capture the full picture. Rules across jurisdictions should therefore be consistent but not identical.

1.3 Fragmented architecture and overlapping tools

A regulator explained that the effectiveness of the current macroprudential framework comes at the cost of growing complexity. In theory, microprudential tools address institution-specific risks, while macroprudential tools target systemic vulnerabilities. In practice, these risks often overlap. The capital conservation buffer (CCoB) and the buffers for global and other systemically important institutions (G-SIIs and O-SIIs) straddle both micro and macroprudential objectives. As these buffers are non-releasable, they can overlap with SyRBs and generate redundancy. To prevent the framework from hindering banking union and cross-border consolidation, several issues must be addressed. The redesign of the O-SII framework remains incomplete: the methodology does not adequately distinguish between systemic risk at national and EU levels, creating overlaps and discouraging cross-border integration. In addition, the longstanding home-host debate and the absence of capital and liquidity waivers continue to fragment the system. Although the SSM is now a decade old, significant ring-fencing persists. Without resolving these issues, progress on banking union will remain elusive.

1.4 Excessive and fragmented rules erode investor confidence and cross border growth

An industry representative observed that while most speakers at the conference avoided mentioning deregulation or the reduction of capital requirements, there are legitimate reasons to consider such measures. Capital requirements remain excessive. Banks devote considerable resources to intricate regulatory tasks; at OTP Bank, for example, 15–20 employees work exclusively on Pillar 2 calculations. In many cases, these efforts yield limited tangible benefit, with multiple policy instruments addressing the same underlying risks.

To illustrate this, this speaker cited a European country that introduced borrower-based debt-to-income (DTI) measures in July, initially welcomed by the industry. Yet within nine months, the Pillar 2 requirement will rise by

10%, the CCyB to 2%, and the minimum requirement for own funds and eligible liabilities (MREL) by 5%. Over five years, the capital adequacy ratio (CAR) will increase by three percentage points and MREL by 9.5%, alongside additional macroprudential measures. The same risk is therefore being addressed through multiple, overlapping policies. Aside from the parent company, few investors are likely to invest in a bank facing such stringent requirements.

While the current macroprudential framework has strengthened financial stability in Europe, its complexity, overlapping instruments and inconsistent national applications are undermining its efficiency. The next step is not to reinvent the system but to simplify it, ensuring prudential measures are proportionate and predictable. This will require closer coordination between micro- and macro-supervisors, consistent methodologies and clearer governance within the existing institutional structure, potentially with a stronger coordinating role for the ESRB. The ultimate goal is to create a framework that is easier to apply, transparent for market participants and supportive of the banking union's integration objectives.

2. Towards a simpler, coherent and predictable framework

2.1 Visibility and accountability

An industry representative explained that his institution, a well-established and successful bank, is currently subject to tens of macroprudential measures. Uncertainty remains a key challenge for the industry, as there is limited visibility on the evolving requirements. The Basel framework does not envisage such complexity. The EU has created an unnecessarily intricate system that was originally intended to address inconsistencies in the use of microprudential tools by national supervisors. The banking union has since resolved most of these discrepancies and the microprudential framework is now highly effective. However, the numerous checks and balances introduced to manage this complexity have not prevented divergent buffer rates from emerging across Europe.

2.2 Stronger coordination between microprudential and macroprudential supervisors

A regulator agreed that stronger coordination is required between microprudential and macroprudential supervisors, as well as between domestic and European authorities. Without such coordination, the macroprudential framework risks operating in isolation. The Eurosystem is working to prevent siloed approaches, simplify the framework and enhance efficiency, but varying organisational structures among national macroprudential authorities make this difficult.

A central bank official added that microprudential and macroprudential supervision are inseparable. The key lesson from the GFC is that microprudential oversight alone is insufficient. The creation of the SSM marked a major step forward, leading to greater coordination than ever before. The system functions effectively, but further streamlining is now needed.

2.3 Building a more coherent and predictable macroprudential framework

2.3.1 Simplification, not deregulation

A central bank official stressed that financial stability remains the top priority for supervisors, as competitiveness cannot exist without it. Industry representatives often advocate reducing macroprudential buffers, yet extensive empirical evidence shows that these buffers have minimal price effects in normal times but substantial deleveraging impacts during crises. Nevertheless, the issue of complexity deserves attention. Central banks have submitted proposals within the ECB High-Level Task Force on Simplification to address this. Simplifying the capital framework—for instance by reorganising the capital stack—could help. Reducing the administrative burden on firms should be part of this agenda. The goal must be simplification, not deregulation.

2.3.2 Merging buffers

A Central Bank official noted that there is merit in the proposal to merge the CCyB and A central bank official supported the idea of merging the CCyB and SyRB, which would maintain overall neutrality while allowing the creation of sectoral buffers. Some proposals also suggest procedural simplification, such as using indicators. However, the methodology for the G-SIB buffer remains difficult to apply and may require review at the Bank for International Settlements (BIS). Enhancing predictability will contribute to simplicity. A regulator concurred that merging the CCyB and SyRB would benefit both supervisors and banks.

2.3.3 Aligning methodologies

A regulator observed that the reciprocation regime is currently complex, cumbersome and time-consuming. A common methodology for calibrating macroprudential buffers—clear, transparent and capable of accommodating national specificities—is needed. Borrower-based measures (BBMs) illustrate this balance well: they are highly effective tools grounded in local circumstances. The framework must recognise genuine structural differences between economies and banking systems.

2.4 To prevent overlaps, a single authority should oversee aggregate capital

An industry representative observed that policymakers and regulators have few incentives to avoid overlaps and redundant requirements. Supervisors do not always assess whether new measures are truly justified or whether they risk creating duplication.

There are too many incentives to approve additional measures, and too few to reject potential overlaps or unnecessary requirements. Because no single authority is tasked with assessing the aggregate level of capital requirements, the cumulative burden continues to grow, with regulators shifting responsibility among themselves.

A single body should assess a bank's aggregate risk profile and total capital needs. There is particular uncertainty around accountability for avoiding overlaps between Pillar 1 and Pillar 2 requirements. These issues can severely affect banks with cross-border business models. In summary, the EU's macroprudential regulatory framework remains fragmented and uncoordinated. It limits banks' capacity to finance growth and constrains cross-border consolidation. Greater ambition is needed to address these shortcomings.

2.5 Strengthening the ESRB and moving to collaborative supervision

A central bank official observed that enhanced coordination of macroprudential policy across the EU would improve the consistency and predictability of supervisory actions. Achieving greater convergence will require shared criteria, methodologies and approaches, supported by closer dialogue between national and European authorities. The ESRB could assume a stronger coordinating and discussion role to foster consistency across jurisdictions, even though its recommendations are non-binding. An extension of its mandate should therefore be considered.

Several speakers highlighted the importance of improving cooperation and flexibility within the existing institutional setup rather than creating new layers of governance. Supervisors often express requirements as percentages, while banks think in absolute monetary terms—illustrating the need for a holistic dialogue that enables aggregate capital assessments and avoids unintended consequences. Greater flexibility in supervisory interactions could foster mutual understanding and reduce rigidities. In the longer term, legislative clarification may be required to ensure a simpler and more transparent framework. Decisions on the necessity of specific tools and the design of releasable buffers remain for policymakers. Many speakers also stressed that completing the banking union and implementing the output floor would help build a more coherent and predictable environment.

The same speaker concluded that Europe's stability and prosperity rely on joint resilience. In an increasingly complex geopolitical landscape, strengthening cooperation and mutual trust between EU institutions and member states will be essential to preserve financial stability and support sustainable growth. Beyond a simpler and more coherent macroprudential system, the next challenge is to ensure that the prudential framework actively supports competitiveness, growth and resilience in a changing global environment. Several speakers emphasised that reducing complexity and improving coordination are only initial steps. The EU needs a more ambitious approach that aligns macroprudential policy with broader economic objectives, ensuring that regulation enhances—rather than constrains—the banking sector's capacity to finance the economy. This shift from a defensive mindset to a proactive, growth-oriented agenda is vital for Europe to remain strong and competitive on the global stage.

3. Building an ambitious, competitive and resilient European framework

3.1 Simplifying and reforming the EU macroprudential framework will restore competitiveness and support growth

3.1.1 From complexity to competitiveness: making Europe's framework fit for growth

A central bank official noted that growing complexity, overlapping requirements and heterogeneity in bank buffers could be generating competitive distortions. An industry representative stressed that competitiveness is neither embedded in EU regulation nor part of the remit of supervisory authorities. The industry would welcome a shift from rhetoric to tangible action. European policymakers often acknowledge the need to enhance competitiveness, yet progress remains limited. Meanwhile, the US, the UK and China are consolidating and gaining strength. The time to act is now.

3.1.2 Refocusing on competitiveness to strengthen Europe's financial system

A central bank official explained that his Central bank supports merging the CCyB and SyRB into a single buffer, noting that reciprocity could be ensured through a legal clarification of the neutral positive CCyB rate. Public authorities should also consider more decisive steps to address excessive complexity. The Central bank has proposed separating the principles of going and gone concern, which, with limited clarification, could simplify the framework significantly. Competitiveness must become a shared priority for all stakeholders, not only financial stability authorities. The complexity of EU legislation is evident, and broader competitiveness discussions must also consider labour costs and tax systems. To make progress, Europe must first define what competitiveness means in practical terms. This concept should form a central part of all EU financial policy deliberations.

3.1.3 Reforming the macroprudential framework to strengthen Europe's competitiveness

An industry representative welcomed the recognition among many stakeholders of the need for change. Europe must demonstrate greater ambition. It is characteristic of the European approach to fine-tune regulation while other jurisdictions strengthen and consolidate. The lack of consolidation in the European banking sector reflects a prudential system that no longer functions effectively. A comprehensive reform of the macroprudential framework would signal the necessary level of ambition.

Macroprudential tools should only be deployed when risks cannot be addressed by microprudential means, and authorities should be required to demonstrate this through quantitative analysis. Greater centralisation and harmonisation of metrics, activation criteria and calibration methods are essential to ensure convergence. However, the framework should be reformed from a strategic, not procedural, starting point. Beginning with the details would risk leaving European banks further behind their global peers.

3.2 Beyond capital buffers: building resilience against cyber and emerging risks

An industry representative observed that cyber risk, while formally addressed within the microprudential framework as an operational risk, remains largely theoretical in practice. A severe cyber incident could disrupt a bank's operations, but the microprudential safeguards in place make it unlikely to trigger a broader credit or liquidity crisis. Other institutions would also be affected, yet such exposures are unlikely to be systemic.

A central bank official added that the focus should be on strengthening resilience through enhanced cooperation between public authorities and the private sector. In this regard, borrower-based measures (BBMs) could serve as particularly effective instruments.

3.3 Coordinated and capped buffers: seeing the bigger picture

An industry representative stressed the importance of close coordination among supervisors in calibrating and combining buffers, both within the microprudential and resolution frameworks. There is no reason to hesitate in introducing an aggregate cap on macroprudential buffers, provided it supports coherence and proportionality. What matters most is to take a holistic view of the system and to act without delay.

Divergent global implementation of Basel III

1. Global standards and implementation challenges

The speakers underlined the crucial role of international standards in supporting financial stability, trust and global market access. They examined how fragmented implementation across jurisdictions challenges efforts to achieve a level playing field. The debate focused on the rationale behind Basel III, the importance of consistent application, and the risks arising from divergent implementation paths and opaque regulatory frameworks.

1.1 Context and rationale for Basel III

1.1.1 Basel III: the backbone of global stability

A Central Bank official stressed that Basel III constitutes the backbone of global financial stability and trust in the banking system. In an interconnected environment, fragmented implementation undermines resilience and encourages regulatory arbitrage. Regulators and industry participants share a strong interest in achieving harmonised global application. Only a coordinated global approach can address implementation inconsistencies. There are indications that the United States may soon publish its implementation proposal early 2026, which would serve the interests of global banks, including those operating in the US.

1.1.2 The broader importance of international standards

A Central Bank official noted that international standards are fundamental to maintaining global financial stability. They provide investors with confidence to operate across borders, foster trust among regulators and help create a level playing field. This is particularly relevant for the United Kingdom, which hosts a major international financial centre. The UK remains committed to faithfully implementing all international standards, including Basel III. Alignment with global standards is firmly embedded in the Prudential Regulation Authority's objectives. The UK intends to implement the package by 1 January 2027, except for the internal models part of the market risk rules which will be implemented one year later on 1 January 2028. The output floor will follow the Basel timeline and be fully phased in by 2030.

1.1.3 Consistency across EU jurisdictions: a key driver of stability and market access

An official emphasised that EU implementation must take account of global developments. While differences exist between Member States, adopting a "one-size-fits-all" approach may at times be necessary to preserve coherence. It is not feasible to tailor the international framework to each national market. Instead, the focus should be on finding common ground globally to protect Europe from financial instability. Given the current volatility and geopolitical uncertainty, international rules remain essential for cross-border banking activity. The EU is working to implement Basel III faithfully, yet disparities between Member States persist. Ideally, consistent implementation will help deepen the integration of the European banking market.

1.2 Implementation challenges in a fragmented landscape

1.2.1 Opaque processes and measurement difficulties

An official observed that, according to Basel Committee data, only eight of twenty jurisdictions have fully implemented the framework. While the US and UK have yet to complete their transposition, the EU performs less favourably in terms of both compliance and quality. Assessing the exact degree of implementation remains complex, making it difficult to identify the necessary adjustments. Moreover, the rapid pace of global regulatory change complicates the evaluation of whether the EU's process is progressing appropriately. Any revision to the US approach will inevitably influence the EU's own implementation.

1.2.2 Divergent implementation will undermine European competitiveness

An industry speaker underlined that global financial institutions require consistent and detailed regulatory requirements. They would gain significant efficiencies if a single regulatory engine, data pool and calculation framework could be used worldwide. The coexistence of multiple local regimes generates discrepancies in capital requirements, operational costs and risk management. Implementing the Fundamental Review of the Trading Book (FRTB) ahead of other jurisdictions, for instance, would place continental European banks at a competitive disadvantage. Over the past decade, these banks have lost market share in key investment banking segments; notably, all five global coordinators of Porsche's 2022 IPO were non-EU institutions. Such outcomes raise concerns regarding European competitiveness and sovereignty. Basel III should therefore ensure a genuine level playing field between EU and non-EU institutions.

1.2.3 Transparency, consistency and comparability foster stability

An industry representative stressed that coherent and coordinated implementation of common standards is essential. The collapses of Silicon Valley Bank and the resolution of Credit Suisse illustrate the risks of partial or inconsistent application of Basel III. These episodes underline the urgent need for stronger cross-border coordination and resolution planning. Rather than allowing fragmentation, public authorities should reinforce transparency, consistency and predictability in the regulatory framework. Such an approach would enhance market confidence and signal robust risk management to institutional investors. Comparable supervisory ratios are vital: without them, cross-border risk assessments are distorted, capital allocation is impaired and systemic trust erodes.

1.2.4 Balancing stability, cost and cross border cooperation

An industry representative further argued that regulation must strike a careful balance. Excessive implementation costs or disproportionate requirements can inhibit innovation and growth. When this equilibrium is lost, fragmentation and systemic vulnerabilities emerge. Cross-jurisdictional harmonisation is therefore critical. Canada offers a relevant example, where alignment with federal standards allows banks operating across provinces to remain competitive both nationally and internationally.

1.2.5 Long regulatory cycles and the competitiveness challenge

An official observed that the phase-in period for the Capital Requirements Regulation (CRR) will conclude in 2033 — twenty-five years after the Lehman Brothers collapse. The final rules are generally reasonable and calibrated to different institutional profiles. However, competitiveness is, by design, not explicitly part of the Basel framework, even though it remains a crucial feature of the financial ecosystem. Today, competitiveness is increasingly driven by technological capacity and economies of scale, particularly in IT systems. This issue cannot be resolved through adjustments to the regulatory framework.

2. Regional Approaches and National Specificities

2.1 European Union: early implementation, tailored adjustments and national divergences

The EU's implementation of Basel III is broadly faithful to the international standards but includes specific adjustments to reflect market particularities and national differences. While implementation has already begun – excluding the market risk package – concerns persist regarding competitiveness. Divergences in lending practices, internal models and legal frameworks continue to generate heterogeneous effects across the EU.

2.1.1 Tailoring the EU approach and competitive implications

A Central Bank official considered the EU's approach to Basel III implementation as balanced overall. Nevertheless, certain adaptations have been made to preserve the distinctive features of the European market and encourage priority activities. These adjustments may result in lower capital requirements compared to a straightforward application of the standards, potentially creating discrepancies with other jurisdictions. Delays in implementation by major non-EU economies could, in turn, distort the international level playing field and disadvantage EU banks, particularly in trading activities.

2.1.2 Internal models and national supervisory tools

A Central Bank official noted that the EU allows certain banks to continue using internal ratings-based (IRB) models under stricter conditions, whereas other jurisdictions may remove this option for specific exposures. The Hungarian Central Bank (MNB) supports the use of advanced internal methodologies for defined portfolios while preventing models that underestimate risk and reduce capital requirements. As a result, the introduction of the output floor is not expected to affect Hungarian banks using IRB models. Pillar 2 offers flexibility for addressing risks insufficiently covered by regulation, enabling national competent authorities (NCAs) to intervene when unaddressed risks are identified.

2.1.3 National specificities drive the divergent impact of Basel III

An industry speaker explained that retail mortgage portfolios will generally experience significant reductions in risk-weighted assets (RWAs). However, national lending practices vary widely. In some EU countries, loan-to-value (LTV) ratios of 100% are common, while in others, borrowers must provide 20–30% equity. Consequently, the beneficial effects of the new framework differ across jurisdictions. Collateral valuation also plays a decisive role: while some member states apply conservative standards, others historically rely on market values. CRR3 introduces the concept of lending value, which is more conservative than market value. In some countries, existing practices are already stricter, explaining why RWA outcomes differ between jurisdictions.

The Chair highlighted the tension between large institutions' calls for harmonisation and national regulators' preference for flexibility, concluding that if rules are not identical, they must at least be equivalent.

2.1.4 Legal frameworks influence off balance sheet treatment

An industry speaker further pointed to legal discrepancies affecting the treatment of off-balance-sheet items, such as the new minimum credit conversion factor (CCF)[1] of 10%. In certain jurisdictions, contractual loan commitments can reduce the CCF to zero due to differences in civil law: in some countries, commitments are legally binding; in others, they are not. It remains too early to determine whether the framework will fully reflect these legal variations, but considerable divergence is expected across EU member states.

2.1.5 Tailoring regulatory frameworks to local realities

A Central Bank official stressed that major economies apply global standards differently due to variations in economic structures, political priorities and local market features. Such differences affect timelines and transitional measures. Allowing a degree of flexibility within a

1. The Credit Conversion Factor (CCF) is a coefficient applied to off balance sheet exposures to convert them into credit equivalents for the calculation of risk weighted assets (RWAs). Exposures previously considered to carry very low risk must now be taken into account at a minimum rate of 10% in the calculation of RWAs.

uniform framework can support effective supervision. When global standards prove ill-suited to national contexts, they risk constraining growth or misrepresenting risk. Therefore, EU regulation should be calibrated to member state realities. In Hungary, for example, the MNB applies detailed bottom-up methodologies under Pillar 2 to determine capital requirements and address risks not fully captured by Pillar 1.

2.2 United Kingdom: strong alignment and strategic flexibility

The United Kingdom remains strongly committed to Basel III while adapting certain aspects of the framework to domestic circumstances. Its implementation timeline is converging with that of the EU without causing significant distortions. The UK approach aims to preserve resilience and international credibility while introducing proportionality and simplification measures to bolster competition and competitiveness.

2.2.1 Tailored but aligned: seeking consistency on market risk

A Central Bank official underlined that the UK is, in a limited number of circumstances, tailoring Basel III to its legal and regulatory context, notably regarding lending to small and medium-sized enterprises (SMEs), infrastructure projects and exposures to unrated corporates. These adaptations largely mirror those in the EU framework. The UK has postponed implementation of the market risk provisions related to internal models – a complex area closely linked to international activity. Given this, the UK, US and EU should pursue broadly consistent approaches. Many Asian and European jurisdictions have already aligned their regulatory packages with Basel III. Although the US has yet to publish formal proposals, progress appears imminent. Waiting for clarity on the US approach is therefore prudent, as the market risk rules will significantly influence global consistency and market functioning.

2.2.2 Comparing UK and EU implementation: converging capital stacks

This speaker noted that the Bank of England monitors the framework's effects beyond the UK, focusing particularly on capital structure outcomes. Comparisons suggest that the EU and UK capital stacks are converging, implying that neither approach is likely to create competitive distortions or undermine the framework's objectives. There is no material risk of regulatory arbitrage or new barriers to market entry. UK banks will not operate under lighter standards than EU peers. Any significant divergence could, however, threaten financial stability. The overarching purpose of Basel III remains the prevention of crises, which historically have cost on average around 60% of GDP and left long-lasting scars on economies.

2.2.3 Supporting growth while safeguarding resilience

A Central Bank official added that the renewed policy focus on growth has led to intensified lobbying by financial institutions. While advocating for consistent implementation, they also push for exemptions. Growth objectives must not undermine resilience, confidence or alignment with global standards. Stability should not be compromised in pursuit of competitiveness. UK regulators are simplifying reporting requirements, refining capital rules for smaller domestic institutions and accelerating supervisory processes. If these initiatives prove effective, they should not materially impact resilience or alignment with international standards.

2.3 Canada: a principles based regulatory system

An industry representative described Canada's application of Basel III as principles-based, integrating federal and provincial frameworks through guidelines rather than rigid rules. This enables risk-based supervision and ensures coherence between levels of authority. Collaboration among regulators and a shared commitment to values such as fair client treatment underpin the Canadian model. Supervisors communicate expectations through policy documents and apply judgement according to institutional size, complexity and systemic importance.

For instance, the Office of the Superintendent of Financial Institutions (OSFI) addresses AI governance at federal level through model risk management guidance, while Autorité des marchés financiers Québec (AMF Québec) is consulting on provincial rules for AI deployment. This approach accommodates jurisdictional differences while maintaining overall consistency. Provincial regulators are currently streamlining their guidance and deferring measures such as the capital floor due to global uncertainty.

Recent assessments, including that of AMF Québec, recommend removing barriers to confidential information exchange and strengthening federal-provincial cooperation on systemic risk. Institutions operating across multiple jurisdictions are encouraged to maintain open dialogue with all regulators to promote transparent, targeted and effective regulation.

3. Divergent impacts, strategic challenges and future adjustments

The discussion explored the differing effects of CRR3 across institutions, the strategic adjustments banks may need to undertake, and the operational and reporting burdens linked to its implementation. Panellists also discussed potential refinements to the regulatory framework – including simplification measures and a tailored regime for small and non-complex institutions (SNCIs) – aimed at enhancing proportionality and clarity while preserving resilience.

3.1 Economic and strategic implications for banks

3.1.1 The impact of Basel III depends on business model, client base and risk profile

An industry speaker noted that Basel III and CRR3 will have highly differentiated effects on risk-weighted assets (RWAs) and capital ratios, depending on each institution's business model, client structure and product mix. On average, RWAs are expected to rise by around 5%, though the results vary considerably. In the most affected cases, RWAs may increase by 10–12%, while some institutions, particularly retail mortgage lenders, could experience decreases of up to 15%. The largest increases are observed among banks active in commercial real estate, notably income-producing property.

Basel III aims to make the framework more sensitive to risk: higher risks lead to higher RWAs, and lower risks to lower RWAs. These figures are based on transitional arrangements; under the fully phased-in rules, the impact is more pronounced. While one bank reported an RWA increase of 40% under the final rules, others still recorded decreases.

3.1.2 Strategic implications

An industry speaker added that CRR3 will drive strategic repositioning within the sector. Some banks may divest certain assets or withdraw from specific business lines, while others will expand in areas that offer greater regulatory or capital benefits. The Chair confirmed that the European Banking Authority's (EBA) analysis reflects similar trends. While the degree of impact varies, this differentiation is intentional: the framework is designed to be risk-sensitive, and the direction of the effect is broadly appropriate.

3.1.3 Beyond capital: operational and reporting burdens

An industry speaker stressed that Basel III's impact extends beyond capital requirements. Implementation costs, expanded reporting obligations and data-sharing processes add to operational complexity and affect efficiency, cost structures and time-to-market. These elements contribute to the overall regulatory burden. While transparency and supervisory data exchange are essential, reporting mechanisms should be streamlined to strengthen both competitiveness and resilience.

3.2 Future adjustments and simplification

3.2.1 Simplification should strengthen resilience, not lead to deregulation

A Central Bank official remarked that the current debate on simplification indicates that another phase of regulatory adjustment may be warranted. There is broad agreement on the need to simplify the framework, yet the term "simplification" carries different meanings for different stakeholders. The objective is definitively not deregulation, but the development of clearer and more proportionate rules that strengthen the overall system, thus avoided unintended interactions caused by overlaps of microprudential, macroprudential and resolutions requirements.

A diversified banking ecosystem is inherently more resilient, as it serves varied client needs and provides multiple channels for absorbing shocks.

3.2.2 Small and non complex institutions

Th speaker further observed that CRR3 was primarily designed with large institutions in mind, and that reforming the SNCI framework could bring tangible benefits. The Bundesbank has proposed a leverage-based ratio approach for smaller banks with simple business models, while ensuring that risk coverage and liquidity requirements remain adequate. Such measures would support the financing capacity of SMEs and improve proportionality within the prudential regime.

Wrap up

The Chair concluded that closer communication between regulators, supervisors and the industry is essential. The discussion underscored the need for the EU to continue refining its response to the uneven global implementation of Basel III. Striking the right balance between global harmonisation and national specificities remains a central challenge – in Europe as well as globally – and will continue to shape future debates on regulatory simplification.

Major emerging risks in the insurance sector

1. Macro-financial and geopolitical threats call for new supervisory approaches

1.1 Macro-financial shocks and fragmentation are currently the most disruptive risks

A regulator noted that the sector faces a convergence of geopolitical risk, geoeconomic fragmentation and macroeconomic shocks, which currently present the most serious challenges to insurers, particularly in emerging markets.

A regulator stated that the nature of risk is changing, so there is more complexity, more uncertainty and more interconnectedness.

A regulator highlighted that there is currently a combination of fragmentation and geopolitical risk on one hand, and a simplification agenda that is welcomed. However, deregulation and a significant lowering of buffers is a risk for the industry.

An industry representative observed that a critical risk for the insurance industry is mitigating the protection gap, particularly around critically-important areas such as climate risk and cyber risk.

1.2 Geopolitical instability challenges long-term planning and requires diversification

A regulator stated that European insurers are facing growing geopolitical instability and political fragmentation, also due to their engagements in e.g., CESEE. Such uncertainty makes long term business planning difficult. Supervisors are promoting diversification and improving the measurement and risk assessment of geopolitical risks.

1.3 An aging demographic puts pressure on insurance models and customer segmentation

A regulator explained that the aging demographic creates pressure on pension systems, public debt, and insurance business models. Insurance companies must meet divergent expectations from younger, tech-savvy clients and older customers who prefer personalised service, all while controlling costs.

An industry representative added that the younger generation is looking for something simple that they can do digitally. Expectation has maximum protection, never loses any money and is free, but that is not mathematically possible. Some younger people have bought an insurance based investment product (IBIP) on their phone by scrolling through the terms and conditions without reading them.

2. Climate and cyber risks are intensifying, demanding better modelling and public-private cooperation

2.1 Secondary perils dominate losses and widen the protection gap

An industry representative explained that their company models over 400 peril territory combinations around the world in terms of its natural catastrophe modelling, which is split between risks termed as primary and secondary. However secondary risks such as wildfires, floods and hailstorms now account for over 60% of natural catastrophe losses.

Events like the LA and Spanish wildfires, extreme flooding in Valencia and Dubai, and hailstorms in Italy exemplify the increasing frequency and severity of such events. A severe convective storm in the US is now a bigger peril from a loss point of view than hurricanes. The protection gap remains wide, especially in developed economies, where insured losses lag total economic losses.

2.2 Cyber risk is rising sharply but lacks consistent modelling and oversight

An industry representative observed that cyber risk is sharply rising, with an average of over 2,000 daily cyberattacks. Additionally, supply chain disruption and post loss amplification are compounding risks.

Cyber risk has grown to around $17 billion of gross premiums written (GPW). But there is more to do. There is a great deal of nervousness around cyber risk. The industry needs to invest in cyber modelling and in understanding the risk, as well as investing in better telemetry and better education.

2.3 Bridging the protection gap requires pan-European PPPs and innovative instruments

An industry representative stated that addressing the protection gap requires more public-private cooperation. Expanding the catastrophe bond market and using parametric solutions can attract more capital market participation. Governments can support functioning markets through backstops, building code enforcement, and mandatory insurance schemes. National initiatives should evolve toward pan-European approaches, given the cross-border nature of many climate risks.

A regulator commented that public-private partnerships (PPPs) are appropriate when the market reaches its limits in covering systemic tail risks. Governments must help ensure risk awareness and promote insurance uptake to expand the risk pool and improve resilience. Differentiation is needed between markets needing development and those requiring backstops.

3. Investment shifts towards alternatives require solvency frameworks to adapt without deregulating

3.1 Alternative assets are growing but raise governance and risk oversight challenges

A regulator commented that investment strategies are evolving as insurers increasingly turn to alternative assets, including private equity, hedge funds, and real estate. Alternatives are growing, bringing added complexity. This requires regulators to update solvency models to better capture the risk profile and ensure asset preservation for policyholders. Regulatory frameworks must evolve carefully, balancing innovation with consumer protection.

Insurers are going to need ways to be more aggressive on the investment side, but at the same time protective of those assets in a way that a free market without regulation in the industry can take those risks. However, that level of risk cannot be allowed in a regulated industry, because of the payout at the other end and what it means for society. There will be changes around what insurers invest in. Investment outside the US in foreign investments is sharply decreasing, which could affect emerging markets. The cycle of interconnectedness cannot be ignored.

A regulator stated that the EU has a very robust framework in Solvency II, the Insurance Distribution Directive (IDD), and the guidance that has been given to supervisors. There is no need to have additional requirements on sustainable risk plans and transition plans, as the EU has the own risk and solvency assessment (ORSA) in place. 13% of insurers did not take climate risk into their ORSAs, compared to two years ago when only 13% included it.

3.2 Insurers must balance public policy expectations with fiduciary and solvency duties

An industry representative stated that insurers face conflicting expectations from policymakers and supervisors, as they manage policyholder funds and must balance public policy objectives with their solvency and investment mandates. Insurers cannot act as free-market investors; investment strategies must align with long-term liabilities and consumer protections. Policy discussions on capital allocation need to be grounded in the reality of insurers' fiduciary duties and regulatory constraints. Zero risk is not realistic.

3.3. Proposed Solvency II changes risk deregulation without improving resilience

A regulator highlighted that Solvency II changes risk veering into deregulation, especially around lower capital buffers. Proportionality and more technically grounded industry supervisor dialogue are needed. Supervisors can have a dialogue on whether they are capturing the risks. There is a three-year review of the natural catastrophe (natcat) risk model. There is active participation of both the supervisors in the member states as well as the industry on identifying what risks need to be added. Risk needs to be added to the natcat model, because more is happening.

€10 trillion in assets in the EU are invested in alternative assets, which equates to 16%, but the majority of that is real estate mortgages, which the EU is used to. 2.3% is private equity and 2.1% is private credit.

A regulator stated that she would advocate for reducing bureaucracy. Simplification is less bureaucracy at significant points, and less bureaucracy means that a possible reporting reduction should be examined. Examination is needed of the data that is submitted to supervisors regarding its actual usage. In addition, the further use of European data sources should be considered.

A regulator concluded that a clear and meaningful dialogue between industry, politics and supervisors is needed. Supervisors need to be informed about what data is less burdensome, but with the same content. Everyone can then work together to safeguard financial stability and ensure functioning financial market.

4. Climate risk integration and supervisory tools must evolve with emerging threats

4.1 Climate risk integration into underwriting and investments requires a common language

An industry representative noted that insurers have relied on catastrophe models for a long time, which now incorporate climate risk. Their company has developed climate-conditioned models along multiple future pathways and high-resolution risk maps to enable insurers, banks, and asset managers to use a common language of risk. These tools allow integration of climate risk into both the underwriting and investment sides of insurers' balance sheets. There is an importance of understanding how interconnected risks interact across portfolios and regulatory frameworks.

A second aspect of government is looking at building codes and where properties can be built. Hurricane Ian went through Florida in 2022, and many construction properties were rebuilt to building code. When Hurricane Milton went through Florida in 2024, the properties that were built to code performed well, but ones that were not built to code performed much worse. The third aspect of government is in encouraging insurance purchase. Some mandates on purchase that are being put in place will create a better functioning market.

4.2. Backward-looking models and third-party AI tools pose new supervisory challenges

A regulator observed that there are concerns around the use of third-party AI models, the relevance of backward-looking models in rapidly changing risk environments, and the treatment of alternative investments.

A functioning single market is highly necessary for the EU to thrive. The first concern is the uptake of insurance, particularly on the life side. Distribution channels are going to be essential to reach people, as well as the sale of products through those channels that offer value for money. For the intermediaries, the distribution is going to be a big part of how to build the future of citizens when it comes to pensions, and when it comes to protecting themselves from natcat.

4.3 Proportional and harmonised supervision is essential to prevent fragmentation and loopholes

A regulator highlighted that supervisors support proportional, harmonised regulation that balances simplification and risk coverage. Poorly coordinated simplification could open risk loopholes. A constructive dialogue between industry, policymakers, and supervisors is essential to determine which requirements are necessary.

5. Reconnecting with the insurance core purpose in a changing customer and distribution landscape

5.1 Customer expectations for digital and personalised products challenge the risk pooling model

An industry representative noted that consumers demand simple, digital, personalised products, which is an ideal often at odds with the principles of risk pooling and probability-based insurance. More needs to be done to convince insurers that projects are going to match the obligations that companies have. The public policy side needs to be more structured.

5.2 New distribution platforms must be aligned with insurers' core risk functions

An industry representative questioned whether new distribution structures such as bank assurance or tech platforms align with insurers' core functions. The main political risk in Europe for most insurance companies is the maintenance and further integration of the single market. Companies are now thinking about whether there will be a true single market for insurance. Simplification cannot mean minimum harmonisation, because that exacerbates the risk. The aim is to pool similar risks in one place, but questions remain about where those risks are re-insured, how and where they get pooled, and where they are most efficiently pooled.

A regulator highlighted that differentiation is needed between a market that is still immature and that needs to develop further, and where the market is dealing with a systemic risk and has reached the end of that tail, where it will need support. This is where care is needed, because private markets should deal with the risks where they can, but it is impossible to do that without governments also being part of the dialogue with insurers and society

5.3 Resilience through education and mitigation is the most effective form of risk management

A regulator stated that resilience must be a shared priority. In the US, states serve as innovation hubs for joint mitigation efforts. Programmes like Strengthen Alabama Homes are promoting resilient construction, reducing claims and improving outcomes. Public education through multiple channels is vital to ensure consumers value and pursue resilient solutions. Preventing losses through resilience is the most effective form of risk management.

Sessions

III

DIGITALISATION AND TECHNOLOGY

Accelerating digital transformation in EU financial services

1. Digitalisation of the European financial sector: current state, opportunities and future trends

1.1 Current level of digitalisation

An official observed that digitalisation in the financial sector is advancing at an exponential pace worldwide. What today feels fast will soon appear slow by comparison. Three successive waves of change can be identified. The first, around three decades ago, was the rise of fintechs, which addressed specific consumer needs for greater accessibility and speed that traditional incumbents were not adequately providing. The second wave was the entry of big tech firms into financial services. More recently, the third and potentially most disruptive wave has been the emergence of decentralised solutions, followed by "pseudo-decentralised" ones such as stablecoins, which resemble traditional deposit-taking institutions but are built on new types of databases and under different rules. Each of these waves has been driven by unmet customer demand, creating strong economic incentives for new players to offer innovative services.

A second official noted that levels of digitalisation currently vary widely across Europe, even though there has been clear progress throughout the Union. In Lithuania, for example, where society is highly digitalised, almost all financial services are available online, with the exception of mortgages due to local notary requirements. By contrast, in some other European countries the degree of digitalisation remains significantly lower.

An industry representative argued that Europe is better positioned than often perceived with regard to the digitalisation of its financial sector. In the capital markets, for instance, Europe is preparing for T+1 settlement, which requires a high level of automation, and there are also ongoing discussions about instant or atomic settlement using distributed ledger technology (DLT). Europe already has a scalable and reliable post-trade infrastructure to build on, yet TARGET2-Securities (T2S), the pan-European settlement platform, remains underutilised. A first step would be to ensure that all European CSDs are connected to T2S, which would deepen liquidity pools and enhance overall efficiency.

A second industry representative observed that digitalisation has already significantly transformed the payments value chain, which links consumers and merchants through financial institutions. Technology has brought new players into the market and has reshaped both the front end (customer and merchant interaction) and the back end (transaction processing and reporting) of the value chain.

A third industry representative agreed that Europe is accelerating its pace of technology adoption, supported by a more uniform regulatory framework, starting with the Digital Operational Resilience Act (DORA). However, challenges remain. Uncertainty persists regarding how digital regulation on cyber resilience and AI will be implemented, how supervision will evolve, and whether additional rules will be introduced, complicating long-term technology investment decisions.

1.2 Opportunities and challenges from digitalisation

An official stated that digitalisation presents both opportunities and challenges. On the one hand, it enhances access and resilience; on the other, bank branches are closing in rural areas due to profitability concerns, financial fraud is on the rise, and blackout risks are increasing.

An industry speaker highlighted two main drivers of technology adoption in financial services. The first is competitiveness: digitalisation enables institutions to remain competitive and to meet evolving customer expectations, such as the demand for seamless and convenient payment solutions, illustrated by the growing use of mobile phones instead of cards. The second is resilience, in particular cyber resilience, as legacy systems are increasingly vulnerable to sophisticated attacks that have recently affected the sector.

A second industry speaker stressed that the digitalisation of capital markets is essential to the success of the Savings and Investments Union (SIU). The objective is not to use technology for its own sake, but to achieve three outcomes: greater market efficiency, stronger resilience, and, as a result, market growth. Past experience shows that successive waves of technology have consistently driven both efficiency and growth, largely through enhanced market demand. A challenge, however, is that Europe is lagging behind some other jurisdictions in adopting certain technologies. For example, leading US stablecoins such as USDC and Tether have capitalisations of $140 billion and $60 billion respectively, while their European equivalents remain marginal.

A third industry speaker explained that, on the front end of payment services, digitalisation is enabling a wider and more diverse range of solutions. For example, car manufacturers can integrate in-car payments for fuel and other services directly into vehicle interfaces. Another trend is the gradual replacement of traditional point-of-sale terminals with mobile phones, allowing small merchants to accept card payments at lower cost. Significant progress has also been made in authentication. In the past, there was a trade-off between security and convenience, with cumbersome processes such as the use of card readers. Thanks to

PSD2 and improved customer authentication procedures, transactions are now easier, faster and more secure, typically completed in a single step on a mobile device. While this has reduced fraud within the payment system itself, fraud has shifted to other areas.

Digitalisation is also generating back-end efficiencies and reducing infrastructure costs. Beyond this, technology can also strengthen fraud prevention and improve communication with cardholders. For instance, payment statements can now display merchants' logos, making it easier for customers to recognise and check their transactions.

1.3 Future market trends and prospects

An industry representative highlighted several emerging trends in capital markets driven by technology. Crypto markets have triggered calls for 24/7 trading, the development of new asset classes such as crypto listings and tokenised securities, instant issuance, and direct access to liquidity. These developments point to a potential shift towards "instant capital markets," which would require both infrastructure and regulation to adapt.

A second industry representative emphasised that the use of agentic AI is another emerging trend in the financial sector. Concepts of "agentic commerce" are taking shape, where AI agents could evolve from merely suggesting products and services to executing purchases on behalf of users. This, however, may raise questions of liability.

An official argued that traditional financial systems are not evolving quickly enough to capture the full benefits of digitalisation. They remain constrained by regulation, legacy systems, and the complexity of building the new infrastructures required to exploit digital solutions. Unless traditional institutions accelerate, alternative solutions will continue to emerge. To respond effectively, the financial sector must "shift gear." For instance, AI agents could provide services comparable to open finance without requiring data sharing, thereby bypassing many of the challenges that have slowed open finance implementation so far.

Looking ahead, several scenarios are possible. One is a continuation of the current fragmented and inefficient systems, bogged down in interoperability issues. Another is dominance by big tech firms, where network effects and interoperability could develop within each ecosystem, but fragmentation would persist across different big techs. A third scenario is regulatory arbitrage, with global solutions such as stablecoins crossing borders without national control, making it difficult for domestic solutions to remain effective. A fourth, more constructive path is the development of digital public infrastructures, as seen in India and Brazil, which provide neutral platforms enabling private actors to connect, generate interoperability and create network effects for the wider benefit of society. In practice, a mix of these paths is likely to emerge. Policymakers and industry have a responsibility to act decisively to avoid falling behind the pace of technological change.

2. Adequacy of the existing regulatory and supervisory frameworks

The chair noted that the current EU framework already includes several digital legislations - the DLT Pilot Regime, the AI Act, DORA, MiCA, the Digital Services Act (DSA) and the Digital Markets Act (DMA) - and asked whether this framework is adequate and sufficient. The panellists generally considered that the existing European legislative framework provides a strong basis for the digitalisation of financial services.

An industry representative confirmed that these European digital frameworks, together with existing capital market regulation (MiFID, EMIR, and CSDR), are fit for purpose and provide a solid foundation for the digitalisation of capital markets and the strengthening of existing infrastructures. The real challenge lies not in regulation but in the adoption of technology by the market. Some initiatives are encouraging, such as the ECB's digital euro trials in 2024, which can be considered among the most successful global sandboxes. Private sector projects are also contributing: Deutsche Börse's D7 digital platform, a hybrid system supporting both the digitalisation of securities and tokenisation, now processes 50 to 60,000 securities per week. Cooperation between infrastructures and fintechs can also drive progress, for example in the areas of collateral mobilisation and fund tokenisation.

A second industry representative concurred that Europe is often seen as being at the forefront of regulation, with policy models frequently copied elsewhere. Strong authentication, for example, has been widely adopted internationally. An official added that European digital and financial regulation is widely regarded as a global reference point in terms of design and approach. PSD2 has had a major influence on payments regulation in other jurisdictions, and MiCA is already shaping regulatory approaches internationally.

Another official agreed with the previous speakers that the existing legislative framework provides a strong basis for digitalisation but emphasised that implementation remains challenging, with uncertainty around level 2 regulations. The implementation of adopted rules must accelerate. Regarding stablecoins, while MiCA provides a strong level 1 framework, market participants report that level 2 requirements impose such high compliance costs that operating in the US often appears more attractive. Addressing these shortcomings will be key to accelerating Europe's digital transformation.

3. Further evolutions needed to support digitalisation

3.1 Improving the regulatory and supervisory approach

The panellists suggested improvements to the current regulatory and supervisory approach to digital finance likely to support the uptake of new technologies in the sector.

An official stressed that European legislation must move faster to keep pace with digitalisation, which is advancing at exponential speed. Accelerating rule-making would benefit the entire financial ecosystem. The new payment services package, PSD3, for instance, contains many positive elements for tackling financial fraud, and some supervisors would be favourable to introducing certain provisions into national law without waiting for full EU adoption. Fragmentation also persists: some national IBANs are still not accepted in other member states despite the single market. The European Commission and the ECB are working on this, but inconsistencies remain.

With new business models and products constantly emerging, regulators often lag behind innovation, making continuous joint learning with the private sector crucial. In Lithuania, supervisors hold regular meetings with firms presenting new business models and ideas, not for prior approval, but to better understand trends and anticipate responses. With supervisory practices differing across member states and multiple regimes in place, the more stakeholders learn together, the better Europe can advance its competitiveness.

An industry speaker agreed that accelerating the implementation of new digital policies is essential. Under the EU's current sequential approach, adopting and revising frameworks such as PSD2 can take years. A more pragmatic, parallel process is needed, allowing agreed elements to be introduced earlier instead of waiting for full packages that take five or six years to complete.

A second industry speaker suggested that the current regulatory framework needs updating in several areas to better support digitalisation. First, existing capital market rules, including EMIR and CSDR, should be modernised to accommodate new digital asset classes, in line with more recent legislation such as MiCA and the DLT Pilot Regime. Second, regulation should allow for the coexistence of centralised market infrastructures and decentralised developments, enabling both to be managed in a regulated and integrated way. Third, EMIR and CSDR should be broadened beyond CCPs and CSDs to encompass multi-value chain solutions and operating models, as the DLT Pilot Regime already does.

The continuing problem of fragmentation must also be addressed. Across Europe, tokenised and dematerialised securities are governed by national frameworks that are not interoperable. As a result, firms must operate 27 separate digital platforms, each with their own registers and tokenisation processes, which is neither efficient nor scalable. A focused "28th regime" at EU level could help resolve this issue. While a fully-fledged framework would take years to establish, an initial step could be to apply it to specific European products, such as Eurobonds.

An official suggested that for regulation to be effective and adapt to fast-evolving innovations, it must focus on functions, rather than how they are provided and the specific technologies that deliver them. If liability rules in traditional payment systems are clear, for instance, there is no need for new legislation if AI agents initiate transactions on behalf of users. Similarly, regulating DLT differently misses the point. What matters is regulating the core financial functions DLT enables, such as settlement finality or deposit-taking.

An industry speaker argued that the regulatory framework is not the main issue; the real challenge lies in supervision. All stakeholders (market participants, consumers and regulators) share the goal of a resilient financial system, and in the EU, efforts to simplify rules and boost competitiveness should not be seen as conflicting with resilience and stability. Both can be achieved with effective supervision without lowering standards.

Three priorities stand out for strengthening supervision. First, greater supervisory convergence is essential. Divergent guidelines across member states create fragmentation and excessive supervisory discretion adds to this by generating de facto requirements that go beyond legislation. The EU already has a solid regulatory framework, and supervisors should adhere to it. Second, supervision must adopt a risk-based approach suited to the digital environment. Outdated tools are still widely used and cannot deliver effective results; for example, operational resilience cannot be enhanced simply through capital add-ons. Third, supervisors should make better use of technology. While projects are underway, including at the ECB, it remains unclear how much such tools are applied in practice, for instance, whether AI is being used to detect emerging risks or support onsite inspections.

3.2 Conditions for effective digitalisation beyond the regulatory framework

An official observed that, beyond regulation and supervision, progress is needed in other areas that hold back the digitalisation of finance, requiring a more holistic approach. Faster progress on digital identity is particularly important. Despite years of discussion, a European digital identity has not yet been realised and requirements for proving identity still vary across the EU. Its introduction could transform access to financial services. Other frameworks with a decisive impact on digitalisation, such as the General Data Protection Regulation (GDPR), also need to evolve.

A second official added that even with perfectly harmonised regulation, the industry still needs focal points around which to converge, to overcome the current fragmentation of digital platforms, which is neither efficient nor scalable. A hub-and-spoke model supported by public digital platforms could provide such focal points. These central platforms would not need to be controlled by the public sector but should remain open infrastructures, enabling all market participants across Europe's 27 jurisdictions to connect and benefit from network effects.

An industry speaker argued that global technology players driving digitalisation, such as major social media, e-commerce and entertainment platforms, should be more closely integrated into European initiatives from the outset to accelerate digital transformation. Testing use cases with a wide range of participants helps reveal issues no single institution could anticipate. During the PSD2 implementation, for example, the expertise of these players in customer behaviour informed new use cases and improved the design of digital solutions. Such collective efforts are essential to achieving real progress in Europe's digital transformation.

3.3 Promoting solutions that meet customer needs

An industry speaker underlined that what matters, beyond promoting the use of new technologies, is delivering solutions that meet market needs, address concrete problems and create tangible value. Market participants will only adopt digital options if they provide clear advantages over existing systems, and this is the key to accelerating uptake and improving market efficiency.

A second industry speaker agreed that the adoption of digital solutions depends on whether they deliver real added value to customers and users beyond what already exists. Fostering the emergence of such solutions and ensuring their timely delivery should be a central objective of the European policy agenda. This requires collaborative agreement upfront on common rules and technical standards. Once these are in place, market players should compete freely. Such a sequence would make the roll-out of new solutions far more efficient.

Wrap up

The chair concluded that while the EU has a solid regulatory framework, several key messages emerged from the discussion. Effective implementation of new digital policies is critical, and supervisory convergence is essential to avoid fragmentation. Policymakers must also move faster, even if democratic processes inevitably take time. On payments legislation, there is hope that agreement on the Payment Services Regulation, particularly its fraud provisions, can be reached swiftly, ideally by the end of the year.

How will AI transform financial services?

The chair opened the panel on the transformation of the financial sector through artificial intelligence (AI), explaining that the discussion would examine how AI is currently being applied across different segments of financial services, the value it generates for institutions and clients, and the practical opportunities and challenges arising from its adoption.

1. AI adoption in the financial sector: current state and opportunities

1.1 AI uptake and impact

An industry speaker noted that a recent survey of 165 CEOs shows that 17 % of NYSE-listed companies and 16% of European respondents have achieved revenue or cost improvements of more than 10 % from AI initiatives and these leaders are five times likelier than peers to say projects exceeded return on investment expectations (25% versus 5%)[1]. Many other firms, however, still struggle to measure the financial impact of AI. The gap between leaders and laggards is widening, reflecting the increasingly uneven pace of AI implementation across the sector. Compared with other regions, European financial institutions remain more compliance-driven, partly due to stricter regulation, whereas US firms generally benefit from larger technology budgets.

An official underlined the transformative economic potential of AI, which could increase productivity in advanced economies by up to 30 %, with major implications for growth and resilience. Given that the financial sector is inherently data-driven, it is particularly well suited to the deployment of AI technologies. In the UK, data collected by the Bank of England and the FCA shows that AI adoption is accelerating rapidly: over 75 % of UK financial firms now use AI at scale, up from 58 % just two years ago. Within the financial sector, insurers and international banks currently lead in AI deployment, while adoption in other market segments remains at an earlier stage but is gradually catching up.

1.2 Main use cases and benefits

An industry representative underlined that AI is a key driver of innovation and performance in their firm. The company was among the first in the financial industry to deploy machine-learning models for fraud detection in 2010, and their use was scaled by 2014 after early results demonstrated exceptional accuracy in identifying fraudulent activity. While fraud prevention remains a strong use case, the firm is now broadening its deployment of AI through large-language and generative models, building on the safety and trust guardrails established for earlier systems.

An official highlighted that AI is becoming indispensable for securing instant payments and for strengthening cybersecurity and compliance across the financial sector. Fintechs are also playing a central role in this transformation, using AI to enhance efficiency and develop new financial services. In financial crime prevention, AI models are used to detect suspicious patterns and reinforce anti-money-laundering (AML) controls by analysing vast datasets in real time. In fraud detection, behavioural-analysis tools identify and predict irregular transaction patterns before they cause financial losses. AI is also reshaping SME financing, as credit-assessment systems now leverage e-commerce and transaction data to evaluate creditworthiness and deliver rapid, data-driven lending decisions for businesses with sufficient data histories. On the consumer side, new applications are helping individuals manage their finances more effectively, from automated budgeting tools that track spending behaviour to digital assistants that monitor investments and send reminders for key financial actions.

A second official explained that in the UK financial sector, AI adoption is growing fastest in use cases focused on efficiency improvements, including process optimisation, cybersecurity, and fraud detection. The next wave of expansion is expected in customer support, AML controls, transaction monitoring, and product marketing. More than half of UK use cases already involve some level of automated decision-making, and around one-third rely on third-party providers. For now, most initiatives concentrate on enhancing efficiency in existing processes rather than introducing new business models or new decision paradigms in areas such as algorithmic trading, credit pricing, or hedging. Nonetheless, experimentation is expanding rapidly, signalling the next stage of transformation.

A third official noted that central banks are also experimenting with multiple AI applications aimed primarily at improving efficiency, many of which are expected to evolve into routine operational tools in the near future. One important application relates to monetary policy analysis and the understanding of transmission channels, which depend on processing large volumes of granular, real-time data. Unlike traditional econometric models that often struggle to capture the non-linear nature of economic relationships, AI can handle this complexity and enhance the interpretation of key variables such as inflation, employment, and potential growth, thereby strengthening the analytical foundations of monetary policy. Another

1. Source Oliver Wyman Forum survey

important application relates to financial stability, where AI helps map the intricate interactions between banks and non-banks, providing a more comprehensive view of market dynamics and interconnections.

2. Challenges, risks and supervisory responses

2.1 Operational challenges

An official noted that while the potential benefits of AI are immense, they are accompanied by significant challenges and risks. In assessing these risks, the guiding principle should be the sector's continued ability to provide financing to the real economy.

At the level of individual firms, three areas require particular attention. First, data quality is fundamental, since poor data will inevitably undermine the effectiveness of AI models. Second, as AI models become more sophisticated, concerns increase over their explainability, predictability, and accountability. When models are too opaque for users to understand how outputs are generated, it also becomes difficult for senior executives to assume responsibility for risk decisions. Third, the management of third-party relationships with e.g. cloud and data service providers is becoming increasingly critical, as greater reliance on external providers heightens operational and vendor-risk exposure.

Another official explained that applying AI to banking supervision also presents several issues. As models become more sophisticated, their explainability and transparency tend to decrease, making it more difficult to justify supervisory decisions. Authorities must therefore ensure that human oversight is maintained, data quality continuously improved, and model performance rigorously monitored to preserve accountability and trust.

A further challenge arises in conduct supervision. Under the EU AI Act, credit-scoring models for individuals are classified as high-risk and will fall under the oversight of financial supervisors. This task is particularly demanding, as supervisors will need both to develop their own AI models for supervisory purposes and to understand and assess those used by financial institutions, in order to detect and prevent bias or discrimination in credit allocation.

2.2 Financial stability and systemic risks

An official observed that beyond micro-prudential risks relating to individual institutions, AI also introduces systemic risks that may threaten the stability of the financial system. Even a safe adoption of AI at firm level does not guarantee system-wide resilience, as certain vulnerabilities may remain unaddressed, such as concentrations of exposure or common weaknesses in models and data that can create bias, inefficiencies, mispricing of risk, or misallocation of credit to the real economy. These issues could be further amplified during periods of market stress.

Three systemic risk channels require close monitoring: market-wide dynamics, cyber risk, and supplier concentration. Market-related risks include AI-driven herding, correlated positions, unforeseen interactions between autonomous AI agents, and heightened volatility resulting from the large-scale exploitation of arbitrage opportunities. Cyber risk represents a second channel, which AI can both mitigate and exacerbate. While AI enhances defensive capabilities, it can also enable more sophisticated cyberattacks, particularly when combined with advances in quantum computing that could compromise encryption and data security. The concentration of activity among a few major AI, data and cloud third-party service providers constitutes a third systemic risk, as disruptions at one major provider could have far-reaching consequences across the financial ecosystem.

The official noted that the UK authorities are intensifying their monitoring of AI-related risks and strengthening international cooperation, including through the FSB, to ensure that adoption proceeds safely and that any need for additional regulation is carefully assessed. The broader societal implications of AI, particularly its potential impact on employment and workforce skills, also need to be clarified, calling for a balanced and analytical approach from public authorities as they oversee this transition.

3. Future evolutions of AI

3.1 Scaling up of AI

An industry speaker highlighted that the financial sector is moving from a pilot-heavy phase, where institutions focused on numerous small, often low-impact initiatives, towards large-scale, ROI-driven cross-functional AI transformations that cut across the front office, risk management, and operations. Over the next 12 to 24 months, this shift is expected to accelerate, with AI increasingly embedded at the core of financial processes, while humans remain in the loop to define objectives and operational guidelines and to handle exceptions. The speaker also cautioned against developing AI systems in silos, stressing that firms need a holistic approach that considers both internal and client-facing uses of AI.

Lending illustrates this trajectory. Marginal lending costs are expected to fall sharply with the growing use of AI. In the SME segment, lending process costs have already declined by about 70 % through the use of transactional and point-of-sale data. This not only reduces the cost of serving SME clients but also expands the addressable client base. Allowing banks to reach customer segments that currently lack access to financing is particularly valuable in Europe's financing-constrained environment and could have a significant impact on the economy. Concepts of fully AI-run banks are even starting to emerge. While regulatory limits will inevitably restrict what such platforms can achieve, they illustrate the new types of projects and operating models that AI could make possible.

An official noted that a key remaining challenge to drive AI adoption is to ensure that traditional financial institutions fully integrate AI tools, whether by developing capabilities in-house or by partnering with agile fintechs. Collaboration between both sides will be essential to accelerate innovation, improve efficiency, and strengthen resilience across the financial ecosystem.

3.2 Changing customer relationships and competitive dynamics

An industry representative suggested that in the future, both wholesale and retail clients will be AI-augmented, supported by intelligent agents capable of benchmarking offers and providing real-time advice. Financial institutions will therefore need to rethink how client interaction and loyalty evolve in an environment where financial services are increasingly mediated by two agents, the firm's and the customers'.

Another industry representative agreed that AI will profoundly reshape client relationships, although the direction of this evolution remains uncertain. Systems capable of delivering highly accurate and personalised recommendations could enhance customer loyalty, yet they will also intensify competition by enabling rivals to make more relevant and effective offers. In this new environment, customer trust will become an essential differentiator, requiring firms to use AI in a secure, transparent, and responsible manner. Success will ultimately depend on the ability to combine technological excellence with human capability, managing both AI agents and their users effectively, supported by cultural and organisational adaptation.

3.3 The rise of generative and agentic AI

An industry speaker explained that their firm currently has more than 100 active generative-AI use cases, particularly in customer servicing. Although clients may not see these applications directly, they enable customer service agents to resolve queries more efficiently and accurately. AI is also being applied in the travel segment, where it helps agents tailor and personalise travel experiences for clients around the world.

Responding to a question from the chair about the opportunities offered by agentic AI, the speaker described this technology as one of the most promising developments in the field. To illustrate its potential, a near future can be imagined in which customers rely on personal AI agents capable of autonomously arranging complex transactions, for example, finding the most affordable city for a concert and seamlessly booking the associated flights and hotel.

Agentic AI offers immense promise, and its momentum is strong, the speaker noted, but it also raises significant challenges that must be carefully managed to ensure responsible deployment grounded in trust and safety, notably in defining how far autonomy should extend and where human oversight remains essential. Meeting these challenges will require both clear rules on how such systems operate and an adequate infrastructure and governance to support their responsible use. Because no single actor can achieve this alone, broad and sustained collaboration across the financial ecosystem, involving banks, fintechs, payment providers, technology firms, and regulators, will be essential to establish common standards, develop the necessary safeguards and governance frameworks, and ensure that the technology reaches its full potential while maintaining confidence and security across the ecosystem. A recent example of this collaborative approach is the launch of Google's agent payment protocol, an open protocol designed to securely initiate and transact agent-led payments, developed jointly by major payments and technology firms.

4. Conditions for an effective and responsible implementation of AI

4.1 Embedding AI in organizational culture and processes

An industry representative noted that while an MIT study found 95% of firms have yet to see a meaningful impact from AI, their bank is among the 5% that have achieved tangible results. This success stems from making AI both an operational and cultural reality, generating significant capacity gains across the organisation. Their bank has undergone a deep transformation to become "AI-native", embedding AI into its culture and processes so that almost all of its employees have access to an internal enterprise platform. Employees receive regular prompts encouraging practical adoption, with the goal of integrating AI into all aspects of work and making it accessible to everyone, everywhere, and in everything they do. Every employee is also required to complete AI training, reflecting the firm's conviction that cultural integration and upskilling are essential prerequisites for effective innovation.

A second pillar of this transformation is the creation of an AI Hub, which centralises AI capabilities and focuses on agentic AI. One in three employees, including non-technical staff, have developed their own AI agents. In addition, the bank is in the early stages of deploying "digital employees" that perform concrete tasks such as repairing code vulnerabilities or creating and correcting payment instructions. Some of these "digital employees" already have logins and will soon function as integral members of staff, with their own email and Teams accounts.

Another industry representative stressed that workforce readiness is a critical success factor for AI adoption. Simply deploying AI tools on employees' laptops is not enough; firms must invest heavily in training and cultural adaptation to empower their workforce and ensure that AI adoption is effective.

Addressing lessons learned from public authorities in adopting AI, an official explained that human capital is a key factor in scaling its use. Challenges in this area can be addressed by centralising expertise to build a critical mass of people working on AI projects, while maintaining strong links with other departments to prevent isolation. It is also important to offer an attractive value proposition, for example by enabling staff to contribute to long-term AI projects with significant economic and social impact. Communication and training also play a vital role in familiarising employees with AI tools and involving them in the development and implementation of use cases.

Employees must be supported throughout this process. At their institution, a Eurozone central bank, about one-third of the workforce already uses agentic AI through pre-programmed agents, with their progress closely monitored to assess their usefulness for different tasks.

4.2 Leadership, communication and governance

An industry representative emphasised that effective leadership and governance are decisive for the success of AI projects. Initiatives confined to IT departments rarely deliver lasting impact. Meaningful results occur when ambitions are set from the top and when the financial impact of AI projects is clearly monitored and managed.

Another industry representative added that progress in both data and AI must be driven from the top. Sustaining momentum requires strong commitment from management, continuous communication about the strategic importance of data, and clear lines of accountability.

4.3 Data and computational capacity

An industry speaker highlighted that a key driver of their bank's AI transformation has been the enhancement of its data and analytics platform, as high data quality and effective data management are essential to achieving meaningful results in AI deployment. This effort includes the use of intelligent document processing to convert unstructured data into structured formats and metadata classification to accelerate access and improve usability.

An official explained that many central banks need to expand their computational capacity to support more advanced AI applications. This can be achieved through partnerships that provide access to high-performance computing resources. A notable example, potentially replicable in other Member States, is the memorandum of understanding signed by the Spanish central bank with an AI gigafactory in Barcelona, which offers advanced computing capabilities beyond what legacy systems can deliver. Data sharing also remains a major obstacle. Although technological solutions now make it possible to use data with sufficient anonymity and confidentiality, cultural resistance among institutions continues to hinder progress. Overcoming this barrier will require greater trust and a more collaborative approach to data sharing, enabling broader adoption of AI.

4.4 Delivering tangible customer and societal benefits

An official closed the session by emphasising the need to refocus technological innovation on tangible consumer benefits, ensuring that new technologies, such as AI, deliver visible value to those who actually use them.

The official also underlined that financial innovation is essential to Europe's long-term competitiveness, which should be pursued in a way that reflects and protects core European values such as trust, security, fairness, and consumer protection. Regulation should not be the sole driver of progress but should act as an enabler, ensuring that innovation develops within the framework of these shared values. Examples such as quantum-proof authentication technologies (security systems designed to withstand cyberattacks from quantum computers) illustrate how European firms can develop innovations that combine technological advancement with the preservation of trust and security.

Scaling AI in finance: key drivers and challenges

The chair outlined that the panel discussion would address the drivers of AI adoption, the operational and regulatory challenges hindering its wider uptake, and the adjustments needed in regulatory and supervisory approaches to support deployment.

1. AI uptake and key drivers in the financial sector

1.1 Current uptake and emerging trends

An official explained that the UK authorities are jointly conducting regular surveys to assess AI adoption and use cases in order to understand how the financial industry is experimenting with and deploying the technology. The latest results show that 75% of firms already use AI, with a further 10% actively planning to do so, indicating that most financial institutions are now implementing AI in some form.

Current applications are concentrated in the optimisation of internal processes, particularly cybersecurity, fraud detection, process automation, and operational efficiency, areas where firms expect the fastest returns. Over time, adoption is expected to expand into more customer- and market-facing activities, building on progress already achieved in analytical insight and pattern detection to fight fraud and money-laundering.

Another official noted that an extensive industry consultation conducted by the Japanese FSA also indicated that Japanese financial institutions are using AI mainly to reduce internal operational burdens. They remain conservative in customer-facing applications, consistent with broader consumer attitudes in Japan.

An industry speaker expressed the hope that within one to two years, AI will be more integrated into core financial processes such as credit decisions and investment advice, rather than being limited to back-office functions. A key priority going forward will be to measure the return on investment of AI projects more precisely. While many projects are currently funded on expectations of future benefits, firms will need to become more disciplined in applying AI across their organisations and in tracking tangible outcomes, since adoption must ultimately deliver clear business value to justify continued investment.

A public representative anticipated that future discussions will increasingly focus on agentic AI, its use cases and deployment, and how its implementation will require greater coordination across different parts of the financial ecosystem, from payments and banking to digital and data services, as AI models begin to integrate and automate a broader range of activities.

1.2 Drivers of adoption

An industry speaker observed that operational efficiency and cost reduction have so far been the primary driver of AI implementation in the financial sector. Looking ahead, two additional factors are expected to gain importance: enhancing products and deepening client personalisation. Asset managers are already using AI to process large volumes of market data, for example to assess the sentiment expressed in companies' financial reports, and to personalise investment solutions that give clients the sense of tailored products while maintaining operational standardisation.

The industry speaker added that successful scaling of AI also depends on user adoption. AI differs from most technologies: it is not an application deployed by a central IT department but a tool that every employee must learn and choose to use. Openness to AI is essential, requiring staff first to understand how AI affects their roles and then to develop the capabilities to use it responsibly.

Another industry speaker agreed that training staff to manage AI-related risks is essential, ensuring that employees understand how to use these tools responsibly and are able to challenge their outputs when needed.

An official added that geopolitical competition is also a significant factor: as with other emerging technologies, countries are racing to establish AI hubs and achieve scale, creating a further incentive for rapid deployment.

2. Operational challenges and risks from AI

2.1 Data quality and accessibility

An industry speaker considered that the main challenges to AI adoption today relate to data i.e. data integrity and quality, and determining what data is reliable and usable for AI systems. The availability of adequate, high-quality data should be a core objective of any AI framework, rather than codifying prescriptive rules on how to develop and use AI, which risk turning compliance into a box-ticking exercise that overlooks the essence of responsible use.

Another industry speaker agreed that data quality remains the decisive factor for leveraging AI effectively, since AI only creates value when grounded in reliable, high-quality inputs. Large general-purpose models can perform broad searches but not specialised tasks. Therefore, firms that lack the scale to train new models for specific purposes must augment existing ones with domain-specific data. Concerns over data accessibility have also intensified amid recent geopolitical developments, including questions about using data hosted by US-based hyperscalers.

2.2 Hallucination risks

An official emphasised that while AI presents vast potential, its risks must be addressed. A key risk is hallucination, where models generate plausible yet inaccurate information. AI outputs are often so convincing that errors become difficult to detect, unlike with human analysts. This can create consumer-protection risks, for example when robo-advisors provide credible but incorrect investment advice.

The official underlined that because current generative and agentic AI systems rely on models that produce outputs based on probability rather than verified information, the risk of hallucination can never be fully eliminated. Maintaining human oversight remains the most effective safeguard against hallucination, but it is costly, requiring multiple layers of expertise, and firms often lack sufficient incentives to apply it systematically. To ensure the effective implementation of this oversight, three complementary lines of defence were proposed: first, to limit the exposure of retail consumers and investors to hallucination through technical safeguards such as built-in guardrails and systems that verify AI-generated information against trusted data sources (known as retrieval-augmented generation, or RAG); second, to embed human oversight within regulatory frameworks and promote international coordination so that these controls are applied consistently across jurisdictions; and third, to establish safety nets, for instance, insurance products or industry-funded reserves, to protect consumers when erroneous AI-generated advice causes harm.

An industry speaker cautioned against overstating the risks of hallucination, noting that error rates in current large language models are estimated at around 2%, and that comparisons often overlook the fact that humans themselves are far from perfectly accurate.

Another industry speaker compared AI errors to accidents involving self-driving cars, observing that society shows far less tolerance for mistakes made by machines than humans, even though actual error rates are lower. When AI models make flawed decisions, people label them as "hallucinations" whereas similar human mistakes would simply be viewed as incompetence. This difference of perception may hinder the scaling of AI. In addition, when AI systems make recommendations or decisions, their reasoning often lies beyond human comprehension, as it draws on volumes of data no human could process. As a result, errors are difficult to detect. A public representative agreed that discussions on AI hallucination must take into account the potential for human error, reinforcing the need for balanced expectations on both sides.

2.3 Impact of AI on human expertise and skills

An industry speaker noted that the erosion of human expertise due to reliance on AI poses another risk: as staff increasingly rely on AI, they may lose the ability to critically assess its outputs, complicating the development of skilled senior professionals.

Another industry speaker stressed that, looking ahead, firms will increasingly compete for individuals capable of challenging how AI thinks, as the focus shifts from implementing the technology to enhancing human understanding and oversight with AI use.

An official agreed that the main discussion in the coming years will increasingly focus on how society adapts to the transformation already underway.

The chair underlined that using AI effectively requires not only willingness, but also the skills and capacity to understand and challenge its outputs. A recent Stanford study also shows that advanced AI models already outperform humans in many professional tasks.

3. Regulatory and supervisory approaches

3.1 Current regulatory and supervisory approaches to AI

An industry speaker expressed concern over Europe's cautious stance on AI regulation. The US AI Action Plan focuses on practical enablers such as data-centre capacity and power supply, whereas the EU AI Act places greater emphasis on controls and governance. Europe should strike a better balance between protection and innovation. The same applies to data management: while data-protection obligations are necessary, excessive caution over client data and public-cloud use can hinder value creation and scalability. These safeguards are legitimate but need to be reconsidered in light of the goal to foster AI adoption.

The industry speaker also questioned whether regulating the technology itself is the right approach for financial services. Many of the objectives of the AI Act, such as ensuring that AI systems are used appropriately, produce reliable outputs, and operate under adequate oversight, are already pursued in financial services through existing regulatory frameworks and market incentives. Firms have a strong commercial and reputational interest in avoiding poor advice or service, whether it originates from humans or AI, since dissatisfied clients represent a direct business loss.

Another industry speaker highlighted that the current uncertainty surrounding AI regulation is also a significant challenge for the industry. The current phase of AI adoption mirrors the transition to cloud services a decade ago, when it was unclear how national authorities would interpret and apply new rules, with both technologies holding significant potential in terms of efficiency and resilience. This regulatory ambiguity is a tangible barrier to adoption confirmed in a recent survey, where 44% of firms identified unclear regulation as a key obstacle to the implementation of AI systems.

A public representative noted that opinions during the European Parliament's negotiations on the AI Act were divided between those who viewed it as a driver of innovation, providing legal certainty, and those who feared it could constrain adoption through excessive requirements. Both perspectives are valid to a certain extent, and the actual impact will only become clear once the framework is fully implemented next year.

The implementation and supervision of the AI Act also remains challenging: some models will fall under EU-level oversight by the AI Office, but many, particularly in financial services, will be supervised nationally, creating risks of fragmentation. Stronger harmonised supervision is therefore needed to ensure consistency across the Union. As AI systems become increasingly autonomous and cross-sectoral, especially with the rise of agentic AI, supervision will require a broader and more coordinated approach. The regulatory framework also extends beyond the AI Act to include data and financial-sector legislation, such as the Financial Data Access Regulation (FiDA) and the Data Act, which must be coherent and aligned to avoid overlaps and inconsistencies.

The chair agreed it is still too early to judge the AI Act's impact, before it is fully implemented and emphasised the importance of supervisory convergence across the EU. Guidance is being prepared by EIOPA on the interaction between the AI Act and sectoral insurance rules. Developing such guidance can however be challenging, as it can be perceived as additional requirements rather than practical support.

3.2 Adapting regulatory frameworks to a fast-changing AI landscape

A public representative underlined the need for a mindset shift in the way EU AI rules are drafted and implemented, so that they remain effective with the rapid pace of change across AI, data, and digital services. To keep legislation up to date, Europe should move away from a system of fully codified rules towards one of "regulating through supervision and practice", underpinned by clear principles. This already occurs to some extent, as European frameworks are often clarified over time by supervisors to make them applicable or to foster convergence. However, the current process of adjusting Level 1 and 2 texts can take years. Issues could be addressed more effectively through a more flexible approach to regulation and enhanced cooperation.

An official agreed that a responsive and flexible policy approach to AI is essential. The unprecedented pace of technological change demands regulation that remains principles-based, outcomes-focused, and adaptable. Since neither regulators nor firms can anticipate every use case or risk, codifying rules too early would limit the ability to respond effectively to emerging opportunities and challenges. This adaptive, principle-driven philosophy lies at the core of the UK's approach to AI regulation, which builds on existing regimes governing notably market conduct, senior-management responsibility, and operational resilience. The aim is to provide flexibility while maintaining clarity. The FCA's first clarification, issued in April 2024, set expectations for the use of AI within these existing frameworks.

An industry speaker also supported a principles-based approach to AI regulation. A genuine understanding of risks arising from specific use cases is needed before imposing detailed compliance or risk-management measures, as these risks will continue to evolve. Lessons can be drawn from the cloud transition a decade ago, when similar debates arose over how to regulate technological change. A principles-based framework is preferable because it compels regulators and firms to think through the objectives of AI adoption, identify the risks involved, and determine how best to manage them, promoting judgement and accountability over box-ticking compliance.

Another official noted that in Japan discussions on AI regulation for financial services remain at an early stage. The country's cautious and incremental approach reflects a determination to balance innovation with risk management and to develop rules that both enhance customer confidence and support technological progress. Some form of regulation will eventually be needed to address the specific risks associated with AI use, such as hallucination. In June, a public–private forum was launched to exchange views among stakeholders, enabling authorities to better understand AI use cases and risks and to explore possible directions for future policy that strike an appropriate balance between innovation and effective oversight.

3.3 Public-private cooperation and the role of sandboxes

A public representative suggested that strengthening public–private cooperation is essential for developing a common understanding of technological developments and designing relevant regulation. The broader use of regulatory sandboxes, as promoted by the AI Act, one of the first EU laws to make their creation mandatory, should be further developed in order to provide a structured space for this collaboration. Such sandboxes and experimental environments enable public and private actors to test whether rules and models are fit for purpose and to anticipate future challenges, as AI systems become more complex.

An official agreed that the difficulty of predicting the direction and impact of technological disruption calls for ongoing dialogue among stakeholders and the creation of testing environments where regulators and firms can experiment with AI applications safely, gather practical evidence, and adjust regulatory approaches as experience is gained. In the UK, the Digital Regulation Cooperation Forum (DRCF) promotes alignment between government and regulators, coordinating their approaches on cross-cutting digital issues such as AI, online safety, and data governance, to ensure coherent oversight and consistency. Engagement with industry is expanding through initiatives such as the AI Lab and AI Spotlight, which provide collaborative platforms and a use-case library to map AI applications, assess their value, and identify potential policy gaps. Two testing tracks - the Supercharged Sandbox for early model exploration and AI Live Testing for more mature systems - enable firms to trial AI models in real settings, helping regulators identify challenges and clarify expectations on explainability and risk management. While the core objectives of supervision - sound risk management and redress where needed - remain unchanged, supervisors are encouraged to adopt a tech-positive mindset, combining flexibility and collaboration with industry to ensure that AI delivers value for consumers while strengthening the UK's global competitiveness.

An industry speaker welcomed the use of regulatory sandboxes and open exchanges between firms and supervisors, stressing that such cooperation is crucial to share lessons and identify risks that may not be captured by formal regulation.

The chair concurred that sandboxes are a valuable tool to foster experimentation and cooperation, as shown by those that have already been developed in the EU.

Cryptoassets: market developments and policy implementation

1. Progress in the implementation of MiCA

A regulator underlined the main objectives of MiCA, which was designed to create a consistent, EU-wide framework allowing the cryptoasset market to develop responsibly, foster innovation, and position the EU as a leader in this field. Its aims are to harmonise rules, safeguard investors and consumers, and strike the right balance between growth, competitiveness, and investor protection while maintaining systemic stability.

The regulation was expected to deliver three main benefits: first, reducing fragmentation by establishing a Europe-wide regime from the outset; second, providing legal clarity so markets can build sustainable business models with a long-term perspective; and third, ensuring fair competition within the single market.

Effective implementation is key to achieving these goals, and the European Supervisory Authorities (ESAs) together with national competent authorities (NCAs) have already carried out extensive work to this end. This includes policy guidance, supervisory briefings, and Q&As, all aimed at adapting the rules to market realities and clarifying issues as they arise.

Another regulator agreed that there has been unprecedented effort and collaboration between the ESAs and the NCAs to implement MiCA in a consistent way, including extensive case studies on key entities and the elaboration of essential guidance. At ESMA this work was coordinated by the Digital Finance Standing Committee, which has become an effective hub for knowledge sharing and building a collective understanding of complex Cryptoasset Service Provider (CASP) operations. NCAs are now in the process of granting authorisations.

An industry representative considered that the Level 1 MiCA text provides a well-structured regulatory framework for CASPs, with similarities to MiFID in its licensing approach and its integration of market abuse rules. Many of these features are now being adopted internationally. At Level 2, however, some measures appear to go beyond the Level 1 requirements. As these provisions are still being finalised, there remains an opportunity to refine them. Efficiency, practicality, and international comparability should guide this process, with rules revisited and adjusted early on, based on initial implementation experience. In this way, MiCA can remain flexible, incorporating practices from other jurisdictions as global standards evolve, and fostering a more competitive European market.

2. Regulatory and supervisory challenges in the crypto space

2.1 Transition period and level playing field issues

A regulator observed that while MiCA is fit for purpose and provides a stable framework, significant challenges remain. One major difficulty concerns the transition period for CASPs already authorised under national regimes. Although MiCA's application dates are harmonised across the EU, member states were allowed to grant transitional arrangements of up to 18 months. This has led to parallel regimes, with some CASPs continuing under domestic licences while others shift to the new framework. The situation is further complicated by the fact that some countries had pre-existing regimes and others did not, creating divergences that resulted in regulatory uncertainty. This complexity was underestimated when the compromise on transitional arrangements was agreed.

Another regulator agreed that much complexity stems from differing transition periods across member states, ranging from 6 to 18 months, which has complicated the shift to MiCA across Europe. More granular Level 1 provisions will be needed to address these implementation issues.

The chair recalled that ESMA's very first statement on MiCA urged member states to coordinate on a common transition deadline. In practice, however, implementation developed into a patchwork across jurisdictions, giving rise to the challenges already described.

An industry representative noted that licensing and the transition period are where the main challenges have emerged. Divergent implementation across member states, with each following its own rules, must be avoided as it risks creating a fragmented and inefficient outcome at EU level.

Achieving a level playing field across the EU in the implementation of MiCA is indeed a priority. Once the transition period ends, all European clients should be served by EU-licensed firms. ESMA has already provided useful guidance through FAQs and supervisory tools, but these must translate into consistent, practical licensing and supervision approaches, while preventing competition among member states based on the speed of approvals. Clearer and more standardised procedures for submitting applications and granting licences are essential to ensure fairness and predictability across the Union. Establishing such a level playing field will enable European crypto firms to expand across the Union, innovate, and reach the scale needed to compete in a globalised market dominated by large firms.

2.2 Authorisation procedures and supervisory challenges

A regulator noted that the authorisation stage has already exposed several difficulties. Divergences of opinion have emerged across the EU on how the Level 1 provisions should be applied in practice. A particular concern is the way Article 60 operates: under this provision, financial institutions already authorised for other activities can simply notify supervisors if they intend to provide crypto services. However, there is no requirement for a compliance assessment and no mechanism for supervisors to reject such notifications, even in cases where the notified entity may lack the operational, technical, or risk-management capacity to provide crypto services safely and effectively.

Rigid timelines also create pressure. NCAs have 25 working days to assess the completeness of applications and only three months to issue final authorisations. These deadlines are too short to properly assess the wide variation in application quality or to examine complex aspects such as governance structures, prudential requirements, ICT and AML frameworks, and cross-border business models.

The chair echoed the challenge of working under these strict deadlines while also grappling with highly complex business models and group structures that must be assessed quickly and consistently.

A regulator emphasised that achieving a convergent approach to authorisations is a central priority, so that decisions on which players may operate in the EU are taken in a fair and consistent way. Detailed analysis of business models and authorisation files is a demanding task still underway, and for the largest operators this work is being conducted collectively at EU level to build a common supervisory culture. To date, 57 CASPs have been authorised across 10 member states, with about 200 applications pending, and uncertainty remains over how many firms previously licensed under national regimes will receive authorisation under MiCA.

Supervisors also face broader challenges, beginning with the need to provide timely clarifications for market participants on areas such as DeFi, custody, and interactions with other legislation. Supervisory authorities must work together to provide coherent responses. Another difficulty is the complexity of large group structures spanning multiple licences and jurisdictions, which makes cooperation essential. Within ESMA, discussions have considered whether the largest firms with significant cross-border operations should come under European-level supervision. Such an approach could ensure consistency, shorten time to market, and improve efficiency, while domestically focused CASPs, which represent the majority of players, would remain under national oversight.

3. Key trends in the European crypto market

3.1. Opportunities and risks

An industry speaker emphasised that crypto is no longer a niche product, pointing to growing institutional adoption by banks, asset managers, and payment firms. This trend is increasingly blurring the lines between traditional finance and crypto. To seize these opportunities, CASPs must invest in custody and safekeeping solutions, often in partnership with established financial players. They are also expanding into tokenisation of real-world assets. Another important development is the rise of payment services based on stablecoins.

A regulator reported that the cryptoasset market reached $3 trillion in June 2025, with stablecoins already exceeding $200 billion. Some very optimistic projections suggest the stablecoin market alone could grow to $3 trillion by 2030, a prospect that raises serious concerns for investor protection and financial stability and requires close vigilance from the supervisors. The collapse of a large stablecoin could destabilise not only the crypto market but also spill over into traditional financial systems. The regulator also drew attention to the specific risks of multi-issuance models, where the same issuer distributes fungible tokens in different jurisdictions backed by separate reserve pools, which could pose major vulnerabilities if not properly monitored. With institutional adoption increasing, interlinkages with traditional finance are also growing through instruments such as derivatives, ETFs, and custody services, all of which demand careful oversight.

Another regulator noted that tokenisation is emerging as the next major issue to tackle for regulators. Because the same technology underpins both cryptoassets and tokenised real-world assets, MiCA provides valuable lessons on what aspects of regulation work effectively and where gaps remain. Supervisors must stay ahead of the curve by closely following these developments and ensuring they understand how tokenisation is evolving. This requires continuous dialogue with market participants and active input from the industry.

An industry speaker added that crypto also provides important lessons for the development of EU capital markets. Around 50 million people already hold cryptoassets, a level of retail engagement that, if achieved in equity markets under the Capital Markets Union project, would have been considered a major success. The EU should analyse what drives this adoption and how those factors could be applied to equity markets. What attracts users is not only the assets themselves, but also the way they are presented and made accessible and understandable to clients despite the risks. These lessons should guide the design of more inclusive and accessible markets that better integrate crypto with traditional finance.

3.2 Decentralised Finance (DeFi) regulatory implications

The chair highlighted that decentralised finance (DeFi) falls outside MiCA's scope. A recital in the regulation makes clear that fully decentralised systems are excluded, leaving this area unaddressed for now.

An industry speaker noted that DeFi represents a narrower segment of the crypto market, where regulatory approaches vary. Implementing MiCA absorbs significant resources, creating a risk that areas outside its scope, such as DeFi, may be overlooked. DeFi players are much like CASPs before MiCA: operating in a regulatory grey zone, not prohibited but lacking clear rules. Some Member States have allowed innovation to proceed, while others have only issued risk warnings as they awaited EU legislation.

Although MiCA regulates cryptoassets, it is not suited to fully decentralised systems without legal entities. Supervisors remain uncertain about how to address arrangements that combine non-custodial software, autonomous protocols, and limited human involvement, alongside services where users assume greater responsibility. Simply applying MiCA would risk stifling innovation, so discussions on how to regulate DeFi must remain open.

The EU has effectively postponed the issue, signalling that DeFi will be revisited once it reaches sufficient scale. Other jurisdictions initially adopted the same stance, but some are now moving ahead. The UK has launched consultations specifically on DeFi. In the US, the pending CLARITY Act, complementing the GENIUS Act focusing on stablecoins, would exempt developers from liability for simply publishing code, a step towards clarifying responsibility in the DeFi context. In the APAC region, regulators are largely waiting to see how developments in the US and EU unfold. The Japanese FSA, however, has examined bespoke rules for non-custodial wallets, focusing on marketing standards, consumer protection, disclosures, and security requirements, echoing earlier French initiatives. One option would be to apply principles and security standards directly to the underlying protocols, so that anyone building on or using them would automatically be subject to these protections, even without a central operator.

The industry speaker concluded that appetite for a "MiCA 2" or a bespoke DeFi regime remains limited while DeFi is still relatively small. As a first step, EU-level guidance to promote convergence on supervisory expectations would be valuable, since firms currently lack clarity on what supervisors will accept. The need for such guidance will increase as tokenised assets move on-chain, financial institutions assess whether they can use self-custody and DeFi protocols, and CASPs explore offering a broader range of assets and using DeFi protocols as new execution venues.

4. International regulatory developments

4.1 Progress made in key jurisdictions

A regulator noted that, internationally, MiCA has been a source of inspiration for other jurisdictions. Its design and objectives have received positive feedback, but the EU should also remain open to learning from approaches now being adopted elsewhere. Developments in the US deserve close monitoring in particular, as rapid policy shifts there can create incentives with global repercussions and directly affect European market participants.

An industry representative agreed that Europe has been a pioneer with MiCA, providing market stakeholders with clarity, consistency and the capacity to innovate. Yet other jurisdictions, notably the US, are catching up quickly. Until recently, US regulatory action relied mainly on enforcement, but new measures such as the FIT 21 Act and the GENIUS Act mark a shift, introducing the first federal law on stablecoins and establishing oversight of issuers.

In contrast with MiCA's comprehensive approach, the US is pursuing a phased regime, beginning with stablecoins and gradually extending to custody and exchanges. These developments have progressed quickly, and other international jurisdictions are also moving to regulate. Unlike traditional finance, where the G7 and G20 typically set the agenda, crypto's global reach is also prompting emerging markets to develop their own frameworks.

A patchwork of divergent regimes at the global level would be counterproductive for the industry. Strong EU leadership will be needed to foster international dialogue and promote greater alignment. Stablecoins already highlight this challenge: they are regulated differently in the US and Europe, creating inefficiencies for firms operating across borders.

An official emphasised the importance of international alignment and of learning from other jurisdictions' experiences. Three key aspects were underlined.

First, market access regimes: the UK's new approach to overseas recognition, announced in the latest Mansion House speech, raises questions about how it might apply to crypto and stablecoins, and how related risks can be managed while still seizing opportunities. A further challenge arises from differences across jurisdictions: the US GENIUS Act includes provisions on reciprocity, whereas MiCA does not currently address this issue. Second, international standard-setting bodies such as the FSB and IOSCO will play a vital role in ensuring harmonisation and consistency of rules in this area. Third, bilateral cooperation between major financial jurisdictions remains essential through structured dialogues. The upcoming EU-UK Financial Regulatory Forum, in particular, will provide an opportunity to coordinate approaches and share lessons in the regulation of cryptoassets and stablecoins. The UK is also closely monitoring developments in the US, particularly the proposed GENIUS Act on stablecoins.

The chair recalled that when the EU began regulating cryptoassets it faced two main risks: the framework could quickly become obsolete given the sector's rapid evolution, and, as a first mover, the EU risked future regulatory fragmentation. So far, EU rules are aligned with IOSCO and FSB standards. The main risk now lies in divergence with the regimes of key non-EU jurisdictions. In the case of the UK this risk appears well managed, but in the US the outlook remains more uncertain.

4.2 The UK approach to crypto regulation

An official explained that the UK's objective in developing crypto policy is to strike a balance between protecting cryptoasset users and creating incentives for firms to invest and support economic growth. The proposed regime builds on the framework legislation introduced in 2023, which defined the concept of cryptoassets and gave the UK Treasury powers to set detailed rules. The original plan was to phase in regulation, beginning with stablecoins, but this has since shifted to a single package to reflect the interconnections between activities and to give firms greater certainty. Draft regulations were published recently, and final legislation is expected before year-end following industry feedback.

The regime sets out the types of cryptoassets in scope and requires FCA authorisation for activities such as operating trading platforms or dealing in cryptoassets. It also introduces a UK definition of stablecoins pegged to fiat currencies and creates a regulated activity for their issuance. Stablecoins issued in the UK will require authorisation, while those issued overseas may continue to access the UK market, provided they meet certain standards and conditions. The focus throughout is on ensuring protections for UK consumers when services are offered domestically.

Wrap up

The chair closed the session by highlighting two key themes. First, speed: the market is evolving rapidly, with rising client numbers and growing hybridisation between traditional finance and crypto. Second, complexity: different business models, fragmentation, and international developments all add to the challenge. There is already talk of a possible MiCA 2 to allow regulation to keep pace with market developments, particularly as new areas such as tokenisation and DeFi gain importance. Ongoing dialogue, cooperation and convergence will be essential to address these issues.

Scaling tokenisation in European financial markets

1. Current state and future opportunities of tokenisation

An industry representative stated that the total market for tokenised real-world assets is estimated at USD 20–30 billion, a level that should be regarded only as a starting point. The real opportunity tokenisation represents for Europe is to rethink its capital markets by bringing equity and debt instruments on-chain and incorporating features already available in crypto markets. This would deliver far greater benefits than simply automating existing intermediaries, though that may be a useful first step.

Distributed ledger technology (DLT) enables faster and cheaper settlement, greater transparency, and more resilient systems. It also allows fractional ownership, decentralised trading, self-custody, and continuous 24/7 access, making capital markets more inclusive and opening participation to new categories of investors, notably the "unbrokered" retail customers who currently do not invest. With these combined features, tokenisation should encourage greater engagement of retail investors and firms in the capital markets, contributing to advance the Savings and Investment Union's objectives and enhance Europe's competitiveness.

Current tokenised products remain first-generation. Often structured as debt instruments, they do not offer the full benefits of equity ownership. Within the next year, more advanced products are expected to appear, providing full beneficial ownership of the stocks and a direct link between issuers and holders, a development that would mark a significant step forward.

A second industry representative noted that over the past year many tokenised products have reached the market, with tokenised stocks among the most prominent. These, however, are only a first step. Future offerings will broaden considerably, enabling investors to access directly a much wider range of products.

Tokenisation offers opportunities across the whole value chain. At the back end, it reduces frictions and removes the need for transaction reporting, as activity is recorded directly on chain. At the front end, it enhances distribution and investor access, helping to democratise financial products and extend participation well beyond traditional channels. Around-the-clock 24/7/365 trading is a key benefit, reflecting users' expectations that markets operate continuously. For market makers, this constant activity is positive also, creating continuous opportunities to provide liquidity.

An official agreed that tokenisation holds strong potential in advancing the SIU, provided it is implemented in a way that avoids market fragmentation. Efficiency gains include smoother data reconciliation, lower transaction costs, faster settlement times, and the use of smart contracts to bypass existing barriers. These cost savings should be shared between savers and issuers, in line with the objectives of the SIU. Tokenisation also brings greater transparency, such as upfront knowledge of transaction costs and real-time identification of shareholders. These benefits apply potentially across a wide range of instruments - equities, bonds, and investment funds - and could be especially valuable for green bonds, which remain costly to issue due to manual processing.

A third industry representative underlined that DLT can also help reduce risks in the financial system. It enables collateral to be moved in real time to where it is needed, removes single points of failure by distributing records across multiple ledgers, and atomic settlement can drastically reduce settlement risk.

2. Conditions for a successful scaling of tokenisation

2.1 Availability of adequate settlement assets

An official stressed that a key condition for scaling tokenisation is the availability of safe settlement assets enabling instant on-chain transactions through atomic settlement. Since 2020, the Banque de France has been testing a wholesale central bank digital currency (wCBDC) to act as a secure anchor for transactions on distributed ledgers. As the BIS highlights, the stability of money relies on two anchors: retail users must be able to convert commercial bank deposits into central bank cash at par, and banks must settle with each other in central bank money. These foundations need to be preserved as markets move on-chain. By 2026, the Eurosystem aims to provide a wCBDC for tokenised markets, interoperable with both private blockchains and TARGET2, offering a trusted reference point and supporting private-sector coordination.

An industry speaker stated that the Eurosystem pilots bringing central bank money onto private ledgers are an important step, since central bank money is likely to remain a key element of the ecosystem. Its role, however, may differ in tokenised markets compared with today. Currently, central bank money mitigates settlement risk by serving as a risk-free settlement asset. On distributed ledgers, this risk can instead be managed through atomic settlement, where all legs of a transaction are executed simultaneously and conditionally. In such a system, there is no exposure during the settlement process to the value of the settlement asset. Central bank money will therefore continue to be relevant, but its function may evolve in future markets.

A second industry speaker suggested that stablecoins can play a role in the on-chain settlement of financial instruments as well as in crypto markets. While 99% of stablecoins are currently dollar-denominated, there is a strong case for scaling euro-denominated stablecoins under MiCA alongside wCBDCs to enhance liquidity in European markets.

An official underlined that while atomic settlement eliminates counterparty risk by ensuring simultaneity, stablecoins cannot provide market participants with the same level of safety as wCBDC, since their reliability as a store of value is still to be demonstrated.

The official considered that the dominance of US dollar stablecoins could decline over time. In Asia, initiatives linking faster payment systems and building new platforms may result in lowering transaction costs between non-dollar currencies, reducing the need to use the dollar as a vehicle currency. Over time, this could foster a more balanced international monetary system, though the transition may be turbulent.

A third industry speaker agreed with previous speakers that the availability of suitable settlement assets will be decisive for scaling tokenisation in the EU. Swift is neutral on which settlement asset should prevail. CBDCs, tokenised deposits, and stablecoins could all be supported on the network once regulatory clarity is established regarding their use. Some tokenised instruments, such as money market funds and Bitcoin ETFs, are already flowing through the Swift network. Experiments have also been conducted linking CBDC networks with existing payment systems and trialling single access points for multiple digital asset classes and currencies, with use cases in payments, securities, and FX.

The official supported the concept of shared ledgers where multiple asset types, including private settlement assets, can be exchanged alongside central bank money, provided participants always retain the option to settle in central bank money. Providing this choice is essential because it anchors private arrangements to the wider monetary system and prevents them from drifting into separate, incompatible networks. Without such an anchor, tokenised markets risk fragmenting, not necessarily along national borders but across closed private ecosystems. In Europe, Project Appia is intended to mitigate this risk by building shared infrastructure through public–private cooperation.

2.2 Access to suitable DLT platforms

An official highlighted four ongoing central bank projects that may support the development of tokenisation. Project Appia, led by the Eurosystem, aims to create a European shared ledger for tokenised assets where both public and private monies can be used. It is aligned with the BIS-led Project Agora, which is developing a cross-border shared ledger integrating private currencies, central bank money, and tokenised assets. The Mandala project has also successfully shown how blockchain can secure compliance certificates and improve information sharing among correspondent banks, thereby reducing compliance costs in cross-border payments. Separately, Project Rialto explores how tokenisation could reduce costs and enhance efficiency in foreign exchange for cross-border payments.

An industry speaker emphasised the growing recognition that public, permissionless ledgers can provide greater liquidity, transparency and developer engagement. Although regulators have raised concerns about settlement finality and reliance on unknown validators on such platforms, not all public ledgers are the same. Some have been specifically designed for regulated finance, addressing these issues while retaining the advantages of liquidity and transparency.

Another industry speaker observed that the debate is sometimes framed as a choice between public and private blockchains. This does not seem appropriate, as in the future platforms will likely be hybrid, combining the transparency, resilience, and interoperability of public permissionless blockchains with KYC permission layers or verification tools. This model is already being implemented, for instance on Ethereum with added verification layers, and could help address many of the current concerns associated with public blockchains.

However, the official noted that permissionless public DLTs do not always strike the right balance between liquidity and financial risk, particularly with regard to AML/CFT concerns.

2.3 Interoperability and standards for DLT platforms

In response to a question from the chair about the conditions required for an effective scaling of tokenisation, an industry representative emphasized that with clear demand for tokenisation already demonstrated, effective scaling depends primarily on robust, secure and resilient infrastructure and sufficient market integration. The projects led by the Eurosystem and BIS contribute to this objective. Three key priorities stand out.

First, interoperability: the proliferation of protocols, platforms and technologies risks creating isolated "digital islands." Building bridges through interoperable solutions is therefore essential, supported by ongoing experiments to connect DLT platforms around shared business outcomes and standards. Second, standards: tokenised markets require consistent data formats and market practices to enable cross-border value transfers and to avoid trapped liquidity or operational complexity, in the same way as traditional finance. Regulators must coordinate globally to achive this. Third, collaboration: meaningful scaling will only be achieved through joint efforts across a broad range of institutions, including banks, asset managers, brokers, custodians and fintechs, each bringing specific expertise.

An official agreed that while the vision for how tokenisation could improve the functioning of financial markets is compelling, several challenges still need to be addressed before markets can reach sufficient liquidity and scale. At present, firms are creating their own DLT platforms with proprietary technologies, often incompatible with one another. The central challenge will be to achieve interoperability among these solutions; without it, even basic tasks such as ownership transfers could become more difficult than under legacy systems. Real progress therefore depends not only on convincing use cases that attract participants, but also on effective collaboration to deliver workable interoperable arrangements.

2.4 Risk management and governance

An official stressed that new risk will emerge as tokenisation develops. Markets may function very differently from today, with 24/7 operations, rapid payment and collateral flows bringing both benefits and vulnerabilities. Supervisors will need to ensure that these new models uphold financial stability and market integrity, but it will be difficult to fully assess their resilience until tokenised markets are operating at scale.

An industry representative underlined that DLT brings specific risks, particularly around operational resilience and settlement finality. These risks can be managed through cooperation between firms and regulators, but current rules, written for traditional centralised systems, often do not fit DLT and may create unnecessary barriers. Regulators should therefore adopt a technology-neutral, outcomes-based approach, focusing on the main functions and how risks are managed by key entities, such as issuers, trading venues, or protocol operators, rather than on the technology itself. Regulators should remain open to innovation, citing public permissionless blockchains as an example.

Another official noted that European capital charges for tokenised products reflect those of the underlying assets, demonstrating the neutrality of the current framework.

The chair concluded that technological innovation must be governed responsibly, with risk management and compliance embedded to ensure sustainable development. Regulation and supervision should remain technologically neutral, while also assessing the specific risks and added value of different technologies. Risk should remain the guiding criterion: as in traditional finance, risks may shift into shadow systems, but proactive monitoring combined with integrated supervision and international cooperation enables supervisors to intervene effectively.

3. Policy framework

3.1 Regulatory changes needed to support tokenisation in the EU

An industry speaker observed that Europe has taken the lead in regulating digital asset activities through the DLT Pilot and MiCA, but the US is advancing rapidly and could overtake the EU. Distribution and market access will be critical, with large US players likely to push for a more uniform global framework. For liquidity providers, the priority is to build a structure comparable to traditional finance, where exchanges, margining, and prime brokers guarantee depth and resilience. Prime brokers remain hesitant to engage in crypto markets, but appropriate regulation could encourage their participation and help provide the depth and stability needed across trading venues.

A second industry speaker suggested that the DLT Pilot Regime, though useful, could have been designed to promote innovation in a more effective way. A Commission report with new proposals is expected shortly. Crucially, pilot regimes must offer a clear path to mainstream adoption: initial limits imposed to contain financial stability risks should be progressively lifted as confidence grows that risks can be mitigated. Without this, firms will have little commercial incentive to remain engaged in the market over the longer term.

A third industry speaker argued that the US is not aiming to catch up with MiCA but to leapfrog it, moving very fast. Alongside the GENIUS and CLARITY Acts, the SEC is engaging directly with firms under "project crypto". These initiatives could soon produce broad exemptive relief or guidance enabling innovative models. Europe must match this pace. Five areas for action could help at the policy level: (i) recognising that stablecoins can serve as settlement assets alongside wCBDC, as acknowledged by the Bank of England, since a mix of settlement assets will inevitably emerge in a context where the US has decided not to develop a wCBDC; (ii) revising MiFID II to cover self-custody; (iii) amending CSDR to recognise that blockchains can perform some functions currently carried out by CSDs, such as maintaining the register of ownership, which requires unbundling the definition of services covered by the regulation; (iv) lowering excessively high capital requirements that currently prevent banks and broker-dealers from operating on permissionless blockchains despite their importance for market depth; and (iv) making the DLT Pilot Regime permanent.

The industry speaker further stressed that implementing these measures will take three to five years, while the US is moving at speed. The key challenge is how to bridge the current framework with the future one once legislative changes are complete. The key challenge is how to bridge the current framework with the future one once legislative changes are complete. Interim solutions may be needed, such as allowing member states to adopt domestic measures in the meantime, with ESMA ensuring supervisory convergence.

The chair agreed that Europe's leadership with MiCA and DORA must be safeguarded in the context of rapid US developments. Existing rules can be leveraged to support continued progress in digital assets. Dedicated legislation is not always necessary: even before MiCA, prudential rules and governance standards already allowed supervisors to intervene when firms sought to enter crypto markets. MiCA has now brought clarity to this area and provides a solid foundation for further developments.

3.2 The UK approach

An official described three initiatives through which the UK is addressing tokenisation challenges. The first is the Digital Securities Sandbox, a flexible pilot regime that allows firms to operate under temporary modifications to regulation to test new models. The Bank of England and the FCA are responsible for assessing these models, considering their regulatory implications, and monitoring them over time. Modifications can extend beyond financial regulation to areas such as company law. If a model proves successful, the necessary legislative changes can then be embedded in permanent law, enabling further scaling in the market. Fifteen firms, ranging from Fintechs to FMIs and investment firms, have already passed the first stage of approval.

The second initiative is DIGIT, a digital sovereign debt instrument. The aim is not simply to issue gilts on a DLT platform, but to create the structure for a liquid secondary market with both debt and cash legs operating on-chain. Delivering this will require close public–private cooperation, as the sector cannot build such a market alone.

The third initiative is the new Wholesale Financial Markets Digital Strategy published by the government to establish structured dialogue between industry, regulators, and government. A digital markets champion will be appointed to identify necessary reforms and tackle barriers to scaling tokenisation and other digital developments.

Wrap up

The chair closed the session by stressing three key points. First, tokenisation is already part of today's market reality, not a distant vision. It is, however, not yet clearly regulated and sits at the crossroads between digital and traditional finance, raising new regulatory and supervisory questions.

Second, beyond debates about the type of DLT platforms to favour and the degree of decentralisation, the central issue is whether tokenisation generates value and whether the related risks can be managed. Effective risk control is essential, since efficiency gains in normal times can quickly turn into contagion risks during periods of stress, given the high interconnectedness of digital markets.

Third, market stakeholders must pool their knowledge, skills, tools, and data. No single actor can meet these challenges alone, and greater collaboration will also help prevent fragmentation. Such cooperation will be critical for tokenisation to develop safely.

Building the EU's digital financial ecosystem

1. The case for building an effective European digital financial ecosystem

The chair opened the discussion by noting that Europe's financial sector stands at a pivotal moment, as technological innovation, regulatory transformation, and geopolitical tensions converge to redefine how markets operate, underscoring the need for a secure, integrated, and future-proof EU digital financial ecosystem.

Europe's long-standing legacy systems remain reliable, but distributed ledger technology (DLT) and related digital infrastructures are now mature enough to move beyond experimentation, with the potential to transform how value is stored, transferred, and transactions are settled. Regulatory progress is also accelerating. Frameworks such as MiCA, DORA, and the DLT Pilot Regime are providing greater legal certainty and laying the foundations for digital transformation, while other jurisdictions, notably the US with the proposed GENIUS Act, are also adapting their approaches. Finally, amid mounting geopolitical pressures, rising cyber-risks, and strategic dependencies, Europe must secure the foundations of its future financial ecosystem in order to reinforce its resilience, competitiveness, and digital sovereignty.

An official underscored the strategic urgency of developing a European digital infrastructure through an analogy with the Galileo satellite navigation system. In the early 2000s, critics questioned the need for Galileo given the existence of the US GPS network, citing high costs and unclear benefits. Two decades later, Galileo has become indispensable for European industry, supporting millions of users, driving innovation, and ensuring strategic autonomy. Europe now faces a similar crossroads in digital finance: whether to depend on global, often non-European infrastructures, or to invest in its own digital public infrastructure to support competitiveness, innovation, and sovereignty in the decades ahead.

2. Objectives and opportunities of the EU digital financial ecosystem

2.1 Vision and strategic objectives

An official outlined an ideal vision for Europe's future digital financial ecosystem based on a network of interoperable ledgers or a shared ledger infrastructure providing a "common set of rails" that ensures reachability, open access, and compatibility across institutions and services. What must be avoided, however, is an uncoordinated proliferation of DLT platforms that could exacerbate market fragmentation.

An industry speaker added that tokenisation and digital assets will fundamentally transform capital markets. Tokenisation enables an ever-wider range of assets - goods, services, or even personal data – to become tradable instruments and also provides decisive improvements for traditional financial instruments such as bonds, equities, and derivatives This also creates new constraints with the need to maintain a robust technical environment providing sufficient integrity and resilience for such assets.

2.2 Opportunities created by DLT and tokenisation

An official emphasised that DLT and tokenisation provide an opportunity to overcome long-standing inefficiencies in current market infrastructures and to build a more integrated and harmonised digital capital markets union.

Another official described DLT as a new paradigm rather than a simple technological upgrade. It enables programmability, automation, atomic settlement, and deeper integration across financial processes, resulting in faster settlement, lower counterparty risk, improved liquidity management and greater transparency.

An industry speaker highlighted three key transformational attributes of DLT.

First, the creation of a single shared record eliminates costly reconciliation and friction by replacing today's intermediated system, in which multiple ledgers are maintained and continuously reconciled by different entities. Second, greater accessibility and inclusion, as DLT platforms allow a broader range of participants to hold and settle securities directly within the post-trade ecosystem and enable the fractional ownership of instruments such as sovereign bonds or ETFs, making them more affordable for retail investors and advancing the objectives of the Savings and Investments Union (SIU). Third, programmability, through smart contracts that automate operations on tokenised instruments, such as tax payments or repo transactions, thereby reducing operational risk and administrative burden.

At the same time, the industry speaker cautioned that these benefits come with challenges that require collective solutions. As DLT adoption scales, issues around pre-funding and netting will become increasingly important, while programmability, despite being one of DLT's greatest strengths, raises new questions about liability, code governance, and accountability, particularly in decentralised finance (DeFi) environments.

2.3 Progress in implementation and public-private cooperation

An official explained that DLT spans the entire payments and securities value chain, requiring an integrated approach to both market infrastructure and regulation. In this context, the Eurosystem acts as a coordinator and catalyst for greater harmonisation and standardisation across euro-area financial markets.

Two complementary initiatives are being developed to advance this goal. The first, Pontes, focuses on the short term, aiming to ensure the availability of central-bank money as a settlement asset for DLT applications in both wholesale payments and securities. This availability must be scaled up in a stable and secure manner. Without such a risk-free settlement option, innovation could slow down or shift toward riskier private settlement assets, undermining market stability. To address this, the Eurosystem is developing a DLT-based link between DLT platforms and TARGET Services, with a pilot project planned by the end of next year to establish a safe and scalable foundation for digital-asset settlement. The second, Appia, is a longer-term project designed to build a safe, innovative, and interoperable European digital ecosystem that also ensures seamless and secure interaction with global financial markets.

A second official noted that Appia is also a relatively near-term project that has already started in parallel of Pontes. It will build on Pontes by providing financial markets with new opportunities based on central bank money settlement on DLT, as well as private settlement assets such as commercial bank money. Some governance and liquidity issues remain to be addressed, but these are manageable, and extensive experimentation has already demonstrated the technical feasibility of the technology.

The official moreover recalled that the Banque de France has conducted more than 30 experiments over the last 5 years across a wide range of use cases, including primary bond issuance, secondary-market transactions, repo operations, foreign-exchange settlement, and automated margin calls. These were real-life trials involving actual institutions, platforms, and money. In 2024 alone, the Eurosystem settled €1.6 billion in central-bank money through 58 use cases involving 64 institutions across 11 jurisdictions, reflecting strong public–private collaboration.

A third official added that Austria is also experimenting with deploying DLT in the capital markets through the DELPHI project, launched by the Austrian National Bank in 2021. Initially aimed at tokenising and settling on-chain an existing bond with the participation of Austria's two largest commercial banks and its export service bank, DELPHI later expanded cross-border in partnership with the Banque de France, using wholesale Central Bank Digital Currency (wCBDC) infrastructure for settlement. The BdF project now involves over 60 institutions in 11 countries. Reflecting on its outcomes, the official highlighted three lessons: first, collaboration among regulators, central banks and commercial banks is indispensable to ensure that innovation serves shared objectives. Second, DLT platforms can promote market integration provided they are well designed. Third, even smaller institutions, central banks or financial firms, can act as catalysts for innovation, driving change across larger ecosystems.

Finally, an industry speaker noted that the public sector is playing a crucial role in advancing the infrastructure and regulatory groundwork needed to support the development of safe and efficient digital finance, alongside the private sector's efforts to drive innovation.

3. Conditions for building an effective digital financial ecosystem

3.1 Ensuring standardisation and interoperability

An official stressed that building an integrated digital financial ecosystem requires clear standards, robust governance, and close cooperation between public authorities and the private sector to avoid an uncoordinated proliferation of platforms and ensure overall market cohesion.

Another official added that interoperability across platforms and strong international cooperation are essential, as digital assets inherently move across borders.

An industry speaker stressed that achieving scale and operational efficiency in the issuance and transacting of digital assets requires deep technical and legal standardisation. Although several digital-asset issuance initiatives, such as digital bonds, are already under way in Europe, they remain fragmented and small in scope. The sector must now shift from experimentation to business-case-driven deployment, supported by an integrated environment that ensures interoperability and standardisation. The principle of platform choice must also be maintained, allowing investors to decide freely where to buy, hold, and settle securities within a harmonised framework.

3.2 Providing suitable settlement assets

An official emphasised that the 24/7 availability of a risk-free on-chain cash leg is a key condition for realising the full benefits of DLT, particularly in the post-trade environment. Tests conducted by the Banque de France and the ECB, notably for the issuance and settlement of tokenised securities, have shown that wCBDC is the most suitable solution to enable safe and efficient settlement, unlocking the advantages of DLT while preventing the emergence of fragmented private DLT platforms that cannot interact effectively. Nevertheless, wCBDC is not intended to cover all use cases. As in today's two-tier monetary system, there is a need to consider the role of tokenised commercial bank money and possibly stablecoins issued by banks. In this framework, and adequacy with bank regulations, participants wishing to settle in stablecoins issued by banks should be able to do so.

However, the official stressed that central banks need a clearer view of market developments in the area of private settlement assets to support innovation effectively. Under MiCA, banks are authorised to issue stablecoins but show greater interest in tokenised deposits, while non-banks, often outside Europe, currently dominate stablecoin issuance. These instruments differ markedly: tokenised deposits replicate traditional bank money, whereas non-bank stablecoins raise concerns for monetary-policy transmission, liquidity, and lender-of-last-resort mechanisms. Understanding how these products will evolve and potentially complete wCBDC is essential to guide central-bank strategy.

Expanding on this, the official also highlighted the distinction between bank-issued and non-bank-issued stablecoins. According to the BIS, non-bank stablecoins face two structural weaknesses: a lack of elasticity, since they operate like narrow banks fully backed by existing securities, and no access to a lender of last resort, which could trigger destabilising fire sales in a crisis. By contrast, bank-issued stablecoins benefit from credit-creation capacity and access to central-bank liquidity, making them more effective for monetary-policy transmission and financial stability, and they are supported by the resilience of banks that are closely regulated and supervised. While non-banks may hold deposits with banks, this is not equivalent to direct bank issuance.

An industry representative considered that, eventually, settlement assets will likely comprise a mix of tokenised deposits, stablecoins, and CBDCs and emphasised that the payments layer is a linchpin of market confidence. A recent survey found that 80% of investors refrain from engaging in crypto, stablecoins, or other digital assets because they lack a safe and regulated environment. To attract these investors, the digital market must be structured to deliver safety, efficiency, and trust, avoiding new forms of fragmentation.

Another official noted that the ECB's two-step approach addresses many of the concerns expressed. The Pontes initiative operationalises settlement in central-bank money on DLT, building directly on recent Eurosystem trials, while Appia will serve as the longer-term framework to bring together CBDC and different forms of tokenised money onto DLT platforms. Appia's design will be developed collaboratively with public and private stakeholders, with a launch paper expected in the first half of 2026, followed by a blueprint outlining the integrated architecture for the future European digital settlement ecosystem.

3.3 Adapting the regulatory framework

An official stressed that developing a digital financial infrastructure is not only a matter of design and technology but also of establishing an adequate and future-proof regulatory framework to support it. Key European regulations, such as the Central Securities Depositories Regulation (CSDR) and the Settlement Finality Directive (SFD), were drafted before the advent of DLT and now create potential obstacles. These stem from outdated definitions (of e.g. "securities account" or "book-entry form") and provisions affecting risk management, including participation criteria, outsourcing, and cash settlement arrangements that require re-examination in the context of DLT. The goal is to design a coherent, long-term framework that enables innovation while maintaining strong risk management and financial crime prevention standards, as risks may evolve or appear in new forms in a digital environment.

Work is underway to prepare the necessary regulatory changes. The European Commission is preparing an ambitious post-trade reform package, and the DLT Pilot Regime should be extended to act as a transitional framework until a permanent regime allows authorised DLT infrastructures to obtain standard licences under permanent legislation. The range of activities covered by the pilot regime should also be broadened, and issuance limits increased. Inspiration can also be drawn from the UK sandbox approach, where supervisory expectations evolve progressively as firms mature and gain experience.

An industry speaker suggested that building a sufficiently integrated environment that ensures interoperability and standardisation will require adapting CSDR and potentially creating a "28th regime" explicitly covering the payments and settlement dimensions of digital assets.

3.4 Strengthening financial crime prevention

An industry speaker emphasised that a digital financial ecosystem can only function sustainably if it is secure and financial crime risks are effectively mitigated. The digitalisation of finance will inevitably attract more sophisticated criminal activity, and lead to consumers being increasingly targeted by scams. According to a recent European Financial Crime Report, around $750 billion in illicit funds, roughly 2.3% of Europe's GDP, moved through European financial systems in 2023, with around a quarter of those funds moving cross-border. These figures show that criminals are already exploiting the interconnected, real-time nature of global payments to launder money and transfer funds at unprecedented speed and scale. As financial systems become faster and more automated, the potential for fraud continues to expand.

To counter these threats and strengthen the financial system's resilience, the industry speaker called for the adoption of AI-based, data-driven, and collaborative approaches. Criminals are already using the latest technologies to defraud consumers, and financial institutions must match this sophistication by investing in AI, big data, and cloud-based systems to overcome the limitations of legacy infrastructures and secure their digital environments. Trust must also be built among public authorities, private institutions, and consumers, which requires placing fraud prevention and consumer protection at the core of the digital ecosystem's design.

The industry speaker further emphasised that effective financial-crime prevention in a digital ecosystem demands industry-wide collaboration between regulators, banks, law-enforcement bodies, and technology providers. The first priority is to align financial crime prevention approaches through clear regulatory guidance. Regulators should define specific typologies of financial crime to help banks allocate resources efficiently toward the highest-risk areas.

Second, cross-border coordination and information-sharing must be enhanced to close loopholes created by fragmented national regulations. A consistent anti–money laundering (AML) and fraud-prevention framework is also needed to standardise procedures and clarify responsibilities across jurisdictions. Finally, the regulatory framework must be future-proof, capable of evolving as both criminal tactics and technological tools continue to develop.

Responding to a question from the chair about how criminal activity might evolve in a digitalised ecosystem, the industry speaker observed that a more digitalised environment will bring both risks and opportunities. Technologies such as generative AI can strengthen defences by automating detection and prioritising investigative efforts, freeing compliance teams from repetitive "checkbox" tasks. Yet these same tools also empower criminals, enabling deepfakes and synthetic digital identities. This creates an AI-versus-AI race, in which technological sophistication on both sides continues to escalate. DLT, while offering many benefits, may also introduce new vulnerabilities, as criminals inevitably learn to infiltrate new systems.

Another industry speaker added that certain structural challenges related to DLT must also be addressed from an AML perspective. One key issue is shareholder identification, as the use of omnibus wallets, similar to omnibus accounts, limits transparency regarding the ultimate owners of assets. A collective decision will be needed on whether to maintain such models or move toward segregated wallets, which offer clearer identification but greater operational complexity.

Wrap up

Closing the session, the chair underlined that building Europe's digital financial ecosystem will require close public–private cooperation. The panel agreed on the need to move beyond experimentation toward concrete implementation, with the Eurosystem's extended pilot phase serving to bridge the gap until the Pontes solution becomes operational at the end of 2026. Panellists also stressed the importance of advancing swiftly and collaboratively to shape a shared vision of the future ecosystem, with Appia providing the long-term framework that will integrate payments and settlement and allow Europe to capture the full benefits of digitalisation.

The chair moreover emphasised that progress must unfold on both technical and regulatory fronts, including the review and expansion of the DLT Pilot Regime. While the final configuration of Europe's digital ecosystem remains uncertain, there is broad confidence that the EU can strike the right balance between ambition and feasibility. Given the cost and complexity of this transformation, it is crucial to define clear, stable objectives to guide collective efforts and sustain momentum.

Cyber-resilience: first lessons from DORA and emerging priorities

1. Implementing DORA: first lessons learned

1.1 Rationale and objectives of DORA

The chair opened the discussion by underlining the importance of the Digital Operational Resilience Act (DORA), the EU's comprehensive policy response to growing cyber and ICT risks in an increasingly digital and interconnected financial system. While digitalisation drives innovation and efficiency, it also increases the sector's exposure to operational disruptions and cyber threats.

Several key features characterise DORA: a cross-sectoral scope, an ecosystem-based approach, and a focus on outcomes rather than prescriptive rules, underpinned by a principle of proportionality consistent with the EU's simplification agenda. At the firm level, it requires institutions to strengthen their operational-resilience frameworks. At the system level, it enhances incident reporting, intelligence sharing, and advanced testing, and establishes a new oversight regime for critical third-party providers (CTPPs).

Designed to be future-oriented and technology-neutral, DORA is intended to adapt to evolving innovations such as cloud computing, encryption, AI, tokenisation, and DLT. With the regulation now in force, the chair emphasised that the key challenge is to translate its principles into effective implementation across the financial ecosystem.

1.2 Added value and conditions for success

A regulator welcomed DORA as a major step towards harmonised cybersecurity standards and a framework that empowers authorities to enforce requirements on third-party ICT service providers to which critical functions are outsourced. The benefits for essential services such as payments and cash operations are substantial. Although the regulation can be demanding for smaller entities, its proportionality rules help ease the burden.

Drawing on Estonia's long experience with large-scale cyberattacks, the country had already built a strong national cyber-resilience framework and established a dedicated cybersecurity agency alongside financial supervision. Yet, the increasing dependence of financial institutions on foreign ICT providers and the unpreparedness of many ICT providers for sophisticated attacks exposed the limits of purely national measures. DORA's added value lies in establishing consistent European standards and enabling cross-border enforcement of resilience obligations.

The regulator also stressed the need for a coordinated response between European and national financial authorities and cybersecurity agencies, ensuring they can act swiftly and cohesively when disruptions occur. This importance was illustrated, for example, by cyberattacks on major payment-service providers. Effective crisis management also depends on clear procedures, well-defined responsibilities, and specialised technical teams capable of intervening directly when financial services are affected.

At the Nordic-Baltic level, supervisors, central banks, and cyber agencies have already conducted joint cyber-resilience exercises, though these have mostly been led by US partners. The regulator encouraged the EU to take greater ownership in organising such cross-border drills, seeing DORA as a catalyst for stronger EU-wide cooperation and preparedness for large-scale cyber incidents.

An industry representative highlighted three positive changes introduced by the DORA framework in the banking sector.

First, DORA recognises that zero risk is unattainable, making recovery and continuity central to operational-resilience planning alongside prevention and mitigation.

Second, it integrates cyber risk into the broader ICT-risk framework rather than treating it as a separate category, prompting firms to clarify and coordinate internal responsibilities for risk management, reporting, and oversight, since no single individual can manage all these dimensions.

Third, it broadens the scope of oversight to encompass the entire digital ecosystem, reflecting the growing significance of outsourcing and third-party dependencies. Data from BaFin indicate that about two-thirds of payment incidents in 2024 originated from service providers rather than banks themselves, underscoring the need for this ecosystem-wide approach.

However, the industry representative noted that differences in authorities, rules, and implementation practices across member states still complicate coordination efforts and highlight the need for greater harmonisation to ensure consistent resilience across the Union.

Another industry representative observed that DORA has acted as a catalyst for progress among ICT service providers. The framework prompted many to conduct detailed internal gap analyses to identify shortcomings, implement corrective measures, and assess the speed at which compliance could be achieved. This levelling-up process has helped raise operational-resilience standards across the wider digital-financial ecosystem.

1.3 First experiences with the implementation of the CTPP oversight framework

An industry speaker explained that while existing financial regulations already impose outsourcing requirements on financial institutions, DORA goes further by introducing direct obligations for third-party ICT service providers. These include testing requirements and, for CTPPs, a system of direct supervisory oversight. This represents a major change in accountability, reshaping the relationship between financial institutions and their external suppliers.

The transition to this new regime is requiring significant educational and collaborative efforts, particularly with providers unfamiliar with a regulated environment. To facilitate implementation, the European Cloud User Coalition (ECUC) developed a compliance checklist for providers and maintained close dialogue with supervisors, underscoring the importance of a resilience approach encompassing the entire financial ecosystem.

Responding to a question from the chair on how CTPPs are supporting clients in implementing DORA, another industry speaker described how the regulation has prompted extensive engagement between their firm, a major cloud service provider (CSP), and its financial-sector clients, whose levels of preparedness vary widely. Helping clients interpret and apply DORA is indeed part of a CSP's role, guiding them through the operational and contractual implications of the regulation.

To that end, in early 2024, their firm updated its contractual agreements to align with the Level 1 DORA text and the forthcoming Regulatory Technical Standards (RTS) on outsourcing, ensuring that the core provisions of Article 30 are reflected in every contract[1]. A mapping exercise was also undertaken to link the firm's services and internal controls to DORA's requirements, enabling clients to understand how compliance is embedded in its processes. Guides and templates were also produced to help financial institutions maintain their registers of information as well as details on how subcontractors are selected and managed, thereby improving transparency across the entire third-party chain.

The industry speaker added that, going forward, CSPs will likely play a more active role in threat-led penetration testing and resilience exercises, depending on the criticality of the data and workloads hosted on their platforms.

The chair observed that DORA is designed to promote continuous improvement in cyber-resilience across the financial ecosystem, rather than imposing a fixed compliance deadline. The industry speaker agreed, but noted that some less-mature financial firms still attempt to shift the compliance burden entirely to CSPs, expecting them to guarantee adherence on their behalf. While CSPs can be key partners, ultimate accountability remains with the financial entity itself. The chair concluded that the success of DORA will depend on how financial institutions and service providers evolve together, striking a balance between shared responsibility and clear lines of accountability to build robust, system-wide resilience.

2. The UK's approach and progress in international coordination

An official explained that although the UK's operational-resilience framework is structured differently, it largely mirrors DORA's objectives. The UK has developed a comprehensive regime that combines policies on operational resilience, outsourcing, and third-party providers. A key distinction is that the UK oversight regime extends beyond ICT services to include any third-party function considered critical to financial market infrastructures (FMIs).

Scenario testing plays a central role in this framework. UK firms are required to design exercises based on "extreme but plausible" events, ensuring they are substantive rather than compliance-driven and involve all relevant stakeholders to make them holistic and realistic. As threat actors become more sophisticated, incidents once considered extreme, such as state-sponsored attacks, are now part of the regular threat landscape, underscoring the need for continuous adaptation. The Bank of England plans to issue new cyber-resilience guidance later in the year, focusing on FMIs. The guidance will summarise recent lessons, identify services most critical for financial stability, and clarify the capabilities required to mitigate systemic risks.

Global consistency is also improving, particularly in incident and outsourcing reporting, supported by the FSB's FIRE framework, which promotes cross-border alignment and a shared understanding of third-party dependencies. This approach helps identify critical providers across jurisdictions and facilitates learning from incidents in other markets.

Because critical service providers operate globally, disruptions can cascade rapidly across markets and borders. The global IT outage caused by CrowdStrike in July 2024 illustrated how quickly such incidents can spread and underscored the need for coordinated responses across jurisdictions and active information-sharing. The UK framework promotes this through industry-wide stress-testing exercises, such as SIMEX[2] and sector-specific tests like CCP fire drills, which strengthen collective preparedness and promote learning across the ecosystem.

In response to a question from the chair about improving communication and coordination among authorities during cross-border incidents, the official confirmed that international collaboration has strengthened and reporting frameworks have become more consistent. Nonetheless, further work is needed to achieve a common understanding

1. Article 30 defines the mandatory contractual elements between financial institutions and ICT third-party providers, such as service-level terms, access and audit rights, and incident-reporting obligations.
2. SIMEX (Systemic Incident Management Exercise) is a large-scale simulation led by the Bank of England to test the financial sector's collective response to severe operational or cyber incidents

of threats, harmonised response measures, and a clear division of responsibilities between jurisdictions.

3. Emerging risks and technological responses

3.1 The evolving cyber-risk landscape and policy implications

An official noted that the cyber-risk environment is becoming increasingly complex and sophisticated, as technological innovation brings both new vulnerabilities and new means to counter them. A key challenge is to manage this balance effectively, ensuring that innovation enhances rather than undermines resilience.

To address this evolving landscape, digital-resilience regulation must remain outcome-based and technology-neutral. Moving from legacy systems to cloud-based infrastructures can help build resilience by design, but also introduces concentration risks and a new risk profile compared to in-house systems, which requires robust shared-accountability models, clear playbooks, and tested controls, alongside potential oversight of the most critical third-party providers.

An industry representative considered that challenges to operational resilience are evolving rather than fundamentally changing. Social engineering remains the dominant threat, but attack methods are increasingly sophisticated, using deepfakes, synthetic voices, and mixed online/offline vectors, such as postal letters containing fraudulent QR codes and the scale of attacks is increasing. The rise of "cybercrime-as-a-service" is also helping to industrialise such attacks, lowering the technical threshold for entry.

Hybrid threats, where disinformation on social media and instant payments can amplify and accelerate financial shocks, are also emerging. The Silicon Valley Bank episode, with 85% of deposits withdrawn in 48 hours, illustrates the speed and communication dimensions of modern crises. In such a context, stakeholders must have a clear understanding of their respective roles and of how existing frameworks - DORA, the Digital Services Act, and national regimes - interlock to maintain confidence and stability.

Another industry representative explained that their firm applies a defence-in-depth approach, a multi-layered security architecture, since no single control can counter all potential attack vectors. This architecture now integrates AI tools to enhance threat detection and response capabilities.

3.2 The dual role of technology: new risks and new solutions

Several panellists agreed that technology, particularly AI, creates both new risks and new defences for operational resilience, equipping both sides with ever more sophisticated tools.

An industry speaker described the dual role of AI. On the attack side, AI enables more precise and scalable threats, such as targeted phishing campaigns, deepfakes, accelerated malware generation, and large-scale disinformation. On the defence side, AI can enhance detection, response, and incident-handling capacities, helping security teams cope with expanding attack surfaces and data volumes. However, it is not a silver bullet and cannot replace analysts, security teams, or the human oversight that remains central to decision-making. In addition, firms deploying AI must do so securely and consistently with their risk and security policies, recognising that AI systems carry their own risks and vulnerabilities.

An official added that while advanced AI improves fraud detection and surveillance, its black-box nature poses governance and supervisory challenges, increasing unpredictability under stress and complicating regulatory intervention. The growing concentration of AI providers may also create single points of failure.

The chair agreed that technology brings both solutions and vulnerabilities, describing it as an "ever-evolving race" rather than a winnable war. A positive development, is that resilience is increasingly built into system design. The chair also underlined the financial sector's natural affinity for AI, given its longstanding use of data models, and emphasised that human judgment and oversight are indispensable to make AI effective in practice.

The official noted that even defensive technologies, such as faster detection and recovery systems, can be weaponised by attackers. In a 24/7 financial system, incidents can escalate within minutes, underscoring the importance of joint playbooks, coordinated testing, and collective preparedness across the financial ecosystem. Tokenisation also brings new challenges and opportunities for cyber resilience[3]. The layered smart contracts and blockchain protocols used to process tokenised transactions increase complexity and can obscure market dynamics, potentially heightening operational fragility. At the same time, these technologies can strengthen oversight. For example, in the case of stablecoins, they can be used to monitor issuance directly on-chain. The Bank of England's Project Pyxtrial aims to track issuance in near real time and flag deviations, contributing to enhanced transparency and stability.

4. Digital assets: specific operational challenges and regulatory adaptations

An industry speaker explained that for ICT service providers supporting Crypto-Asset Service Providers (CASPs), implementing DORA has been a complex

3. Tokenisation also creates new opportunities and challenges from an operational perspective. While it can improve clearing and settlement efficiency, it may also create liquidity inefficiencies due to the pre-funding required for atomic settlement. There are also mismatch risks between on-chain "digital twins" and the underlying real-world assets they represent, which must be carefully monitored.

exercise requiring close collaboration among stakeholders. Many CASPs previously operated outside any regulatory perimeter before the introduction of MiCA, and concepts such as KYC and anti-terrorist financing were initially unfamiliar. Over time, however, these entities have adopted risk-management standards comparable to those of traditional finance, significantly strengthening the sector's maturity and resilience.

The preparation process for DORA has revealed areas where the framework could be refined to better address the specific risks of digital-asset activities. This includes the need for greater technical precision to prevent certain incidents such as those seen on some crypto-asset platforms, for instance by discouraging the use of blind-signed hardware security modules or other insecure key-management technologies. The key challenge is to balance DORA's flexibility and adaptability with the degree of specificity required to manage risks in this rapidly evolving environment.

Building on this, the speaker suggested that DORA could inspire a broader reconsideration of how regulation applies to custodial and software services, ensuring that frameworks evolve to address the distinct characteristics and risks of digital assets while keeping pace with technological innovation.

Asked whether the digital-asset sector requires further regulation given its growing importance, the speaker supported the idea of a digital-asset- or custody-focused extension of DORA. The first step, however, is to define what a good regulatory outcome looks like in a technology-neutral manner. Many supervisors still associate sound security with offline storage in a vault, a model that fails to reflect the true nature of digital assets, whose utility lies in being in motion within blockchain networks, operating without intermediaries and secured through cryptographic control rather than traditional safekeeping. Regulation should therefore ensure that digital assets remain secure while accessible and transactable, recognising this distinctive custody model.

The chair acknowledged the need to adapt custody concepts to the specificities of digital assets and agreed that existing frameworks such as MiCA and DORA provide a solid basis on which to build further regulatory progress. A pragmatic, evolutionary approach indeed offers the best way to strengthen outcomes while allowing for targeted adjustments as technologies and markets continue to evolve.

Open Finance: prospects and next steps of the FiDA proposal

1. Opportunities from open finance

A regulator observed that data is a key asset in today's economies. Financial data sharing, if leveraged correctly, can support innovation and thus economic growth, but it is necessary to ensure that this innovation benefits both incumbents in the financial sector and new players and also customers.

A second regulator noted that open finance could significantly accelerate the digitalisation of financial services, and the adoption of artificial intelligence (AI) in particular, by expanding the volume and diversity of datasets available to train AI models.

A third regulator described the expansion from open banking to open finance as a major growth opportunity. In the UK, it has been estimated that smart data initiatives enabling cross-sectoral data sharing could deliver a £27 billion boost to GDP. Once legislation is passed, the FCA will look to consult on mandation options for data sharing in open finance.

A broader sharing of data could support practical applications addressing real-world challenges, such as improving credit provision for SMEs and households with limited credit histories and strengthening financial inclusion. One example is its potential to ease the burden on vulnerable individuals facing debt. In the UK, over-indebtedness increasingly stems from utility, telecoms or council tax bills rather than traditional financial liabilities. A particular difficulty for those affected is the need to engage repeatedly with multiple creditors and provide the same information, compounding stress at a time of financial fragility. Open finance could enable secure data sharing, reducing this burden and supporting more effective assistance.

Another important application is the development of pension dashboards, now being rolled out in both the UK and Europe. These platforms will allow individuals with multiple employers to view all their pension entitlements in one place, helping them make better-informed decisions about retirement planning.

An industry representative argued, however, that open finance will not have a significant impact on the digitalisation of financial services, because there is no notable customer demand for services based on data sharing. In addition, relatively few customers are willing to share their data. A survey by a French mutual insurer, for example, found that only 9% of customers were prepared to share their insurance data. Europe's financial institutions are already highly digitalised, the group is processing over 12 million digital interactions daily and continuing to invest in new digitalization projects and features leveraging technology, such as more flexible mortgage management. FiDA, on the contrary, risks diverting financial institutions' resources to comply with complex requirements for services customers do not want. It is customer demand, not regulation, that should drive innovation.

2. On-going adjustments to the FiDA proposal and remaining issues to consider

2.1 On-going trilogue negotiations

An official noted that FiDA mandates financial institutions to share real-time customer data, with the customer's consent, to help foster a more competitive environment. This obligation is expected to apply to both retail and corporate segments. It is essential that the regulatory framework strikes the right balance between promoting innovation and ensuring risk mitigation. The level 1 text should avoid excessive regulation and allow sufficient flexibility for an effective implementation on the ground. Trilogue negotiations began earlier this year, with the objective of building on the foundations of PSD2 and creating a more competitive ecosystem.

A regulator noted that the original FiDA proposal, which complements the digital finance package, triggered concerns, especially regarding its complexity and cost for financial institutions and the potential competitive imbalances it may lead to between financial institutions and advanced tech companies.

In response, the Commission proposed simplifications including a reduction of the scope of the regulation by excluding large corporates, credit rating agencies, and smaller investment firms from the data holders concerned by FIDA. These changes are being considered in the context of ongoing trilogue negotiations.

Some of these adjustments may, however, undermine the objectives of the regulation, the regulator noted. First, the combination of excluding large corporates from the customer data category and small, non-interconnected investment firms from the data holder category risks narrowing the scope too much. These smaller intermediaries typically serve fewer but larger clients, meaning this combination of exclusions would leave only medium-sized corporates within scope, potentially diluting the intended reach of the regulation. Second, the proposed exclusion of e-money token and asset-referenced token (ART) issuers is questionable. In most cases, particularly for e-money tokens, issuers are banks or electronic money institutions, which would remain subject to FiDA for other client-related activities. As a result, the exclusion would only apply in practice to ART issuers that are not banks, payment institutions or electronic money institutions, raising concerns about its effectiveness and consistency. Third, the exclusion of

UCITS-related data is difficult to justify, particularly given FiDA's objective to empower retail investors.

Another regulator considered that significant progress has already been made in addressing the key issues posed by the original FiDA proposal such as consent management, cost compensation for data holders and the role of gatekeepers. The objective of simplification in particular is welcome. Standard-setting efforts led at the European level are also essential to improve efficiency and competitiveness, as they are challenging to achieve solely with market-driven efforts. Fundamental objectives should be enshrined in the level 1 text to ensure democratic accountability, while level 2 and 3 measures should not pre-emptively regulate use cases before their value is demonstrated. Applications should be allowed to emerge in the market with guidance coming after their value has been demonstrated.

In response to a question regarding the inclusion in FiDA of insurance data, which is more sensitive, complex and generated less frequently than banking data, the regulator considered that insurance data, particularly that related to savings in pension products, must be within the scope of FiDA. It is indeed important to develop new solutions in this area and to raise awareness of the need for long-term savings.

An industry representative observed that while attention is now being given to the role of digital gatekeepers, FiDA appears somewhat misaligned with today's geopolitical and strategic context. FiDA may favour large non-European tech companies with the resources to exploit data sharing across a broad scope of activities, rather than allowing smaller European fintechs to develop. A similar concern has been raised in discussions on AI. Greater strategic clarity must be established before expanding access to European citizens' financial data.

2.2 Remaining issues to consider

A regulator highlighted three key issues that still need addressing in the ongoing work on FiDA.

First, customers must be aware that their data is not only used to deliver personalised services but may also contribute to training AI systems that ultimately benefit other users. Two approaches are under discussion in the trilogues - a market-driven model and a regulated one - with the latter seen as more suitable for maintaining customer trust. The second issue concerns the definition of customer data. There is a risk that the concept of "raw data" could be interpreted inconsistently, allowing firms to avoid mandatory sharing in certain circumstances. While frameworks such as the GDPR and the Data Act provide useful reference points, they do not offer a fully adequate definition for the financial context. Any definition should therefore reflect sector-specific practices, particularly how customer-originated data is transformed in financial services. Finally, the issue of data retention periods also warrants reconsideration. The Commission's original proposal of a fixed ten-year timeframe is generally seen as acceptable, but the introduction of rolling time limits seems unnecessarily complex and difficult to implement.

A second regulator stressed that several operational aspects, beyond the FiDA regulation itself, must be addressed to ensure the success of open finance. First, financial digital literacy needs to be strengthened so that users can fully benefit from open finance. Second, regulators must engage directly with market participants, to understand the practical implications of open finance and ensure its effective implementation, moving beyond theoretical use cases. This interaction is crucial to defining the right approach and providing appropriate support. Ultimately, success will depend on holistic planning that goes further than the legislative text alone.

An industry speaker stressed that FiDA's success depends on striking the right balance between opportunities and risks. This requires clearly identifying the features of open finance that serve the general interest of market participants and customers, while addressing the legal and technical challenges of the proposal and drawing on lessons from more advanced implementations in countries such as Brazil. In the insurance sector, for example, risk pooling and prudent long-term risk management, supported by regulation to ensure solvency, are key features. The challenge with FiDA is that it could enable new entrants to select risks, leading to a partial demutualisation of insurance and potentially undermining insurers' solvency and financial stability, a trend already visible in areas such as home insurance.

Another key consideration is ensuring operational effectiveness and security under FiDA. The framework must safeguard European digital sovereignty through secure financial data-sharing schemes (FDSS) at national level, with clear governance structures and an appropriate division of responsibilities. Data sharing should be based on explicit, double-verified consent. Success also depends on leveraging existing European data and API standards and phasing in requirements gradually, according to effective use cases and the operational capacity of market participants.

A second industry speaker echoed concerns about the potential demutualisation of risk under FiDA, stressing that mutualisation is equally vital for banking activities to support financial inclusion.

A regulator noted that moving to open finance requires data to be shared with a wide range of entities, including utilities, telecom and energy providers. This presents an additional challenge, making digital identity solutions and open APIs essential components of open finance.

3. Challenges posed by the FiDA regulatory approach

3.1 The risk of over-regulating

An industry representative warned that there is a risk of stifling innovation through excessive regulation. FiDA, in the speaker's view, reflects an outdated assumption that regulation can by itself foster growth and innovation. What Europe now needs is regulatory simplification and an end to the constant accumulation of new rules. A recent CEPS survey found 101 laws and

88 governance bodies applying to the European digital sector, illustrating the scale of regulatory accumulation. Developing data sharing on the basis of bilateral contractual agreements, seems preferable to additional regulatory requirements. Their bank already offers open banking services in partnership with fintechs on a contractual basis. This model works well as it preserves data privacy and security, ensuring greater customer trust.

An official observed that regulators often face the recurring "chicken-and-egg" dilemma of whether they should take the lead in driving innovation. While regulators are not intended to be first movers, there are situations where an initial push is necessary. Without such intervention, progress may be too slow with market participants moving in different directions

3.2 Lessons learned from PSD2 and the implementation of open banking

An industry speaker questioned the fundamental rationale of FiDA, drawing on three lessons from PSD2 and the implementation of open banking in other jurisdictions. First, building an infrastructure alone does not ensure customer adoption or added value. Despite PSD2, open banking usage in Europe remains below 2%. It is therefore essential to identify the concrete benefits FiDA could deliver to customers and the specific problems it would solve before rolling out the regulation.

Second, sharing financial data is technically complex. PSD2 dealt only with transactional account data, which is relatively standardised, yet still required significant effort to harmonise formats, develop APIs and define service-level agreements. Extending this to all types of financial data would demand far greater time and investment.

Third, PSD2 lacked a clear authority responsible for making open banking work, stimulating customer demand and supporting fintech activity. Without such leadership, FiDA risks the same shortcomings. To succeed, it must address real consumer needs, realistically assess implementation costs, and be driven by a dedicated coordinating body. The UK's experience illustrates the value of an implementation entity, and for FiDA this role could be fulfilled through a public–private partnership.

A regulator considered the UK's open banking experience as broadly successful. Although it required significant effort from all stakeholders, it created an infrastructure that has delivered substantial consumer benefits and stimulated fintech growth. Today, around 15 million consumers in the UK use open banking, which has been enhanced with features such as variable recurring payments. In January alone, 5% of all tax payments were made using open banking. The initiative has also supported the development of a vibrant fintech ecosystem, with around 150 third-party providers active in open banking, some of which have grown into global players.

The regulator agreed that progress on open finance must be collaborative and driven by a central authority. In the UK, this function is supported by the Smart Data Accelerator, which is designed to encourage experimentation and test new use cases as open banking evolves into open finance.

4. Lessons from international comparisons

Panellists also reflected on international experiences, drawing comparisons with the UK, Brazil, the US, and other jurisdictions.

A regulator noted that jurisdictions such as India and Brazil are advancing quickly on open finance, highlighting the need for the EU to keep pace. International coordination is also important in this area to ensure interoperability of open finance standards across jurisdictions. This work is being advanced through an interoperability committee under the Bank of International Settlements Innovation Hub Hong Kong Project Aperta, which the FCA co-leads with the UAE Central Bank.

An industry speaker observed that approaches to open finance differ significantly across jurisdictions, with the EU, UK and Brazil each pursuing distinct models. Some rely mainly on regulation, while others are more market-driven. Developments in the US also warrant attention. The CFPB proposed a regulation at the end of 2025, but implementation has been put on hold, highlighting hesitation in advancing open finance. At the same time, a major payment provider has reportedly scaled back its ambitions in the US, shifting focus to markets with greater opportunities, such as the EU and Latin America.

A second industry speaker provided further detail on Brazil's Open Insurance (OPIN) framework, developed by the insurance supervisor SUSEP following the launch of open banking. Implemented in four phases over four years, the framework began with the sharing of non-personal data such as product information and pricing. In 2022–23, it expanded to include personal and transactional data, subject to explicit consumer consent. In 2024, the third phase introduced service portability and interoperability, extending to open pension plans and microinsurance, while the fourth phase aims to unify standards across the wider financial sector. Recent regulatory updates have extended deadlines and clarified participant roles to ensure inclusiveness and broad benefits for stakeholders.

The costs of open finance platforms are shared proportionally among market participants. SUSEP enforces API standards consistent with Brazil's data protection law, an important distinction from the EU, and oversees data exchanges through secure platforms and approved APIs. Key use cases include tools that give customers consolidated visibility of their financial assets, enable comparison of offers, and facilitate switching between providers. Fintechs and aggregators are expected to seize these opportunities to expand their presence in the market.

Sessions

IV

PAYMENTS AND THE DIGITAL EURO

Policy priorities for the payment single market

1. Sovereignty and interoperability: aligned objectives for a resilient European payment landscape

1.1 European sovereignty requires global interoperability, not isolation

A policymaker stated that there is no contradiction between achieving European sovereignty in payments and ensuring global interoperability. Payments are inherently global and network-based, and Europe must develop solutions that are compatible internationally. Fraud, for example, is a global challenge that cannot be tackled in isolation. If fraud is only addressed within the EU, the fraudsters will target Europe from countries outside of the EU. A successful payments policy must take account of both European specificities and global needs.

1.2 Multiple interoperable systems mitigate systemic risk and reinforce user choice

An official emphasised the need for both European sovereignty and a resilient, diversified payments ecosystem. A single solution could represent a single point of failure and is therefore insufficient. Instead, multiple interoperable systems are necessary to avoid systemic vulnerabilities. Private initiatives are welcomed, particularly those contributing to interoperability. Public and private solutions can be complementary, although they have different functions and goals. For example, private solutions will benefit from the network effects of the digital euro because of its mandatory acceptance regime. Open technical standards and APIs are crucial to ensure seamless integration between the digital euro and private payment solutions. Ultimately, consumers should have free choice among payment solutions.

1.3 National cooperation models enable scalable and competitive European solutions

An industry representative observed that Bizum's success in Spain demonstrates how strong collaboration among banks can reduce fragmentation and ensure widespread adoption. With over 30 million users, Bizum has expanded from P2P to e-commerce, where it now accounts for up to 30% of transaction volumes for merchants offering it. Bizum's large market share in the consumer population has driven demand among merchants for Bizum e-commerce solutions.

Cross-border interoperability remains a key challenge. Bizum is already interoperable with Italian and Portuguese systems and is working with other European counterparts including Nordic solutions and Wero, which is currently concentrated in France and Germany. These payment solutions, similarly to Bizum, want to offer an alternative to current methods. Building a network of interoperable national solutions is essential to support competition, innovation and user experience across the EU.

2. Regulation as an enabler: harmonisation, legal certainty, and proportionality

2.1 Harmonised frameworks reduce fragmentation and support innovation

A policymaker shared that the Payment Services Directive 3 (PSD3) and the proposed Payment Services Regulation (PSR) aim to reduce fragmentation by eliminating national divergences and merging the payment services and e-money frameworks. As a regulation, the PSR will ensure uniform application across the EU.

These reforms aim to provide a stable, future-proof legal environment for innovation and user protection, but this takes time to design. The initial proposal was two years ago and negotiations are still underway. There is no chance of a PSD4 or a PSR2 in the near future so care must be taken to ensure that the current legislation is fit for purpose. PSD3 and PSR should be seen as a part of a broader scheme including the Instant Payments Regulation (IPR) and the single euro payments area (SEPA) regulations.

The alignment between public and private sectors is fundamental to Europe's payments strategy. The public sector must define the vision, establish a conducive regulatory environment, and co-develop standards. The private sector, meanwhile, should focus on building innovative solutions within this framework, working in close cooperation with the public side. Public-private alignment remains crucial to avoid duplicative or incompatible efforts. Harmonious coexistence between public and private solutions is needed to prevent internal competition and ensure an integrated ecosystem.

2.2 Proportional and clear regulation is key to innovation and inclusion

An industry representative commented that Europe's regulatory framework has successfully enabled innovation, especially in the e-money sector. However, three key issues need attention.

First, anti-money laundering and countering the financing of terrorism (AML/CMT) regulation must be proportional and risk-based, as e-money products vary in form and use case. Many e-money products already have AML/CFT controls built into the framework and overly rigid rules can reduce their effectiveness. A risk-based approach would enable companies to use technology to target specific identified risks. The legislative framework, supported by the new Anti-Money Laundering Authority (AMLA), needs to enable this.

Secondly, access to banking infrastructure remains a barrier for non-bank payment service providers (PSPs), with many still struggling to obtain necessary accounts across the EU. De-risking decisions taken by banks prevent the creation of a level playing field. Lack of access to banking rails significantly impacts the ability of European innovators to scale. Access to one bank is not enough if a company is aiming to roll out a product across Europe in multiple currencies. Customers want to use different payment options in different markets, but these options can only be offered with the help of a variety of different banking relationships.

Thirdly, there is a need for legal certainty and a reduction in bureaucracy. Disparities in definitions, for example for e-money and distributors, complicate the roll-out of products across Europe. Duplicated reporting obligations across jurisdictions, with the same information often required by both home and host regulators but in a different format or language, increase costs without adding oversight value.

Aligning rules, reducing administrative burdens and ensuring fair access are crucial for sustaining Europe's payments leadership.

2.3 Regulation must evolve with innovation while preserving user protection

An industry representative explained that, from Amazon's perspective, three major challenges hinder the European payments market: the lengthy onboarding of payment methods across borders; customer experience gaps due to limited functionality or acceptance; lack of sustainable business models to incentivise investment in new methods.

Innovation to reduce friction while maintaining security should build on existing tools. Amazon has demonstrated its ability to safely manage the trade-off between security and innovating to reduce payment friction with its very low fraud rates despite offering one-click purchase functionality. Managing this, however, is very time consuming and resource intensive.

Lessons from PSD2, such as harmonised authentication and delegated models, can be refined in PSD3. Banks have yet to fully implement some features like trusted beneficiaries or delegated authentication. Unconditional refund rights do not protect customers in the way they were intended to and instead provide opportunities for abuse and fraud, so should be reviewed.

3. Ensuring trust and security: a shared responsibility for fighting fraud

3.1 Liability for fraud must extend across the digital ecosystem

A consumer representative emphasised that consumer choice and inclusion are essential. While innovation and legislation have improved the ecosystem, for example through instant payments and two-factor authentication, challenges remain. Despite the wide range of new options on the market, the underlying infrastructure is highly concentrated, which creates dependencies. Resilience needs to be built into the monetary system.

Regardless of the need to ensure access to cash and the associated legislative developments, the declining use of cash is a reality. This will require preparations to ensure that digital alternatives remain inclusive, secure, and affordable. Vulnerable users must not be left behind as cash use declines.

The cost of fraud disproportionately affects consumers, especially in the case of authorised push payment scams. At present, 86% of the losses due to fraudulent credit transfers are paid by consumers. The fact that such a large number of people are affected by this type of fraud suggests that it is not due to the negligent behaviour of individuals but is instead a systemic problem. The European Consumers' Organisation, the Commission and the co-legislators are currently working to address this.

Liability must be more evenly distributed across the digital ecosystem, including the platforms and social media sites where fraud often originates. Some mechanisms are already available to assist with this. For example the Digital Services Act (DSA) can play an important role in relation to these intermediaries.

An industry representative (remarked that trust is the foundation of payments and fraud is the biggest threat. As scams increasingly begin outside financial systems, current liability frameworks are too narrow. At the present time, liability is limited to either the consumers or the financial service system. In contrast, the platforms where the fraud originates face very few consequences. Platforms are not penalised for practices that enable fraudsters to connect with victims and therefore there is no incentive for them to change.

A shared responsibility model is essential to maintain consumer trust in the payment system. The payments industry must push for liability allocation that covers the full fraud chain, from origin to settlement. Refunds alone cannot maintain consumer trust; prevention is the priority.

3.2 Refunds are not enough: prevention and collaboration are essential

A consumer representative commented that, although it is laudable that companies want to make the consumer experience as seamless as possible, a certain level of friction in payments can protect consumers. For example, two-factor authentication has had a dramatic success in preventing unauthorised payment fraud. As scams evolve, especially authorised payment fraud, regulation must follow and adapt. Refunds help but are not enough; platforms where scams originate must be held accountable.

The banking system needs to introduce mechanisms to alert and identify suspicious transactions. Tools like IBAN verification should be leveraged to reduce fraud, although there will be no one solution that completely eliminates fraud. Instead, different actors, including the consumer, social media firms, banks and payment service providers, will all need to collaborate to introduce a variety of measures and mechanisms.

3.3 Data sharing and harmonised models can reduce friction without compromising security

An industry representative shared that Amazon supports improving information sharing between banks and merchants to combat fraud. Initiatives under PSD3 could facilitate proofs of concept in this space. Fighting fraud is a shared responsibility across the value chain.

4. A digital euro for all: balancing innovation, trust and stability

4.1 The digital euro must offer inclusion, privacy, and offline functionality

An official suggested that the digital euro can serve as a sovereign anchor, fostering inclusion and privacy. Offline functionality is also critical, as it offers privacy akin to cash, which is a priority for consumers, and helps counter public distrust or misinformation.

A consumer representative observed that the digital euro is an important initiative that could play a major role if designed with consumer needs in mind, particularly in relation to privacy and ease of use. Consumers will only adopt the digital euro if it offers the features they require. The aim is not for all consumers to only use the digital euro but instead to create real choices and alternatives in payment solutions and the underlying infrastructures.

4.2 Fair compensation models are crucial for ecosystem buy-in

An official remarked that there are two elements necessary for the digital euro to be a success. First, it will need to be accepted in society by consumers, businesses and corporates. Secondly, active participation of financial institutions, such as banks and PSPs, will be vital for distribution of the digital euro. A fair compensation model for all players in the value chain, including merchants, consumers and financial institutions, is essential. A Council working group is currently considering the design of a potential compensation model. Holding limits remain a key issue for financial stability, with ongoing discussions in the Council and Eurogroup. An agreed solution on this is expected to be announced soon.

4.3 Complementarity with cash and business-to-business use cases broadens utility

An official commented that the digital euro's application to corporate use cases, such as in supply chains and machine-to-machine payments, deserves more attention.

Cash, meanwhile, remains vital for inclusion and resilience. Reflecting this, the combination of the regulation on the digital euro and the regulation on cash as legal tender are known as the single currency package. Both are important. Germany supports finalising both digital euro and cash regulations in parallel by year-end.

5. Building sustainable and user-centric business models

5.1 Consumer expectations go beyond low cost: functionality and services matter

An industry representative concluded by noting that consumers and merchants expect not just low-cost payments, but comprehensive solutions and features. Some features will be directly related to payments, for example fraud chargebacks, while other, equally important, features are related to data analytics, financing and loyalty. Each feature has a cost and provides different value to different stakeholders.

Building a sustainable business model requires distributing costs fairly among all stakeholders. Bizum's model in Spain shows that this is possible by offering free or low-cost services to users while ensuring industry sustainability through cooperation and scale.

5.2 Misaligned incentives between consumers and merchants hamper innovation

An industry representative remarked that payments are unusual because a customer chooses the payment method, but a merchant pays for it. This asymmetry is creating entry barriers and a lack of competition. It can only be resolved through public-private collaboration. There are three priorities to address this:

Firstly, the customer experience must be standardised across payment methods. A pan-EU sovereign alternative should not be designed as a minimum viable product because customers will not adopt it.

Secondly, customer experience should become a regulatory benchmark. This will force firms to invest rather than do the minimum possible to be compliant.

Thirdly, the new business models for the new world, adapted to modern payment actors, must be defined. Simply replicating the models of incumbents, such as interchange or four-party models, will not be sufficient. Merchants will need to be a part of this but are often reluctant to invest their time. Merchant engagement in shaping the future of payments must increase to ensure successful outcomes.

Retail payment innovation

1. Overcoming fragmentation to achieve strategic autonomy in payments

1.1 'Supervisory fragmentation prevents scaling': fostering cross border payments under Payment Services Directive 3 (PSD3) and Payment Services Regulation (PSR)

An official explained that the French Ministry of Economy, Finance and Digital and Industrial Sovereignty has long prioritised strategic autonomy, but the current European retail payments landscape remains inconsistent with this goal. Nationally fragmented markets and regulatory divergences hinder the development of EU wide players. For instance, only nine of the 27 EU member states have national card schemes. One of the key barriers is supervisory fragmentation. This is very important in the payments space because companies seeking to be genuinely pan European still have to deal with many different supervisors. This issue will have to be addressed as part of the work on PSD3 and PSR.

1.2 European Payments Initiative (EPI) and EuroPA interoperability: a promising signal for EU level initiatives

An official remarked that the recently announced interoperability between the EPI and EuroPA consortia is a promising development. While Europe is not yet where it needs to be, this trend towards interoperability points in the right direction.

1.3 Strategic autonomy cannot be legislated into existence; regulation should create the conditions for the EU payments ecosystem to thrive

An official noted that strategic autonomy cannot be legislated into existence. Instead, regulators should focus on creating the conditions which will enable the EU payments ecosystem to thrive. While PSD2 has not fulfilled its potential, it has opened up several new opportunities. However, these opportunities have not been capitalised on. The ongoing discussions between the Commission, Parliament and Council are focused on what else can be done to make PSD2 a success. The next step is to build trust, notably through transparency on fees. Introducing robust transparency clauses into PSD3 and PSR will be very important in fostering trust. Furthermore, the regulators need to broaden their understanding of the payments ecosystem. They need to look beyond traditional payment services providers (PSPs) and consider the roles played by telecommunications firms, digital wallet providers and technical acceptance provider, among others.

2. Ensuring resilience and continuity in a digital payment environment

2.1 'Fallback mechanisms must be ready': building systemic resilience to outages

A Central Bank official cited the example of a recent payment system outage in Denmark, which occurred on a Saturday evening. This incident provided a real world stress test of the Danish payments system. Although some firms had offline solutions, some of their staff members lacked the training to activate them properly. On a positive note, some shops and retailers were able to shift to account to account (A2A) systems, which are integrated into the Danish payments system, as an alternative to card based payment rails.

An industry representative commented that the growing reliance on digital payments underscores the importance of resilience. If electricity or connectivity fail, as recently happened in Spain, fallback mechanisms such as offline payments must be ready to be deployed. Industry and government need to develop and test these back up systems jointly. Testing will be very important to ensure that these systems can act as a necessary to ensure the resilience of payments system during a crisis.

2.2 Offline payments in mobile centric systems: the Danish deferred authorisation model

A Central Bank official remarked that Denmark's national card scheme already includes an offline capability, but consumer habits have shifted, and younger consumers are increasingly paying with their smartphones. Around 25% of in store transactions are conducted via mobile wallets such as Apple Pay or Google Pay. In recognition of these changes in the behaviour of Danish consumers, Denmark is seeking to implementing a deferred authorisation model, which works in a similar way to inflight transactions, in which payments are recorded and processed once the system reconnects to the network. This initiative aims to integrate an offline capability into modern mobile centric payment infrastructure. The largest grocery chain in Denmark has agreed to join this project and hopefully the remaining major Danish grocery chains will have joined by early 2026.

2.3 Resilience is a shared responsibility

A Central Bank official emphasised that the experiences in Denmark and Spain underline the need for broader contingency planning and system wide preparedness.

An industry representative agreed that resilience must be a shared responsibility across different actors. Governments and industry players should engage in joint testing and scenario planning rather than acting in isolation. Visa recently r published a European resiliency report which contains recommendations on how to drive resilience in the EU payments ecosystem. No payment system is stronger than the weakest link in the chain. Everybody in the payments industry, including electricity companies and telecommunications firms, needs to work together to secure the payments system.

3. Securing the payments system and maintaining trust

3.1 'Fraud is the biggest threat to trust'

An industry representative observed that trust is the key ingredient in all payment methods, and fraud is the greatest threat to trust. Visa deflects up to 10,000 attacks per minute every day and it has invested €11 billion in fraud prevention over the last five years. It is not a coincidence that Visa's systems are secure. The fight against fraud is incredibly resource intensive and essential to the security of the payments ecosystem.

An official commented that fraud today is not about stealing a bank card; it is about social engineering. The victim uses their credentials to authorise fraudulent payments. Regulation must try to provide an answer to this challenge. Indeed, payments is a network business. All the stakeholders in the industry must be involved in fighting these issues.

3.2 Telecommunications firms are key enablers in fraud prevention

An official explained that telecommunications firms need to be involved in the fight against fraud, as digitalisation and communication channels are being increasingly used as vectors of fraud. This is a challenge for telecommunications firms, which have a duty to enable communication. In many cases, they are not legally allowed to block communications. In countries such as Spain, Belgium and the Netherlands, national legislation allows telcos to block calls and SMS messages that do not comply with domestic numbers authorisation regulations. In Spain, millions of phone calls and SMS messages have been blocked since this piece of legislation was implemented in February. The fraudsters will always find another way to defraud, but the cooperation of telecommunications firms is essential in fighting back.

3.3 Strong customer authentication (SCA) and IBAN checks, effective but not sufficient

An industry speaker observed that the introduction of measures such as requirements for IBAN checks or mandatory strong customer authentication (SCA) are highly effective fraud prevention tools. This is one way in which regulators can play an important role in the payments space.

An official noted that the PSD2 and PSR reforms are focused on fraud prevention, liability and the involvement of telecommunications companies. On prevention, the Council's compromise text seeks to enable the monitoring of suspicious activity through data sharing that adheres to the EU's data protection rules. On liability, the Council has endorsed a balanced approach that provides legal certainty and ensures that the victims of bank impersonation fraud will be reimbursed by the relevant financial entity.

4. Inclusivity and consumer centric innovation

4.1 Avoiding single points of failure

An industry representative emphasised that consumers need to be able to access a diversity of different payment methods that are secure and can be trusted, especially during crisis scenarios. There should not be a single point of failure. It must be as safe to pay with using A2A or instant payments as it is to pay by card or cash.

4.2 Avoiding digital exclusion

An official explained that the digitalisation of financial services risks excluding many different vulnerable populations, including the elderly, the disabled, low income groups and people who live in rural areas. This digital divide became more evident during the pandemic.

In 2021, several Spanish associations of elderly people called for greater accessibility of financial services, including payment services. The Spanish Finance Ministry has constantly promoted a self regulatory approach to improve financial inclusion, and the answer from the industry was fantastic. In July 2021, the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA) and the National Union of Credit Cooperatives (UNACC) signed a protocol on financial inclusion, which has since been updated twice. The first protocol included specific measure to improve in person and telephone attendance by extending opening hours, adapting devices and ATMs, adding visual features, simplifying language used and ensuring that the interaction is as easy as possible. The second update to the protocol focused on access to financial services in rural areas and sought to guarantee access to cash in every municipality in Spain. Many other jurisdictions are facing this issue. The solution cannot be to put a branch in every single local area. The use of mobile points of access or the use of postal infrastructure are two potential solutions. The Spanish government operates a national observatory to monitor the implementation of these measures. The website is updated every six months, detailing how access to cash is guaranteed and the types of measures that are available to help the elderly and disabled people.

Today, 98% of Spain's population live within five kilometres or 10 minutes of a point of access to financial services. These results demonstrate that public–private self regulation can be more effective than formal legislative mandates.

4.3 Innovation must be useful and fun, and it cannot be imposed by regulation

An industry speaker emphasised that regulatory attempts to foster innovation, such as PSD2, have largely failed. In France, open banking is not a success. Fewer than 10% of clients have used account aggregation and only 1% have initiated payments via third party providers. At Société Générale, over 99% of retail consumer transfers are initiated within the bank. For business customers, the proportion of payments initiated outside the bank is around 0.1% or 0.2%. The proposed Financial Data Access (FiDA) regulation risks becoming an even more costly misstep. The EU should learn the lessons from Australia's failure to implement a similar legislative approach. In contrast, innovations such as contactless, mobile wallets, instant payments and peer to peer (P2P) transfers have thrived because they bring something fun or useful to consumers. People only use new features when they are fun or useful. Ultimately, the consumer will decide whether an innovation is successful or not. Mandating innovation by law is useless. Innovation is a process of trial and error, and regulation cannot be done by trial and error.

An official commented that FiDA will be able to build strategic autonomy in payments on its own. If FiDA proves necessary, it will need to be implemented using a market based solution.

An industry representative stated that payment innovations must be secure, easy to use and aligned with evolving consumer expectations. If consumers are worried about whether a payment will be successful or whether they will be defrauded, they will not use a new and innovative payment method. Trust is a key requirement for all new payment methods or products, including the digital euro.

5. Incentives and business models for the digital euro

5.1. The incentives need to be properly aligned to ensure the digital euro is a success

An industry speaker remarked that the current digital euro proposals do not offer a viable business model to distributors, such as banks. Distribution should not come with an additional cost burden. There must be a fair business model which covers distribution costs, running costs and fraud costs. The cost of fraud is often overlooked. Financial firms have to spend very significant amounts of time and money to prevent fraud and deal with its consequences.

5.2. Legal tender status is not enough: the digital euro must offer user experience, trust and privacy

An industry speaker explained that the legal tender status of the digital euro will ensure merchant acceptance, but consumer adoption will hinge on user experience, trust and privacy. The ECB's efforts on privacy are promising, but citizens must be convinced it is private. In this regard, the marketing of the digital euro will be crucial. Even if it is a technical and strategic achievement, it will not work if consumers do not trust it. While there are legitimate reasons to launch the digital euro, such as the need to maintain strategic autonomy, the current proposals do not offer anything new or attractive for consumers. There is no compelling reason why a consumer would choose to use the digital euro.

5.3. Interoperability and coexistence

An industry speaker stated that Private solutions face a competitive disadvantage because they do not benefit from legal tender. To ensure a level playing field, regulation could mandate the distribution or acceptance of at least one pan European private solution and enforce interoperability between these private solutions. Ultimately, the industry will need time to develop its own private solutions. When the digital euro project is launched, banks will struggle to invest simultaneously in their own private solutions and the mandatory public solution. Therefore, the launch of the digital euro project should not happen too soon and it should follow a staggered approach.

Even if the digital euro is launched, the EU will also need private solutions for resilience reasons. The EU payments industry will build a pan European payment solution based on its assets. This is the private sector's answer to strategic autonomy and banks will deliver it. All use cases will be rolled out: P2P payments, point of sale transactions and online payments. It will be vital to develop and adopt common acceptance standards to make these systems interoperable. There are ongoing discussions between consortia such as Wero and EuroPA to build interoperable A2A solutions in Europe. Wero has already enrolled 44 million users and 25 banks, and it plans to expand beyond the eurozone. The digital euro will not be able to compete with private global solutions if its use is limited to the eurozone.

Cross-border payments

1. Progress on payment systems infrastructure: extending operating hours, direct access to non-banks and ISO 20022 migration

A regulator observed that the current complexities around cross-border payments and rapid evolution in the field make it difficult to predict future developments. Authorities will need a full and clear understanding of the present situation in order to achieve the G20 goals. The J-FSA will prioritise close engagement with relevant industries as it explores how to meet these objectives. Each jurisdiction faces unique challenges around cross-border payments and there is no one-size-fits-all solution. Although the approach of one country may not be directly applicable elsewhere, other countries can learn from the policy measures implemented.

1.1 Operating hours of RTGS systems have expanded, with two-thirds of jurisdictions either having extended hours or concrete plans to do so

An official reported that operating hours of real-time gross settlement (RTGS) systems have expanded, with a number of RTGS systems already operating 24/7 or contemplating doing so. In those that are not operating 24/7, extended operating hours increase the likelihood of overlapping operating hours across jurisdictions.

1.2 Direct access by non-banks to payment systems is expanding, with up to two-thirds of all fast payment systems and RTGS systems potentially offering this access soon

An official noted that progress has been made on direct access by non-banks to payment systems. At present, around one-third of fast payment systems and one-quarter of RTGS systems offer direct access to non-banks. If current plans materialise over the following years, up to two-thirds of all fast payment systems and RTGS systems will offer direct access to non-banks.

1.3 ISO 20022 migration will be key to improvements in communication, with eight out of 10 RTGS systems planning to align with harmonised data requirements

An official commented that the ISO 20022 migration will be key to improvements in communication.

An industry representative observed that the new ISO 20022 messages will be an important milestone in cross-border payments, with the use of a single language reducing inefficiencies.

2. A strong foundation has been laid, but G20 roadmap targets remain unmet in key areas

The Chair explained that the ambitious G20 roadmap sets clear quantitative goals to make cross-border payments faster, cheaper, more transparent and more inclusive by 2027. Although some progress has been made on the 19 building blocks of the roadmap, there are some outstanding issues. Resolving these will require collaboration from the public and private sectors.

An official explained that the cross-border payments roadmap is a joint initiative of several international organisations, including the Bank for International Settlements (BIS), the Financial Stability Board (FSB), the International Monetary Fund (IMF) and the World Bank.

2.1 Costs remain stubbornly high in some corridors despite global improvements

An official noted that global efforts have already resulted in significant improvements. For example, wholesale payments are moving faster, and account ownership is increasing, as reported in the recent World Bank fintech survey. Transparency on sender fees has improved. Costs are trending down, especially in corridors where fast payment system interlinking is present. However, remittance costs are sometimes in the double digits in regions such as sub-Saharan Africa, against the 3% target for 2030. Retail payment costs tend to be higher than the 2027 target of 1%.

2.2 Speed is still a concern, with retail payments often taking hours or days to reach a beneficiary, while transparency requires more work on FX margins and receiver-side charges

An official observed that there are major gaps in account access in regions such as sub-Saharan Africa, the Middle East and northern Africa. Transparency requires more work. For example, FX margins or mark-ups are sometimes opaque to the end user. Receiver-side charges and intermediary fees are not always transparent for the end user from the outset.

A regulator commented that, although cost is reducing globally, due in part to new technologies, speed remains a challenge. Time zone differences are a natural barrier, particularly for countries such as Japan, which is geographically distant from countries it has strong economic ties with.

2.3 Wholesale transfers between G10 countries are not a problem, but effective solutions are not always in place for emerging market and developing economy currencies

An industry representative stated that the FX market is the world's largest financial market and is clearly systemically relevant. Efficient processes and robust risk mitigations are therefore vital. In the wholesale area, transfers between G10 countries are not a problem as solid links and processes are in place. These links have not yet been created with most emerging markets and developing economies. The Chinese renminbi will likely feature very prominently in the BIS tri-annual survey results due to be published in September, but effective solutions are not always in place for emerging market and developing economy currencies. Strong growth in this area means that the segment of the market that is not fully risk-protected and not running efficiently remains stubbornly high.

However, the situation is improving through a number of public-private sector partnerships.. In March 2025 the payment interoperability and extension taskforce under the umbrella of the CPMI published reports on FX settlement risk and operating hours, which included a list of concrete actions needed for further progress. The global FX Code standards best practices is another valuable public-private sector partnership initiative which was strengthened earlier in 2025.

An industry representative explained that Swift processes trillions every day and is a wholesale network.

3. Many of the significant issues are concentrated in the 'last mile', not bank to bank or on the Swift platform

An official suggested that building links between payment systems can be compared to building a bridge: a solid foundation and proper cooperation will be needed and the larger the gap the more difficult the task will get.

3.1 Technology issues and the lack of real-time, 24/7 infrastructure, combined with heavy regulation and local market practices, drives delays in less developed countries

An industry representative shared that Swift has already significantly upgraded its platform. Currently, 90% of all transactions on Swift are processed within an hour, which is above the G20 target. This demonstrates the efficiency of the bank-to-bank rail. The global payments innovation (GPI) tracker tracks payments and increases transparency. The back end of the platform is very efficient. Many of the remaining impediments are situated in the 'last mile', for example with delays between a payment arriving at the bank of the beneficiary and being credited to the beneficiary. Swift has carried out intensive work to explore the reasons for this delay and will be publishing a paper shortly. BIS has taken a similar approach to the market infrastructures. A review of the top 40 countries that send and receive payments on Swift reveals that payments are more efficient, with regard to both speed and transparency, in advanced economies than in less developed countries.

One driver of delays is technology issues and the lack of real-time, 24/7 infrastructure. Some banks, even in advanced economies, are still using non-real time legacy systems. Opening hours of banks or market infrastructures can be limiting. Operational processes may involve manual intervention. Some countries impose heavy regulation in terms of risk control, currency and capital control, regulatory reporting and requiring purpose codes for payments before acceptance. Additionally, local market practices can go beyond regulation. For example, in some banks it is still common practice to contact a beneficiary to ask them to explain the purpose of the payment. Some large retail banks, including in Europe, do not have a centralised process, so a retail branch needs to validate an international payment.

A central bank official confirmed that many of the significant issues are concentrated in the 'last mile'.

3.2 Banks need to upgrade their front end so that the end client is aware of when the payment will arrive and what the fees will be

An industry representative shared that, after discussions, 400 banks have acknowledged the need for front-end improvements and 200 have already implemented an upgrade.

A regulator observed that transparency, particularly around retail payments or remittances, is closely linked to consumer protection and will require cooperation among the service providers involved. The fourth principle of the fiduciary duty introduced by Japan in 2017 requires financial services providers to clearly disclose all fees borne by customers and explain what services those fees correspond to. Amendments to Japan's Act on the Provision of Financial Services explicitly extended this principle to providers of cross-border payment services.

3.3 Country and bank action plans for automation are needed, focusing first on the G20 countries

An official reported that the Committee on Payments and Market Infrastructures (CPMI) and FSB have been conducting the input factor monitoring survey to explore changes in areas such as payment system interoperability and extension, data exchange and messaging standards.

An industry representative stated that Swift is working with key stakeholders, including regulators and banks, to develop country and bank action plans for automation, focusing first on the G20 countries. Transparency is monitored not just from the perspective of costs, because Swift does not necessarily have an overview of all the costs, but also trustworthiness. Most countries track payments through the GPI and this has increased efficiency globally.

A regulator emphasised that Japan is committed to improving cross-border payments, not only due to the international agreement in this area but also the strong belief that it is essential for the sound functioning of the domestic financial system. Requiring all financial institutions to operate 24/7 systems could result in the smaller banks that cannot afford the development costs exiting the cross-border payment market, with the unintended consequence of limiting access.

4. Technology is never the barrier to improving cross-border payments; legal frameworks and regulatory compliance are the problem

4.1 Experiments conducted by the BIS innovation hub have concluded that technology is not a significant block to implementing solutions

A regulator commented that technology is not a barrier to cross-border payments. New services made possible using technology benefit end-users, but new risks will also emerge. Rather than focusing on the technology, regulators should focus on the risk and apply the same rules to activities that carry the same risk. Technology should be assessed based on its contributions to financial stability, consumer protection and financial integrity. Japan is an active participant in FSB discussions and BIS innovation hub projects and is committed to attracting fintech firms.

An industry representative confirmed that technology is not the barrier to improving cross-border payment solutions, as confirmed by the BIS innovation hub experiments. The primary barriers is instead the legal frameworks, with regulatory compliance and geopolitics also slowing progress. Enhancing cross-border payments is a multi-year endeavour. When it was established, CLS settled seven currencies. 23 years later, it settles 18. This does not seem like a large increase, but adding a currency takes a significant amount of time. Many stakeholders are involved and a number of legal and operational frameworks must be complied with. Unfortunately, this slow progress, due to the multidisciplinary nature of the challenge, can make discussions feel repetitive.

4.2 The potential advantages of well-regulated stablecoins and tokenised deposits must be explored, while ensuring interoperability within an appropriate regulatory framework

A central bank official shared that the Bank of England is positive about the potential of well-regulated stablecoins and tokenised deposits. Despite the measurable progress against the roadmap, the present position remains underwhelming. There may be drawbacks to stablecoins that prevent their use, but it is possible that they offer advantages that the current system does not. Although unconstrained and poorly governed innovation is not desirable, aiming for 'more of the same' will not achieve the necessary progress. Progress is needed, but also honesty about how difficult it will be in an area where a 'move fast and break things' approach is not appropriate.

The advantages of stablecoins must be explored to identify which functional technology aspects could be learned from and used in the existing system. The BIS Project Agorá is a good example of an exploration of tokenised deposits and programmability being used to modernise central bank and commercial bank money. Some of the sources of advantage for stablecoins could in fact be related to concerns, such as the lack of proper regulatory frameworks or sufficient anti-money laundering/countering the financing of terrorism (AML/CTF) legislation. Currency substitution will have implications, particularly in weak and fragile states. Previous concerns in the retail space around the emergence of non-interoperable big tech money fragmenting the monetary system could also be an issue in the area of stablecoins, where individual stablecoins can become extremely dominant.

An industry representative explained that the stablecoin sandwich is a new concept involving converting fiat into stablecoin, transferring it across a blockchain and transferring it back into fiat on the receiving end. Although the transfer process might be efficient, on-ramping and off-ramping the stablecoin is likely less efficient. Whether this can work in a wholesale space with high volumes and values is questionable and its use may be more limited at present. In addition, different stablecoin architectures and legal frameworks cause fragmentation.

An industry representative reported that Swift has participated in a number of experiments to demonstrate that the banks can use Swift infrastructure to connect to different platforms, such as a distributed ledger technology (DLT) platform or fiat systems and that these platforms are then interoperable. However, if someone sends a stablecoin and the recipient does not have a stablecoin, they need to receive a normal euro or dollar. As a result of these experiments, a connector orchestrator has been developed and will be presented to the market next year. Swift is exploring the use of digital assets with banks. Progress is now accelerating in Europe and there have already been significant developments in the US, such as the GENIUS Act.

4.3 Speed must be balanced with AML requirements and regulators should focus on the risk and apply the same rules to activities that carry the same risk

A regulator noted that prompt completion of payments reduces settlement risk and contributes to financial system stability, but neglecting to perform thorough know your client (KYC) procedures could undermine this. Some financial institutions in Japan have historically been excessively compliant due to fear of regulatory penalties. The Japanese Government has responded to the Financial Action Task Force (FATF) advocating for a risk-based approach to improve cross-border payments by clarifying supervisory expectations for AML.

An industry representative highlighted that settlement cycles are an area of change. In addition to the move towards T+1 in the securities space, there are now also advocates of same-day settlement. Similar discussions are ongoing in the FX world. Liquidity efficiency is a focus in wholesale. It is too costly to settle trillions without netting or other arrangements in place. Progress towards same-day and even instant settlement in the wholesale space will need to be balanced against potentially losing these netting benefits.

5. Enhancing cross-border payments is a multi-year endeavour requiring continued cooperation and intensified efforts towards 2027 and beyond

5.1 Although not all of the G20 targets will be met by 2027, this should not be an excuse to stop working but to continue and intensify efforts

An official emphasised that efforts should intensify towards 2027 and beyond to improve cross-border payments. Cooperation will be key. Swift and CLS, along with over 40 other private sector stakeholders, are part of the CPMI payments interoperability and extension taskforce. The roadmap is global and jurisdictions beyond the G20 will need to be involved. The community of practice on payment systems is made up of over 60 central banks that are keen to learn from each other. Monitoring of input factors, such as financial infrastructure developments and technical standards, and output factors, such as the key performance indicators reviewed by the FSB, needs to continue. Safety and efficiency cannot be compromised on. Although wholesale payment improvements are important, the end user should remain the primary focus.

5.2 International coordination will be vital going forward, particularly with respect to operating hours, ISO and the role of institutions such as CPMI, BIS, IMF and World Bank

An industry representative stated that, through its engagement with banks worldwide, Swift is focusing on constant improvement of its rails and network. Banks are motivated to ensure that the end-to-end journey from the payment being sent to being credited is transparent, traceable and fast.

A central bank official noted that the primary measures of outcome are around transparency, speed and cost. In addition, some of the advanced forms of programmability will potentially move functionality closer to instant settlement. There will be questions around netting and liquidity saving. Solutions have been proposed in the current infrastructures and elements such as stablecoins and DeFi will contribute to these solutions going forward. Medium-term goals should be set, using similar scorecards and measures as in the G20 roadmap. The aim is to create an interoperable world where money is uniform and single, and people feel confident that the ways that they make and receive payments are secure.

A viable tokenised deposit option would be a major development, at least in the UK. Cross-border fast payment systems need to be interlinked. There are potential opportunities around retail CBDC, such as the digital pound, but significant progress is not expected soon. Project Nexus has explored options around interlinking fast payment systems. Although the UK had one of the first fast payment systems, it is now outdated and cannot be interlinked. Remediating this older system is a priority.

The role of wholesale CBDC is uncertain. The Bank of England has published clear guidance on markets it expects to see settle in central bank money and markets where commercial bank money settlement is likely. Central bank money for systemically important markets can provide the functionality to support a more digital economy by upgrading the existing infrastructure with a synchronisation layer. This has been explored domestically in the UK and with BIS through Project Meridian. However, if this plan is successful, the additional value-add of wholesale CBDC is more questionable. There is a conflict at present where, after upgrading the RTGS service, many market participants in core markets have stated that wholesale CBDC is not needed, but there are an uncomfortable number of use cases where the current system is not providing the central bank money settlement leg.

Digital euro: timeline and success factors

1. No launch decision without political consensus and appropriate legislation

1.1 Preparation phase progressing towards completion by the end of October 2025, pending regulatory guidance

A Central Bank official stated that there has yet to be a decision on launching the digital euro. The decision hinges on political consensus and the establishment of regulation supporting it as a digital legal tender. Since November 2023, there has been a focus on preparation, engaging actively with legislators and market participants, assessing the digital euro's potential impact, and exploring ways banks might utilise existing systems to facilitate its integration into society. By the end of October the initial phase of preparation should be completed, and internal and external providers selected. The digital euro's rulebook is nearly complete. However, guidance from forthcoming regulations is crucial to advance preparation efforts. Appropriate legislation must be adopted before any launch decision, which will then influence the Council's determination on issuing the digital euro.

1.2 Council's two-year technical ownership process addressing institutional questions on holding limits and financial stability

An official noted that over the past two years the Council has been diligently examining the digital euro proposal made by the Commission in 2023. This endeavour is particularly challenging due to the highly technical nature of the subject, which is relatively new for all member states and the Council itself. There has been a substantial phase where member states needed to take technical ownership and become proficient in understanding the intricacies of the digital euro from a technical standpoint. This technical scrutiny has been necessary to ensure that all dimensions, including political, are appropriately considered.

An official stated that it is important to acknowledge that the digital euro project is unprecedented in scope. Significant institutional queries exist, because the foundational treaties did not originally foresee the integration of a digital currency like the euro into financial systems. Time and effort have been invested in recent weeks and months to identify the European institutions that should be involved in the decision-making process for critical issues. Such issues include holding limits, whose implications for financial stability are of paramount importance to all European institutions. Despite complexities, there is optimistic anticipation of reaching an amicable compromise that reflects European values of negotiation and consensus.

An official observed that, as the Danish presidency takes charge, there is a concerted effort towards effective navigation of the digital euro's progress, even for a non-euro country. By the end of 2025, the Council intends to address two principal concerns. The first is privacy, which requires pivotal political decisions. Public opinion echoes privacy as a primary concern. Achieving balance remains challenging, but it underlines the need for a purely political debate. The second concern directly impacting the industry is the examination of the digital euro's costs and compensation model. Technical work continues, especially in data analysis, as previous proposals lacked concrete impact studies.

An official added that intervention in the pricing of various payment methods involves intricate calibration; a process is now being initiated to establish a legitimate public-private partnership (PPP) for the digital euro's distribution. While the Council refrains from committing to rigid project timelines, there is determination to move forward. The intention is to develop the idea further over the coming months.

1.3 Parliament's parallel trajectory examining fundamental questions on European sovereignty in payments through technical seminars and data gathering

A policymaker stated that Parliament is advancing along a parallel trajectory to the Council, albeit with some nuances, and reviewing essential questions about the true objectives it aims to accomplish. The ECB's technical proposals are to be commended, but there is a necessity of integrating these within the political boundaries, especially regarding privacy and financial stability. One pivotal inquiry revolves around optimising European sovereignty in payments. A significant question is whether this should rely on a central-bank-driven public solution, or persist as a privately driven, pan-European digital payment model that has prevailed over the preceding 25 years. The feasibility of either option remains uncertain. The private sector has been aggressively investing in its strategies, yet success is not assured. The digital euro needs to be used as a constructive incentive for the private sector, pushing it to address longstanding inadequacies.

A policymaker explained that from a technical standpoint, the ECB and private participants have engaged in both public hearings and technical seminars, paralleling the Council's approach. Conducting 10 seminars at a technical level, with representation from the ECB, the Commission and the private sector, has provided valuable insights. A Parliamentary draft report should be delivered imminently, after political negotiations on fundamental matters that have previously been outlined. This marks the onset of an extensive process driven by trilogues that will take place after internal Parliament negotiations.

A policymaker observed that data scarcity is currently prevalent, particularly concerning compensation metrics. Piero Cipollone has agreed to provide data provision on financial stability impacts, especially concerning the metrics of the most affected banks. Such empirical evidence is vital for informed decision-making. Political decisions will hinge on evaluating risk tolerance, which Parliament will deliberate collectively.

2. Shifting payment behaviours and geopolitical threats expose an overreliance on non European providers, creating resilience gaps

2.1 The digital euro as a sovereign payment infrastructure, uniting Europe's digital society through digital legal tender

A Central Bank official stated that a critical shift in payment behaviours is evident, with a decisive move away from cash toward digital formats. This, in combination with the geopolitical climate and evolving threat landscape in Europe, underscores an over-reliance on non-European digital payment providers. This dependence exposes a significant vulnerability, namely a lack of digital payment infrastructure beyond cards, coupled with risks from stablecoin-driven private networks potentially causing deposit outflows from the financial system.

A Central Bank official highlighted that resilience gaps are evident in Estonia and other nations. Cyber-attacks, power outages, and technical failures can incapacitate both cash and digital payment systems. Incidents in Spain, Portugal, Denmark, and Estonia illustrate the severe economic and social discomfort arising from even brief periods where citizens are unable to pay. In situations where banks cannot provide alternatives, the public sector is inevitably regarded as a fallback, prompting questions about the availability of digital legal tender.

A Central Bank official commented that the digital euro promises to unite Europe via a sovereign payment infrastructure, serving as a public utility through banking channels for the benefit of 350 million citizens and all eurozone merchants. It ensures digital payment continuity, offering a reliable means of transacting when private solutions falter due to disruptions. The digital euro will serve as a critical assurance for citizens who need to make purchases even amidst systemic challenges.

A Central Bank official drew parallels with 2002 when cash unified Europe within the eurozone, symbolising economic unity and facilitating commerce. Today, the digital euro is poised to unite the digital society, marking the evolution from physical cash to digital currency. This transition lays the foundation for strong connections with global trade partners, expanding the reach of current and emerging private payment solutions to achieve a pan-European scope.

2.2 Three coexistence scenarios between digital euro and pan-European private solutions: complementarity versus redundancy in the context of growing dollar-referenced stablecoins

An industry representative stated that there are three scenarios, integrating both a digital euro and a pan-European private solution. The first scenario posits the absence of a successful private solution, relying solely on the digital euro. This approach would necessitate a gradual deployment, beginning with limited holding capacities, a nuanced product composition, and ideally, an offline version of the digital euro. User acceptance might vary, but this cautious approach would allow gradual adaptation. In the second scenario, Europe exclusively embraces a private solution. Spain has adopted digital payment methods such as Bizum, facilitating peer-to-peer transfers, e-commerce transactions, and in-store payments seamlessly across diverse regions. The third and most complex scenario involves coexistence between the digital euro and a private solution. Europe serves as a fertile ground for testing divergent opinions on this coexistence. Complementarity versus redundancy presents a central debate; some stakeholders perceive these solutions as complementary, while others view them as potentially overlapping and redundant.

An industry representative added that there is a burgeoning presence of stablecoins, with growth from 60 to 170 stablecoins between mid-2024 and July 2025, mostly dollar referenced. However, this growth provides time to nurture an endogenous option combining the private solution and the digital euro.

2.3 The Baltic dependency on international card schemes contrasts with the Spanish multi solution ecosystem

A Central Bank official noted that the recurring theme of resilience within the discussions emphasises its critical importance in cultivating a robust and sustainable financial system. Within the Baltics, the concept of resilience is not merely theoretical, but a pressing and essential matter, particularly in light of the digital euro debates. The Baltic region is currently characterised by a significant dependency on international card schemes at the point of sale, resulting in a lack of diversity and alternative options in payment solutions. Development of new systems and innovations in the Baltics are severely lacking. The Baltics are missing from the roadmap of the European Payments Initiative (EPI), and local banks are not even beginning to ideate potential new payment solutions.

A Central Bank official highlighted that this absence underscores the improbability of local businesses spontaneously devising new systems or alternatives, which necessitates the consideration of the digital euro as a potentially transformative option. With no current alternatives, the digital euro presents itself as a promising solution to enhance the region's financial resilience. In the Baltics the digital euro is perceived not just as a supplementary option, but as the sole viable proposal that holds the potential to significantly enhance the resilience of the payment system. While perspectives may vary when compared to other regions such as Spain, the Baltics view the digital euro as an essential measure capable of transforming the local financial landscape.

A Central Bank official added that true resilience extends beyond theoretical discussions and necessitates practical application and acceptance. The digital euro must be integrated into daily use, becoming a familiar and reliable tool for consumers rather than a contingency plan solely activated during crises.

3. The role of payment service providers requires a single overarching goal and viable business model throughout the supply chain

3.1 Leveraging existing national and regional instant payment solutions serving 200 million Europeans to avoid redundancy of previous investments

An industry representative highlighted the importance of addressing the challenges associated with the digital euro, but also the need to leverage existing contributions that can help to resolve these complexities. Numerous national and regional solutions have emerged over the last decade, establishing themselves as the preferred digital methods in various countries. These solutions encompass over 15 markets across the eurozone, catering to nearly 90% of the population. Furthermore, they extend into nations beyond the eurozone, such as Denmark and Poland.

An industry representative noted that a robust pan-European system currently exists, rooted in instant payments, centralised and managed by the European Central Bank (ECB), which encompasses 100% of European banks. While the clearing and settlement layer is comprehensive, employing a centralised approach, complexities primarily arise in the nuances of last-mile application and adoption levels, particularly concerning cross-border payments. Most payments between individuals, such as family and friends, utilise entrenched systems, which are integral to the daily financial activities of over 200 million Europeans.

An industry representative stated that the digital euro should coexist and augment existing European payment solutions. This coexistence could potentially target innovative use cases such as offline transactions, or extend network infrastructure to regions that currently lack digital solutions. Established solutions could play a pivotal role in distributing the digital euro to wallets and banking apps they currently support. This distribution would inherently enhance established standards, such as those initiated by SEPA (Single Euro Payments Area). There is great strategic importance of leveraging national and regional infrastructures to ensure resilience, performance, security, and safety, complementing centralised systems by thoughtfully catering to localised needs.

3.2 Establishing interoperability between the digital euro and private solutions through formal involvement in design, governance, remuneration models and rulebooks

An industry representative noted the importance of establishing a singular overarching goal when introducing the digital euro. With multiple objectives under consideration, such as monetary sovereignty, the preservation of public money's role, strategic autonomy, innovation promotion, enhancing the euro's international stature, resilience, accessibility, and inclusion, caution is needed against attempting to address all of them simultaneously. A principal goal should be selected that encompasses key objectives such as resilience, while allowing other aims to be better served by alternatives like a wholesale digital euro, wholesale CBDC, or euro stablecoin. A viable business model is needed throughout the supply chain.

An industry representative stated that there is importance in reflecting the substantial fixed costs associated with maintaining a payment infrastructure, as opposed to focusing solely on transaction-based fees. The model could be recalibrated to better encompass fixed and marginal costs.

An industry representative agreed that optimising solutions necessitates acknowledging and integrating constraints such as resource allocation, new use cases and timing, especially if sovereignty issues are involved. Establishing interoperability between the digital euro and private solutions requires involving all relevant sectors formally in design and governance, as well as in remuneration models and rulebooks. This integration is vital to avoid unintended consequences such as crowding out existing solutions or inhibiting ongoing investment and innovation within European payments.

4. Offline functionality is digital cash without surveillance, subsidised by zero scheme fees to build redundant infrastructure for resilience

4.1 A permanently offline version preserves privacy and stability without affecting deposit structures

An official stated that while the digital euro is an account-based system rather than digital cash, the offline capability closely aligns it with the concept of digital cash. This feature is distinct, as it is not commonly offered by the private sector, and it establishes a unique link to public money and trust. There is an unlikely scenario where societies fully embrace a cashless reality.

An official noted that the concept of resilience has gained traction since 2022. Increasing resilience involves building redundant systems, which tend to be less optimised financially, but crucial from a reliability standpoint. Legislative support could bolster offline functionality. There are ongoing private sector initiatives, like card-based offline transactions, but public sector intervention has a vital part to play. Providing a legal basis through digital regulation acts as a powerful signal.

A policymaker observed that the significance of both online and offline elements within the digital euro discussion is reflective of cash's properties. A permanently offline, tokenised version would be akin to physical banknotes stored digitally, maintaining their private attributes. Concerns about surveillance possibilities and pseudo-anonymisation in the context of digital currency reflect a toxic political narrative.

4.2 Mandatory acceptance and offline functionality are unique characteristics requiring a compensation mechanism protection for merchants

An official stated that the success of the digital euro significantly hinges on the development of a robust compensation mechanism. The digital euro is intended to coexist with existing private sector solutions that have already contributed positively to sovereignty in the payments market. Ensuring compatibility between these systems is crucial. There are unique characteristics of the digital euro compared to other payment systems, particularly the mandatory acceptance and offline functionality, both of which are pivotal for enhancing payment system resilience.

An official observed that the compensation mechanism must achieve two primary objectives: safeguarding merchants who are obligated to accept the digital euro and establishing incentives for the digital euro's effective distribution. The scheme should be focused on services that align with the digital euro's purpose, and specifically target payments between consumers and merchants. A clearly defined list of basic services should be subject to fee caps.

5. Smart regulation provides incentives without precluding options

5.1 A cost-based model risks making the digital euro prohibitively expensive

An official noted that while various model options exist, challenges persist due to unclear cost estimates and varied expenses across sectors and member states. A cost based model risks making the digital euro prohibitively expensive for merchants in countries with competitive payment systems, thereby eliminating incentives. A transitional model could be implemented, with a worse-off clause as an interim solution. This clause would ensure that merchants are not charged more for accepting digital euros than for comparable payment methods.

5.2 Holding limits risk financial stability for 400 million people: online capability should only be pursued if private sector efforts fall short

A policymaker stated that within Parliament there is a strong focus on initiatives that simplify life for businesses and individuals. A fundamental debate centres around whether the digital euro is the most effective tool for achieving this ease. The initial proposal was built within a context that no longer exists, as the world has become more dangerous and alternatives more viable. Over the last two decades there has been an increased likelihood of the private sector delivering functions and innovations.

A policymaker noted that there is a scarcity of resources due to the complexity and scale of the task. Ensuring that one method becomes unconditionally assured means potentially precluding the progression of other viable options, because extensive resources would be allocated towards fulfilling mandatory distribution and acceptance requirements across PSPs, banks, and merchants. Smart regulation is needed. Given past financial crises, introducing an untested mechanism such as holding limits could exacerbate issues. Holding limits should be applied cautiously, considering superior alternatives when possible. An open-minded, scenario-inclusive approach is needed.

Sessions

V

EU AND GLOBAL SUSTAINABILITY AGENDA

Sustainability risk in a fragmenting world

1. Climate risk management practices are maturing

1.1 From inflated expectations to pragmatic financial risk management

The Chair that the concept of leadership on the financial sector has been evolving significantly. The purpose of the session is to explore how climate risk management has evolved and how this evolving focus manifests in banks, insurance companies and investors.

An industry speaker noted that recent progress on climate risk management has been driven by 'friendly' regulatory pressure from the ECB. European banks face many different important policy challenges and priorities, such as defence or digital payments. In the coming years, it may not be possible to improve climate risk management practices at the same pace of the last few years. Ultimately, the need to address climate risk should not be used to block progress on other policy priorities. The money and effort spent on defence will protect Europe's values, one of which is the sustainable management of climate risk.

An industry representative remarked that financial institutions are managing climate risk in increasing sophisticated ways. Until recently, the attention and effort were on net zero, transition and decarbonisation, but there has now been a shift to physical risk. Some of MSCI's recent work indicates that the market is starting to price in physical risk.

1.2 The focus for supervisors is governance

A central bank official acknowledged the progress made by the European banking sector in integrating climate and nature risk. The foundations have been laid to enable the banking sector to prepare for and react to climate and nature risk. The ECB's role is to ensure that banks identify and manage climate and nature risks. It does not want to influence lending decisions. As a supervisor, the ECB should not tell banks where and to whom to lend. Supervisors are not responsible for setting climate targets. Treaties, laws and regulations should set targets. In view of the rising and exponential nature of climate risks, it is good practice for institutions to define their own risk appetites. Transition planning and stress testing can help institutions operationalise their risk appetites, but supervisors should not set these targets for financial institutions.

An official stated that the IAIS has opted against introducing new rules for climate supervision. In 2021, the IAIS concluded that there was no need for a complete rewrite of the existing Insurance Core Principles (ICPs). However, it was clear that certain elements needed to be made more explicit. The IAIS added explanatory text into the introduction of the ICPs to explain that they cover traditional risk and emerging risks - including climate related risks specifically. In 2025, the IAIS issued an application paper to support practical implementation, promoting peer exchange, consistency between approaches and cross jurisdictional learning on the principles and standards. The paper outlines how supervisors should approach climate related risk and provides examples to guide supervisors in applying these principles and standards in their jurisdictions.

1.3 Practical steps to reduce fragmentation in insurance supervision on climate

An official explained that the IAIS has been collecting data on climate related risks for several years in order to understand how the insurance sector is exposed to climate related risks and create a global baseline for data. IAIS members are beginning to use this information to adapt their own national reporting requirements. The aim of this endeavour is to increase regulatory convergence and reduce the regulatory burden. Another practical example to reduce fragmentation is by encouraging greater collaboration between supervisory colleges on the impact of climate related risks.

1.4 Progress is a result of selective de-risking rather than systemic change

A central bank official noted that the banking sector appears to be ahead of the broader economy in implementing climate risk frameworks, but this is a consequence of selective de-risking.

2. Bridging the protection gap requires mutualisation and national public-private schemes

2.1 Risk-based insurance incentivises demutualisation, but society needs mutualisation

An industry representative highlighted that risk-based approaches push insurers towards 'demutualisation' to remain profitable, but the escalating nature of climate events demands even greater 'mutualisation'. It is important to remember that Europe's insurance gap is huge: only 25% of assets are protected against climate events.

2.2 Climate insurance schemes can be effective at national level

An industry representative explained that state mandated insurance coverage offers one potential solution, citing France's Régime d'Indemnisation des Catastrophes Naturelles (CatNat), Romania's Pool ul de Asigurare împotriva Dezastrelor Naturale (PAID) and Italy's 2025 law requiring businesses to insure against natural disasters. All these schemes are supported by global reinsurance. These examples of effective schemes demonstrate the potential of national models. This suggests that there is no need for an EU-level scheme, although the EU supervisory authorities could play a role in supervising national initiatives.

3. Data challenges threaten the operationalisation of climate risk frameworks

3.1 Complex and unstandardised data

An industry speaker stressed that the sector is now entering a phase where climate risk management measures are being operationalised. This transition has exposed major data-related challenges. There are four persistent issues with data. First, the data is overly complex. Secondly, there is a lack of standardisation across regulatory frameworks and voluntary frameworks such as the Science Based Targets initiative (SBTi). Thirdly, there is an absence of structured frameworks for certifying data. Finally, there is no public or shared infrastructure to help avoid overwhelming clients with the burden of repeated data requests.

A central bank official commented that the availability of data is a question of demand. If there is demand, supply will follow. To understand physical risk, the industry had to grapple with unfamiliar data sources. As these efforts have developed, more useful sources of data have emerged. The data remains patchy, but the overall quality should improve over time as the market crystallises.

A central bank official agreed that data is a difficult issue to address. The International Sustainability Standards Board (ISSB) is making progress on improving the quality of climate data. In the practice of climate risk management, it is essential to use science, be data driven and take a fact and risk based approach risk instead of following a particular political agenda.

3.2 Geospatial and asset-level data enhance visibility of systemic risks

An industry representative identified two key advances on climate data. First, there has been an improvement in modelling physical risk hazards. MSCI works with Swiss Re to cover 28 chronic and acute hazards. This work is focused on improving the loss estimates for each hazard to enable this data to be integrated into processes such as credit scoring. This type of data is not very useful without data on the exact location of an asset, its physical characteristics and how much of an entity's business value is tied to it. These factors are generally known for a single asset, but some clients are investing in tens of thousands of entities, each of which can have many different types of assets in different locations, each of which makes a different contribution to revenue, earnings and future cash flow. The second key advance is in the collection of asset level data. The development of new technologies has unlocked the collection of asset location and characteristics data. MSCI now holds data on over 3 million assets tied to 700,000 companies. This geolocation type data can be used to analyse new and emerging risks. Geospatial asset data can be overlayed with physical climate hazards or with tariffs, conflicts or biodiversity and nature related risks, for example.

A central bank official added that the further development of counterparty level data will enable financial institutions to assess risk properly and ensure that supervisors can form an accurate view of the institution's risk position.

3.3 CSRD and ESRS must balance simplification with robustness

An industry speaker called for the creation of public infrastructure to ease the regulatory burden. An industry representative suggested that the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) are the first steps towards this kind of shared infrastructure for climate reporting.

A central bank official agreed that CSRD will play a key role in ensuring high quality data provision to market participants. However, reducing the scope and content of CSRD will not necessarily lead to a reduction in reporting burden. Financial market participants need data. A harmonised framework in which all market participants can access data may well be preferable to a fragmented market in which very different financial institutions need to ask the market for the same data many times.

3.4 The industry needs a lower regulatory burden and more granular data

An industry representative highlighted two key pain points in climate policy. First, investors are currently lacking both clarity and predictability. In many institutions, sustainable finance expertise is often being wasted on relabelling. Around €660 billions of funds have been relabelled over the last 15 months. This means there are fewer launches of new funds. Ultimately, financial institutions can choose to either spend time complying with regulations or allocating investments. Secondly, the data used for investments associated with the energy transition are far more granular, dynamic and forward looking than the data that are produced for regulatory reporting. This growing gap is something that policymakers should bear in mind. It is important to recognise that disclosure, while useful for investors, does not show the complete picture. The marginal information value of disclosure is much greater for smaller entities, for which there is almost no other data, compared to larger entities, for which there are many other data sources.

4. Tailored approaches for managing climate and nature related risks

4.1 The NGFS's new short-term scenarios reveal the price of inaction

A central bank official outlined the new short-term scenarios developed by the Network for Greening the

Financial System (NGFS), which are designed to align better with market horizons and supervisory needs. These scenarios are more granular than previous long-term models and include sectoral and geographic data. NGFS has given its users the bay to understand the data that is used to create each scenario, which should allow them to adapt it to their needs. These short-term scenarios illustrate the price of inaction. A three-year delay in transition policies more than doubles the GDP loss from 0.5% to 1.3%. In the worst-case scenario, in which the physical risks combine and produce an additional effect, there could be a tremendous impact of up to 12% of GDP in Africa, 6% in Asia and 4% to 5% in Europe and the Americas.

These models are useful tools for institutions to use to analyse risk, but they must be adapted to the nature of an institution's geographical and sectoral exposures. The world's countries and continents will not be affected in the same way. There will be a much more severe impact on a Pacific island compared to a resilient country in Europe. The same analysis applies to sectoral exposures. There will be more significant impacts in the energy, transport and agriculture sectors. Equally, a financial institution will have to understand many factors that are not in the scenarios to develop an adequate action plan to mitigate climate related risks. For example, the NGFS's short term scenarios do not consider any rise in sea levels or tipping points. There are many other elements that are still not able to be modelled properly, and it is likely that some of these risks are significantly underestimated. If an institution is more exposed to risks that are not included in the NGFS scenarios, it becomes even more important to ensure that it adapts the scenarios and seeks to include additional data in its own analysis.

Ultimately, the world will need both adaptation and mitigation. Global temperatures are rising and there is a need to improve resilience in all economies. The advanced economies are relatively resilient, but the funding needs are significant in emerging market economies. It is worth remembering that the cost benefit of adaptation is positive. Each €1 invested in an adaptation project can produce between €2 and €15 in economic benefit.

4.2 Balancing biodiversity and transition goals requires a holistic perspective

An industry speaker emphasised that addressing climate change and conserving natural capital and biodiversity entails a complex set of trade offs. This complexity needs to be managed financially and non financially. It is crucial to understand the totality of nature and climate effects in a particular area. When considering activities in the food or agriculture sector, it is important to understand the full value chain of a good from production to consumption. This is an important lesson from the efforts to integrate the work of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Task Force on Nature-Related Financial Disclosures (TNFD). There are significant benefits to understanding climate risk in a holistic way, using a combined approach which incorporates the concrete effects on actual goods. This is particularly important in the food and energy sectors, which are the basis of stable societies. The banking sector would benefit from the development of further combined scenarios that consider nature and climate risks in an integrated way and a change in accounting practices to incorporate ideas such as nature based value recognition.

4.3 Green incentives

A central bank official noted that the use of both long-term and short-term stress testing can be useful in assessing client risk. In the case of the Hungarian National Bank, its long term stress testing has shown that a lack of alignment with climate targets could significantly increase credit risk in commercial real estate, agriculture, food production and tourism. While its short term stress testing exercise has demonstrated that the banking industry should remain solvent if the carbon price increases significantly, there will be increased credit risk in energy generation, public utilities and mining.

Indeed, demand is the key to the transition process. Good incentives can incentivise both the demand side and the supply side. In 2020, Hungary introduced green preferential capital requirements. Since the introduction of this policy the share of green exposures in the corporate segment has grown from below 1% to around 6%. These requirements enable institutions that invest in green exposures to access more credit and benefit from a lower cost of capital. Secondly, Hungary created a green housing programme in 2021 22. The Hungarian National Bank injected liquidity into the Hungarian economy by subsidising green housing. Thanks to this programme, the share of green collateral behind Hungarian mortgage loans has risen to 50%. Incentives can drive significant progress in the management of climate related risk.

Energy transition policies

Introduction by the Chair

The Chair observed that previous panels have noted that frequent rule changes do not lead to simplification. The Green Deal set very ambitious targets to reach net zero by 2050, and the new Commission confirmed these targets. Data will be needed to track progress and ensure that work is science based.

1. The challenges of the energy transition for SMEs

An official noted that the challenges of sustainability, such as finance, compliance and simplification, are amplified for small businesses. However, there will be no net zero without SMEs. Many of the initiatives around the energy transition have been designed with financial institutions and large firms in mind, not SMEs. SMEs are impacted on a day-to-day basis through their relationships with financial institutions and participation in supply chains. To address this, SMEs need certainty and simplicity. Omnibus seeks to simplify compliance for businesses and limit burdens on smaller businesses.

SMEs have struggled in recent years to access finance generally and obtaining finance for investments in energy efficiency or energy transition will be even more difficult. Most firms in the EU are SMEs, and the energy transition will pose a significant challenge for them. Continuing to build a stronger business case for these investments for SMEs and the broader business population will be critical. Investments in sustainability can result in stronger competitiveness, lower operational costs and greater resilience to shocks.

Compliance should be seen as not just a burden, but also a tool. Transition plans are part of the business strategy. Data collected can be used to plan and implement business strategies. Awareness raising in SMEs and provision of non-financial support needs to continue. Many businesses find a step-by-step approach helpful, where each action leads to a result.

The Chair noted that scope 3 means that environmental performance information of SMEs in the value chains of large enterprises will be needed.

2. The challenges of simplification

A central bank official observed that central banks need to participate in the debate around energy policies because they policies impact price and financial stability. There is general agreement that simplification is necessary, but opinions differ on exactly which rules should be removed or made more lenient. Transition uncertainty is affecting market prices and must be reduced. Mispricing of risks in the market is channelling financial flows in the wrong directions.

The priority is to reduce global regulatory fragmentation around disclosure requirements. The European Financial Reporting Advisory Group (EFRAG) and the International Sustainability Standards Board (ISSB) have done some work in this area. Scope 3 will be key to integrating carbon emissions across the value chain. The second priority is to ensure that the risk assessment is truly forward looking. Climate risk is already integrated into supervisory frameworks to some extent in Europe, but this needs to increase and be done in other parts of the world. Transition plans, pillar 2 requirements and stress testing will raise awareness in the financial sector.

A public representative noted that reducing legislative and data uncertainty, fragmentation and opaqueness should not be difficult and would in fact mirror the accounting and financial sector regulation and principles. However, the political context is more challenging. Environmental matters are seen as a luxury, particularly with the ongoing war in Ukraine. People need to understand that the energy transition is non-negotiable. Political players should not try to hide the facts as this will only make it more difficult for finance sector businesses to adjust in the long run. Readiness and perception of risk level often depend on someone's level of engagement with the topic.

This political dilemma must be addressed in the European Parliament, which will be difficult. Those supporting and attempting to drive the energy transition need to raise its profile and campaign forcefully. At present, it is those on the other side of the debate who are making the most noise. The 'voice of reason' needs to be more prominent in the debate, although this will not be easy.

An official commented that governments need to strike the difficult balance between addressing climate change and protecting the economy. Without growth, higher wages and investment, there will be no political support for the necessary adaptation and mitigation. The focus on simplification adds complexity as it is not clear which areas need to be removed. In reality, there is no trade-off between climate action and competitiveness, especially in Europe. The lack of fossil fuels in Europe and need for energy security and geostrategic autonomy means that significant investment in renewables is needed. This must be communicated clearly, and the energy transition should be promoted as fast as possible.

A public representative indicated that they agree that there is no real trade-off between environmental sustainability and the economy. The political challenge is to be very clear that there cannot be markets and a market economy without rules and regulations. The question is then who makes these rules and regulations.

Despite good intentions, simplification is not always achieved in practice. For example, the reporting scheme was not simplified but in fact complicated by increasing the responsibilities placed on private sources. Regulation is not always a negative: phasing out property rights or accounting regulations would not be helpful. There is some resistance to what is perceived as 'new regulation' on sustainability issues, but it was not possible to regulate on environmental sustainability 50 years ago because there was not enough information available.

In a democracy, the right answer is not always arrived at immediately. If something is not working, it can be fixed. Oversimplification will result in a loss of the information that is foundational to a good economy. Nobody suggests simplifying company accounting to the extent of only including income and expenses. It is widely acknowledged that a more granular approach is useful, and this applies equally to regulation around environmental sustainability.

An official stated that governments have an important role to play around not losing data through oversimplification. Data can have a public good aspect. The Portuguese government is building a database to help SMEs in particular to calculate, for example, their carbon footprint. This database uses information, for example expenditure on gas or electricity, that the business has already reported to the tax authority. Governments and the European institution could also assist by standardising information-gathering protocols and stratifying the data requirements. Large corporates, which have the most impact on the climate, should be subject to more exhaustive requirements and the burden should be lessened as much as possible for smaller companies.

An industry representative emphasised that there is no call for deregulation. Mizuho, and the corporates it engages with, are improving data and disclosures. In the past, many Corporate Sustainability Reporting Directive (CSRD) projects were treated as a regulatory requirement and developed separate from strategy. Rather than reducing accountability, governance and metrics need to improve. The UK regulator is strengthening its sustainability and climate-related regulations with boards facing heightened accountability on how the business strategy responds to climate risk.

Regulation needs to be fit for purpose. There is a lack of alignment even between different parts of CSRD. It is not possible to cross-reference between disclosures and prudential reporting or between ISSB requirements and European requirements. Climate risk is a mega trend, and banks are aware that, if they do not understand it, they will have a risk problem and an opportunity problem.

A public representative commented that regulation around the energy transition is developing slowly. Similarly, the accounting system standards have been in development for many decades, and the International Financial Reporting Standards (IFRS) are still not perfect. It is difficult to achieve the perfect regulation in a democracy because different political views and member state contexts need to be considered. Compromise is needed in any legislation. The problem is that the requirements, calculations, benchmarks and definitions are not aligned. For example, CO2 is addressed slightly differently in ISSB. This lack of alignment imposes a burden on companies. The political climate, for example Project 2025 in the US, will also have an impact, whether people agree with certain positions. The focus should be on developing a more coherent sustainable finance initiative and trying to integrate different parts of the system, possibly in an accounting directive or IFRS.

An official shared that there are several examples globally where businesses are being assisted in their use of data for reporting. Like the Portuguese database, Project Perseus in the UK is automating the transfer of information directly from energy consumption reports and bills to financial institutions, with the consent of businesses. ESG compliance guides specifically for small businesses have been developed in Canada and Malaysia.

3. The role of transition plans

An industry representative stated that transition plans are an extension of a business's strategy and competitiveness objectives. Developing robust transition plans is a forward-looking strategic exercise that supports the capacity of firms to capture economic transition opportunities and build resilience to physical risks, rather than being an ex-post disclosure exercise that may pose material concerns regarding the reporting burden. Transition planning is a cornerstone of effective corporate governance in sectors exposed to material climate-related financial risks and opportunities, which can help investors' and banks' assessment of a company's resilience and upside opportunity through the energy transition. SMEs may have different resource constraints than large companies, but a transition plan that is an extension of the business strategy will still be vital.

The best transition plans include an acknowledgement of policy dependencies. Companies struggle with policies lagging EU commitments and national aspirations, such as achieving net zero by 2050. Policymakers often do not listen to the requests of companies. Companies are asking for specific infrastructure or permitting reform and responding to these requests is an opportunity to further the progress of the energy transition.

4. The Japanese approach to the energy transition

The Chair noted that Japan is the first country to implement the Taskforce on Nature-related Financial Disclosures (TNFD) voluntary disclosure on nature and biodiversity.

An industry representative explained that, although Mizuho is a very large Japanese bank, it has a significant

European presence and regulatory improvements in Europe regarding simplification or consistency across regulations are very important for the bank. Japan is in the unique position of being highly dependent on importing energy and very industrially developed. The energy transition has therefore long been a priority in Japan. Japanese banks are aiming to support their clients through the transition because divestment is not an option for the country. Mizuho also takes this approach in its EMEA operations.

Transition plans of banks and corporates have improved dramatically in recent years. There has been a great deal of focus on changes to 2030 targets, but the shift in the attitudes of corporates does not receive as much attention. Corporates are now much more aware of what they need to do to reach their targets and are making associated investments in technologies. Corporates are very clear about how they are spending capex to achieve their objectives. Climate transition assessments enable financial institutions to engage with their clients in an appropriate way and have robust discussions. Although the pace is still not as fast as it could be, it has improved significantly.

Europe has been a leader in this area and driven the faster pace of change. Europe was the first mover on the development of sustainability frameworks. The European net zero frameworks have acted as guidelines to the rest of world. Regulation must be assessed to ensure that it is fit for purpose and can be implemented by companies and banks. Prudential regulation should be cross-referenced with the appropriate disclosures. Efficiency, particularly around data, is how companies move forward.

Corporates are beginning to embed their sustainability priorities and associated actions into the business. As previously stated, a transition plan should be a business plan. However, it is only possible to execute the business plan if resources are not instead being used for disclosures that do not provide useful information to investors. If the priority remains the original European aim of transitioning the economy to a more sustainable one, we need to implement simplification and fit for purpose disclosures

The Chair shared that their experience is also that companies are now doing more towards the energy transition, although perhaps being less vocal about it. This is a slight concern because companies need to bring people with them on their energy transition journey and effective communication will be a part of this. The energy transition is no longer merely an ESG issue but must be embedded in all aspects of the business, from finance to HR. The business strategy will need to reflect this.

Strong advocacy will be needed to strengthen the political will. The positive effects of political decisions taken several years ago are only starting to be obvious now. If politicians are discouraged by this lag and fail to accelerate, progress could slow down.

An official noted that small businesses state that they do not want to be exempt; they want to be enabled. Financing from government or national development banks for energy efficiency in SMEs should be accompanied by non-financial support. SMEs should be supported with public funds in the first instance, with the expectation that private investment will take over this role in the future.

5. The role of the public sector in the transition

An industry representative commented that the public and private sector need to collaborate more. Private industry often has excellent ideas. Public sector regulation is not meeting the needs of companies that want to transition but do not have the right framework. When the right policy framework is not in place, there may be a trade-off between competitiveness and transition. Policymakers, the finance industry, business, industry and regulators need to identify together, on a sector-by-sector basis, what the objectives are, map the investment needs to capital sources, identify policy levers to de-risk and mobilise finance, coordinate action across value chains and sectors, and provide forward guidance that builds investor confidence. A pathway where government provides the long-term ambition and stable policy framework, while industry shapes the delivery through engagement, innovation, finance, and acceleration can then be developed. Sector transition plans that are aligned with the national strategy, but also grounded in real market conditions, informed by policy dependencies and designed to unlock investment at scale will help turn government and corporate ambition into action. This collective vision is needed to inspire people to work together.

An industry representative stated that the role of governments is crucial. In some sectors there are currently no commercially viable transition technologies. Governments will need to derisk the process to ensure that liquidity is available for these projects. This was the initial approach with renewable energy sources. A renewable project would make no money, but the government stated that it would buy green kilowatts. Investment in the technology followed and allowed it to evolve. There should be no reluctance to acknowledge that some new technologies will require subsidies. However, the challenge in Europe is always to ensure that all countries are aligned on the same agenda and have the resources to invest. China is a major competitor in how fast the energy transition journey is proceeding and is taking this approach.

A more long-term perspective is needed. Input should be sought from corporates, although regulators have been better at this than previously during recent changes. A successful energy transition will also require the completion of infrastructure projects.

An official noted that, although governments are often called upon to act, they use taxpayers' money and must therefore be cautious. There will be losers from the energy transition. Many SMEs are angry about the complex and costly requirements the energy transition is imposing upon them. Compliance, at whatever level political powers decide it should be, must be universal. If some firms and sectors comply and others do not, an unlevel playing field is created. The complexity of regulations is relevant here.

The Chair suggested that, if avoiding fragmentation is a priority, governments should choose a regulation, not a directive. Some countries have not implemented CSRD. With 27 countries, the only way to ensure a level playing field is with a regulation.

A public representative emphasised that a directive can unintentionally create an unlevel playing field. Clean, transparent rules need to apply to everybody. If this issue is not addressed by member states, no progress can be made.

A central bank official shared that energy transition, climate transition and biodiversity is not yet included in the public rating of French companies but there are plans to include these aspects in future. The French central bank has developed a climate indicator for all companies, and the aim is to use this to inform the rating that will be published by the French central bank. However, the methodology is not easy to implement. The perception that there is a trade-off between competitiveness and transition is because the benefits of the transition policies are underestimated and the current cost of transition is overestimated. Short-term scenarios have concluded that delaying the transition policies by three years would multiply the economic costs in 2030 by a factor of two or three. A choice is being made to not pursue transition policies now, although it will be more costly in future.

An official emphasised that energy transition is of enormous strategic importance for Europe. It will not be the legislators or the regulators that make the transition but instead the businesses and households. These businesses and households must be engaged to deliver on the potential of the transition.

A public representative commented that there is no time to get the energy transition wrong. Investing in sidetracks like carbon capture and storage (CCS) should be avoided, because after that there will be no money, time or technology to do it better. The focus should be on planetary boundaries, not only climate. Making the necessary changes will be costly now, but after 10 years the cost will be even greater.

6. The importance of nature in disclosures

A central bank official noted that nature is an important element of the CSRD disclosures. The nexus between climate and nature has not been taken sufficiently into account. For example, climate is causing droughts and reducing the supply of water, which has major consequences to produce power and for agriculture. The value chain must shift, which will be costly. Data is needed to fully understand these risks.

The Chair commented that, in the vocabulary of finance, water is material. The European Central Bank (ECB) has carried out some valuable work in this area. Food production is also a part of this nexus.

An industry representative confirmed that the nature-climate nexus is underexplored. Nature should be integrated into transition plans. Broad and coordinated collaboration, not in small groups or forums, is needed to discuss risks and opportunities and how to finance the transition.

An industry representative emphasised the importance of nature. Nature, together with physical risk, will be quick to impact the balance sheets of financial institutions. Work is currently underway to demonstrate this to boards. 2050 targets are difficult for boards to engage with because they do not have a business strategy going up to 2050. Per example, how water scarcity can impact the probability of clients defaulting is much more visible and short term. Nature should be included in these conversations, even if the data is not available to do it in the same way as environment.

Conclusion by the Chair

The Chair concluded that the energy transition is part of business strategy and is also a strategic concern for countries. Decisions taken by the US and China will impact Europe, but if the EU wants to be sovereign it should make its own choices.

Resilience should be a key focus and a way for people to understand the transition. The aim is for societies to be resilient to climate events, adapt where possible and mitigate where necessary. Without a nature-based solution, there is no way to address climate change. The only real carbon sinks are oceans, soils and forests. Nature and climate have been artificially separated, and both must be addressed in conjunction. The term 'planetary boundaries' refers to an idea from the Stockholm Resilience Centre studies that resources are limited and therefore a shift to a regenerative model of economy is needed.

Omnibus directive: simplification priorities

Introduction by the Chair

The Chair opened the discussion by noting that, as recently as a year ago, the concept of an "omnibus", a legal tool allowing to modify several EU rules in one go was not well known, but it is now widely understood to be part of the EU's simplification efforts. The Omnibus Directive on sustainability reporting was proposed by the Commission with the aim of reducing the administrative burden resulting from reporting obligations of the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). However, this does not mean that the Commission is no longer committed to promoting sustainability reporting. Sustainability reporting remains important for investors and stakeholders and to achieve the EU's Green Deal objectives, while maintaining global competitiveness. The Omnibus is a necessary adaptation, introduced in response to feedback from users of the current legal framework.

1. The simplification of the European Sustainability Reporting Standards (ESRS) proposed by EFRAG

An official indicated that their remarks would focus on the level 2 aspect of the Omnibus initiative, which is the simplification of the ESRS. EFRAG received a specific mandate from the Commission in March. In addition to the aim of modifying the threshold and, therefore, the scope for the mandatory regime, there is also a focus on combining the objectives of reducing the reporting burden and focusing on core sustainability-related data. EFRAG exposure drafts were published at the end of July. A 60 day public consultation will conclude at the end of September. EFRAG will be ready to deliver its technical advice at the end of November, as requested by the Commission.

Six key levers are central to the simplification process. First is the simplification of the double materiality assessment. This determines which impacts, risks and opportunities must be reported on and is therefore highly relevant to proportionate reporting. Second is an improvement in the readability, conciseness and clarity of the reports. Third is prioritising a more principles-based system and a less prescriptive approach to information. Fourth is a focus on shorter and clearer standards. Fifth is an introduction of reliefs and clarification. Sixth is around further enhancement of interoperability with global frameworks and standards, with the International Sustainability Standards Board (ISSB)'s standards.

Wider collaboration is needed in some areas, but ambition should be prioritised in others. The EU's support of the sustainability reporting global baseline is crucial in the current geopolitical context. The proposal includes a reduction of data points by 68%, including all ambiguous voluntary data points. Work is ongoing on the proposal and initial feedback was positive. The aim is to deliver on the aims of the Omnibus proposal while ensuring that core data is still available.

2. The lessons of the first annual implementation of CSRD

An industry representative explained that AXA has leveraged the knowledge and experience gained through financial reporting processes in CSRD reporting. The reporting was taken seriously and prioritised and subject to an appropriate governance. The reporting is now more structured and factual than the sustainability disclosures in the past. Reporting in a well-structured framework reduces reputational risk. However, the reporting made up a disproportionately large part of the annual report. It will be crucial to balance genuine simplification with retaining focus on sustainability objectives.

Ensuring appropriately focused and correct corporate reporting will be essential.

As the ESRS revision is on-going, the focus should now be on developing a fair representation framework rather than a mere compliant framework. There is a legal debate around the fact that, in order to conduct the double materiality analysis appropriately, judgments will need to be made on sustainability topics. These judgments should be made following the core principle of fair representation.

3. Exchange of views on the Omnibus proposal

A regulator highlighted that the Omnibus initiative is the first attempt to centre competitiveness not just internally but also with respect to other jurisdictions. After securing the stop the clock as a matter of urgency, it would have been preferable to sequence the regulatory work in reverse order, beginning with the Sustainable Finance Disclosure Regulation (SFDR). The experience of initial implementation of the sustainable finance overall package could have been leveraged to identify what data financial intermediaries and advisors need to provide to investors. The streamlining of draft exposures and reduction in the number of required data points should only have started after this was complete.

EFRAG has announced the impressive goal of a 68% reduction in data points. A useful approach would be to agree on common metrics to calculate the real cost savings for reporting entities that would result from this goal. Otherwise, there is a risk that the exercise becomes too conceptual. It is critical that the mandated reporting standards continue to ensure interoperability with international standards. Transition plans should remain a primary focus. Also, prudential authorities consider this to be important from a financial stability perspective.

Caution should be exercised with regard to the ambition of reducing the scope of CSRD. Regulatory stability and legal clarity are vital for the industry. The most challenging element for corporates is obtaining reliable information from along the value chain. The EU's industrial fabric is made up primarily of SMEs, so excluding most of them from mandatory reporting could be problematic. The success of voluntary reporting will depend on the presence of strong reputational and market incentives.

The Chair commented that the timing of SFDR first and CSRD later has been seen as a problem because the two are linked. It would not be appropriate to make changes to CSRD without also making changes to SFDR in response. Work is underway in this area.

An official emphasised that the focus in any reduction in data points should be on what investors need, which has not always been the case in the past. A 68% reduction in data points would be a positive change in the right direction. Currently, sustainability reporting includes large amounts of irrelevant data. The only question should be whether the data points are relevant to investors, so it is very reassuring that EFRAG is working on this. Basel or Solvency II include many sustainability-related requirements. If this is not addressed, corporates and SMEs will need to repeatedly report the data points they are no longer required to disclose under the revised CSRD.

Unlike large corporates, SMEs do not have the resources to invest in complex reporting systems. Legislative requirements must take this into account. There are two issues facing SMEs. First, clients will request the data that they need for their sustainability-related reporting. In that situation, the SME needs to be shielded. Secondly, and less well appreciated to date, financial services companies will often require data if an SME wants a loan from a bank or is looking for insurance. Legislators and regulators need to take this into account when creating financial services legislation.

4. Voluntary sustainability standards for SMEs

An industry representative noted that EFRAG recently launched the voluntary sustainability reporting standard for-non listed SMEs (VSME) digital template. This is an easy-to-use tool whereby SMEs respond to a questionnaire and are then assisted with their reporting. The reporting is provided as machine-readable data. National authorities and governments should support EFRAG's initiative and encourage all types of companies to participate.

An official added that the VSME standard was recommended by the Commission. This tool was developed in collaboration with users and is very powerful.

5. Interoperability of ESRS with ISSB Standards

An official remarked that the Commission's focus on not only simplification but also enhancing interoperability with global standards, including the standards issued by the ISSB, is very welcome. Additionally, it is clear that EFRAG is trying to identify opportunities to enhance interoperability. A common objective will be an important part of making progress. Work done by the ISSB concluded that there is a great deal of common ground, although there are additional asks for information on the ESRS side. This is an opportunity for streamlining that will not affect interoperability.

EFRAG is exploring the introduction of some concepts that ISSB has used to support implementation, for example around undue cost or effort. Retaining the ability to use the ISSB industry-based guidance to support application of standards in Europe will be a useful step.

Some areas require review. Some of the data points proposed to be made optional are critically important in attracting investment into European companies, for example quantitative information about anticipated financial effects. The published interoperability guide aims to assist companies navigate between the ISSB Standards and ESRS. It is disappointing that the drafts include changes in language and concepts that detract from the usefulness of the interoperability guide and raise new questions.

6. The ways forward for sustainable reporting

An industry representative acknowledged that reporting is a major challenge, particularly for small companies. However, there is still an extremely high demand for good quality environmental, social, and governance (ESG) data. Machine-readable data can enable firms to provide high-quality data to investors at a competitive price. A machine-readable format reduces costs for investors and corporates as analysis is easier.

An industry representative stated that the simplification initiative is very welcome. A closer alignment of Europe with international standards would be welcome. Geopolitical developments have resulted in a very fragmented world, divided by rigid or region-specific frameworks.

The proposed reduction in the scope of CSRD will remove the burden from smaller entities. However, there is still a significant amount of work to do for larger entities. In the original version of the CSRD, the European entities of large groups were included is in scope and had to devote a considerable resources to presenting their own disclosure in line with the directive. However, this exercise has a relatively limited use as investors sit at group level, not at subsidiary level. Thus, all the data points provided at the subsidiary level have limited use for investors and comes at a great cost.

A more balanced approach should be considered. For example, disclosure requirements that go beyond requirements in ISSB Standards could be voluntary rather than mandatory and could therefore be tailored to different business models. Regulatory equivalence regimes could provide assurance that specific reporting requirements are already being met at group level and therefore do not need to be replicated at entity level. The work done by EFRAG and ISSB is commendable but is only the start of the process of developing a tailored model that aligns with international standards and helps investors to make the right choices. In addition to focusing on removing data points, a review of the entities in scope is needed.

An industry representative stated that CSRD is the directive with the most solid foundations and should be the cornerstone of sustainable finance. Leveraging the experience of financial reporting is the right approach. The desire to move fast in the Omnibus review is welcomed. However, the European authorities should pay attention to the different processes launched in parallel (Omnibus I package, ESRS review, Taxonomy DAs, upcoming SFDR review). The presence of good foundations and the appropriate governance around the fundamentals means that the system can be trusted, including in the way that ESRS are drafted.

A regulator mentioned that the previous year's Draghi report notes that the green transition will require the mobilisation of an enormous amount of capital, both private and public, although the context of the growing European public debt is difficult. After this premise, she highlighted that the green transition is not merely a financial matter but rather an industrial policy objective, for which transparency rules alone will not be enough to meet its objectives. Although transparency is a powerful tool, which has helped to mobilise private capital towards more sustainable assets, it will not work in isolation. Instead, it needs to be complemented by financial measures and a regulatory framework that allocates responsibilities at the level of corporates. In that context, postponement of CSDDD is a concern.

An official emphasised that consistency, particularly in EU regulation, is key. Other speakers have referred to SFDR. Information is the cornerstone of any further regulation and should be the starting point. Policy cannot be developed without data, so there is a need to review the taxonomy. Consistency in scope is also crucial, especially as the threshold is now being raised. The right decisions on what should be applied must be made for those firms with between 250 employees and the threshold.

International consistency is necessary but will not be easy to achieve. Modifying the approach in the EU away from interoperability and towards something stricter, such as an endorsement mechanism, would be the wrong way to proceed. The present approach works and is moving in the right direction. In the context of current geopolitical challenges, international collaboration will be vital to maintain momentum on sustainability reporting. It is important to remember that, in reality, the differences are minimal and there is more convergence than divergence. Competitiveness and change will be the focus in the future. Reporting is only a minor aspect of these elements. Forward-looking information to inform strategic decisions and communication will be vital, and this will need to be derived from high-quality data.

An official summarised that, although the Omnibus initiatives are a good starting point, there is still a great deal more progress to be made. A focus on simplification and burden reduction in the coming years will increase the competitiveness of the European economy, corporates and SMEs. Sustainability reporting will be an element of this. Germany requested the removal of the green asset ratio but this was not included in the Commission proposal. There are other elements where costs imposed on corporates should be reviewed to assess whether they are proportionate. Disproportionate costs should be corrected. The Danish presidency is expected to make good progress in this area, as the Polish presidency did, especially on the files currently under negotiation.

7. Simplification of the EU taxonomy

An industry representative suggested that the Omnibus package provides an opportunity to clarify and simplify the EU taxonomy and make it more usable for the market. A recent study reported that 76% of European financial players do not use the EU taxonomy, primarily because it is not simple and not aligned with global standards. There are more than 500 technical screening criteria and many are subjective or repetitive. The technical screening criteria are very EU-oriented, which discourages global financial institutions from using them.

The Chair shared that work is already underway on the taxonomy, especially around the 'do no significant harm' criteria.

8. International perspective on sustainable reporting

An industry representative advised that the EU should aim to continue providing leadership on sustainable reporting, but this leadership should be pragmatic, grounded in business reality and enabling, not prescriptive. Proportional material disclosures for global groups remain essential, but these disclosures must serve the broader purpose of directing capital deployment towards the real economy transition. Reporting alone does not drive change and a high level of focus must be maintained. Financial institutions must be empowered to help support clients, especially those that operate in hard-to-abate sectors. Otherwise, institutions will merely green their balance sheets and not invest in the hard-to-abate sectors that need capital to decarbonise. Open dialogue and debate will be needed to explore how reporting and disclosures can support in tackling these concerns.

A regulator noted that the two main comparator economies for Europe are the US and China. The US Inflation Reduction Act allocates nearly $307 billion over a decade to clean energy, using tax credits, grants and consumer incentives. China has taken a similar approach while also combining this bottom-up approach of financing measures with top-down planning at central government level. These examples highlight the need for a review of the European approach. Transparency alone has not delivered what was hoped for because the single market never reached the scale to realise the transition. In addition, Europe failed in exporting its regulatory model. However, there have also been positive developments. President von der Leyen's comment to the European Parliament that Europe needs and should have its own electric car reflect an increasing awareness of the need for strategic autonomy and clarity around how to achieve it.

An official shared that, excluding the European Union, there are now 36 jurisdictions globally that have started, or are moving towards, requiring reporting using the ISSB's standards. A significant number of companies will be required to use ESRS and ISSB Standards going forward. These companies will need access to information to support reporting for both ESRS and ISSB Standards, including data from supply and value chains. Investors need to be able to make valid comparisons of companies reporting under these systems. This demonstrates the critical importance of interoperability.

ISSB has always acknowledged the benefits of a 'building block' approach. ISSB is focused on investor information but acknowledges that policymakers or other stakeholders may need additional information. In line with this approach, one possibility could be to use the ISSB global baseline and require additional reporting. The Omnibus is an ideal moment to consider the wider context and explore how the system can work best for all stakeholders.

SFDR review: timeline and priorities

Introduction

The Chair noted that SFDR is a key pillar of the EU sustainable finance regulations and has been in place for more than four years. The Commission has launched a consultation on the review of SFDR, and a proposal is expected to follow soon.

1. Assessment of the implementation of SFDR

The Chair emphasised that the original purpose of SFDR was to enable investors and consumers to more easily compare investment products and their sustainability profiles.

A consumer representative observed that SFDR is a first step in providing transparency for investors. However, it has not delivered what retail investors wanting to invest in products associated with positive environmental and social impacts would have hoped for. In several cases, products classified as green included exposures that were incompatible with climate and social objectives.

There are three main areas where improvement is needed. First, the definition of sustainable investment needs to be clarified. A consensus is emerging that two clear categories of 'sustainable' and 'transition' would be a more useful approach. These categories would be mutually exclusive. Secondly, product categories in SFDR should be aligned with how investors' sustainability preferences are defined in the legislation. The review of the sustainability preferences as per the Markets in Financial Instruments Directive (MiFID) and the Insurance Distribution Directive is relevant here. Finally, product disclosures should be aligned with the intended SFDR categories and the sustainability preferences, making them accessible and easy to understand for retail investors. The most appropriate way to do this would be by incorporating this information into the key information documents (KIDs) on the sustainable products.

An industry representative stated that BNP Paribas supports SFDR as a positive step in the transition to a more sustainable economy. However, there have been implementation challenges. SFDR implementation was extremely resource intensive. Access to sufficient good quality data is key and is often limited. Reporting is currently too extensive, and the templates require a great deal of useless information. Some information is only applicable to certain sectors so transversal information would be more useful. In addition, excessive levels of granularity are sometimes required. For example, it is very difficult to collate data breaking down sustainable investment into environmental and social categories. Expectations on reporting differ between different competent national authorities.

What is missing for the Article 8 and 9 classification is minimum criteria to identify which products can qualify. As a consequence, there are too many article 8 products. The notion of transition is a major omission.

A regulator commented that SFDR was intended to achieve first transparency and harmonisation of disclosures. SFDR has performed relatively well on transparency, with combined assets in article 8 and 9 products in Q2 2025 representing over 59% of the EU fund market. However, results on harmonisation have been more mixed. Disclosures follow pre-contractual and periodic templates, but a significant amount of flexibility is being provided to financial market participants (FMPs) on how to complete these templates, leading to divergence. A robust regulatory framework with clear requirements that do not leave room for interpretation is vital for harmonised supervision and implementation.

Clarity is still missing on the foundational concepts of regulation, for example there is no agreed definition of a sustainable investment. Also, different methodologies are used to calculate the proportion of sustainable investments in portfolios across the industry. The treatment of derivatives has not been standardised. The additional guidance provided by the European Commission and the European supervisory authorities (ESAs) has not been sufficient to achieve the necessary harmonisation. The lack of harmonisation is unfortunate, as SFDR is a major regulation intended to finance the EU Green Deal, thus addressing a global challenge.

Implementation of the SFDR level 1 and 2 texts has been resource intensive not only for the industry but also for supervisors. Article 8 is too broad, accommodating a broad range of investment strategies, potentially leading to investor confusion. The regime has been used as a labelling scheme, which it was not intended to be. The lack of minimum criteria for the current SFDR categories prevents comparison of products. These issues result in a regime that is not fully functioning.

A public representative stated that benchmarking and reporting will be key to the success of sustainable finance. Over the next 20 years, ecological instability will be more of a threat than financial instability. The financial community must be provided with the tools to address this approaching ecological instability.

Work originally began some years ago in the Parliament, and is still ongoing, to develop a system for sustainability. ESG data is not standardised and is therefore difficult to interpret. An early proposal was to combine a broad SFDR in the same package as the corporate sustainability reporting directive (CSRD), because they have complementary roles. However, this proposal was not progressed due to member state reluctance.

Although the current situation is not what was initially envisaged, there are five pieces of sustainable finance regulation: CSRD, SFDR, taxonomy, green bonds and due diligence. This addresses most of what the Parliament asked for. Going forward, the aim should be to harmonise the standards, data and European supervision and introduce integrated reporting. A single access point should be introduced for data comparability. The current situation is not perfect and there have been some setbacks, but there are still opportunities for improvement, for example through an accounting directive.

The Chair noted that, although SFDR was intended as a disclosure regime, it is also being used as a labelling tool. This can enable greenwashing, for example if article 8 products are perceived as 'green' despite the lack of minimum criteria.

2. The impact of ESMA guidelines on fund names

The Chair noted that ESMA has published naming guidelines for funds to address greenwashing concerns.

A regulator noted that data for her country (a small country with a relatively small market in comparison to the EU as a whole) shows that almost 50% of National data on Undertakings for the Collective Investment in Transferable Securities (UCITS) and alternative investment funds, excluding private equity and venture capital, measured by net assets, are article 8 but less than 1% are article 9. Article 9 funds are lower than EU average and article 8 are around average.

Following the publication of the ESMA guidelines, number of asset managers changed the name of funds, for example to remove a reference to sustainability or replace it with ESG references, but. in some cases, a change in investment strategy led to a reclassification from article 8 to article 9. The market reaction shows the importance of having clear rules and guidance.

Through supervisors highlighting deficiencies to supervised entities and areas of non-compliance during the implementation of SFDR, the quality of information disclosed in the national asset management sector has improved somewhat.

Nevertheless, supervisors have faced challenges, such as obtaining the necessary expertise for very specific technical points and data availability. SFDR is very complex in some areas, with vague concepts resulting in different interpretations by different financial institutions. Furthermore, EU ESG regulation is not fully aligned. Different concepts are used in different regulations, which is a barrier to effective supervision. In this process, national supervisors should be aware of the wider European context and have regular communication with other supervisors to guarantee a level playing field.

Against this background, the ESAs, notably ESMA, have provided important support, such as Q&As, supervisory briefings and the previously mentioned guidelines. The SFDR review should ensure more convergence at the European level. The ESMA guidelines should be considered in the SFDR review, thus improving consistency between fund naming, ESG claims, investment strategies and product categories.

3. The reform of SFDR

An industry representative remarked that, in addition to building real categories of sustainable products under SFDR to replace article 8 or 9, the disclosures must also be redefined. The two aspects must be considered together. The focus should not be on the names of the products but instead on their substance and the accessibility of the information that is disclosed. When creating real categories, it must be remembered that SFDR was not originally intended as a tool for categorisation but instead to increase transparency.

The need for minimum criteria is clear. These minimum criteria should be robust and less flexible than the current framework. Article 8 in particular is very flexible, and many assets and products can be included. The methodology or criteria around categories must accommodate the nuances of different asset classes. For example, there have been challenges in relation to sovereign debt private assets. SFDR does not currently consider transitional assets, and this must be addressed. The new categories need to be robust, enforceable and easy to understand. At present, many retail investors lack the understanding to make real use of the disclosures.

A regulator advised that a cautious approach should be taken to incorporating the ESMA guidelines on fund names into the SFDR review. The ESMA guidelines apply to only some of the products in scope of SFDR and to funds, which has potentially led to market fragmentation. Instead, a comprehensive review of the framework is needed so that any standards or guidelines apply to all products in scope. In addition, several key concepts are still not defined in the ESMA guidelines, for example the list of terms that trigger the application.

In addition, the ESMA guidelines pose operational challenges to asset managers. For example, a limited number of index derivatives comply with the criteria of the guidelines. Asset managers would therefore be unable to install appropriate hedging arrangements for their portfolios. Great care needs to be taken before using these criteria in any redesign.

At least two categories are needed: the sustainable category and the transition category. The transition category reflects the fact that greening the economy is not a linear process. A possible third category with lower sustainability ambitions could then capture those products that did not fall into the sustainable or transition categories. The Commission has proposed that this be named the ESG basics or collection category. To address the market concerns that this third category would replicate the shortcomings of the current article 8 products, clear and science-based minimum criteria need to be developed. Taxonomy alignment should also be considered.

The Chair noted that, in the context of the current geopolitical situation, a separate category for the defence industry to encourage investments in this area has been proposed.

A consumer representative advised that it is important to consider which objectives are being targeted with which tools. SFDR does not need a defence category. Investors are free to choose to invest in sectoral products dedicated to defence, but this is not within the remit of the sustainable finance framework. Sustainable finance aims to channel capital to activities associated with climate, the environment and social objectives. Many defence investments would not fulfil the criteria in the environmental taxonomy, although some might. Stating that all defence investments are sustainable would undermine the sustainable finance framework.

The tension in this area largely stems from the priority currently given to defence in political discussions. Additionally, returns accruing in the defence sector are competing with sustainable finance investments, which are struggling to become more attractive for the private sector.

The Chair summarised that, although a consumer representative does not believe that defence should be a separate category, there is already some flexibility in the framework to support the capital flow towards the defence industry.

An industry representative emphasised that minimum, objective, measurable and binding criteria are needed and should be adapted for different asset classes. The categories will only be successful if they are used in ESG preferences. Developing categories under SFDR without modifying the current sustainable preferences would be ill advised. The categories should be mandatory and not voluntary, with only categorised products allowed to make ESG claims. The purpose should be to increase clarity for end investors.

A public representative proposed a transition-plus category, with a move into the sustainable category after accounts are audited and there is evidence that the transition plan has been followed. The categories should also develop through time and technological advancements: for example, , blue hydrogen could be regarded as better than natural gas and therefore be forever considered as transitional and labelled as green. More flexibility will be needed around innovation. Within the categories, there should be an overall compass. For example, where there are increased risks a black or brown classification could be used, with green where there are fewer risks. There should be no defence category. Defence should be appreciated for what it is and not classified as sustainable. The taxonomy should follow the categorisation.

4. Simplification agenda and SFDR

The Chair stated that simplification is currently a major priority. The Commission's proposed in Omnibus to simplify CSRD reporting, the due diligence directive and EU taxonomy. These pieces of legislation will be simplified in terms of not only how many firms are required to report but also the amount of reporting that is necessary. This simplification agenda will impact SFDR.

A public representative commented that the Omnibus and the political situation in the European Parliament and member states might lead to regulation resembling a Halloween pumpkin: totally empty and with a nice smile.' Companies need clarity and better regulation, not just deregulation. Therefore, we should have found a solution beyond a choice between tolerating imperfection or ending up with another Halloween pumpkin.

An industry representative noted that asset managers and investors are already fatigued. Implementation has been resource intensive. A thoughtful review of the regulation, with simplification as an overall goal, should first consider the overlap with other pieces of regulation. Duplicate requirements must be eliminated. Input should be sought from all the different stakeholders. Any modifications should fulfil the aim of providing investors with more useful information.

The Chair noted that the definition of sustainable investments under SFDR is principles based.

In answer to a question on whether there should be more alignment between the concept of sustainable investment in SFDR and the definition under the EU taxonomy, which is more prescriptive and rigid, an industry representative stated that there is value in maintaining the concept of sustainable investment, despite the different proprietary methodologies. Full harmonisation of the definition of sustainable investment would be useful but would mean using the EU taxonomy. However, using only the EU taxonomy is an issue. Presently, and likely more in future, it will be very difficult to obtain information about alignment with the EU taxonomy as the current Omnibus 1 package proposal is to make taxonomy reporting optional under a specific condition. As only using the EU taxonomy is not a solution, full transparency on the methodologies used and introduction of common principles should be envisaged.

A relative approach could neutralise the differences between methodologies. This would apply to most, but not all, products and asset classes. The relative approach involves benchmarking the ESG performance of a product within its investment universe as frequently used in asset management. This could be achieved with, for instance, a selectivity approach or a best-in-class approach.

A regulator proposed that the review of the SFDR should focus on four main principles. First, it should guarantee that the information to be disclosed is useful for investors need. Just to give an example, potential product categorization has been discussed, but it is vital that investors understand which products are in each category. Secondly, costs for FMPs should be minimised by focusing on the necessary information (and by keeping in mind that changing regulation also imposes costs). Thirdly, key concepts of the regulation should be clarified, thus providing legal certainty, decreasing fragmentation and improving compatibility. Clarity will increase trust and attract investors to the market, thus fulfilling one of the main objectives of the regulation.

Fourthly, all the legislation that applies to ESG-related issues applicable to the financial sector should be consistent. Against this background, the SFDR review should reflect discussions around the Omnibus and ensure that there is no duplication or overlap.

In terms of the simplification that could be introduced, without losing important information, SFDR entity-based disclosure requirements should be streamlined. This part of the legislation is relatively complex, for example regarding the information required on the principle of adverse impacts on entity-related information. A great deal of information is required for these disclosure requirements and there is no guarantee that the ESG data being used is standardized.

Conclusion

The Chair concluded that there is a clear need for simpler and more meaningful disclosures. It is hoped that the Commission will develop a proposal that delivers this.

Insurance protection gaps

1. Cyber risk: persistent protection gaps and an urgent need to adapt protection to SME needs

1.1 A growing but fragmented cyber insurance market, addressing mainly large corporates

An industry representative shared that Swiss Re's latest report reveals that global cyber insurance premiums rose from $3 billion in 2017 to an expected $16 billion in 2025, although growth has recently slowed. The market remains dominated by North America (66% of premiums), followed by Europe (21%) and APAC (10%).

An official noted that a 2023 International Association of Insurance Supervisors (IAIS) report based on 2021 data already identified a small but growing cyber insurance market, with insurers tightening terms and focusing more on risk selection. The trend continues, though the protection gap remains vast, at possibly over 95% globally. The market is maturing, with insurers offering additional services, such as risk management support and cyber resilience tools. There is growing use of insurance-linked securities (ILS) and more standardised contract wording, aiding transparency.

1.2 Product complexity, high costs and low risk awareness hinder SME uptake

An industry representative highlighted large disparity in coverage by company size. 60% to 70% of large corporates with annual revenues above $1 billion currently have cyber insurance compared to 50% of medium companies, 10% to 20% of small and medium-sized enterprises (SMEs) and 5% to 10% of micro-SMEs. Although SMEs make up around 90 % of all businesses globally, together with micro-SMEs they account for only about 30 % of total cyber insurance market premium. The lack of coverage in SMEs is driven by a range of factors, including expense, the belief of some SMEs that they are too small to be a target and therefore do not need coverage and the fact that the market has developed to service large corporates, with sophisticated language and contracts that are not tailored to SMEs.

An official commented that there is low penetration of cyber insurance in the market. While large entities accept the need for cyber insurance as part of their overall coverage, SMEs, particularly in smaller member states, often consider cyber coverage a luxury. Individuals and households generally do not see themselves as potential targets. The Organisation for Economic Co-operation and Development (OECD) has concluded in recent work that coverage may not even be available for this segment of the market.

A regulator noted that mid-sized entities in the public sphere often lack knowledge on how to protect themselves. When arranging insurance cover, entities are often advised on changes they need to make. This helps to build resilience at a societal level.

1.3 Regulatory frameworks such as the Digital Operational Resilience Act (DORA) and the Network and Information Security 2 Directive (NIS2) are fostering cyber resilience

An industry representative observed that regulation is playing a positive role. The EU's DORA and NIS2 are increasing risk awareness and aiding market development by supporting better risk management practices.

An official noted that rules and regulations at a European level are helping to manage the risk, for example DORA on operational resilience and NIS2 on stronger risk management and reporting obligations. These regulations can provide protection across society, not just specifically within the financial sector. Collaboration in the area of insurance gaps is in the interests of all because it is a shared issue.

2. Limited data and systemic characteristics demand a public good approach for cyber insurance

2.1 Lack of reliable data and under-reporting undermine market development

An official remarked that barriers to cyber insurance development include limited historical data, under-reporting and the unpredictability of cyber incidents. Cyber attacks are very idiosyncratic, sometimes only impacting one individual or company, but at other times affecting whole systems. Although the incidence of both natural catastrophes and cyber is increasing, natural catastrophes and their effects are much more readily visible to the public. Cyber attacks are often not as obvious to the public, particularly as many companies will not publicise an attack for fear of reputational damage.

An official confirmed that the IAIS is collecting new data on cyber risks and insurance markets globally.

2.2 Cyber risks are systemic, under-recognised and insufficiently understood

A regulator commented that cyber risk is a less mature area than natural catastrophes (NatCat), due to limited data and lower comfort levels. People sometimes do not believe that they will be impacted by a cyber attack, but perceptions can quickly change. For example, in the Netherlands the data of over 900,000 women was lost when the breast cancer screening centre was hacked. This made people reluctant to attend breast cancer screening appointments and raised many questions around how well people's data was protected. The impacts of NatCat are more tangible and easier for citizens to understand.

An official shared that Ireland's 2021 health system cyberattack had severe operational and societal costs, illustrating the systemic nature of cyber risks. OECD research indicates that cyber coverage may not be available to households.

2.3 Cyber resilience requires collective responsibility and basic hygiene practices

An official concluded that cyber is a shared challenge that can only be addressed through collective responsibility and better cyber hygiene practices.

3. Bridging the NatCat protection gap through better education, data and coordination

3.1 Affordability and low awareness limit NatCat uptake, especially in small markets

An official stated that the main barriers to NatCat take-up include affordability, low risk awareness and expectations of government assistance. There are issues on both the supply side and the demand side.

On the demand side, take-up among householders is limited. A lack of understanding of what is covered by policies, sometimes due to previous negative experiences, can affect trust. In Ireland, recent storm damage highlighted misconceptions around coverage. Newspaper articles stated that people were not covered for household damage because it was an 'Act of God'. The finance ministry and insurance sector collaborated to dispel this misunderstanding.

On the supply side, climate change increases the difficulties of risk pricing. Risk appetite can be an issue and a deeper market capacity is needed.

3.2 Insurance literacy and clarity in contracts are key to consumer trust

An official emphasised the importance of insurance literacy, realistic expectations of government intervention and market sustainability. There is no one-size-fits-all solution to the protection gap. The Irish market is quite small and designing policy to encourage insurance companies to provide a full suite of products across the market, while avoiding unintended consequences, is difficult.

An official advised that supervisors must ensure clear contract terms, operational readiness and equitable access to insurance, especially for vulnerable populations. Vulnerable consumers may be less able to invest in resilience measures or withstand a climate event and it is important that their distance from the insurance market is addressed. One of the Insurance Core Principles of the IAIS (the global standard for insurance supervision) deals with the fair treatment of consumers by insurance companies throughout the entire customer journey, from ensuring clarity in marketing materials to providing adequate resources after events occur.

3.3 Supervisory coordination and proportionate regulation build resilience

An official noted the importance of understanding local contexts, demand and supply-side challenges and the fair treatment of consumers. Building resilience and expanding access requires collaboration between prudential and conduct authorities, as well as innovation from the private sector. Operational resilience will involve insurers planning and ensuring that the necessary systems and people are in place to process claims after climate events that may increase in impact and frequency.

In addition to market conduct requirements, prudential requirements including on risk-based solvency and risk-based pricing are important. Conduct and prudential requirements help supervisors to maintain the sustainability of the insurance sector. The insurance sector can assist in building resilience across the market. As the private insurance sector develops innovative products, supervisors can set the boundaries around prudential and conduct regulation to ensure a sustainable and resilient sector

4. Public-private schemes must complement, not distort, the market

4.1 Long-standing national public-private partnerships (PPPs) ensure rapid recovery and broad coverage

An industry representative shared Spain's experience with the public-private Consorcio de Compensación de Seguros (CCS), particularly following the extreme floods in Valencia. The event resulted in nearly €5 billion in losses and 250,000 claims, which was the largest ever incident for CCS. The scheme's long-standing cooperation with the private market enabled swift claims management, with 97% of claims processed within 10 months. 90% of affected properties were insured due to automatic NatCat coverage. For several decades the market in Spain has focused on cooperation, considering CCS a tool, not a competitor. This has benefitted all players and is an approach that could be followed globally.

An industry representative explained that the French CatNat scheme, similarly to CCS, is a cooperation between the private and public sectors. The scheme has four principles: private insurers cover insurable risks, such as storms; uninsurable risks, such as floods or droughts, are managed through the PPP; operations are managed by insurers under state supervision; risks are shared equally between public and private sectors. 95% of houses are insured and the premiums average only €300 per year, although unfortunately the fund is in deficit and recently had to be reformed.

4.2 Risk selection and demutualisation could threaten the sustainability of pools

An industry representative emphasised that the effectiveness of the French scheme relies on strong pooling, affordability and insurer participation. The use of risk data could potentially undermine this if insurers begin selecting risks, threatening the sustainability of the pool. A new observatory under the Ministry of Finance now monitors insurability to ensure fair participation across insurers. Data-driven risk selection by insurers could destroy the pool, leading to the loss of a vital national resource, and regulatory discipline will be crucial in preventing this.

4.3 National contexts must guide PPP design to ensure effectiveness and fairness

An industry representative noted that the industry is sceptical about an EU-wide NatCat scheme, as proposed in a paper by the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA). Three elements are presented as triggers for the EU scheme. First is a lack of NatCat capacity that can only be addressed by adding more capacity. However, it is not accepted by the industry that there is a current significant capacity problem in Europe.

Secondly, the paper states that a whole-EU pool would be well-diversified geographically. However, from the perspective of a global reinsurer, global diversification is better than EU diversification, so this is not a strong argument.

Thirdly, the paper suggests that EU scheme would offer lower NatCat premiums. The paper outlines some tools, including one that is related to sovereign backing and another with less stringent prudential requirements. This would not be helpful in the long term and would not provide the right incentives.

While the industry welcomes the 'ladder' approach prioritising private markets before PPPs, any solution must reflect national contexts. Industry input should be sought in the design of any potential EU scheme regarding what aspects already present in other schemes should be emulated and in what political and economic context these aspects could be applied.

A regulator explained that the 'ladder' model includes the EU level as a backstop after all the other steps. The model also includes a reinsurance pool in the private markets before this backstop to assist with insurability. If the industry believes that this final backstop is not needed, this suggests that the problem is perhaps not as significant as was feared, which is reassuring. However, regulators may disagree with the industry and still see some tail risk that needs to be mitigated with a backstop.

An official reiterated that national specificity matters and warned against removing policy options prematurely. While mandatory insurance might be discussed theoretically, it is not currently being seriously debated in Ireland.

5. Enhancing coordination and learning to deliver scalable, sustainable solutions

5.1 International cooperation is vital for effective supervision and mitigation

An official shared that the IAIS is prioritising collaboration between the insurance sector and policymakers and supporting supervisors through data collection and peer exchange. The IAIS is now engaging directly with global fora such as the G7 and G20 and partnering with the OECD and World Bank to promote multi-stakeholder solutions.

5.2 Functional benchmarking of existing schemes can inspire tailored solutions

An industry representative indicated that the industry favours schemes that promote mitigation, risk reduction, and transition to risk-based pricing, as exemplified by the UK's Flood Re sunset clause. Discussion should focus on functional elements of existing schemes rather than top-down harmonisation.

5.3 Shared challenges require cross-sector dialogue and continued EU engagement

A regulator noted that DG CLIMA and EIOPA are currently working on an EU proposal. Continued discussion will be needed to develop sustainable and scalable solutions. Insurance protection gaps are a shared challenge, requiring cross-sector collaboration, national tailoring and international learning.

Sessions

VI

SIU FUTURE STEPS

SIU: are we on the right track?

1. Progress on the SIU and way forward

1.1 Progress in the implementation of the SIU Strategy

A policymaker emphasised that steady progress is being made on the Savings and Investments Union (SIU) with many proposals due to be published by the end of 2025, to be followed by negotiations in the Parliament and Council. The Commission's action, as outlined in the March 2025 SIU Strategy communication, is structured around four well-balanced pillars: creating incentives for retail investment to turn savers into investors (including a recommendation on savings and investment accounts), supporting financing and investment in the economy through instruments such as securitisation, integrating markets to address fragmented liquidity following up on the consultation led over the summer of 2025, and enhancing supervision as part of the forthcoming integration and supervision package, which will also include a strong focus on simplification. Technological innovation will also be taken into account, notably in the integration package, with the inclusion of tokenisation and a review of the DLT pilot regime, the use of which needs to be further encouraged.

The chair asked whether 2028, set out in President von der Leyen's State of the Union address as the target year for completing the single market roadmap, should also serve as the deadline for the SIU. The policymaker confirmed that while this date applies to the broader single-market project, 2028 is a realistic overall horizon for the full implementation of SIU measures, including the time needed for negotiations.

Several speakers acknowledged the progress achieved and the renewed momentum around the CMU and SIU initiatives over the past two years. A policymaker underlined the Commission's persistence in advancing SIU and a new political willingness to integrate tax policy into the debate. While unanimity in tax matters complicates decision-making, significant progress is still possible, given the limited cross-border fiscal coordination to date in the area of capital markets. An official noted that, beyond the growing momentum, there is a shared sense of urgency among Member States to advance the SIU objectives, particularly as pension reform and legislative simplification gain prominence within the initiative.

1.2 A hybrid policy approach combining EU level and national action

A regulator welcomed the holistic approach of the SIU, stressing that no single measure can solve Europe's financing gap. Progress requires a combination of top-down coordination at the European level with bottom-up action from Member States. While many policymakers now recognise the need for a more ambitious and convergent approach and show growing willingness to achieve the SIU's objectives, certain areas such as pensions must be addressed nationally. However, national solutions to develop markets or enhance their efficiency should move in tandem with efforts toward the European single market, to avoid undermining collective progress.

An official underlined the need for Member States to act decisively in areas within their competence, such as pensions and tax incentives supporting savings and investment accounts. To achieve meaningful results, once an appropriate EU framework is in place, national authorities should implement the recommended actions in a convergent manner, with the Commission ensuring rigorous follow-up and monitoring of their implementation.

A policymaker also supported a hybrid policy strategy to move the SIU forward. In some areas, top-down harmonisation through EU regulation is necessary, while in others, where European legislation would be too complex or time-consuming to implement, soft-law tools such as recommendations or guidance can deliver faster results, working in cooperation with Member States and industry. Robust monitoring, including regular peer reviews and exchanges on best practices among Member States is also essential. This approach should replace the tendency to legislate without sufficient attention to practical implementation, which has proved ineffective in areas such as taxation.

Another policymaker confirmed that the hybrid approach is the right way forward for the next steps of SIU, stressing that greater responsibility at Member States level must be matched by structured monitoring at EU level. Existing mechanisms, such as the European Semester, could serve this purpose if made more agile. Other useful tools worth considering include the Eurogroup's CMU structured monitoring exercise, which facilitates exchanges among Member States, and the Competitiveness Lab launched by 7 Member States to develop joint initiatives supporting the SIU. Future steps of the SIU should increasingly rely on bottom-up action complemented by consistent EU level follow-up and monitoring.

An industry speaker welcomed the SIU's pragmatic direction but emphasised that speed must become the defining feature of future action in the capital market. While Europe has demonstrated its capacity to act rapidly in areas such as energy, vaccines, and defence, capital-markets reforms still lag behind. To accelerate progress, firm deadlines and measurable targets should be set, making potential delays and their consequences more visible. The industry speaker encouraged the creation of "coalitions of the willing" to advance projects when a majority cannot be reached fast enough among Member States, recalling that many major EU achievements (such as Schengen, the customs union, the euro) were launched by a group of pioneer countries. Faster progress could also be achieved with a greater role played by the industry through market-led consolidation and the bottom-up development of European standards. For example, standards for IPO prospectuses were recently created that way, following earlier work to standardise derivative contracts and commercial trading terms. These initiatives illustrate that industry-driven harmonisation can offer a faster alternative to regulation, without the constraints of the EU's legislative process. The chair agreed, noting that industry-led standards can usefully complement the regulatory process and can later be codified into EU regulation if appropriate.

1.3 Engaging all market participants

An industry speaker stressed that the SIU should better reflect the contribution of all key players to the development of capital markets, notably those that drive liquidity. While the roles of infrastructures, banks, and insurers are well recognized in SIU measures, market makers and liquidity providers, who are essential to achieving sufficient market depth, remain largely overlooked despite the persistent and significant shortage of liquidity in European capital markets. Current rules, particularly the Investment Firms Regulation and Directive, have unintentionally constrained these participants, discouraging liquidity provision and even driving some firms out of Europe. This runs counter to the SIU's goal of building deeper and more liquid markets and ultimately raises costs for investors.

2. Key priorities for advancing the SIU

Several speakers stressed the need to focus the SIU Strategy on a limited number of key priorities.

An industry speaker cautioned against the proliferation of disconnected initiatives under the SIU umbrella. The expected outcomes and success factors of the initiative should first be clearly defined and agreed before identifying the actions needed to achieve them. This would help to prioritise the most impactful measures and keep the initiative focused on delivering its core objectives. Another industry speaker also warned against multiplying technical measures within the SIU, as this would risk diluting its focus and effectiveness.

2.1 Encouraging retail participation in capital markets

Several panellists highlighted that channelling part of Europe's €10 trillion of household savings toward productive investments, notably in equity, is a key objective of the SIU.

A policymaker noted that the Commission's forthcoming recommendations on savings and investment accounts could contribute to this objective. While in Canada and the UK around 20% of assets are held in tax-advantaged investment accounts, the share in the EU remains below 1%, except in France and Hungary. Raising equity investment in these accounts to even 5% of total assets would already mark substantial progress.

An industry speaker underlined the importance of financial education to encourage retail investment, warning that current communication and disclosure requirements often have the opposite effect. Excessive emphasis on risk warnings discourages savers from investing in capital market products. A change in the communication with investors is needed, focusing more on financial education and the long term benefits of investing, rather than on potential losses. Without this rebalancing, households are unlikely to increasingly engage in the capital markets.

A regulator added that building investor trust is equally crucial. Providing simpler and more accessible information, together with intuitive digital tools that make the investor journey easier and more transparent, can help achieve this goal. Investors should receive appropriate support throughout the investment process to ensure they invest in an informed and measured way, with a clear understanding of the risks involved.

An industry speaker agreed on the need for financial education, adding that investors should also be informed about how to respond when investments underperform or markets decline, rather than deterring them by warnings that overemphasise risk.

The chair supported the need for financial education, suggesting that it should be a mandatory part of school curricula.

2.2 Developing supplementary pensions and investment savings accounts

An industry speaker emphasised that pension and fiscal choices, which fall within Member States' competence, are decisive for equity market development. In the US, retirement income depends largely on equity investment, whereas in Europe it relies mostly on pay-as-you-go systems and tax incentivised products investing in sovereign debt. Unless governments redirect tax incentives away from sovereign debt towards equity, following examples such as Sweden, Europe will remain unable to mobilise household savings for productive investment as advocated in the Draghi report. The key political choice is whether to continue subsidising sovereign debt liquidity or to foster equity markets through at least tax neutrality. Part of Europe's substantial household savings, amounting to around 19% of income in France, should be channelled into equity markets to sustain innovation and growth.

An official endorsed the SIU's focus on pensions and investment savings accounts, which have proven to be effective drivers of retail investment in the Nordic region, but cautioned that these are long term reforms requiring sustained commitment. Building investor confidence in these schemes is essential: citizens must trust that their savings are secure and managed in their best interests. In Denmark, this is ensured through a prudent-person principle, which could serve as a source of inspiration at EU level.

An industry speaker stressed that the lack of portability of Pillar 2 and 3 pension products and the inability to invest in these products on a cross-border basis limit savers' long term opportunities, as well as the targeted increase of depth in European capital markets. The patient long term capital needed to fund innovation and growth mainly stems from pension savings, which also help develop a stronger equity culture. The chair agreed that deeper private and supplementary pension schemes are critical to providing the liquidity and long term investment base needed for capital market expansion.

2.3 Addressing tax fragmentation and fiscal incentives

A policymaker highlighted the persistent fragmentation and inconsistency in the tax treatment of financial services across Member States. Digital investments face greater challenges in their tax treatment than some other sectors and PEPPs may be VAT-exempt when insurance based, but not when structured as investment products. The policymaker further explained that taxation plays a key role in promoting innovation and investment in start-ups and scale-ups. To meet the objectives of the Draghi Report, the entire funding ladder, from start-ups to mature firms, must be considered and notably the challenges that innovative firms face when scaling up. This requires addressing issues such as the tax treatment of stock options. Several packages covering these topics will be published between September 2025 and summer 2026, after which the Commission will assess whether to move from monitoring actions to legislation, despite the challenges of unanimity.

The policymaker added that the forthcoming supplementary pensions package of the Commission will also have important tax implications. The portability of tax incentives across the EU is essential for the mobile workforce and also for financial intermediaries assisting retail investors with tax compliance. Cross-border withholding tax claims remain too complex for most households. A public-private partnership on tax compliance is needed to develop practical solutions to simplify such procedures, building on the FASTER directive, which aims to streamline and digitalise withholding tax processes within the EU.

An industry speaker agreed that taxation is an essential component of capital market development. Fragmented tax regimes and divergent withholding tax rules potentially create double taxation risks that discourage cross-border investment and hinder the achievement of a true single capital market.

The chair acknowledged the importance of tax incentives for equity investment, noting that Sweden's success with its investment and savings account model is partly due to favourable tax treatment.

2.4 Improving trading and post-trading market structures

An industry speaker underlined the need to improve market structure. The original objective of MiFID II to channel more trading into transparent "lit" venues has not been achieved. Two-thirds of cash-equity trading now occurs in opaque bilateral platforms that are not subject to the same rules as exchanges, fragmenting liquidity and undermining price formation. Reversing this trend should be a core priority of the SIU. Persisting post-trade inefficiencies must also be addressed by accelerating the convergence of CSD operations on TARGET2-Securities to improve settlement and custody integration.

An official agreed that market-structure issues such as the balance between lit and dark trading must be addressed to ensure fair and transparent markets. An industry speaker cautioned however against regulatory intervention without further quantitative assessments. Definitions of lit and unlit trading remain inconsistent, and statistics often overstate the share of unlit transactions by including trades that should be excluded, leading to a distorted view of market dynamics. Improving data accuracy is therefore essential to guide any future action.

3. Simplifying the EU capital market regulatory and supervisory framework

A regulator considered that reducing the complexity of regulation and supervision, in line with the broader drive for simplification, should be a key objective of the SIU, particularly for cross-border activities. This requires improving legislative and implementation processes. Returning to the Lamfalussy principles could help achieve this goal, with simple and clear Level 1 legislation in the form of Regulations establishing a common framework to be implemented consistently across the EU. Level 1 texts should clearly set out the purpose and objectives of the legislation, without prescribing every detail in order to avoid multiple revisions as markets evolve. Level 2 and 3 guidance should continue to be provided at EU level to translate Level 1 provisions into implementable requirements and reduce the risk of divergent national interpretations. Level 2 must however focus on what is essential for a common implementation.

The regulator added that a degree of centralised supervision would be beneficial for certain large cross-border entities, to ensure greater consistency and effectiveness in risk mitigation, while supervisory convergence should be further strengthened where supervision remains national.

An official echoed the need for clear and concise Level 1 legislation supported by thorough impact assessments, and noted that Level 2 regulatory technical standards, often drafted under tight timelines, remain an area in need of further improvement and simplification.

An industry speaker agreed that simpler, more principles-based Level 1 frameworks would be beneficial. Divergent national interpretations must be eliminated also, as they undermine the benefits of the single market for cross-border firms.

A second industry speaker stressed that rules must be implemented consistently across EU member states, which has not always been the case, for instance with MiFID. Future legislation should take the form of regulations rather than directives to prevent a dilution of the Commission's proposals in the implementation process and avoid gold plating by domestic supervisors. This would help preserve consistency and foster the integrity of the single market.

A third industry speaker argued that establishing effective single supervision is essential for cross-border players and is the true test of Europe's seriousness in building an integrated capital market. Regulators should start by treating pan-European operators as single groups, ensuring that the delegation of activities within an integrated group is treated as such, rather than being considered third-party outsourcing as is currently the case.

Nordic capital markets: key features and learnings

1. Overview of Nordic capital markets

The chair opened the discussion by noting that the Nordic region capital markets are widely regarded as well-functioning and are characterised by high market capitalisation relative to GDP, substantial pension savings invested in capital markets, and strong retail participation. Their success is underpinned by key attributes such as trust, stability, transparency, and close cooperation among market stakeholders.

An industry speaker also described the Nordic capital markets as deep, liquid, inclusive, trusted, digitalised, and accessible to both institutional and retail investors, with Sweden as a leading example. Built over five decades of reforms, experimentation, and cooperation, the success of the Swedish market rests on four main pillars: an effective pension system, simplified and transparent taxation, a dynamic and innovative business environment, and broad financial literacy, all supported by a high level of societal trust and transparency.

An official added that Finland shares these same core strengths. The Finnish capital market benefits from a pre-funded pension system providing a stable source of long-term capital that can be invested in equity; an active venture capital (VC) and private equity (PE) sector supporting the financing of growth firms; and strong steadily increasing retail participation in equity markets, particularly among younger investors.

Another industry speaker described the Nordic region as "best in class" in operating an integrated financial ecosystem, supported by exceptionally high household investment and long-term investor participation. Over the past six decades, Denmark, Sweden, and Finland have achieved average annual equity returns exceeding 7%, outperforming most markets, including the United States, and demonstrating the benefits of sustained investment. Retail participation is particularly strong, accounting for between 15% and 25% of secondary-market trading in IPOs, the highest rate in Europe. These trends are supported by sophisticated online brokers, comprehensive investment services provided by banks, and widespread financial literacy.

2. Main strengths and best practices of the Nordic capital markets

The panellists further detailed three key components of the Nordic capital markets: a high level of retail participation, a strong pre-funded pension system, and an effective SME financial ecosystem.

2.1 High level of retail participation

An industry speaker stressed that Swedish households are highly exposed to the financial markets: mortgages are typically on variable rates and sensitive to interest rate changes; state and occupational pensions have significant equity exposure (between 30 and 50% for occupational pensions); and many individuals invest directly in company shares through investment savings accounts (ISK). This openness to financial risk is facilitated by Sweden's comprehensive welfare system, which provides the security that enables greater financial market participation and long-term investment. Household savings are channelled into productive investment through multiple pathways including direct investments, investment funds, VC and PE investment, as well as institutional funds and bank lending.

Another industry speaker noted that while all Nordic markets show high levels of retail participation, Sweden has been the most successful. The ISK investment savings account introduced in 2012 has been a key driver of this success and represents a model that could be replicated across the EU. Savings invested in Swedish ISKs now represent 30% of Sweden's GDP (€ 200 billion in assets in 2024). In the rest of the EU, retail participation remains a largely untapped resource. If all EU countries achieved similar levels of participation, household investments could account for about 30 % of EU GDP - over €5 trillion - far exceeding the annual €800 billion investment gap identified in the Draghi report. Although tax incentives play a role, with the first €8,000 of returns being tax-free, the ISK's success lies primarily in its simplicity, ease of use and accessibility. The ISK allows individuals to invest without tracking each gain or loss, instead paying a flat annual tax of 0.9 % on total holdings with minimal reporting. Accounts can be opened online in minutes, data is automatically transmitted to tax authorities, and universal banks play a key role by issuing accounts and providing investment advice.

This simplicity has fostered broad participation and high liquidity, democratising capital markets by allowing all citizens to invest in equities, with tax incentives relatively more beneficial for those with smaller portfolios. Nearly 40 % of Swedes now use such accounts, which have helped to increase household investment in equities and funds from 32% in 2002 to approximately 50% in 2021 and to reduce reliance on bank deposits. These dynamics have also created stronger incentives for firms to go public.

An official observed that a key feature of the ISK is its tax neutrality, meaning comparable investment products are taxed in the same way, so investors' choices are not distorted by differences in tax treatment. In Finland, retail equity investment is also supported by a share savings account. Discussions are ongoing on how to reform and broaden this scheme to further strengthen capital formation.

2.2 Highly developed pre-funded pension systems

An industry speaker considered Denmark's pension system to be the cornerstone of its strong savings culture and a major driver of long-term capital formation. Although designed primarily to secure retirement income rather than to serve capital markets, it provides significant indirect benefits in terms of market depth and resilience.

Established through cooperation between unions, employers, and government, the Danish pension system now holds assets equivalent to around 200% of GDP. It is based on mandatory schemes that ensure broad coverage, collective risk-sharing, and high levels of trust. Unlike savings accounts that tend to mainly benefit wealthier households, the Danish pension system covers the entire population. Its defining feature is its long-term focus aimed at providing a stable income stream in retirement. There is no "leakage" at retirement, as funds remain invested rather than withdrawn as lump sums, and there is no requirement to reduce exposure to risk as retirement nears. Funds remain invested, sustaining returns throughout retirement. This collective, low-cost and scalable system keeps capital productively invested while protecting retirees. Although a domestic bias remains, portfolios are globally diversified to optimise returns.

2.3 Effective funding ecosystem for SMEs

An industry speaker emphasised that the SME financing ecosystem is particularly well developed in Sweden, supported by deep pools of capital. The First North growth market offers proportionate rules that allow SMEs to raise public equity more flexibly. Attempts to replicate this model in Finland, Denmark, or the Baltics have been less successful, underscoring that liquidity must first be built locally in a context where cross-border investment within the region and across the EU remains limited, and pension and investment funds are still largely confined within national borders. The Nordic IPO market has also been successful, with governments, banks, market infrastructures, and regulators working together to make Nordic markets increasingly attractive for international issuers, for example through euro-denominated listings and English-language prospectuses.

Another industry speaker complemented this perspective by highlighting the role of the Nordic high-yield bond market, which has become an important source of financing for small and mid-cap companies alongside equity funding. The market emerged in Norway in the early 2000s to serve capital-intensive sectors such as energy and shipping that had outgrown bank lending but were too small for US or European bond markets. Supported by Norway's main financial institutions and based on standardised Nordic documentation, it has expanded to around €70 billion, roughly 15–20 % of the wider European high-yield segment. Its success rests on three features rooted in simplicity: smaller minimum issuance sizes (around €50 million versus €500 million in euro markets); lighter documentation requirements accommodating different accounting standards and no mandatory credit ratings; and also short time-to-market (typically two to six weeks for smaller companies), enabling issuers to seize funding windows efficiently. These characteristics make the market particularly attractive for SMEs seeking affordable financing. Although labelled "Nordic," it has become increasingly international, with about 40 % of issuance volumes and 30 % of the capital invested coming from outside the region, demonstrating the model's scalability and resilience as a financing platform.

The industry speaker added that ensuring a level playing field with US banks remains essential for the sound development of the bond market. Basel's Fundamental Review of the Trading Book (FRTB), currently postponed but due to take effect in 2 years, could harm bond-market liquidity if implemented in its current form, as higher capital charges would make it more expensive for banks to warehouse bonds and provide market-making services. A more proportionate approach would better preserve liquidity and the resilience of the market. The speaker explained that selling bonds requires market makers to buy existing, partly matured bonds from investors and hold them temporarily until they can be resold. This warehousing function is essential because, unlike equities, bonds mature and new issues are continuously brought to the market, meaning investor demand and available cash rarely align perfectly. If intermediaries lose the capacity to warehouse these positions, they will be unable to make markets effectively, which would negatively affect both investors and issuers.

An official noted that in Finland VC and PE funds are active but too small to support firms that scale up. Further action is needed to encourage the expansion of these funds and the internationalisation of growth companies to attract both domestic and foreign institutional investors.

3. Transferring Nordic best practices to the rest of the EU

In response to a question from the chair about the possibility of building on Nordic best practices to expand European capital markets, a public representative warned that the lessons from the Nordic experience may not be easily transferable to the rest of the EU. In a context of rising energy costs, intensifying competition from China, and the economic consequences of the war in Ukraine, Europe urgently needs to revitalise its business model and strengthen competitiveness by mobilising innovation and risk capital. Yet, the main factors behind the success of Nordic capital markets - pension reforms, tax incentives, and financial education – remain largely within national competence. Moreover, the Nordic capital market has taken five decades to develop. While best practices such as the Swedish ISK model are a valuable source of inspiration, it remains uncertain whether these measures alone can help to effectively channel Europe's large pools of passively managed household savings into innovative and productive investment. More centralised supervision or additional regulation is also unlikely to make a significant difference for equity investment, leaving open the question of how to attract more capital into innovation without distorting markets.

An industry speaker added that the Nordic experience demonstrates that building deep and resilient capital markets requires long-term persistence and consistent policy direction. To achieve similar progress, EU reforms already underway should be accelerated and sustained over time, ensuring that the benefits of stronger capital markets accrue to future generations.

The chair observed that the success of Nordic capital markets was achieved within the existing EU policy framework, illustrating that much can already be done within the current set up and that it is now up to Member States to make full use of available opportunities to further develop their markets.

4. The role of the EU authorities in supporting capital market development

Acknowledging that the key levers for strengthening European capital markets, such as pensions, taxation and education, remain under national competence, several panellists highlighted complementary actions that can be undertaken at EU level to foster market development and integration.

4.1 Coordinating best practices across Member States

An industry speaker underlined that the European Commission can promote reform by integrating best practices, such as those identified in Sweden, into country-specific recommendations that should be monitored at EU level. In response to a question from another panellist on whether such monitoring could lead to sanctions for non-compliant countries, the industry speaker considered that sanctions would go too far but that a transparent "naming and shaming" approach could encourage lagging states to act.

Another industry speaker supported the view that EU authorities should focus more on peer comparison and the exchange of best practices than on new regulations, enabling countries to learn from each other.

A public representative also advocated benchmarking Member States on indicators of capital market development, such as pension coverage, to guide EU-level action in these areas.

4.2 Stimulating demand for capital and innovation

An industry speaker observed that while developing the supply of capital is largely a national responsibility, much can be done at the European level to stimulate demand for capital, notably by fostering projects that offer attractive investment opportunities. Creating an environment in which companies can thrive will naturally draw investment into these projects.

A second industry speaker added that European regulation should prioritise growth objectives more, alongside risk management, and that the European rulebook should be streamlined to reduce excessive compliance burdens that undermine efficiency.

A third industry speaker agreed that simplifying requirements and making it easier for companies to operate would accelerate growth and support innovation. Europe should be more selective in terms of regulation, while showing greater ambition on digitalization and tokenization, technologies that, although sometimes viewed as a source of new risk, have the potential to drive growth and efficiency.

An official suggested that the EU can play a complementary role to Member States by fostering confidence and aligning its instruments, including the upcoming budget, to channel more resources toward innovation and dynamic firms. Retaining and expanding growth companies in Europe, rather than seeing them acquired by US investors, is key in particular to revitalising public markets, which requires expanding VC and PE funds.

A public representative highlighted that EU programmes such as InvestEU offer further scope for action, but greater ambition is needed in simplifying procedures and placing stronger emphasis on SMEs in the next Multiannual Financial Framework. Establishing a cross-cutting SME and start-up quota across EU programmes, similar to existing green or social-spending targets, could help redirect innovation funding toward smaller firms. Comparable quotas could also be applied within public procurement rules.

4.3 Lifting barriers to cross-border markets

An industry speaker stressed that too many barriers still hinder the flow of capital within the EU, particularly at the post-trading level, despite interconnectivity. Cross-border issuance also remains limited, hindering the efficiency of European capital markets and the creation of a level playing field across Member States. EU level action is needed to establish common rules and remove remaining obstacles, as these barriers cannot be resolved at the national level. European instruments and frameworks such as passporting and UCITS demonstrate how harmonized rules can benefit the entire European market.

A public representative agreed that the EU has a key role to play in advancing harmonisation initiatives, including ideas such as a "28th regime" for company registration, which would, however, require accompanying adjustments to tax and labour rules to be effective.

Wrap up

The chair concluded the debate by highlighting several key takeaways from the panel discussion. At national level, building strong capital markets depends on developing large sources of capital through pension funds and broad retail participation, supported by trust and collaboration. While progress will take time, reforms must begin now to secure long-term retirement income and sustainable investment capacity in line with SIU objectives. At European level, sharing best practices and even "naming and shaming" lagging countries, could help drive reform. Finally, developing larger and more international VC and PE funds will be essential to provide greater financing for innovation and scale-ups.

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.

Boosting the competitiveness of EU capital markets

Introduction

The chair stated that. Europe stands at a critical crossroads. Amid geopolitical tensions, shifting alliances, and Asia's growing economic influence, it must rise above national divisions and reinforce its financial integration. While EU markets are generally robust, they remain too fragmented, with liquidity spread across numerous pools. Greater integration and simplification of regulations are needed, without discarding rules that work well. Developing retail investment in a fair and transparent manner, particularly by addressing inducement issues, and expanding supplementary pension systems are other key priorities.

1. Current level of competitiveness and main structural challenges

1.1 Underdevelopment of EU capital markets

A regulator noted that the competitiveness of European capital markets must be assessed within the broader context of Europe's overall financing ecosystem, which also includes banks, insurers, public-sector instruments..., which should complement one another to finance the economy efficiently. Improving the functioning of capital markets is essential, as they are still not fully "fit for purpose". Persistent fragmentation and inefficiencies in market infrastructure continue to hinder their ability to connect issuers and investors effectively.

An industry speaker observed that Europe has a strong corporate sector but lacks the "fuel" to power it effectively, particularly in equity financing compared with the US. Europe is severely underrepresented in global equity markets relative to its economic weight. The US accounts for over 70% of global market capitalisation in the MSCI World Index but only 46% of global GDP, while Germany and France each represent just 2.5% of global market capitalisation compared with 7.5% and 5% of global GDP respectively. Since 2020, companies from the US and elsewhere have raised $370 billion through IPOs in the US, versus only $101 billion in the EU.

Another industry speaker underlined that Europe's corporate bond markets also remain underdeveloped. The US corporate bond market raises around $2 trillion annually, roughly ten times the amount raised through US equity markets. Strengthening these markets is critical for corporate financing, expanding investment opportunities and building pension asset pools.

An official noted that liquidity challenges persist particularly in Central and Southeastern Europe (CESE). While the market-cap-to-GDP ratio stands at about 200% in the US and 50% in Germany, most CESE countries are far lower, except Croatia with 30%. Corporate bond markets are even thinner, averaging 1.5% of GDP compared with 37% in Germany and 60% in France. Trading activity is also limited: only Poland stands out, with equity-market turnover of about 40% of GDP.

Another official added that competitiveness debates often compare the EU as a whole with global peers, overlooking disparities in national market development within the EU and the need to grow smaller markets. Low levels of market capitalisation and listings in several Member States make it difficult for them to engage fully in these discussions. In the Baltic states, for example, only one or two IPOs have taken place annually in recent years, reflecting limited market depth.

1.2 Fragmentation, liquidity and transparency challenges

A regulator stated that while MiFID has increased competition and reduced trading costs, it has also fragmented liquidity, weakening price formation and making listings less attractive. Only about 30% of liquidity now occurs on primary venues, with most trading shifting to less transparent platforms such as MTFs or systematic internalisers. Issuers face rising regulatory complexity and compliance costs, further discouraging them from going public. Although private markets play an important role in financing growing companies, their expansion has made public markets less appealing. Yet public markets remain essential for liquidity, transparency, and market discipline, enabling firms to sustain long-term growth and investor confidence.

Another regulator agreed that while both public and private markets play key roles, public markets remain essential for providing equity and debt financing at fair prices and sufficient scale.

An industry speaker underlined that equity and bond markets face distinct challenges. On the equity side, Europe's 27 national stock exchanges rarely compete with one another, limiting their ability to compete globally and reducing investor and issuer choice. In secondary markets, trading still occurs mainly on a company's primary national exchange, as cross-listing on multiple EU exchanges remains limited. In primary markets, issuers likewise have limited choice for new listings. By contrast, several US exchanges compete to list and trade the same securities, fostering innovation and better execution for investors.

In corporate bond markets, transparency is essential to boost liquidity. Current post-trade publication delays and deferral regimes undermine market transparency and risk limiting the effectiveness of the EU's planned bond consolidated tape. Improved pricing and liquidity could create a virtuous cycle supporting bond funds, ETFs, and credit derivatives, making bonds a more attractive vehicle for investment and capital formation.

1.3 An insufficiently effective funding escalator

A regulator noted that growth companies continue to leave Europe due to limited access to suitable funding, particularly during the scale-up stage.

An industry speaker highlighted that while banks continue to play an important role for smaller firms, innovative companies rely largely on equity investment. Smaller firms often remain confined to local ecosystems and face difficulty accessing wider funding sources. Private markets are crucial in bridging the gap between start-ups and public listing, but Europe faces a major shortfall in growth capital, for scale-up firms seeking €1–20 million in financing, which are too big for crowdfunding and angel funding yet too small for private equity funds. Addressing this gap should be a priority. In addition, financing must also be better aligned with entrepreneurs' needs and risk preferences. When firms reject funding at present, it is often because the terms are ill-suited to their realities.

1.4 Low retail participation

A regulator emphasised that for investors, costs are a key concern. However, fragmented infrastructures and multiple intermediaries increase costs, ultimately eroding returns. Retail investors should also be encouraged to adopt more balanced, long-term asset allocations to strengthen their financial resilience. In many Member States, household savings remain concentrated in low-yield deposits that are not protected against inflation and contribute little to the real economy, while a smaller group of investors engages in highly speculative trading or crypto-assets. This imbalance underscores the need for stronger financial literacy and incentives to channel savings into productive investments.

The chair noted that fostering investment in the middle of the risk spectrum, between safe deposits and speculation, is key to building more efficient markets.

2. Priorities for developing EU capital markets

2.1 A European approach to capital market development

Several panellists stressed that while US markets are often considered as the main benchmark or role model, Europe should not seek to replicate the US model but build solutions suited to its own economic, social, and regulatory context.

A regulator noted that the depth of the US market stems less from greater sophistication than from legal and structural unity. A single legal framework allows the trading and post-trading value chain to operate in an integrated manner, pooling liquidity and fostering competition at the trading level on the basis of a shared post-trading infrastructure, conditions difficult to reproduce in the EU. Retail markets also differ: US investors accept higher risks for potentially higher returns, while European markets prioritise investor protection and asset quality. The chair agreed that Europe must chart its own path, balancing market dynamism with strong investor safeguards.

2.2 Deepening market integration

A regulator stressed that fragmentation remains the main obstacle to efficient wholesale markets, which are essential for further developing European capital markets and deepening their liquidity. Fragmentation is rooted in the persistence of 27 national central securities depositories (CSDs) and divergent tax, insolvency, and corporate laws, which are hard to harmonise. These structural inefficiencies cannot be solved simply by creating holding structures that merge infrastructures at the ownership level, rather by introducing a '28th regime'.

An industry speaker argued that Europe's capital markets could become more competitive through greater consolidation, interoperability, and transparency across trading, clearing, and settlement infrastructures. Fewer but stronger exchanges with deeper liquidity would compete more effectively with MTFs and international venues, attracting more EU listings and improving outcomes for issuers and investors. In post-trading, consolidation may be difficult, but interoperability among CCPs and mandatory connection of all CSDs to T2S would be major advances.

Enhanced transparency, particularly through forthcoming consolidated tapes for equity and bond markets, would improve price discovery and investor confidence. The planned move to T+1 settlement is another positive step. In the US, this reform freed over $3 billion in clearing-fund capital and reduced corporate-bond transaction costs by about 12%, gains that can be replicated in Europe. The industry speaker also called for regulatory simplification, as overlapping reporting requirements under MiFIR, EMIR, REMIT, and SFDR create unnecessary administrative burdens.

2.3 Strengthening institutional investment

An industry speaker stressed the need to encourage institutional investors, particularly insurers and pension funds, to increase their equity exposure. Under current Solvency II capital requirements, long-term equity holdings are penalised even though they align with these institutions' long-term liabilities. Adjusting the framework to provide more favourable treatment for such long term assets would stimulate institutional demand and strengthen pension funding ratios. The industry speaker also advocated expanding public–private partnerships to channel capital into strategic infrastructure projetcs, notably data centres, citing initiatives in France and Germany as scalable models to reinforce Europe's equity ecosystem.

An official underlined that any European capital-market strategy must reflect the structure of its economy. While 60% of US workers are employed by large firms with over 300 employees, only a third of Europeans are, meaning Europe must ensure that capital-market financing is accessible not only to major corporates but also to smaller businesses. This calls for frameworks giving professional investors, such as asset managers and pension funds, a greater role, as retail investors are less equipped to assess SMEs, especially across borders. Although retail participation is important, a stronger base of professional investors is vital to broaden market access for SMEs.

2.4 Developing retail investment and supplementary pensions

A regulator stressed that strengthening retail participation and reforming pension provision are also essential to developing Europe's capital markets. Improving financial literacy should be the first priority to help households build more balanced, long-term portfolios. ETF savings plans on digital platforms already attract a younger, more digitally engaged generation, which is an encouraging trend. Equally important are tax incentives that promote long-term investment, as many Member States still reward guaranteed life-insurance products that tie up capital in low-risk assets rather than more productive ones. Pension reform is another key lever for mobilising long-term savings. However pensions largely remain a national competence. Policymakers must determine which products to incentivise across the three-pillar system and how to integrate capital-market investment into these schemes.

An industry speaker noted that developing Europe's retail equity markets requires building a stronger equity culture and ecosystem. Sweden provides a compelling example with its Investment Savings Account (ISK) launched in 1978. Simple design and strong tax incentives have led about 40% of Swedes to invest in equities, ETFs, or equity funds, compared with roughly only 14% (12 million people) in Germany. The lessons from this model are clear: investing must be simple, tax-advantaged, and product-neutral, covering a wide range of instruments such as UCITS, long-term asset funds, and insurance-linked products, without localisation constraints. A European label for long-term equity investments could further raise awareness, provided it is coupled with tax incentives to encourage participation.

2.5 Expanding market access for SMEs and growth companies

An industry speaker emphasised that start-ups rely on venture capital to grow, and venture capital in turn depends on efficient exit routes through IPOs and public markets. Europe should take inspiration from successful models such as Sweden in this area as well and focus on building an integrated equity ecosystem that supports innovation, growth, and ultimately the EU's financial sovereignty and strategic autonomy.

A regulator agreed that private and public markets are mutually reinforcing. Private markets play a vital role in financing innovation and should act as a bridge to public listing once companies mature, ensuring that Europe's investment ecosystem supports firms at every growth stage. Listing processes must, however, be simplified so that companies with proven business models can transition more easily to public markets. Valuation challenges compared with the US also need to be addressed.

Another industry speaker cautioned that most current European policy measures will do little to foster growth capital, a key driver of innovation and long-term growth. Retail investors are unlikely to enter this segment, and initiatives such as harmonising insolvency regimes, expanding supervision, or improving data access will have limited effect. Investors providing scale-up capital are not deterred by insolvency rules, as equity is typically lost by that stage.

Europe should treat growth companies as a distinct asset class and develop financing models suited to European entrepreneurs rather than replicating US-style private equity or venture capital approaches. Traditional US style private equity, reliant on high leverage and short-term control strategies, and venture capital, driven by high-risk, high-return strategies where only a few firms succeed, do not fit Europe's business culture. Entrepreneurs often decline external funding because current financing structures are poorly adapted to their needs. Developing flexible, partnership-based arrangements aligned with entrepreneurs' long-term vision is therefore key to encouraging uptake.

The industry speaker proposed a long-term minority investment model, targeting investments between €1 and €20 million and based on long term partnerships with entrepreneurs rather than control. This approach would allow companies to scale sustainably while preserving founder autonomy. A UK programme launched 15 years ago by a consortium of banks illustrates the model's success: its portfolio companies now generate turnover exceeding Malta's GDP and employ nearly 100,000 people. Such a model would not require new regulation but could be supported by an EU "growth capital" label, giving investors and companies greater visibility and confidence in these long-term partnerships.

Another regulator noted that the EU's regulatory framework is not always fully adapted to an economy largely composed of SMEs, where excessive complexity can create obstacles. Greater simplification and proportionality are needed, with fewer layers of complexity but without reducing the overall stringency of regulation.

An official stressed that venture-capital (VC) activity requires the existence of strong and diversified capital markets. Because VC funds are typically small allocations within large diversified institutional portfolios, a sustainable home-grown innovation ecosystem requires capital markets that are broad, deep, and liquid.

3. Combining top-down and bottom-up approaches

An official emphasised that combining EU-level initiatives with national and regional actions, as envisaged in the SIU Strategy, can be beneficial for smaller markets. In Latvia, EU measures have been complemented by targeted national policies to strengthen the SME segment, with a focus on helping firms prepare for public listing—especially in fast-growing sectors such as defence, now expanding due to higher regional security spending. Actions have also been implemented to boost retail participation through simpler tax incentives and to enhance market liquidity. At the regional level, the Baltic states have consolidated trading and post-trading infrastructures through a market-led initiative linking them to the Nordic capital-market system, successfully enlarging the market and improving efficiency for investors.

Another official noted that key drivers of long-term capital-market development, such as tax incentives and pension systems, remain outside EU competence. Genuine integration therefore requires bottom-up convergence among Member States alongside EU-level initiatives. The Baltic region illustrates this dual approach: beyond linking trading and post-trading infrastructures, it succeeded in convincing index providers to treat its jurisdictions as a single market through regulatory and financial alignment that went well beyond technical interoperability. A common covered-bond framework further demonstrates how regional coordination can deliver scale and liquidity.

The official added that full integration of European capital markets remains constrained by persistent legal and fiscal divergences, particularly in bankruptcy and taxation. National sovereignty is among the main barriers to harmonising insolvency frameworks: when tax authorities or courts need to enforce claims, such as seizing shares for unpaid taxes, they generally prefer to act under their own jurisdiction, as enforcement becomes complex and politically sensitive when assets are held abroad. These legal and sovereignty constraints hinder deeper integration. While a “28th regime” could provide a framework for cross-border enforcement, it should avoid adding unnecessary complexity. In the meantime, progress will depend on pragmatic regional ecosystems, where neighbouring countries share clearing, settlement, and, in some cases, trading infrastructures rather than seeking immediate full-scale integration.

A regulator considered that combining EU-level and national initiatives is the most effective way to strengthen public equity markets. At EU level, greater centralisation of oversight under ESMA would enhance supervision of cross-border and systemic infrastructures such as CCPs, while national supervisors should remain involved. At national level, barriers to cross-border trading and post-trading need to be removed, procedures harmonised and simplified, and listing frameworks made more standardised and transparent.

National reforms can also help make local markets more attractive. In Spain, a new simplified IPO procedure allows smaller companies to list on the regulated markets, delaying share placement for up to 18 months. This provides flexibility to choose optimal market conditions, which is particularly valuable for innovative, technology-driven SMEs. Cooperation between Member States can further support integration, as illustrated by the “Finance Europe” label developed under the Competitiveness Lab initiated by Spain and 6 other Member States to support SIU objectives. This voluntary label establishes a common European reference framework for retail investment products that channel savings into projects supporting Europe’s strategic competitiveness.

Another regulator added that while supervision is often debated in discussions on integration and market competitiveness, supervisory structures alone do not drive market development. Adjustments in supervision must be accompanied by broader efforts to address the underlying structural inefficiencies of European markets.

Wrap up

The chair concluded that, despite differing perspectives, there was broad agreement among the panellists on Europe’s potential to strengthen its capital markets and on the need to channel both household savings and institutional capital into productive long-term investment. Key challenges include persistent fragmentation, limited liquidity, and the difficulty for growth companies to progress smoothly from private to public financing. Strengthening the equity ecosystem, deepening market integration, and fostering a stronger investment culture emerged as central priorities.

Fragmentation must be addressed not only across equity exchanges but also in the broader market infrastructure, particularly post-trading, while debt and equity markets should develop in parallel. Further integration of smaller markets remains essential to ensure that progress benefits the entire Union. Maintaining an effective funding escalator from private investment to public listing was also seen as a key objective. Future efforts should focus on reducing complexity, improving proportionality, and providing greater space for market-driven solutions and public-private cooperation to advance the development and integration of EU capital markets.

Empowering retail investors

1. Current trends in retail investment in Europe

1.1 Growing participation of investors

An industry speaker described a "retail investment revolution" already taking place in Europe with a strong market-driven expansion of participation already well under way. Recent research shows that ten million first-time investors entered the market in the past year, a trend expected to continue for more than a decade. This marks a structural shift in retail participation, led by Germany but spreading to other markets. The gender investment gap, still around fifteen percentage points, is also narrowing as more women invest. Despite these encouraging trends, Europe remains far behind markets such as the United States, where over 80 % of individuals invest compared with less than 40 % in Europe. Participation also varies widely within the EU, with higher engagement in the Nordics and lower rates in southern Europe.

A regulator highlighted that trust in capital markets is improving, especially among young Europeans whose participation has multiplied in recent years. In Austria, investment activity among 18- to 24-year-olds has quadrupled since 2023, while that of 25- to 39-year-olds has doubled.

1.2 New investment channels

An industry speaker explained that exchange-traded funds (ETFs) are driving the current retail investment growth, thanks to their low cost, transparency, and simplicity, attracting self-educated investors who mainly invest through digital channels. About 75 % of ETF investors now use online platforms, which have simplified onboarding and lowered barriers compared with traditional bank-based advice. Fintechs have been central to this transformation, removing the complexity that long discouraged many potential investors. For those who once found in-person advice processes or traditional online brokers too cumbersome, streamlined digital journeys have made investing easier and more accessible, driving participation. This shift has also led to differences in trends across investment channels: execution-only digital brokerages are expanding rapidly, supported by innovation in business models and customer journeys, while the traditional advice segment remains largely stagnant and overly focused on product sales.

A regulator confirmed that ETFs are the main driving force behind this expansion, indicating a structural shift in investment behaviour and in distribution models. From a supervisory perspective, however, the rapid growth of online brokers, trading apps, and neobrokers increases, among other aspects, the risk of unauthorised providers entering the market.

2. Retail Investment Strategy: progress and priorities

2.1 Progress made on the RIS proposal

The chair noted that trialogue negotiations on the Retail Investment Strategy (RIS) proposal are under way. The RIS aims to empower retail investors to participate in EU capital markets safely, confidently, and cost-effectively. It forms an essential component of the broader Savings and Investments Union (SIU) initiative, which seeks to channel a larger share of European household savings from low-yield bank deposits into productive capital-market investments.

An official emphasised that the RIS is an essential part of the effort to boost retail participation in capital markets and underlined the urgency of concluding the trialogue negotiations. Although the file is complex, it remains crucial to deliver tangible benefits for citizens. Under discussion since May 2023, the proposal still contains overlaps and overly prescriptive provisions that are likely to be simplified through the negotiation process. The central objective should be to give citizens access to products that generate real returns, rather than leaving their savings in low-yield deposits eroded by inflation. The "value for money" framework should also be refined to reflect product quality and suitability, not merely low cost. Finally, streamlining the client investment journey is essential, as multiple layers of suitability and best-interest assessments risk creating confusion instead of improving investor protection.

An industry speaker agreed that finalising the RIS is essential to advance the broader SIU agenda, which notably seeks to channel household deposits into long-term investment. This would be a key step toward closing Europe's pension gap and strengthening households' long-term financial security.

2.2 Key priorities and focus areas for the next steps of the RIS

2.2.1 Enhancing investor information and communication

An industry speaker stressed that one of the key priorities of the RIS should be to simplify investor information rather than increase its volume. Excessive documentation leaves most consumers overwhelmed: studies show that 62 % feel lost in the amount currently provided and 77 % of clients find that more information would be unhelpful. The proliferation of warnings and disclosures is therefore counterproductive, much like online cookie pop-ups that users dismiss without reading, showing how current requirements have drifted away from their purpose. The focus should shift toward improving the quality and relevance of information, favouring clear and comprehensible communication over formal compliance, in line with the RIS proposals to modernise disclosure rules and enable digital-by-default communication. The industry speaker added that aligning the RIS with ESMA's work on the retail-investor journey and incorporating the RIS in the broader SIU framework instead of rushing it, would help create a more coherent framework centred on providing quality information and ensuring genuine investor understanding.

Another industry speaker agreed that simple and clear information is key to reinforcing trust. For financial intermediaries serving a wide range of customers, communication should be tailored to client preferences and needs: younger clients tend to favour concise, visual formats and online interaction, while older savers prefer narrative explanations and personal contact.

A regulator concurred that the current proliferation of disclosures, warnings, and prospectuses has created excessive paperwork that discourages investor participation. Paradoxically, taking out a digital loan is now easier than opening an ETF savings plan through a bank.

2.2.2 Implementing value for money provisions

An industry speaker supported embedding value-for-money assessments within supervisory practice, noting that this approach already exists in the insurance sector through product and governance rules that ensure products remain appropriate throughout their lifecycle. Such assessments must be kept at national level to allow supervisors to identify outliers that could undermine trust in the wider industry. The insurance sector's experience demonstrates how these mechanisms can strengthen consumer confidence and market integrity.

2.2.3 Modernising and personalising advice

An official stressed that measures are needed to improve the quality and accessibility of advice. Evidence gathered in Ireland shows that nearly half of Irish citizens feel more confident seeking investment advice from family or friends than from financial advisers.

An industry speaker agreed that improving the quality of advice can play a key role in rebuilding citizens' trust in capital-market investment, which was lost after the financial crisis. Financial decisions are existential for many clients and must be approached by financial institutions with a clear understanding of individual risk tolerances and personal circumstances. Advice should be designed to meet clients' diverse needs and levels of understanding. Advice requirements must remain flexible, using simpler, potentially AI-based tools for basic products and more personalised support for complex ones. Legislation should recognise this diversity rather than impose uniform models. Overly complex compliance procedures, such as KYC rules, can create anxiety and deter participation, underscoring the need for clarity and simplicity. Learning must also take place on the advisers' side, as regular interaction with clients provides valuable feedback that helps improve advisory practices.

A second industry speaker suggested that adopting a financial-planning approach that links investment products to specific personal goals would help investors better manage risk, according to the purpose and time horizon of each investment. In other regions such as the US, advice is structured around comprehensive financial planning, with product recommendations forming the final step. Asking for a customer's overall risk tolerance is often misleading, since it may depend on the type of investment. Individuals may wish to avoid risk for short-term savings but accept full equity exposure in their pension plans.

Moving towards holistic, goal-based planning represents a major opportunity for Europe's retail-investment market. It could pave the way for a simplified advice framework in which products or product ranges are deemed suitable for specific financial objectives identified through accessible, goal-based advice, offering an intermediate option between execution-only investing and full financial advice. This approach directly supports the RIS proposals to make advice more proportionate, digital, and tailored to investors' actual needs.

A third industry speaker observed that traditional financial institutions are also modernising the way they provide advice, developing digital tools that aggregate available data and help individuals visualise their pension coverage and identify income gaps. This aggregated information enables advisers to offer meaningful guidance based on a customer's overall situation and investment objectives, rather than focusing on the sale of individual products.

The first industry speaker agreed that portfolios should be aligned with the underlying purpose of saving - whether to accumulate capital, generate income, or finance personal projects - and that financial institutions should design solutions that address these different motivations while supporting customers in their financial planning.

2.2.4 Protecting investors in digital channels

An official noted that while digital tools hold significant potential to support retail investment, policymakers and regulations must keep pace with ongoing market developments in this area.

A regulator stressed that the RIS should give greater priority to protecting young investors and improving EU-wide coordination in issuing warnings about unregulated entities. The rapid growth of crypto-asset service providers in particular, which account for around half of consumer complaints to Austrian supervisors, highlights the need for stronger safeguards. The spread of gamification, social-media promotion, and speculative trading further exposes inexperienced investors to potential harm, although finfluencers can help raise financial awareness if they act responsibly and comply with investment-advice rules. However, stronger supervisory powers and enhanced cross-border information-sharing are still needed to ensure that retail participation develops in a safe and transparent environment.

3. Enhancing financial literacy and investor understanding

The chair invited the panellists to share their priorities for strengthening financial literacy and improving the collective understanding of the role of capital markets, and to discuss how financial education can empower investors throughout their investment journey.

3.1 Current state of financial literacy

A regulator highlighted the significant gaps in financial literacy among the population. Recent Austrian survey data show that one third of respondents believe dividends are guaranteed, half view stock markets as gambling, and another half consider monthly investments pointless. The level of financial literacy is particularly low among the younger population. Many still lack even basic economic knowledge - such as understanding their salary, managing a budget, and assessing what they can afford - leaving them vulnerable to poor financial choices.

An industry speaker added that surveys indicate that 11% of young Europeans leave school without any financial education, showing how much progress is still needed.

3.2 On-going initiatives to strengthen financial literacy

An official underlined that strengthening financial education is essential to raise awareness of the benefits of capital-market investment, help savers understand available products, and support informed decisions that improve returns on their savings. The forthcoming Commission recommendation on financial education is expected to enhance EU level coordination in this area. Illustrating national efforts, the official outlined Ireland's national financial-literacy strategy, launched in 2022 following a review of the retail-banking system. Developed through a broad stakeholder process involving consumer associations, education authorities, and social partners, the strategy recognises that financial-literacy needs vary widely - from households managing weekly budgets to savers with large sums of money to invest more productively - and provides differentiated education programmes to strengthen citizens' financial capability. Ireland has also worked with the OECD and other European peers to identify best practices. The official added that financial literacy must extend beyond citizens to policymakers and regulators, who need sufficient market understanding to design effective measures.

An industry speaker suggested that financial education should complement regulation as a lifelong process aiming to equip citizens with the knowledge and confidence to take responsibility for their financial well-being from an early age through adulthood. Rather than adding new regulatory layers, the EU's financial-education strategy should promote practical, hands-on learning through simulations and similar initiatives. One such example is the European Stock Market Learning game, launched by the German savings banks in 1983, which enables participants to gather and analyse information on stocks and build and manage a virtual portfolio, teaching them in a practical way the basics of investment. Now involving more than 100,000 participants of all ages across several EU countries, the initiative also helps promote a shared culture of investment.

Another industry speaker explained that their institution implements a range of initiatives focused on investment principles and the benefits of long-term saving, including webinars, partnerships with universities, and cooperation with public institutions to reach customers of all generations. New digital tools integrating banking, insurance, and investment products into a single, user-friendly application are also designed to enhance customers' investment experience. Financial education should, however, also target client-facing employees. In physical branches, staff handle queries of varying complexity - from PIN code changes to investment questions - and must be able to direct clients to the appropriate advice channel, making training a central priority. These efforts are supported by an internal corporate university that develops both advisory and digital skills. Pacciani added that financial and digital literacy needs increasingly converge, as many clients struggle to use online financial tools effectively and protect themselves against cybersecurity risks and scams.

A regulator agreed on the need to strengthen both financial and digital education so that investors can better navigate information, use digital tools effectively, and make informed choices.

3.3 Further priorities for improving financial literacy

An industry speaker suggested that enhancing financial literacy requires a combination of efforts by public authorities, private firms, and individuals. These efforts should include continuous learning, the use of digital tools such as AI, and behavioural nudges like pension auto-enrolment, which has dramatically increased participation in the UK (from 22 % to about 90 %), particularly among younger generations. Advice also plays a key role in enhancing the trust and financial literacy of investors, provided it is delivered transparently and in a trustworthy way, with clear disclosure of its nature, costs, and value, and subject to proper supervision. The RIS can play an important role in supporting this goal.

A regulator stated that practical education and communication initiatives are preferable to new EU regulatory measures that would only add further layers of disclosure and complexity. An area of focus of financial education efforts should be to ensure that young investors are able to make informed decisions and understand risk. Strengthening financial literacy more broadly among the population is also essential to improving citizens' understanding of how capital markets support the economy and how to invest savings for the long term.

4. Conclusions and key takeaways

The chair closed the panel discussion by highlighting the balance between realism and optimism reflected in the panellists' comments. To address the deep financial-literacy gaps that persist across Europe, some practical solutions that can be implemented without radical changes were identified. Moreover, the growing participation of younger investors offers a strong foundation for further progress, which needs to be accompanied by a sound policy approach that supports the development of retail investment while addressing potential risks.

In a concluding round, the chair asked speakers to highlight one key priority each for developing retail investment. The following priorities were identified: simple, transparent products distributed through supervised channels; a user-friendly pan-European savings and investment account; aligning mindset and regulation through meaningful information and practical education; integrating the RIS, SIU, and FiDA frameworks to enhance transparency and facilitate access to financial products in a cost-efficient way; and restoring a sense of purpose in investment by helping individuals understand how their money supports public and private goals. Three guiding principles of retail investment were moreover identified: awareness, trust, and easy access.

Strengthening long term retail investment in the EU

The chair opened the session by noting that developing long-term retail investment, one of the main pillars of the Savings and Investment Union (SIU), ultimately depends on investor engagement and confidence. Developing pensions is central to achieving this goal, while other initiatives, such as savings and investment accounts and product labelling, can also play a key role in mobilising household savings. Taxation and investment-localisation constraints are key yet complex aspects of the long-term investment debate that must also be addressed.

A policymaker outlined the European Commission's ongoing work on retail investment under the SIU Strategy adopted in March 2025. Several initiatives are being prepared in successive "batches" for adoption before the end of the year. One forthcoming package will focus on pensions, promoting best practices among member states, particularly those that do not have supplementary pension schemes in place yet. These practices include auto-enrolment, pension-tracking systems and dashboards, which have proven effective in various jurisdictions. The aim is not to impose a uniform model but to present a range of successful approaches for developing supplementary pensions that member states may adopt. Further legislative reviews are also planned, including updates to the Pan-European Personal Pension Product (PEPP) and the Institutions for Occupational Retirement Provision (IORP) Directive, alongside broader reviews of securities trading and post-trading regulations.

The policymaker added that the European Commission will issue a recommendation on savings and investment accounts (SIAs) by 30 September. These accounts aim to encourage citizens to reallocate part of their idle savings from low-yield deposits into productive investments. With trillions of euros currently sitting in bank accounts, even a modest shift could help finance key European priorities such as the green and digital transitions and defence efforts, as underlined in the Draghi, Letta and Noyer reports. Successful national models, including Sweden's Investment Savings Account (ISK) and France's Plan d'Épargne en Actions (PEA), inspired the initiative. The forthcoming recommendation will invite member states without similar instruments to develop one, setting out guiding principles such as simplicity, flexibility, and tax incentives to motivate savers to move beyond deposits. The text will remain concise and non-binding, allowing member states to adapt it to their national contexts. The Commission will closely monitor implementation. A communication on financial literacy aimed at improving citizens' understanding of investment and risk will complement these measures.

1. Developing supplementary pensions in the EU

1.1 Existing national best practices

An official noted that many aspects of retail investment, including pensions fall mostly within the competence of member states, making it essential to build on national best practices to identify successful approaches that can be shared and adapted across the Union.

Responding to the chair's invitation to describe Denmark's experience with developing supplementary pensions, the official explained that the system, established in the 1980s, now covers almost the entire working population and holds the highest pension assets in the world relative to GDP. It contributes to fiscal sustainability and ensuring adequate retirement income, and provides a stable source of long-term financing for the economy.

The Danish model's strength lies in its combination of robust auto-enrolment, which underpins its extensive coverage and high savings rate, and a gradual transition from defined-benefit (DB) schemes to defined-contribution (DC) plans without guarantees. Currently, over half of Danish savers have non-guaranteed pensions. While this shift has transferred more risk to savers, it has also improved their overall returns over the past two decades. The removal of guarantees has enabled pension funds to adopt more effective investment strategies, achieving better risk-adjusted return through a lower share of fixed-income assets, greater exposure to equities, private equity and infrastructure, and increased international diversification. However, venture capital remains limited in Denmark, unlike the US.

The official attributed a large part of the Danish system's success to the trust and consensus built over time through collective agreements. The original auto-enrolment framework was negotiated between employers and employees in the 1980s, and subsequent reforms, such as the move to DC, were also agreed in a consensual way rather than imposed by legislation. Together with tax incentives, sound governance, and the prudent-person principle, these factors have sustained public confidence in the system for decades. While the Danish experience reflects specific national circumstances, its underlying ingredients - broad participation, stakeholder buy-in, and long-term trust - can offer valuable lessons for pension development elsewhere in Europe.

An investor representative agreed that guarantees are costly and tend to reduce long-term investor returns. According to Better Finance's pension-return report, the highest real returns in Europe were achieved in

Sweden, largely due to the use of life-cycle investment strategies in pension products and the maintenance of significant equity exposure even at retirement age.

1.2 Review of the PEPP and IORP frameworks

A regulator highlighted that Europe's pension gap reflects a structural imbalance between a high savings rate and a limited investment culture, with around a third of household savings still held in deposits. Redirecting even a small share of these savings into supplementary and personal pension products would deliver substantial benefits to the EU economy. The PEPP was conceived to meet this need through a simple, standardised, transparent and portable cross-border pension solution, yet it has seen limited uptake, with only two providers currently active.

EIOPA's 2024 staff paper on the future of the PEPP identifies three key obstacles: (i) the 1% fee cap, which discourages providers from entering the market, as this is the only product subject to such a restriction; (ii) the requirement to maintain sub-accounts in each member state to support portability, adding administrative complexity; and (iii) the lack of tax alignment, which prevents the PEPP from offering the same advantages as national pension products. To revitalise the product, EIOPA proposed a comprehensive redesign renaming the PEPP with a more recognisable name such as "EuroPension", removing the sub-account requirement, introducing a value-for-money framework in place of the fee cap, and simplifying advice obligations for the basic PEPP. With clear communication on the safety and return potential of the redesigned PEPP, these changes could make it more attractive to both providers and savers. The regulator also underlined the need for the EuroPension to operate within workplace pension schemes, supported by auto-enrolment and pension-tracking systems across member states.

Regarding the forthcoming IORP review, the regulator called for consideration of a "28th regime", an optional pan-European framework with a flexible opt-in, to overcome national differences in social and labour law, achieve scale, and ultimately reduce costs and improve returns for long-term investors.

An industry speaker emphasized that developing robust supplementary pension products is crucial, as the pension gap remains wide across Europe and public finances face growing constraints in meeting future liabilities.

The speaker welcomed the EIOPA proposals to redesign the PEPP, noting that they provide a solid foundation, but that success will depend on careful product design and the ability to generate real demand. In addition, for product providers, clarity, flexibility, and scalability are essential conditions for engagement. Launching a redesigned EuroPension product will require investment in education and building awareness, as demand will not materialise spontaneously. The first version of the PEPP contained commercially unattractive features, notably the fee cap, which limited both provider margins and the ability for distributors to provide appropriate advice. Reaching financially inexperienced savers indeed requires significant upfront marketing investment and ongoing information and advisory efforts that are costly. Greater flexibility in product design is also needed to manage investment risk more effectively, for example through lifecycle structures that gradually reduce exposure to riskier assets as individuals approach retirement. Such approaches, widely used in other pension markets, can improve long-term outcomes and help build investor confidence.

The industry speaker added that portability across the EU remains a major challenge, as it depends on a certain degree of alignment in tax treatment, which is difficult to achieve since taxation remains a national competence.

Responding to a question from the chair on how to persuade savers to invest in supplementary pension products rather than keeping their money in bank deposits, an investor representative stressed that this requires high-quality investment products capable of delivering attractive long-term returns and ensuring pension adequacy. Better Finance's annual reports show that most EU citizens remain invested in underperforming products, which undermines confidence in long-term saving.

Auto-enrolment, pension-tracking systems and dashboards can improve outcomes, but their impact depends on the design and quality of the underlying products. The return savers obtain is the key measure of success, driven by sound investment strategies and low fees. Transparency, accessibility and ease of entry and exit are other important factors to enhance confidence, while tax incentives that reward long-term saving are needed to encourage savers to invest. Effective enforcement, communication and portability are also essential to sustain trust and participation over time.

The investor representative concurred with most of EIOPA's 2024 recommendations, except the proposal to remove entirely the 1% fee cap, which should be retained for the basic default option to guarantee cost efficiency, a key factor for long-term returns. A simplified and redesigned PEPP, promoted both as a Pillar 3 supplementary pension product and as a Pillar 2 workplace pension option supported by auto-enrolment, would be an effective tool to foster capital-market investment. In addition, a simple and transparent default PEPP could also be offered on an execution-only basis, without advice. The obligation to provide sub-accounts in other member states should be voluntary during a transition period to ease administrative burdens as the product develops. Ensuring equitable tax and regulatory treatment across member states should also be a priority, allowing the PEPP to compete on equal terms with national pension products. Portability remains important but seems a more secondary objective.

An industry speaker agreed that auto-enrolment in supplementary pension products is a key driver of capital market investment, noting that it can be implemented through simple, practical mechanisms and supported by non-fiscal incentives, such as bonuses for new subscriptions, to encourage participation. Regarding the PEPP, the speaker supported the proposal to replace the fixed fee cap with a value-for-money approach, where costs are assessed relative to returns, to make the product more appealing for providers and foster broader market participation. Tax asymmetries and the complexity of cross-border portability remain further obstacles that must be overcome to relaunch the PEPP effectively.

2. Savings and investment accounts

An official supported the forthcoming Commission recommendation on SIAs, seeing them as a practical tool to mobilise household savings and channel investment toward the EU's strategic priorities. Such accounts should be simple and intuitive, enabling retail investors to access a broad range of investment opportunities and helping to build confidence in long-term saving.

An investor representative also welcomed the forthcoming EU proposal on SIAs, underlining that such accounts can play an important role in encouraging retail savers to invest. Member states should draw lessons from Sweden's ISK, replicating its simplicity and straightforward tax procedures, while avoiding geographic investment restrictions, a feature Sweden tested unsuccessfully and now advises against.

An industry speaker warned that SIAs, if poorly designed, could end up favouring short-term, highly liquid instruments rather than investments with a longer term perspective, potentially creating financial stability risks e.g. through pro-cyclical withdrawals during periods of market stress. The recent period of rising interest rates illustrates this risk, as pension and other long-term products, such as insurance-based investment products (IBIPs), proved much more stable than short-term instruments.

3. Product labelling

An official noted that while EU-level SIU initiatives, such as the forthcoming recommendation on SIAs, are steps in the right direction, many measures to develop capital markets in Europe fall within the competence of member states and must be implemented nationally to complement the SIU. To avoid fragmentation, these actions must be coordinated however. To this end, Spain launched the Competitiveness Lab in October 2024, joined by several member states, to align national efforts and promote joint projects consistent with the SIU. Operating as a voluntary sandbox, the Lab allows interested countries to collaborate on pilot projects with the participation of the European Commission, which may later recommend extending successful initiatives across the Union. Private-sector involvement in relevant projects is also encouraged.

The Lab's first project, the "Finance Europe" label, was agreed in June 2025 by seven member states, with additional projects under consideration. The label aims to mobilise savings toward investments that strengthen Europe's strategic assets and competitiveness, providing a common European reference framework for retail investment products aligned with these priorities. It is designed as a flexible, non-prescriptive instrument, with a set of common features that member states can adapt within their national frameworks. Labelled products should be simple, widely distributed through banks and investment firms, and benefit from preferential tax treatment, although specific fiscal incentives remain at national discretion. Implementation is under way, with participating countries in the process of identifying which existing products may qualify. Participating states will reconvene in October to review progress.

The chair observed that the recommendation to create a common investment label raises the question of whether it is preferable to build on existing national products or to develop new instruments to foster long-term retail investment.

Another official cautioned against restricting pension-saver investment choices in advance. While voluntary labels can help guide investors, mandatory rules requiring investment in particular countries or EU priority sectors risk limiting diversification and reducing real returns, ultimately undermining investor trust.

4. The role of life-insurance products

An industry speaker argued that the role of life insurance in fostering long-term investment should be given greater prominence within the SIU. Current discussions focus too heavily on product costs and making products more accessible through standardisation, at the risk of undervaluing other factors essential to mobilising household savings, such as product quality and investor protection.

The persistent preference of Europeans for bank deposits over higher-return investments reflects low financial literacy, risk aversion, and ageing demographics, underscoring the need for trusted intermediaries able to offer secure and comprehensible long-term products that also provide access to capital-market returns. Life insurers are well placed to meet this need. Their products combine professional long-term portfolio management with risk-mitigation mechanisms, such as capital guarantees and diversification, making them particularly suitable for risk-averse households seeking a gradual entry into capital markets. By pooling savings and investing in diversified portfolios, including listed and unlisted equity, private equity, real estate, and bonds, life insurers channel funds toward productive assets that contribute to Europe's economic development and sustainability objectives.

From a saver's perspective, life insurance provides a stable and regulated environment for investment, combining long-term commitment with a degree of liquidity that allows savers to access their funds if needed, an important reassurance in times of uncertainty. In France, for example, capital-guaranteed funds such as the" fonds en euros", investing in diversified portfolios of assets, are also accessible through life-insurance products. These mechanisms are crucial for building confidence among risk-averse retail savers and encouraging sustained participation in financial markets. The speaker added that mutual insurers, which are owned collectively by their policyholders, are naturally aligned with savers' interests, placing strong emphasis on long-term value and client protection.

In response to a question from the chair about whether the liquidity of life insurance products is compatible with their long-term nature, the industry speaker confirmed that it is, noting that fiscal incentives encourage long-term saving and that most policyholders remain invested for many years. Unlike pension funds, however, life insurance offers greater flexibility, allowing savers to access their funds before retirement, an important advantage in today's uncertain environment.

Another industry speaker agreed that IBIPs such as life insurance can play a central role in achieving the long-term investment objectives of the SIU. These products are particularly effective in channelling new resources into capital markets and ensuring that funds remain invested over time. The long-term design of IBIPs, combined with professional investment management by well-regulated insurers and the personalised advice they provide, creates an inherent "stickiness" that encourages savers to remain invested even in volatile markets, thereby supporting the stability of long-term financing generated by these products.

5. Key conditions for increasing long term retail investment

An industry speaker emphasised several key factors essential to the development of long-term retail investment: access to user-friendly products, the availability of digital tools, and above all advisory support, as wealth in Europe is increasingly concentrated among an ageing population that tends to be more risk-averse. Incentives, notably tax-based measures, are also crucial to encourage households to allocate part of their short-term savings to long-term investment.

An investor representative highlighted financial education as another priority, noting that it remains insufficient across the EU, which contributes to excessive risk aversion. Citizens must understand that not investing constitutes the greatest long-term risk.

A regulator stressed that for the cross-border distribution of financial products within the EU, the effective enforcement of product requirements and investor-protection rules is essential to build trust. When a provider based in one member state sells to investors in another, regulatory gaps can undermine confidence. If national authorities fail to act, there should be a clear European response. Strengthening the European Supervisory Authorities' (ESAs) powers and intervention tools in this area would enhance investor protection, accelerate redress, and reinforce confidence in EU-wide long-term products.

Wrap up

The chair noted that pensions were identified by the panellists as the key driver of long-term saving. The success of supplementary pension schemes and other long-term investment products, however, depends on their ability to meet investor needs, since investor demand remains the decisive factor. Life insurance was also highlighted as an important component of long-term savings, offering an additional channel for mobilising household wealth.

Key enabling factors to develop long term investment include financial literacy, savings and investment accounts and product labelling. Tax incentives adequately targeting long term investment also play an important role. While a common EU tax regime is unlikely in the near term, progress can be achieved through national improvements based on best practices, coordinated at EU level. The importance of effective cross-border enforcement was also underlined as essential to build investor confidence and facilitate the cross-border distribution of retail investment products.

Enhancing the role of asset management in the SIU

The chair outlined that the panel discussion would address the key trends shaping the European asset management sector, the issues to address to enhance the sector's competitiveness and capacity to support the Savings and Investments Union (SIU) and how regulation and supervision may support these evolutions.

1. Trends shaping the European asset management sector

1.1 Growth and diversification of the asset management sector

A regulator highlighted that the European asset management industry is continuing to expand in a context of geopolitical uncertainty and rapid technological transformation. In Ireland, home to more than 9,000 authorised funds and €5 trillion in assets, new fund approvals continue to rise. Product innovation remains strong, fuelled by growing demand for private assets and exchange-traded funds (ETFs). Authorisations of active and passive ETFs have risen sharply, alongside growing interest in European Long-Term Investment Funds (ELTIFs) investing in private assets. Sustainable finance remains a major driver, with around 30% of Irish UCITS now classified under Article 8 of the SFDR.

An industry speaker agreed that the European fund industry is expanding rapidly and undergoing significant structural change, with growth increasingly driven by sustainability, ETFs, and access to private markets. The gap between retail and institutional investors is narrowing, as retail clients seek exposure to similar asset classes and investment opportunities, particularly through ETFs and private-market products. The UCITS and AIFMD frameworks provide a solid foundation for these developments. These trends mirror global ones, though Europe retains its own specificities. For example, cryptocurrencies remain less prominent due to investor scepticism and the regulatory environment.

Another industry speaker added that global assets under management have doubled over the past decade to $140 trillion, yet competition has intensified, with European asset managers losing market share. Fees and margins have also declined significantly: the average management fee for UCITS equity funds has fallen by around 20 basis points over the past five years.

1.2 Changes brought by digitalisation

A regulator observed that digital innovation in the asset management industry is accelerating, with firms increasingly experimenting with artificial intelligence (AI) and tokenisation in particular.

An industry speaker underlined that digital platforms are becoming key distribution channels, expanding accessibility for investors. They also allow for more personalised portfolios that reflect individual values and preferences, while increasing transparency. Technology further helps asset managers strengthen their competitiveness by improving operational efficiency and scale in an environment of fee pressure. Remaining at the technological forefront is therefore essential for the European fund industry.

Another industry speaker added that new investment solutions supported by digitalisation and partnerships with online platforms are creating new opportunities particularly for retail investors and the younger generations that are increasingly digital-native. In the near term, digital tools are expected to complement rather than replace human advice, giving rise to hybrid advisory models.

1.3 Evolution from a product-centric to a client-centric approach

An industry speaker noted that the asset management model is evolving towards a more client-centred approach that prioritises investors' life objectives, including retirement planning. In the case of investment products that can help investors meet their life-long investment goals, the aim is to help savers build long-term wealth. That can be achieved with more targeted strategies such as lifecycle investment strategies that align portfolios with each investor's stage of life and risk tolerance, offering solutions tailored to their personal and professional circumstances.

Another industry speaker noted that digitalisation supports this transition, enabling more personalised and adaptable solutions that place investors' objectives at the centre of the asset management value proposition.

2. The contribution of asset management to the SIU

Several panellists underlined that asset management plays an important role in supporting the SIU, acting both as a source of financing for the economy and a channel for long-term investment.

An industry speaker stated that asset managers serve as a vital link between retail investors and capital markets. Through their professional expertise and fiduciary duty to act in clients' best interests, they guide savers towards appropriate long-term investment strategies while supporting the financing of European companies, including those in strategic sectors such as defence.

Another industry speaker stressed that asset managers play a key role in channelling Europe's large pool of household savings towards productive investment. In the EU the average saving rate is around 14%, rising to approximately 18% in France. By directing capital to priority sectors such as defence, AI, and the green transition, asset management can also contribute to Europe's strategic autonomy and competitiveness. In parallel, the sector can support the development of supplementary pensions, one of the SIU's key objectives. In this context, the ongoing "retailisation" of private asset funds such as ELTIFs is expected to drive further growth in long term investment and pension products with approximately half of the increase in private assets over the next five years projected to come from these funds. Although they are typically illiquid and long term in nature, well-adapted frameworks can ensure strong investor protection and appropriate distribution conditions, enabling them to serve as effective vehicles for long-term investment.

A regulator noted that ELTIFs in particular align closely with the objectives of the SIU by channelling capital into long-term projects and smaller companies. The introduction of open-ended ELTIFs can broaden retail access to private assets but also raises important questions about liquidity management. These challenges should be addressed pragmatically to allow the framework to develop successfully and give promising products time to mature rather than constraining them through premature regulation.

3. Strengthening and adapting EU fund frameworks

3.1 Consolidation of existing product frameworks

Several speakers emphasised that the regulatory priority should be to implement the reviews of existing product frameworks already agreed.

A regulator underlined that following the substantial AIFMD and UCITS reviews, the priority should be to implement these revised frameworks rather than introducing new rules. UCITS in particular has proven resilient through multiple crises thanks to its robust asset and risk-diversification features and should not be altered without clear justification. Successive reviews have strengthened governance and investor protection, making UCITS it a trusted product in Europe and beyond. Zwick added that regulators and firms should periodically assess the impact of new rules, conducting "back-testing" to evaluate what has worked and what has not, before embarking on further legislative changes. The chair agreed that careful impact assessment should precede any new regulatory measures and that new initiatives must build on lessons learned from existing frameworks.

An industry speaker likewise cautioned against undermining the success of UCITS through unnecessary reforms. Policymaking must target specific problems and investor needs. UCITS remains the EU's most successful financial product and a symbol of the single market's credibility, with features (e.g. for liquidity risk management) that remain ahead of global standards. While fine-tuning can be justified to address emerging risks or market trends, the recent ESMA technical advice on the UCITS Eligible Assets Directive risks altering a well-functioning framework without clear benefit.

Another industry speaker agreed that UCITS should not be modified unless specific issues are clearly identified, sharing the view that ESMA's advice on changes to the Eligible Assets Directive is not warranted.

A second regulator considered that the recent reviews of UCITS, AIFMD, and ELTIFs have already brought meaningful progress—particularly through liquidity-management tools—and the focus should now be on effective implementation rather than reopening these directives. Overall, pragmatism is needed. The rules agreed must be implemented and their results assessed, while avoiding a cycle of constant legislative revision that prevents frameworks from maturing.

A third regulator agreed that further progress in adapting fund frameworks to market developments should come from improving existing rules and how they are applied and supervised rather than introducing new regulation. In Ireland, for example, consultations have recently been held on updating the AIF national framework to reflect evolving product trends, alongside a revision of portfolio transparency rules to allow for active ETFs.

3.2 Adapting products to evolving investor needs

An industry speaker noted that the shift toward more client-centred lifecycle investment strategies may require rethinking the scope of the existing product frameworks in order to offer a balance between the liquidity of UCITS and the mostly illiquid assets of ELTIFs. ELTIFs, investing in inherently illiquid assets, have so far struggled to attract retail investors, as they may not always meet their objectives in terms of the liquidity of their portfolio. Therefore, there is a need to evolve product frameworks to allow retail investors' access to private assets while maintaining appropriate safeguards for liquidity management and investor protection. This could further improve retail access to diversified investments. Sustainability preferences are also part of this evolution: investment strategies should reflect individual values and be clearly communicated, avoiding one-size-fits-all approaches.

Another industry speaker noted that product innovation must continue, but it should build on existing regulatory frameworks to achieve scale and efficiency, rather than multiplying new regimes that would add complexity.

4. Overcoming fragmentation in the EU fund market

4.1 The need for a greater regulatory convergence across the EU

Several panellists highlighted that the current fragmentation of rules across Member States continues to hinder the development and competitiveness of the

European asset management industry, calling for greater convergence in the implementation of EU requirements.

A regulator stressed that inconsistent product and distribution rules stemming from divergent applications of the fund single rulebook across the EU, create inefficiencies and hinder the development of a truly integrated market. The growing presence of pan-European and international digital distribution platforms increases the importance of tackling this issue.

A second regulator agreed that developing the European asset-management sector at scale and supporting the objectives of the SIU requires greater regulatory convergence across the EU. Fragmented rules hinder cross-border fund distribution and prevent institutional investors from increasing their engagement in the EU fund market, limiting the scaling of the European fund market. All Member States, including smaller ones, would benefit from a more integrated market capable of competing globally, particularly with the US. Regulators must avoid "gold-plating" national rules, striking the right balance between investor protection and market development. The trend toward replacing directives with directly applicable regulations is therefore welcome, and the recent revisions of the UCITS, AIFMD, and ELTIF frameworks are steps in the right direction, providing effective tools to channel savings into long-term investments aligned with the SIU's goals. AIFMD however does not impose common products, but rules that require close alignment, such as liquidity-management tools, supervisory-reporting standards, delegation and depository arrangements, and loan-origination frameworks, all of which are essential for both investor protection and market integrity.

A third regulator acknowledged that the inconsistent application of EU rules remains a major issue for the industry, with the SFDR marketing rules illustrating the lack of coherence and consistency in how requirements are applied across Member States. To address obstacles to the development of the European asset management sector, EU passports such as UCITS and ELTIFs could be used in a more effective way, and remaining national barriers to the cross-border distribution and management of investment funds should be removed. AI and other innovative technologies can also help make fund administration, distribution, and supervision more efficient and cost-effective at the cross-border level.

An industry speaker noted that inconsistent marketing documentation rules, as well as tax differences, continue to hinder efficient fund distribution within the EU. These barriers can be addressed without reopening existing legislation, ensuring that cross-border distribution is facilitated once a fund is approved by its home authority.

Another industry speaker added that fragmented marketing and distribution rules hinder scale and efficiency, undermining the competitiveness of Europe's fund industry compared with the US. These barriers also limit investors' access to best-in-class products notably in developing areas such as private assets and sustainability, reducing their diversification opportunities.

4.2 Towards more coordinated and effective supervision

The role that more convergent and coordinated supervision can play in fostering greater integration of the European fund market was also discussed.

A regulator underlined that deeper integration of the European asset management market depends on four key principles: consistency, convergence, coordination, and coherence. Consistency is needed both in transposing directives and in applying rules uniformly across Member States to remove national barriers. Convergence among supervisors is essential to ensure that cross-border activities operate smoothly and that differences in enforcement do not distort competition. Stronger coordination across authorities is also required to sustain effective cooperation, with ESMA playing a central role in promoting coherence among national supervisors.

A second regulator argued that stronger and more harmonised supervision is essential to deepen market integration and enhance the competitiveness of the European asset management sector. Colleges of supervisors provide a useful forum for dialogue but lack the authority to turn discussions into coordinated action. Supervisory authorities must also be able to ensure investor protection effectively in a cross-border context and adapt their approaches to an increasingly digital and interconnected market, while maintaining proximity to local investors. Centralising certain supervisory activities at ESMA level could also enhance efficiency. The creation of a single ESMA-hosted data hub, for example, could further centralise regulatory reporting and facilitate information-sharing among national and European authorities, improving oversight while lowering costs. This should be facilitated by the recent UCITS and AIFMD reviews, which task ESMA with developing integrated reporting standards to reduce duplication and enhance supervisory efficiency.

A third regulator agreed that greater harmonisation and standardisation of reporting would benefit both firms and supervisors but questioned whether a further centralisation of supervision is needed. Recent crises have shown that cooperation among national competent authorities works effectively when required, including with counterparts outside the EU. In addition, effective coordination regarding asset management must take place at the global, not merely the European level. Existing tools, such as ESMA's common supervisory actions and peer reviews, already help align approaches and share best practices. Rather than pushing for further centralisation of supervision at the EU level, better use should be made of existing mechanisms to promote supervisory convergence, and improvements should be brought to existing structures such as supervisory colleges.

A fourth regulator concurred that more coherent and effective supervision is needed across Europe but cautioned against excessive centralisation. The consistency of supervision can be improved within existing structures. ESMA already plays a significant role in fostering coherence, demonstrated e.g. during Brexit and the implementation of MiCAR, and its contribution could be further enhanced through better data sharing and common data hubs to reduce duplication.

An industry speaker also called for a pragmatic approach to EU level supervision. With more than 60,000 funds in Europe, a single EU supervisor would be unrealistic, as national authorities will inevitably retain responsibility for most day-to-day oversight. Transferring supervision to ESMA could risk duplicating functions and blurring accountability. What is needed instead is stronger dialogue and practical coordination among supervisors, with ESMA's role enhanced to promote convergence and information-sharing behind the scenes rather than replacing national authorities. In addition, better recognising group structures and delegation arrangements, such as portfolio management conducted across entities, would make oversight more effective and better reflect how the industry operates.

5. Making regulation more outcome-oriented

A regulator argued that fully leveraging the potential of asset management to support Europe's economic challenges requires a shift in regulatory focus from the production of rules to the delivery of tangible outcomes. Regulatory success is too often measured by the quantity of new Level 1 and Level 2 legislation or guidance rather than by its actual effectiveness. A first tension lies between rules and outcomes: regulation should be judged by its impact on markets, investors, and the economy, not by its volume. A second tension lies between risk and outcomes: since the financial crisis, regulators have understandably prioritised risk management. Yet this must be balanced with a greater focus on the results regulation is meant to achieve, namely, effective capital-market financing for the economy, investor participation and protection, and a more resilient financial system.

Another regulator added that increasing the role of asset management also requires a continuous adaptation of financial regulation and supervisory practices to respond to emerging trends such as digitalisation. The authorities should regularly assess whether their frameworks still deliver the expected results, "back-testing" them. While stability remains important, adaptation to new market realities may at times require additional rules or targeted changes.

6. Encouraging retail participation

The chair asked whether further measures are needed to stimulate retail investment in funds and whether SIU initiatives such as the development of savings and investment accounts (SIAs) and supplementary pensions could have a significant impact on the asset management sector.

An industry speaker observed that SIAs and supplementary pensions serve complementary purposes corresponding to different stages of life. Pension frameworks aim for broad participation and adequate retirement income, which depends on the quality and performance of the underlying investments, while SIAs are more suited to short- and medium-term financial goals. Together, these instruments can strengthen households' financial security and channel household savings into productive investment, advancing the objectives of the SIU. Successful examples of SIAs which already exist in the EU notably in Sweden, should inform future initiatives rather than creating new models. Their key features include simplicity, tax incentives, ease of access, and integration with financial-literacy efforts. In addition, communication towards retail investors should highlight not only the risks of investing but also the risks of not investing or saving adequately for the future.

Another industry speaker added that simplifying the investor journey is essential for boosting retail participation and should be a core objective of the Retail Investment Strategy. Around 40% of household savings in Europe still remain in bank deposits or low-yield savings accounts, underscoring the need for more accessible and user-friendly investment solutions.

Relaunching the EU securitisation market

1. A partial and cautious reform fails to match the scale of Europe's financing needs

1.1 A welcome but insufficient proposal: ambition and political boldness are lacking

The Chair explained that European Commission proposal on relaunching the securitisation market includes a revision of the Securitisation Regulation and adjustments to the prudential treatment of exposures held by banks and insurers. Securitisation is a key instrument for bank capital management, risk sharing across the financial system and provision of funding for Europe's transformations but continues to be underused in the EU, particularly in comparison with other jurisdictions, such as the US, Japan, Canada and Australia. While broadly welcomed for addressing both regulatory and prudential dimensions, the proposal has been criticised for not being ambitious enough to reignite the market in a meaningful way.

An industry representative stated that the Commission's initiative is welcome, noting that it addresses several long-standing barriers to market development. Nevertheless, while the proposal includes many of the right elements, it ultimately does not go far enough. The desire to grow the securitisation market is not ambitious enough. Issuance in Europe, excluding the UK, is currently €90 billion per annum. The recent proposal will likely increase demand for triple-A and marginally increase demand for non-STS, with the market expected to grow to around €120 billion. However, a market of €300-500 billion per annum is needed to satisfy the demands of European transition, growth and defence.

An industry representative observed that the Commission has taken a cautious, compromise-driven approach rather than a bold one. The EU must take decisive action to improve the proposal in several areas.

A regulator remarked that the proposal is a policy compromise. The Commission has attempted to strike a balance between enabling market development and safeguarding financial stability and investor protection.

An industry representative commented that, although the proposal is a step forward, it has led to widespread disappointment among investors, particularly given high initial expectations for market revitalisation.

A public representative argued that the Commission's proposal lacks the boldness required to meet the EU's strategic financing needs. Although market participants are keen for the securitisation market to grow, this is not a policy objective. Policymakers value the market not for its inherent worth but instead as a tool to drive the European economy.

1.2 Political compromises undermine effectiveness and send weak signals to investors

An industry representative stated that a key concern is the introduction of punitive administrative sanctions for due diligence lapses, which do not exist in other countries and are redundant as existing disciplinary measures are applicable to those institutional investors. These sanctions would make the EU market unattractive and be a deterrent to investor participation.

A regulator suggested that, while larger market players may have expected more, the current proposal reflects what is currently feasible for policymakers. The legislative process involving the Council, Parliament, and trilogues could provide an opportunity for further progress.

A public representative noted that the recurring EU pattern of over-compromising at the drafting stage leaves no room for ambition once political negotiations begin. The proposal identifies the problem accurately but is not ambitious enough in the current economic and geopolitical context. The proposal is a compromise between effectiveness and political feasibility, and a different attitude will be needed going forward.

1.3 Europe's excessive regulatory caution deters market growth and weakens competitiveness

An industry representative highlighted Europe's continued aversion to securitisation, likening post-crisis regulatory conservatism to keeping planes grounded indefinitely after an accident. Overregulation has discouraged activity without solving underlying problems. Other jurisdictions do not have such a fearful attitude and have relaunched securitisation up to pre-GFC level after having addressed structural issues in line with recommendations from the Financial Stability Board (FSB) and international standard setters post-GFC. The irrationally risk-averse approach has not served the EU well in past years. The Commission's recent proposal is another example of this.

An industry representative noted that each positive measure appears to be offset by a constraint. For instance, the move to principal due diligence is counterbalanced by severe legal liabilities for delegating parties and the inclusion of securitisation in the liquidity coverage ratio is undermined by excessive haircuts.

A regulator cautioned that weakening prudential safeguards at a time of heightened macroeconomic and geopolitical risks would be unwise.

2. Prudential treatment remains a core obstacle, despite targeted improvements

2.1 Limited capital relief under CRR and Solvency II hampers investor participation

The Chair noted that the prudential aspects of the Securitisation Regulation are divisive. The Commission has introduced a new category of resilient securitisations. These would benefit from reduced capital charges, thereby avoiding preferential treatment limited only to simple, transparent and standardised (STS) positions. Questions remain around whether the relief is sufficient and whether the scope is broad enough to make securitisation attractive again.

A regulator stated that they oppose the reduction of capital charges under Solvency II for insurance investors. An analysis of market data found insufficient evidence to support this change. From the perspective of a prudential supervisor on insurance making this change without evidence would be unsatisfactory.

An industry representative remarked that the combination of overly prescriptive rules and underwhelming adjustments will likely limit the impact on investor appetite. The demand side of the equation is being ignored when considering market competitiveness. The investor must be included. The aim is not just to 'grow the size of the pie', but also to grow the size of each of the 'slices'. Growing investor demand will drive the supply side to find the best marginal capital for their businesses. As the market grows, liquidity grows. Market making will improve this liquidity. Increasing investor demand will ultimately support European growth and competitiveness.

An industry representative noted that capital charges for mezzanine tranches remain excessively high, which discourages insurers from investing. Depending on the rating of the duration, the capital charges could be 8 to 10 times higher than comparably rated corporate bonds

2.2 Recalibrating capital charges is essential to unlock insurance and banking demand

An industry representative commented that both technical adjustments, for example recalibrating CRR formulas for STS and non-STS tranches, and more substantive reforms, especially in the Solvency II regime and the treatment of subordinated tranches, are needed.

An industry representative advised that there should be a significant reduction in the p-factors used in the securitisation internal ratings-based approach (SEC-IRBA) and better alignment with the output floor under the standardised approach (SEC-SA). This will eliminate the excessive capital non-neutrality in the framework. Regarding insurance, capital charges under Solvency II should be recalibrated to align them with corporate bonds and loans of equivalent quality across the full risk spectrum, beyond just senior STS tranches.

An industry representative observed that disproportionate requirements disincentivise investment. Even for insurers that use an internal model, this model is based on the standard formula. The standard formula therefore has a disproportionate impact.

2.3 Simplifying rules is helpful, but does not address underlying disincentives

A regulator stated that specific elements, such as streamlined due diligence, enhanced transparency, reduced reporting obligations and the amendment of homogeneity requirements for STS pools from 100% to 70% were extremely welcome. Although it is understandable that market participants want more dramatic and far-reaching changes, these will come in time. This proposal aims to promote development of the securitisation market while also safeguarding financial stability and investor protection.

A regulator commented that the Commission's focus on easing due diligence and transparency obligations is appropriate and will potentially be effective.

3. Aligning EU rules with global standards is key to unlocking scale and competitiveness

3.1 Divergence from global frameworks generates complexity and investor reluctance

An industry representative emphasised the need for the EU to close regulatory gaps with other jurisdictions, particularly those where a deep and active market is already present, such as the US, UK, and Japan.

An industry representative noted that European investors have access to a significantly narrower investable universe. In practice, when building portfolios for EU clients, the company excludes up to 70% of the global securitisation market. This leads to less diversification, less liquidity and lower risk-adjusted returns, resulting in a suboptimal portfolio. The EU's approach, particularly to third-country due diligence requirements, risks isolating its investors further from global markets.

3.2 Broader eligibility and risk alignment needed for securitisation to scale

An industry representative advised that the range of eligible underlying assets should be expanded. In higher-risk segments where capital charges under the new formula are even greater than under current rules, adjustments are needed to preserve economic viability.

3.3 US experience shows the role of insurers and depth of mezzanine markets

An industry representative noted that, in the broad, deep and diverse US market, approximately 17% of insurance assets are invested in securitisations, mainly in mezzanine tranches rated BBB to AA. In the EU however, this figure is less than 1%. These numbers demonstrate the vital importance of the insurer bid to foundationally healthy securitisation markets. The presence of an active insurer bid in the mezzanine layer supports pricing and enhances the viability of the broader capital stack, including AAA tranches.

4. Securitisation must serve strategic EU goals, including SME financing and transition

4.1 Securitisation is essential but not sufficient: part of a broader Savings and Investments Union (SIU) agenda

A regulator observed that securitisation's potential to mobilise private capital and relieve pressure on bank balance sheets will be valuable but is only one part of a broader SIU agenda. Securitisation also creates the diversification that investors need and increases financial inclusion. The framework will support not only the large member states that are already part of the securitisation market, but also the smaller member states that need financing. This is especially important because small and medium-sized enterprises (SMEs) are concentrated in the smaller member states and need extra capital and not bank lending.

4.2 Mobilising private capital is key to reducing bank dependence and avoiding stagnation

An industry representative remarked that securitisation will provide the investment and credit formation that is essential for growth. The banking system alone cannot provide the necessary capital for the increasing level of financing needed for defence and GDP expansion. Capital markets and, in particular, securitisation, need to expand. The only other option to avoid a funding gap would be to grow the size of banks, which would increase systemic risks during downturns.

An industry representative noted that current regulations ensure that securitisation is a transparent, liquid and tradable instrument. Without a viable securitisation market, risk will migrate to less transparent and less regulated corners of the financial system. There is a view in Europe that securitisation is bad, regardless of the historical evidence. Securitisation is nothing more than a derivative of the underlying asset. Securitisation will not perform well if lending is bad. If lending is good, as it was during the financial crisis, securitisation in Europe performs well.

4.3 Smaller member states need tailored reforms to access the securitisation market

A regulator explained that, in Cyprus, the banking sector sells non-performing loans (NPLs) into asset management companies to remove them from their balance sheets, but securitisation is effectively absent. Securitisation could be a great opportunity, with benefits including transferring credit risk and freeing up banks' resources to enable them to lend more. Due to legacy issues resulting from the global financial crisis (GFC), the framework in Europe is conservative, costly and burdensome. This has led to the securitisation market being concentrated in a few EU countries. Measures in the Commission proposal should aim to facilitate market entry for jurisdictions where financial systems are dominated by smaller banks and SMEs.

5. The path forward: from marginal improvements to transformational change

5.1 Platform approaches and structural reforms should complement legislative updates

A public representative suggested that earlier proposals, such as creating a European securitisation platform to facilitate scale and standardisation, should be revisited. Radical solutions will be needed in order to grow the market to the extent required to finance Europe's aims.

5.2 A bolder and more holistic vision is needed to meet Europe's capital market ambitions

A public representative commented that, from a policymaker's perspective, growth in securitisation is justified only if it supports long-term competitiveness, investment, and economic sovereignty. The EU needs to radically rethink how it addresses barriers and avoid layering solutions, such as capital requirements, transparency and due diligence, in a way that compounds cost without resolving core problems.

The Chair summarised that, although the proposal provides a good basis for political discussion and is moving in the right direction, there is a general view that it requires significant strengthening to meet Europe's economic ambitions.

5.3 Rebuilding trust in securitisation is key to restoring a healthy, transparent market

A regulator observed that the crucial task is to 'enlarge the cake'. If the proposal results in insurers and pension funds investing more in securitisation but people are not convinced to channel savings, via pensions and insurance, into the capital market, the result is merely that some investment is moved out of government bonds or other instruments. If people do not invest more the 'cake' remains small and the massive investment in securitisation will not make a difference. The supervisory community is continuing to take a cautious stance. EIOPA will monitor market developments and intervene if necessary.

An industry representative highlighted the need to allow EU banks to play their part as active secondary market counterparts to deepen the secondary market. This will involve a much-improved treatment of securitisation senior positions in the banks' securities buffers. Banks should be market makers in the market and need to have working inventories.

A public representative commented that non-bank financial institutions (NBFI) growth is at least in part driven by a lack of an alternative, in particular in the securitisation space. Financial stability must be considered in a holistic way, rather than focusing analysis on specific subsectors, because everything is interlinked. If the EU fails to act decisively and holistically, it risks both a persistent funding shortfall and increased systemic risk through unregulated substitutes.

Clearing and settlement: priorities for supporting the SIU

The chair opened the discussion by noting that a central challenge is to enhance the attractiveness and competitiveness of EU post-trading so that it can effectively support the Savings and Investment Union (SIU), while simplifying rules, ensuring a level playing field, and safeguarding both resilience and market sovereignty.

1. Opportunities and challenges in the clearing space under EMIR 3

1.1. Overall progress in the implementation of EMIR 3

The chair noted that the implementation of EMIR 3 is underway. The regulation aims to strengthen resilience in the clearing space and reduce reliance on third-country CCPs by ensuring that adequate alternatives exist within the EU. ESMA has submitted proposed regulatory technical standards (RTS) to the European Commission, following extensive consultation, with the objective of simplifying procedures and improving efficiency. Recent work has focused on accelerating time-to-market, streamlining processes for authorisations, validations, and service changes, and enhancing predictability and transparency. Upcoming consultations will address participation requirements, the collateral framework, and pro-cyclicality, with the overall goal of establishing a genuine level playing field among the 14 EU CCPs by aligning the practices of national competent authorities (NCAs).

Several panellists acknowledged the progress that EMIR is expected to bring in the clearing space in terms of resilience, efficiency and overall attractiveness.

A regulator stated that EMIR 3 will further reinforce the resilience of the EU clearing system, which is already robust following the implementation of the successive versions of EMIR and the strong risk-mitigation framework it established. EU CCPs are already subject to rigorous authorisation and supervisory procedures and their resilience is regularly tested by ESMA through annual stress tests covering severe liquidity and credit stress scenarios. The latest one conducted in 2024 confirmed the system's overall resilience. Transparency of derivative transactions is also well established through trade repositories.

The regulator agreed that EMIR 3 introduces several positive developments, including new approval procedures designed to accelerate time-to-market. The regulation also provides for more streamlined cooperation among authorities, supported by ESMA's role as co-chair of supervisory colleges and by the new joint monitoring mechanism under EMIR 3, which further promotes supervisory convergence among the ESAs, the ECB, and the European Commission.

1.2. New authorisation procedures and time-to-market

Responding to a question of the chair about the expected impact of the new authorisation processes under EMIR 3, an industry speaker emphasised that the forthcoming ESMA RTS will be a decisive factor in the competitiveness of EU CCPs, since they will determine how quickly CCPs can introduce new products or adapt their risk models and parameters. There is however a fundamental tension in ESMA's approach between harmonisation and competitiveness. One option is to prioritise the achievement of a level playing field and coherent risk management across the EU, which entails detailed and time-consuming supervisory reviews. The other is to favour competitiveness by allowing faster procedures with supervisory intervention focused on the most significant elements. The draft RTS appear to lean too far towards harmonisation and detailed oversight, potentially at the expense of agility and competitiveness. Achieving the right balance between these two objectives is essential. The chair acknowledged the importance of a balanced approach but noted that many of the detailed requirements related to the new authorisation processes are already embedded in Level 1.

An official explained that the EMIR 3 framework introduces three categories of procedures - standard, accelerated, and exempted - whose criteria are being defined with input from industry stakeholders. The standard procedure will remain the core process for material changes to risk models or service offerings, and its efficiency will depend largely on the completeness and quality of CCP submissions. Well-prepared filings are therefore essential to ensure both sound authorisations and swift processing. Supervisors will also conduct ex post annual reviews of accelerated or exempted decisions, providing a valuable monitoring tool to assess how these simplified procedures function in practice.

The chair emphasised that a certain degree of granularity is needed to ensure consistency and predictability across the authorisation framework. Achieving shorter lead times will require a joint effort, with both supervisors and industry sharing responsibility for making the new procedures fully operational.

1.3. Margin model transparency

An industry speaker welcomed the forthcoming EU rules on margin-model transparency, describing them as a long-awaited step to reinforce market confidence and predictability, particularly in periods of stress. Greater transparency will enhance trust in CCP risk management and strengthen the overall clearing ecosystem. Obligations between CCPs and clearing members must, however, remain balanced and proportionate. Since clearing members primarily transmit CCP information to clients, their transparency requirements should not become excessive. Two operational aspects also deserve attention. First, the disclosure of internal credit-risk models can raise legitimate confidentiality and fair competition concerns. Second, a phased implementation is needed, as many clearing-member disclosure and simulation requirements depend on prior CCP transparency. A step-by-step rollout would therefore ensure a smoother transition.

Beyond compliance, the clearing framework and forthcoming RTS should also contribute to advance the SIU agenda by reducing unnecessary costs, enhancing interoperability, and fostering a more transparent and efficient clearing environment for both clearing members and their clients. The upcoming RTS under EMIR 3 provide an opportunity to achieve these objectives, provided they are calibrated with care.

An official stressed that public authorities must ensure that the implementation costs of the margin transparency, participation, and collateral frameworks remain proportionate to their expected benefits. It is the responsibility of regulators to keep these costs under control and avoid disproportionate burdens relative to the gains in efficiency and resilience.

The chair affirmed ESMA's commitment to maintaining close and continuous engagement with stakeholders throughout the implementation of EMIR 3 to ensure that transparency on margins and costs is achieved in a balanced and proportionate manner. Regulators and industry share the same objective of strengthening the EU clearing framework in support of the SIU.

1.4 Remaining issues beyond EMIR 3

An industry speaker noted that while derivatives have been the main focus of mandatory clearing in the EU, the US SEC has recently mandated clearing for cash and repo transactions in US Treasuries. The rule, finalised in 2023, will take effect in two phases starting in 2026 and represents a major structural change, given its broad market scope encompassing all firms that use repo. New access models, particularly client-clearing solutions, have been developed to accommodate participants previously outside mandatory clearing.

The effects are already visible: daily cleared volumes have increased from about \$4.5 trillion at the time the proposal was made to move to mandatory clearing to approximately \$10.5 trillion in mid-2024, even before implementation. The mandate is expected to further expand clearing activity, improving balance-sheet efficiency for dealers and strengthening market resilience. To support preparedness and transparency, publicly available calculators were introduced in the US for Value-at-Risk (VaR) margin estimation and for liquidity contingency obligations. These tools enable market participants to calculate margin and liquidity requirements towards the CCP, in line with EU and international efforts to enhance margin transparency.

A regulator highlighted that some pending issues are still under discussion in the EU, notably CCP access to central-bank liquidity. Since most CCPs do not hold banking licences, granting them access to central bank liquidity in exceptional circumstances could enhance systemic stability. Furthermore, the expansion of mandatory clearing to additional asset classes such as FX or equity derivatives could be contemplated.

2. Implementation of T+1 settlement

2.1 T+1 implementation roadmap: update and next steps

The chair noted that the main objective in the settlement space at present is the acceleration of settlement cycles. ESMA considers the move to T+1 essential to strengthen market efficiency, foster integration and preserve the competitiveness of EU capital markets in line with global developments.

An industry representative provided an update on industry progress toward T+1 settlement. Following the high-level roadmap published earlier by the T+1 Industry Committee, the current focus lies on three outstanding issues, to be refined through addendums due by November 2025: developing a single standard for settlement instructions to reduce settlement fails; establishing consistent market practices for partial settlements; and analysing potential optimisation of securities-financing transactions, particularly repos, whose trading patterns will evolve significantly in a T+1 environment.

A complementary "playbook" will follow by January 2026, providing practical guidance and examples of best practices for implementing the recommendations of the roadmap. In parallel, work is underway on the monitoring of implementation. Progress will be assessed through quarterly surveys conducted from late 2025 to 2026 under an "adhere-or-explain" approach, with results publicly released, highlighting areas of delay and identifying where supervisory follow-up may be required. Close coordination between industry and public authorities will be essential.

Testing is scheduled to begin in early 2027, following a standardised methodology developed jointly with the UK Accelerated Settlement Taskforce (AST) to facilitate participants' preparation and ensure comparability of results. Communication efforts are also being strengthened, including with the launch of a dedicated website providing documentation and FAQs.

Market participants are urged to act immediately. The transition to T+1 is mandatory under the revised CSDR for all 27 Member States by 11 October 2027, leaving fewer than 500 working days before the transition weekend and less than 250 before the start of the testing phase. Firms should be using the roadmap for budgeting, resource planning, and client communication. Unlike the US, Europe's transition spans 27 jurisdictions and 31 CSDs, making coordination and early preparation indispensable for success.

An industry speaker reported that progress is also being made within the legal and regulatory technical workstream of the T+1 Industry Committee, following assessments carried out with industry and public sector stakeholders. The process is now entering the implementation phase.

2.2 Main opportunities from the migration to T+1

An industry representative stressed that the move to T+1 is not merely a compliance exercise but a strategic opportunity to increase automation and straight-through processing (STP) and also a foundation for a future transition to T+0.

An official emphasised that standardisation and harmonisation remain the cornerstone of Europe's post-trade efficiency and of the broader SIU agenda. Certain issues, such as standard settlement instructions (pre-agreed account and counterparty details used to settle trades), have been debated for more than two decades and there is now an opportunity to resolve them in the context of the T+1 transition, benefiting from the collective momentum and shared deadlines of the initiative. The Eurosystem, through its Advisory Group on Market Infrastructures for Securities and Collateral and earlier work on TARGET2-Securities, has already made significant progress in advancing harmonisation, although several elements remain incomplete. With all stakeholders now moving in the same direction, this moment should be seized to deliver tangible results.

An industry speaker observed that T+1 has major implications for EU market participants, prompting firms to redesign and optimise post-trade flows to an even larger extent than in the US. Two main opportunities arise from this transformation: further compression of settlement volumes and broader use of central clearing, particularly among buy side firms, for which these developments can generate additional efficiencies and enhance STP. Improving automation in the post-execution, pre-CSD matching layer, directly contributes to reducing settlement fails, a shift supported by the forthcoming ESMA RTS on automation. The industry speaker agreed that another area requiring attention is the management of standing settlement instructions and other operational or non-economic aspects of trades, where persistent operational frictions remain. Greater automation and improved information exchange in these processes are essential to support a successful transition to T+1.

Another industry speaker noted that accelerated settlement will also have positive spillover effects on clearing by reducing exposures and collateral requirements for members and end-users.

2.3 Operational challenges to overcome

An industry speaker endorsed the industry T+1 roadmap which clearly defines the actions required for a successful migration to T+1. The main challenge lies in ensuring that the entire settlement chain transitions together, which is not a technical issue, but a question of operational preparedness and readiness. Efficiency at T+1 depends on achieving T+0 (i.e. same day) trade affirmation. Affirmation, which is the confirmation of trade details prior to settlement, must rise above today's average level of just under 95% and approach US rates, where achieving 100% positive affirmation on T+0 is the target. Raising this rate requires extensive communication with clients, broader operational "windows" and adjusted opening hours, together with improvements in client interaction so that technology, now capable of predicting likely fails based on trade characteristics, can be fully leveraged. Settlement infrastructures can contribute by enhancing this predictive capability.

The industry speaker added that the migration will be more complex in Europe than in the US because of the greater number of entities involved, the multi-currency environment, the need to coordinate with the UK, and Europe's role as a global settlement hub serving regions such as Asia and the US. Despite these challenges, industry commitment remains strong.

A second industry speaker commended the T+1 Industry Committee for its effective leadership in steering the implementation process, which is particularly challenging given Europe's different starting point from the US in terms of market fragmentation, currencies and supervisory structures and the need to align implementation approaches and testing timelines across the EU, UK, and Switzerland.

An official highlighted governance as a decisive factor for the success of the T+1 migration. While the T+1 Industry Committee has provided strong guidance through the high-level roadmap, smaller intermediaries risk falling behind in their preparations. Implementation should not be viewed as a one-off project but as a continuous, adaptive process to ensure that all participants, including smaller firms, remain fully engaged and fulfil their part in the transition. National coordination forums, such as the one jointly run by CONSOB and Banca d'Italia in Italy, can play a vital role in raising awareness, monitoring progress, and addressing domestic bottlenecks.

A third industry speaker reported that their bank has established a dedicated transversal project team bringing together securities services business lines, IT, product and client development teams, and global markets to lead the T+1 transition internally. Drawing on the UK AST, the EU high-level roadmap, and the forthcoming playbook, the teams are conducting gap analyses of the current operational model to identify and eliminate friction points and inefficient legacy processes, with the objective of achieving full automation. Concrete workstreams include the treatment of voluntary corporate actions, testing of non-standard events, and ensuring end-to-end follow-through across all functions.

This work is carried out in close cooperation with clients, who require support throughout the migration. Given the diversity of client size and sophistication, education and joint planning are essential to ensure that client processes evolve in parallel with the bank's internal automation. This work will continue over the coming months, maintaining a focus on operational, technological and client-related aspects.

3. Evolution of the supervision of EU CCPs and CSDs

An official stated that the supervision of systemic entities, such as certain CCPs, should move towards greater centralisation. This would enhance harmonisation, address level-playing-field issues arising from the growing cross-border activity and competition among EU CCPs and simplify the currently fragmented system of parallel supervisory procedures, thereby indirectly improving the competitiveness of the EU clearing sector. While the strengthening of EMIR colleges and ESMA's convergence tools has improved the consistency of supervisory practices, variations persist among NCAs, which retain decision-making powers and discretion in interpreting EU rules.

The intention is not to eliminate the NCAs from CCP supervision, but to establish a more integrated approach led by ESMA, with broader decision-making powers and tools, while maintaining close involvement of the NCAs. Drawing inspiration from the ECB's Single Supervisory Mechanism (SSM) for banking, joint supervisory teams could be created, combining ESMA and NCA staff, with the latter bringing national expertise and know-how to support the supervision of CCP activities.

The official also underlined the importance of involving the central banks of issue in CCP oversight. These institutions provide critical account, settlement, deposit facility and collateral services, as well as liquidity in crisis situations, and must remain integral to the supervisory framework. Their role, however, should complement rather than duplicate supervisory tasks.

A regulator noted that the principles underpinning both the SIU and the objectives of simplification and burden reduction should guide future developments in the supervision of CSDs. A tiered model, similar to the approach applied to CCP oversight, could be envisaged, provided it ensures efficiency, clarity, and cost-effectiveness. The supervisory framework should also foster competition and ensure that supervisors cooperate through streamlined and transparent processes.

Wrap up

The chair closed the session by reaffirming that the EU's clearing and settlement frameworks already rest on solid foundations, built through years of continuous refinement. The next challenge is not to reinvent, but to improve the post-trading space: simplifying where possible, deepening integration, and sustaining competitiveness without compromising resilience. The potential move to T+0 and 24/7 settlement is also a future challenge to consider.

Sessions

VII

FINANCIAL STABILITY AND SUSTAINABILITY RISKS

Enhancing the NBFI resilience

Europe's non-banking financial industry (NBFI) has become a key source of financing for the European economy, complementing the banking sector and supporting long-term investment. Yet its rapid expansion and growing interconnectedness have introduced new challenges for supervisors and policymakers. Persistent fragmentation, uneven regulation and limited data availability continue to undermine the consistency and resilience of the European financial framework. This session examined how Europe can strengthen the oversight of non-bank financial institutions, enhance system-wide resilience through proportionate and risk-based supervision and build greater trust through improved data sharing, technological innovation and enhanced international cooperation.

1. Fragmentation and emerging risks in Europe's non-banking financial sector

1.1 Four structural challenges facing Europe's non-bank financial sector: fragmentation, market dynamics, stress testing and data

The Chair noted that the panel would focus on four main issues. The first concerns the challenges posed by regulatory fragmentation. The second relates to the interaction between public and private markets. The third addresses the role of stress testing in supporting the smooth functioning of Europe's integrated markets. The fourth examines whether sufficient data are available to assess risks effectively.

1.2 Regulatory fragmentation increases risk and weakens responses to a crisis

An industry representative stressed that, from the perspective of a global asset manager, regulatory fragmentation amplifies risks and costs and may undermine the ability to respond effectively to future financial crises. However, despite the fragmented regulatory landscape, no major fragmentation has been observed regarding market flows or activity: driven by new technologies, markets are evolving faster and in a more interconnected way, which contrasts with the persistence of fragmented regulatory frameworks.

The initiatives undertaken by IOSCO and other international bodies to promote regulatory convergence are therefore highly valuable. Yet responsibility also lies with jurisdictions to align with IOSCO recommendations. Some, such as the EU, tend to introduce stricter requirements, while others, notably the US, often fail to meet even the minimum standards as recommended by IOSCO, further deepening harmful regulatory divergence.

1.3 Non-bank financial institutions: understanding transmission channels and regulatory challenges

Supervisors must identify and assess the complex network of links between banks and private market activities. Regular supervisory exercises aim to ensure that risk management of banks evolves in line with these growing interconnections.

A central bank official remarked that the term NBFI may create a misleading divide between banks and other financial institutions, whereas their business models and risk profiles often overlap. All these financial entities differ in legal form, activities and risk exposure, but banking supervisors remains to get a comprehensive picture of interconnections to understand the risks faced by the banking system itself.

The sharp rise in private credit illustrates this interdependence: banks now participate at various levels to this activity, via e.g. directly financing vehicles, providing derivatives or financing investors seeking leverage in private credit funds. This creates a so-called muti-layered exposure to private credit. Supervisors must gain a full understanding of these exposures and track all potential interconnections, even where data remain limited.

To support this, the ECB has requested for example a comprehensive overview of private market loans and hedging positions from major EU banks. In 2025, in parallel with the EBA's main stress test, the ECB conducted a dedicated exercise on counterparty credit risks arising from NBFI linkages. It must be acknowledged that most of these financial actors are not regulated to the same standards as banks.

The Chair added that, while regulation may not soon address all NBFI-related issues, stress testing offers a useful means to identify vulnerabilities and inform policy responses.

1.4 Understanding emerging risks: transparency, valuation and interconnectedness

A regulator underlined that the term NBFI covers a wide spectrum of entities, often perceived not as "non-banks" but as insurers, for example. In light of major developments in private credit and private equity - particularly in the US and UK - the International Association of Insurance Supervisors (IAIS) has issued a paper outlining how supervisors should adapt to this structural shift. Although the rapid growth of private equity and private credit is not yet fully captured in data, early evidence shows that certain private equity firms are acquiring insurers. Preliminary findings indicate that insurers owned by private equity tend to invest more heavily in riskier and less liquid assets, such as private credit. Insurers' private credit exposures range from 2% to around 5%, depending on how broad definition is used (for example, including or excluding mortgages) of total assets, a level that does not yet raise supervisory concern but requires monitoring – also for potential concentrations.

Addressing these evolving risks requires a coherent and forward-looking European framework. The growing complexity and interconnectedness of NBFIs call for consistent rules, stronger supervision and better cross-jurisdictional coordination to safeguard both financial stability and competitiveness.

Against this background, the discussion turned to how Europe can build a more coherent and proportionate framework for non-bank finance, capable of supporting resilience while fostering market integration

2. Building a coherent and resilient European framework

2.1 Towards a more coherent EU framework for effective supervision of private credit and non-bank finance

An industry representative suggested that if international convergence through IOSCO recommendations cannot be achieved, the EU should draw on best practices from other jurisdictions. In the United States, for instance, mutual funds report to a single regulator, the Securities and Exchange Commission (SEC), whereas European asset managers must submit parallel fund reports to several national authorities in the EU depending on related funds' domiciles. Adopting a single reporting framework at the European level, with the European Securities and Markets Authority (ESMA) as the central point of fund reporting, would reduce fund reporting costs and hurdles, thus enhance the competitiveness of EU-based fund managers and contribute to giving a greater role to ESMA – through such practical "bottom-up" regulatory improvements.

The Chair noted that the growing link between private equity and insurance is becoming an increasingly important feature of market structures.

A regulator observed that effective supervision of private credit requires consideration of multiple elements. From a financial stability perspective, credit and liquidity risks, hidden leverage and concentration risks must be carefully assessed, as NBFIs often invest in each other. Valuation uncertainty may also arise due to limited transparency. From a consumer protection standpoint, conflicts can emerge between the pursuit of shareholder returns and the long-term commitments of insurers, such as guaranteeing secure retirement income. Supervisors therefore seek to monitor these risks closely without constraining market development.

2.2 Private markets as a stable source of long-term financing: ensuring transparency, oversight and coordination in a diversified financial system

Private credit plays an essential role in channelling long-term savings into productive investment, complementing banks and helping to diversify sources of financing. As activities shift between market segments, regulators and industry must collaborate to maintain confidence, transparency and financial stability.

An industry representative suggested that regulatory fragmentation can also be viewed positively, as differing frameworks may be appropriate for distinct investor categories. Financing activity has become increasingly diverse and is therefore crucial to ensure that each regulatory framework remains fit for purpose.

Private credit has expanded rapidly, reflecting the strength of the single investment universe and the capacity to mobilise long-term capital, including pension and insurance funds, towards the real economy. When supported by an appropriate framework, private credit can be a risk-diffusing structure. Private markets are particularly well suited to financing long-term, illiquid assets that are less accessible to banks or public markets. As an originate-to-hold model with typically low leverage, private capital can continue to operate even during periods of market stress. This diversity of capital sources contributes to overall financial resilience.

As banks increasingly lend to NBFIs rather than directly financing long-duration assets, they are becoming structurally shorter and more senior, focusing on liquidity provision, cash management, hedging and repo activities where they have a comparative advantage. This shift reduces overall systemic risk within the banking sector.

In this context of credit migration from banks and public markets towards insurers and asset managers, transparency and coordination between the industry and supervisors will be critical. Large private credit firms themselves are concerned about contagion from potential bad actors. Designing appropriate policy measures therefore requires a long-term, coordinated perspective. Convergence between the EU and the US is likely over time: while the US market remains more mature, Europe's significant financing needs will increasingly attract private capital.

2.3 Towards system-wide, collaborative and proportional stress testing to strengthen financial resilience

A regulator underlined that system-wide stress testing remains limited, although initial exercises have been launched by the Bank of England and similar work is underway in Paris. To understand how shocks might propagate through the financial system, cooperation between supervisors and the financial industry - banks, asset managers and insurers - is essential. This collective approach would complement existing sectoral stress tests, help identify data gaps and define future data needs.

At this stage, system-wide stress testing should be conceived as a learning exercise and a dialogue between the industry and the authorities, rather than as a basis for new regulation. It is a key tool to prepare the financial sector for future crises. Beyond national initiatives, stress testing should also be developed at least at the euro-area level, even if implementation would be complex. Tests should be realistic, proportionate, and designed with active industry input. Open, data-driven exercises would foster a valuable feedback loop between firms and supervisors, strengthening preparedness and trust.

An industry representative stressed the importance of stress testing from a business perspective. As primary risk takers, large firms must integrate stress testing into their decision-making. While firm-level stress tests are costly and complex, they provide essential insights for both the business and the broader financial system. Industry participation in designing scenarios—based on plausible and data-supported assumptions—is vital to ensure relevance.

2.4 Strengthening NBFI oversight: applying the 'same risks, same rules' principle and improving cross-border data sharing

A central bank official emphasised that enhanced disclosure, data collection and regulatory coordination are essential to address the financial stability risks associated with the opacity of NBFIs. This involves three key elements. First, the principle of "same risks, same rules" should be applied across institutions. Second, supervision should focus on activities rather than legal form. Third, since entity-specific vulnerabilities still matter, measures addressing structural fragilities should be targeted at individual entities where necessary.

An industry representative highlighted the distinction between regulated NBFIs—such as licensed asset managers—and those subject to minimal or no regulation. Regulated asset managers already provide comprehensive data to clients, the public and supervisors; regulatory focus should therefore be directed toward less transparent actors. Improved cross-border data sharing among regulators will be critical to enable them to obtain a better holistic view of emerging risks and to manage the next financial crisis effectively.

Ultimately, stronger supervision and resilience depend on effective cooperation among authorities, enhanced data exchange and the smart use of technology. Building trust and transparency through improved information flows and governance mechanisms among regulators and supervisors at cross-border level will be central to developing a more integrated European framework.

Beyond regulatory coherence, panellists agreed that strengthening resilience will also depend on better data, smarter technology and deeper international cooperation to build trust and effective governance.

3. Leveraging data, technology and cooperation to strengthen trust and governance

3.1 Bridging data gaps and strengthening EU cooperation for more targeted and integrated financial supervision

A central bank official observed that while the ECB, in its capacity as a banking supervisor, can request detailed information from banks, a broader perspective is required in its role as a micro-prudential authority. EU initiatives aimed at building more integrated and comprehensive reporting frameworks are therefore strongly supported. At the EU level, data sharing and collection between member states must be improved rapidly. Micro-supervisors need to understand not only the position of individual banks, but also the interconnections between them and how shocks might propagate through these linkages.

An official added that regulators often fear the worst, which can lead to an overly broad and heavy-handed approach to regulating the NBFI sector. A more targeted and proportionate approach is necessary, but this requires high-quality data. Collaborative work with the Financial Stability Board (FSB) on leverage and margin preparedness in the wake of the pandemic has highlighted significant data gaps in the NBFI sector. The FSB's non-bank data taskforce is currently conducting its first pilot on leveraged trading strategies in government bond markets. IOSCO, for its part, is developing new recommendations on valuations in collective investment schemes that include private assets. An investment fund statistics dashboard has been launched on the IOSCO website, providing the first publicly available overview that consolidates public and regulatory data on investment funds. It offers both a global and jurisdictional view, highlighting where data coverage is robust and where gaps remain.

A regulator noted that despite ongoing efforts to simplify reporting requirements, large volumes of relevant data are already available, including balance sheets, capital ratios and solvency indicators. Look-through data in investment funds is currently under review and should become available shortly, as will additional liquidity data from the Solvency II review. Property and casualty (P&C) data would also be useful. Data sharing across the EU remains challenging, as companies generally report to national authorities and are reluctant to accept additional legal obligations.

Given that the EU insurance sector has around 12% exposure to banks, insurance supervisors must either have access to relevant banking data or be able to rely on strong cooperation with banking supervisors. Encouragingly, dialogue between the ECB and ESMA is already well established. In the context of stress testing, this coordination is primarily an operational rather than a structural issue.

3.2 Harnessing technology responsibly to strengthen transparency, supervision and trust in financial services

A central bank official highlighted that while advanced technologies have great potential in regulation and supervision, their use must be accompanied by sound risk management, ethical safeguards and appropriate oversight. The fragmented regulatory landscape remains a major obstacle, limiting the competitiveness, resilience and credibility of the financial system.

Technological innovation can significantly enhance transparency, resilience and supervisory efficiency. Artificial intelligence, blockchain and big data analytics enable real-time monitoring and automated reporting. AI-driven algorithms can improve decision-making and efficiency, while automation and advanced analytics facilitate personalised investment solutions. RegTech tools can strengthen compliance for asset managers and help supervisors monitor institutions more effectively.

However, the growing use of technology also brings new risks. The opaque nature of AI and machine-learning models raises concerns about accountability, transparency and ethics. Data privacy and cybersecurity threats are intensifying, and algorithmic discrimination must be avoided to ensure fair access to services. Rapid technological change may also cause regulatory and industry standards to lag behind innovation, underscoring the need for continuous dialogue and adaptive governance.

3.3 Building trust and coordination across European frameworks

A regulator emphasised that Europe must remain ambitious in promoting cooperation and integration, particularly in key projects such as digitalisation, the digital euro, the banking union and the Single Resolution Fund (SRF). NBFI issues form an integral part of this broader agenda. Within the simplification process, better coordination between European and national levels is essential—not only in banking regulation but also in the NBFI framework. The prioritisation of work should be reviewed, including how levels 1, 2 and 3 of the EU's legislative framework interact in practice. Ultimately, regardless of the detailed rules and standards, the framework must inspire trust. The objective should be to strengthen Europe's attractiveness and ensure that it remains a leading player in global cooperation and standard-setting.

3.4 Bridging global fragmentation through cooperation and common standards

IOSCO's monitoring reviews, transparency initiatives and capacity-building efforts are helping to bridge the gap between policy design and practical implementation. A collaborative, principles-based approach—supported by industry participation and operational guidance—promotes stronger alignment across jurisdictions.

An official acknowledged that regulatory fragmentation persists globally but stressed that IOSCO's priority is to foster convergence. IOSCO monitors jurisdictions' progress in implementing international recommendations, and the time lag between the issuance of recommendations and the monitoring of their implementation is steadily narrowing. This process enhances transparency and incentivises jurisdictions to comply. For example, IOSCO's recommendations on crypto-assets were published in 2023, and a monitoring report on their implementation is expected next month. Despite persistent fragmentation, most jurisdictions are adopting or preparing to adopt these measures, though gaps remain in emerging markets, cross-border cooperation and data aggregation.

Three factors underpin progress in implementation: first, consensual policymaking that identifies common ground and sets clear priorities; second, systematic consultation of industry stakeholders and follow-up on their feedback; and third, practical guidance accompanying key recommendations to facilitate adoption. Although fragmentation endures, it can be progressively mitigated through such cooperative approaches.

3.5 Europe's leadership in global financial governance: from multilateralism to coalitions of the willing

A regulator noted that recent geopolitical and technological developments have created a more volatile and uncertain environment, posing new sovereignty challenges for Europe. These must be addressed collectively by central banks, supervisors, standard setters and policymakers. A central question is whether the current framework of cooperation is sufficient to manage a major financial crisis today.

The shift from a multilateral to a more transactional global order has increased risks of fragmentation. In this context, coalitions of the willing must emerge to defend and reinforce the integrity of the international financial architecture. The Network for Greening the Financial System (NGFS), among others, demonstrates how voluntary cooperation among like-minded actors can advance shared objectives. Europe should continue to play a leading role in shaping such coalitions, upholding open dialogue, coordinated governance and global financial stability.

The discussions highlighted that building a resilient non-bank financial sector is not only a regulatory challenge but also a test of Europe's ability to act collectively, to share data transparently and to coordinate effectively at global level. Achieving this will be essential to preserve financial stability while enabling Europe to remain both stable and competitive in a rapidly changing global financial landscape.

Challenges raised by the set-up of the AMLA

1. Key priorities and objectives of AMLA

The Chair highlighted that anti-money laundering (AML) and countering the financing of terrorism (CFT) remain high priorities for the public and private sectors. The associated risks continue to grow, and at the same time there are new regulations and the establishment of the new Anti-Money Laundering Authority (AMLA). The panel will consider institutional, regulatory, and technical hurdles in implementing AMLA, as well as practical methods for utilising and securing technological solutions.

2. Institutional and supervisory challenges for AMLA

The Chair noted that one of AMLA's key tasks is to foster a common supervisory culture and achieve convergence across Europe. A regulator highlighted the experience gained from the functioning over the last 14 years of the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA). A crucial ingredient for AMLA's goals is a commitment to risk-based supervision, including across all national competent authorities (NCAs), and for those working on AML to employ a consistent methodology. Joint inspections facilitate the implementation of a risk-based methodology and ensure uniform application of rules.

In terms of technology, a central data and intelligence hub with consistent analytical tools is essential. Discussions regarding data usage highlight the need for flexible, expandable databases facilitated by new technology. Credible enforcement power, demonstrated through joint inspections and visible results at the EU level, instils respect for the institutions.

Obstacles exist at the national level, particularly given different levels of development in AML practices. Some countries have well-established risk-based methodologies, while others do not. Convergence here presents a challenge. National traditions regarding AML and supervision, data fragmentation and confidentiality concerns pose difficulties.

A perceived loss of sovereignty by national authorities, when central bodies discuss new supervisory responsibilities is another obstacle. The political sensitivity of AML means there is a need for independent national supervisors to ensure successful oversight.

Mechanisms for improvement include public/private cooperation, such as that seen in the Netherlands and the United Kingdom. Industry should actively contribute. Clear communication of the expectations from supervisors to industry, and vice versa, is also important.

A supervisory authority suggested that a distinction should be made between supervision and regulation. The key to supervision is having a risk-based approach and proportionality. Focus must remain on the real risks, without excessive requirements for lower-risk areas and factoring in different business models. Requirements must reflect the differences between established banking sectors and new FinTechs.

The current simplification exercise by the Commission presents a valuable opportunity that should be seized, as priorities inevitably shift within the EU. There should be consideration of what is necessary, and what might no longer be necessary.

These actions are needed at all levels, including by NCAs and national governments. It is not only for AMLA, other European Supervisory Authorities (ESAs) and the Commission. Level two and level three regulations should be prepared in close cooperation with obliged entities, with the inclusion of industry associations in the process of creating regulatory technical standards (RTSs) and other level two and three instruments. Their views on compliance costs should be factored in. These regulations must also be clear and unambiguous. Q&As are currently largely managed by the Commission, which has limited expertise in this area, so the process of answering questions is very lengthy. It would be beneficial to return Q&As to the ESAs.

Concerning the interaction between AMLA and NCAs, the latter should retain sufficient flexibility due to their proximity to obliged entities and their understanding of national specificities. However, close cooperation with AMLA will remain essential. The institution of binding instructions from AMLA towards NCAs raises legal questions regarding responsibility and at which court it would be possible to make challenges. This interaction may prove complicated, while similar mechanisms in the banking union and Single Supervisory Mechanism (SSM) have not been used.

3. Ensuring supervisory convergence and a common supervisory culture

A regulator emphasised that people are also important. Secondments and rotation between NCAs and European regulators foster a shared supervisory culture. Individuals returning from such placements prove valuable in integrating a common European perspective into daily work. People are a vital ingredient for creating and keeping the supervisory culture unified.

The Chair added that assembling good quality people and establishing collaborative working methods, involving representatives from national authorities, will be crucial for AMLA's ability to achieve convergence and reach a common culture. AMLA is actively implementing this approach through integrating seconded of national experts from the Member States and by structuring its working methods accordingly.

4. Technology and data-sharing in support of AML supervision

The Chair indicated that substantial investments are being made by national supervisors in Supervisory Technology (SupTech) tools designed to enhance their day-to-day work and asked how AMLA and NCAs could best coordinate these investments.

A regulator identified collaboration on data standardisation and joint technology investment as key drivers for the success of AMLA and the new European system. If not approached correctly then it will just be another layer of bureaucracy where data is collected separately. Four interconnected concepts that are crucial to achieving this are governance, standardisation, common investment and feedback loops.

Regarding governance, there should be thinking about predictability, how data standards are set and how data is collected. There should be a collaborative effort between AMLA, NCAs and obliged entities to determine essential data requirements for effective prevention of money laundering and terrorist financing. That demands early strategic development of data standards, even amidst the ongoing efforts to establish the foundational framework for AMLA's operations.

Standardisation and predictability are crucial for reducing inconsistency and duplication in reporting, to avoid having 27 different standards and formats. There has to be clarity about the processes from an early stage when collecting data. The data should be collected in a predefined timeframe, and there should be consideration of interoperability between NCAs, AMLA and the firms, which can be achieved through application programming interfaces (APIs) and by drawing lessons from existing frameworks such as Common Reporting (COREP) and Financial Reporting (FINREP). In addition to being as flexible as possible, there must be mechanisms for recalibration to allow for rapid responses to emerging risks.

In terms of common investments, everyone is developing useful tools, and there is extensive innovation occurring within the private sector and NCAs. These are valuable, but building up a common supervisory culture is about scale. To scale up to the European level, there has to be consideration of how to share, commonly prioritise and co-fund, so that what is effective and efficient can be identified. That does not require a complex framework, but it will need a mechanism through which those key decisions can be made.

Finally, the importance of establishing robust feedback loops involving all stakeholders should be underlined. The private sector knows what automation can do and where it can be helpful, while NCAs and AMLA can indicate what is not useful in practice.

An industry representative outlined a framework encompassing three key areas within the non-bank financial institution landscape. Technology implementation is fundamentally driven by trying to mitigate the specific risks faced by the sector. The primary risk for the non-banking financial sector comes from unbanked customers. One of the reasons regulatory authorities say money transmitting is a high-risk sector, for example, is because it manages numerous unbanked customers dealing in cash.

Technology assists in conducting comprehensive entity and customer risk assessments and potentially putting them on interdiction lists based on pre-defined risk appetite thresholds or identified AML concerns. This encompasses the full spectrum of processes from onboarding controls and know your customer (KYC) procedures, utilising new technologies for identity verification, sophisticated behaviour monitoring techniques, and the collection of transaction-related data and profile changes.

A significant challenge lies in the fact that those actively engaged in financial crime often possess greater technological proficiency and resources than those attempting to counter it, meaning industry efforts often lag. A critical question is whether that slowness is due to regulatory frameworks not adapting quickly enough to address rapidly evolving criminal typologies. For example, overly strict information requirements for unbanked customers requiring data those individuals may legitimately not possess, can inadvertently drive transactions into unregulated and opaque channels, effectively increasing systemic risk rather than mitigating it.

There is increasingly sophisticated use of AI to falsify identities. One report indicated a concerning 40% success rate in such AI-created false IDs bypassing existing monitoring systems, which clearly poses a risk to financial institutions and regulatory authorities.

Regulators and financial institutions must work together to mitigate that risk quickly and effectively, which should mean taking a risk-based approach. That involves conducting risk assessments all the way through to monitoring, consideration of the customer base, and consideration of the countries being operated in. Focusing solely on European contexts ignores critical risks originating from receive markets like Africa and South Asia, for example. There is a need for collaborative, proactive strategies involving global regulators and using technological innovations, to effectively address cross-border financial crime.

5. Balancing effectiveness and compliance costs

An industry representative referred to three major challenges. The first is harmonising without making the situation too complex. There is general agreement about the benefits of harmonisation, having a level playing field and simplification. One of the initial goals of the SSM, which was established in 2014, was to achieve harmonisation. Discussions over the past two days at Eurofi have been heavily focused on the need to simplify, which demonstrates that the SSM harmonisation probably came with excessive complexity. There is an opportunity to try to harmonise in AML, but the over complication seen in the SSM should not be repeated for AML.

Efforts should be made to avoid making AML too complex. One aspect of that is favouring a principles-based approach that relies mostly on level one texts, to avoid the gold plating tendency that stems from levels two and three. Perfection should not be the goal.

Additional EU layering onto already complex national regulations should be limited, as such additions will make the situation very complex for banks. Adding something centrally implies a need to reduce the burden at the local level.

A third aspect is having a proportionate risk-based approach and accommodating diverse business models by being proportionate relative to the risks. That is particularly important given AML regulation extends beyond banking to encompass numerous actors across various sectors.

A key success factor for supervision is trust between supervisors and industry participants. Relying slightly more on trust and slightly less on rules is an effective way to proceed. Trust is achieved through efficient supervisory dialogue, which includes supervisors actively listening to banks.

Banks, especially retail banks in the EU, have a strong incentive to comply with regulations as doing so helps preserve their reputations. The issue of reputational risk is extremely important for the retail industry and leads to extreme compliance with AML rules.

Trust will also help with taking regulation costs into account. A principles-based approach tailored to bank specificities would reduce costs by ensuring regulation is efficiently aligned with operational realities. Conversely, a one-size-fits-all approach obliges banks to establish systems that may not align with their circumstances, thereby driving up costs unnecessarily.

Regulators should periodically conduct comprehensive cost/benefit analyses, to assess the efficacy of existing regulations and to determine whether regulatory reports remain useful or represent an undue burden on financial institutions.

The Chair summarised that achieving an appropriate balance between robustness, effectiveness and compliance costs requires strong supervisory dialogue with industry stakeholders, consistent application of a risk-based approach, and thorough cost/benefit analyses both ex ante, when preparing regulatory measures, and ex post when the measure's effectiveness has to be assessed.

6. The interplay of AML and GDPR requirements

An industry representative emphasised that harmonising AML regulations with General Data Protection Regulation (GDPR) rules is a crucial challenge. There was a recent €4.3 million fine issued to a Polish retail bank for scanning customer ID cards, which is a practice that is mandated in France under KYC procedures. There needs to be increased dialogue on and simplification of common rules for AML and GDPR to resolve inherent conflicts and ensure consistent application across Member States.

An industry representative added that there is a conflict between stringent data privacy regulations, such as GDPR, and the imperative to effectively combat financial crime. Both regulators and private sector entities share common overarching goals and could significantly benefit from strengthened public-private partnerships and an understanding of the technological opportunities.

The Chair suggested that ensuring consistency between AML regulations and GDPR is key, because of the public objectives of upholding privacy, and effectively and efficiently combating money laundering and the financing of terrorism.

7. Operational and technological challenges

An industry representative commented that there is already substantial use of AI within the industry, such as machine learning techniques that are applied to transaction monitoring (TM). Hibernation strategies of temporarily suppressing alerts for recurring low-risk patterns are utilised to avoid polluting systems with false positives and to improve overall system efficiency.

One firm's TM system, for example, proactively proposes solutions for alerts at the first-level review stage, guiding analysts towards appropriate actions based on comprehensive risk assessments. The system will even prevent the analyst from being able to close the alert.

Regulators consider such steps as cost-saving exercises, but the real driver is reducing operational risk. Even with an amazing internal academy, the analysts could each come to different decisions. What is needed is not more people but for people to perform more effectively and have a risk-based approach to alerts. Additionally, to avoid analysts being bored, they should not be spending days reviewing numerous false positives. AI helps the analysts to focus on the key risks and to not waste their time.

Agentic AI is a growing area of interest. Demonstrations revealed different AI agents were capable of autonomously extracting data from diverse sources, such as email traffic and websites, compiling information about key personnel, drafting preliminary memos that assess client risk levels, and even identifying areas for improvement in the initial assessments.

When benchmarked against the decisions current analysts would make of the risks, the results were encouraging. That then leads to questioning whether such tools could be used to automatically file Suspicious Activity Reports (SARS) to the Financial Intelligence Unit (FIU), or to stop transactions when they think there is a potential fraud. The technology presents both significant opportunities and complex challenges regarding regulatory compliance, the establishment of robust audit trails, and ensuring adequate data retention practices.

Currently, there is no idea about how regulators would assess the decision of an AI agent to redraft a memoir, for example. It is not known what freedom the industry has to use agentic AI. However, it is important to use, given the sophistication of modern money laundering operations. Money launderers are no longer limited to traditional methods like physical cash smuggling and are increasingly utilising advanced technologies and outsourcing to cross-border operations with substantial resources and expertise. Not all the smart engineers are on the right side of the law. There are very talented data scientists working for cartels and other criminal organisations, and they have been acting cross-border for a long time.

AI is already being utilised to illegitimately open accounts. Sophisticated players generate false profiles with pictures and even small businesses. There is an urgent need to proactively embrace emerging technologies to maintain an equal footing in the ongoing fight against financial crime.

Time is being wasted and there is a need to be able to act more quickly. A regulatory framework is needed, and answers to the questions about how technology can be used have to be provided so it can be implemented. Effective money launderers will initially appear as low-risk customers during the screening process. They can conceal their illicit activities by mixing them with the activities of previously legitimate businesses.

The problem of money laundering is complex, and technology is needed to help with it. There also needs to be a risk-based approach to focus on the key risks faced, and knowledge of how technology can be leveraged.

8. Closing remarks

The Chair summarised the recurring themes that emerged. The first concerns the application of a risk-based approach across all topics considered. The second significant theme relates to ensuring consistency between AML regulations and GDPR.

Regarding convergence, panellists highlighted the importance of assembling good quality people and establishing collaborative working methods between the national competent authorities and AMLA. This includes involving representatives from national authorities, which will be crucial for the AMLA's ability to achieve convergence and reach a common culture. Technology was also identified as a key factor in facilitating convergence. Regarding compliance costs, a central point raised was the necessity of prioritising simplicity during initial design phases rather than attempting to reduce complexity retrospectively.

These considerations are all part of AMLA's thinking. AMLA will operate under the principles of better regulation, and it will be conducting cost/benefit analyses and public consultations. Maintaining constructive dialogue with industry on policy and supervisory matters is considered particularly valuable.

Regarding technology, it is essential to remain ahead of technological advancements, especially given the evolving tactics employed by criminal organisations. Although there are challenges inherent in this pursuit, there should be increased speed and proactivity. Addressing potential conflicts between GDPR requirements and the effective use of technology will be vital and necessitate careful consideration of how to balance data protection with operational efficiency.

Fraud, theft and AML prevention

1. Accelerating sophistication of fraud requires a whole-ecosystem approach

1.1 Fraud is becoming faster, smarter and more devastating

The Chair initiated proceedings by acknowledging that losses stemming from payment fraud exceeded €4 billion in 2022, as estimated by the European Banking Authority (EBA), and a substantial increase can be anticipated for the current year. Fraud is becoming faster, smarter and more devastating. While digitalisation offers opportunities for innovation, efficiency and financial inclusion, it simultaneously reshapes risks and expands avenues for fraudulent activity.

1.2 Social media and messaging platforms are central fraud enablers

A regulator detailed findings from national risk assessments conducted in Malta, which identified three key sectors experiencing prevalent fraudulent activity: the crypto asset sector, the e-money sector, and payment processing services. Specific areas of concern include investment scams, identity theft, and increasingly sophisticated document forgery, including instances of forged licences issued by the Malta Financial Services Authority (MFSA) used to defraud banks and other financial institutions.

There are three critical questions for regulators to address. The first is whether financial institutions have implemented appropriately robust internal controls, processes and procedures capable of identifying potentially fraudulent activities. The second is whether supervisors maintain effective cooperation arrangements with fellow supervisory bodies and law enforcement agencies to identify emerging trends and respond effectively. The third is the adequacy of regulation governing social media platforms, given their increasing use as tools for perpetrating fraud.

An industry representative acknowledged the illustrative power of the opening anecdote, noting that it accurately reflects current fraud patterns observed within the industry. Criminals exploit aspects of human psychology, crafting scenarios that create a false sense of urgency, appealing to emotional vulnerabilities and impersonating trusted organisations. It is not solely a payment issue, and concerns where individuals initially encounter scams, including social media platforms, messaging applications, SMS communications, search engines and advertising networks. A holistic approach addressing the entire ecosystem is integral to effective solutions.

1.3 Fraud and money laundering are intrinsically linked and must not be treated in silos

A regulator underscored that both preventing fraud and combating money laundering are shared responsibilities that involve collaboration between EU institutions and Member States, as well as between the public sector and private industry. Fraud and money laundering are often intrinsically linked, as fraudulent activities generate illicit proceeds that are then subject to integration into the financial system through money laundering processes, which anti-money laundering (AML) frameworks are designed to stop.

Fraud is not just a matter for the police and of consumer protection; it is a major source of criminal profits through money laundering. Treating these issues in isolation risks creating significant blind spots. Fraud and money laundering are not issues to respond to in silos, because the identification of suspicious transactions often begins with the detection of fraud signals. Despite differences in the industry players' developments, there are technological advances that can support in those efforts, that enhance efficiency and accuracy.

2. Outdated controls and regulatory gaps leave critical vulnerabilities

2.1 Internal fraud controls and supervision efforts remain inconsistent and fragmented

A regulator stated that their organisation actively engages through a financial crime task force comprised of representatives from supervisory authorities, the Financial Intelligence Analysis Unit (FIAU) and law enforcement, alongside ongoing consideration of how to address the role of social media in facilitating fraudulent schemes.

The Chair asked how supervisors are adapting their approach to keep pace with the evolving fraud practices. A Regulator detailed three areas where supervisory approaches have been adapted within Denmark. The first involves increased dialogue across the entire fraud ecosystem, encompassing formal and informal fora with industry colleagues, law enforcement agencies and telecommunications providers, with recognition that no single entity can effectively combat fraud in isolation. Secondly, Danish supervisors conducted a thematic inspection of banks' anti-fraud measures, which provided valuable insights into existing practices and revealed significant disparities in preparedness among institutions, with some doing a great deal and others not. This lack of consistency in implementation is surprising, given the reputational, financial and broader societal risks associated with fraud.

2.2 PSD2 lacks sufficient emphasis on fraud risks

A regulator stated that Denmark has increased its focus on identifying and addressing providers of financial services operating without appropriate licences. Within the last month, the Danish Financial Supervisory Authority (DFSA) issued warnings against seven such companies. This represents a challenge due to the reactive nature of such efforts, as they typically only occur after individuals have been defrauded, and there is limited legal authority to proactively intervene. Payment Services Directive 2 (PSD2) lacks sufficient emphasis on fraud risks, and it is hoped that the forthcoming PSD3 Payment Services Regulation (PSR) will address those shortcomings.

The Chair confirmed that point will be addressed with private sector colleagues and asked about the relevance of national measures in conjunction with EU-wide legislation like PSD3, particularly concerning evolving fraud risks.

A regulator emphasised the strong desire there is for a flexible regulatory framework that allows organisations to take steps to combat the evolving crime. It is a highly dynamic area, and companies need to be able to adapt. However, detailed regulation is often necessary to ensure some action is taken, as often without those details nothing is done. The direction of PSD/PSR appears to be leaning towards more prescriptive measures. National measures remain relevant, as they address legal areas not yet harmonised across Europe, such as bankruptcy law and court systems, or discrepancies in how something like gross negligence is defined. Until that is all harmonised, the need for national initiatives will persist.

2.3 AML and fraud prevention lack the speed, scale and coordination required

The Chair referred to discussions the previous day regarding the development of an IT infrastructure for information sharing to ensure fraud prevention. The issue is pertinent not only to regulations such as PSD3 and AML regulations, but also to the General Data Protection Regulation (GDPR), thereby complicating the undertaking.

An industry representative highlighted that there is an ongoing 'arms race', with increasingly sophisticated fraudsters also utilising generative AI. Fraudsters only need to be successful once, and with a 40% success rate, as another industry participant had identified, they can repeatedly generate new identities. Attacks can be seen that successfully navigate know your customer (KYC) and stepped-up KYC procedures, selfie checks and likeness detection measures.

3. Moving towards risk-based and technology-driven security solutions

3.1 Passwords are the weakest link: transitioning to phishing-resistant authentication

An industry representative reported that their firm sees a high level of sophistication in criminal activity targeting areas that have received less attention recently, such as unauthorised fraud and account takeovers. There are persistent issues with people using weak passwords, password reuse, data breaches and the prevalence of credential stuffing attacks. Fraudsters are adapting to controls implemented by payment service providers (PSPs), specifically authentication measures, by employing sophisticated techniques like SIM-swapping attacks and utilising readily available phishing kits to create deceptive websites designed to steal credentials, including both passwords and one-time passwords (OTPs) delivered via SMS.

Social engineering is used in that respect as well, and people can be convinced to share their credentials rather than being defrauded through making payments directly. There is a prevailing focus on addressing fraud occurring when individuals are deceived into making payments, but there should simultaneously be a strengthening of account security measures. Moving forward involves removing the reliance on passwords, as they are the weakest link in authentication controls. Resilient methods resistant to phishing, social engineering and credential theft should be shifted to, alongside enhanced collaboration across multiple industries, given the multifaceted nature of the problem.

Furthermore, industry players can actively work to reduce the reliance on passwords by championing phishing-resistant authentication methods such as passkeys, which are cryptographic key pairs that are more secure than traditional passwords and demonstrate good results.

3.2 AI-powered tools and behavioural biometrics offer new fraud detection capabilities

An industry representative commented that their firm's approach centres on leveraging scale and data. For any card payment, there is a 92% chance that the firm has seen the card before, enabling its platform to mobilise a comprehensive data picture and assess activity against established patterns. The company has integrated machine learning and AI from its inception. Recently, it incorporated large language models to interpret payments as kinds of linguistic structures. This allows for generalisation of the models to not only to detect fraud and money laundering, and to facilitate low-risk payments, thereby increasing speed and adoption rates. This innovation has yielded significant results, reducing fraud losses by 30%, increasing merchant conversion rates by 15% and lowering successful attacks overall by 80%.

Both the public and private sectors should adopt a risk-based regulatory approach. Verification methods should move beyond static documents like passports sent as PDFs to include, for example, behavioural biometrics like analysing how individuals hold or tap their phones, historical patterns and location data. These elements collectively contribute to a more comprehensive identity picture that can be actively verified.

3.3 Convenience and security are not mutually exclusive – proportionality is key

An industry representative explained that combining security and convenience is a primary objective, as customer trust relies on both. The most convenient system will not be used if it is not considered safe. Technology plays a crucial role, including transaction monitoring mechanisms, risk engines, and the use of AI and machine learning. These systems must be continually updated. Beyond this, there can be consideration of the broader ecosystem, recognising that scams are not solely a payments issue and require participation from the likes of social media platforms.

An industry representative argued in favour of a risk-based approach that filters low-risk payments through while applying heightened scrutiny to high-risk transactions, based on factors such as larger sums, unusual geolocations or out-of-pattern behaviours. Transparent communication regarding the rationale behind security measures is also vital to foster customer acceptance; when customers understand why controls are in place, they are more likely to accept them and feel secure. Flexibility in fraud controls is needed to enable swift responses to emerging threats and adjustments for when fraudsters shift their focus. This dynamic approach also allows for the lifting of controls when fraudulent activity subsides. Technology plays a pivotal role in enhancing detection capabilities and potentially facilitating more invisible controls that minimise customer friction.

4. Liability allocation must be fair and society wide

4.1 Clear and fair liability rules are essential for trust and resilience

The Chair referred to the evolving risk patterns and the regulatory landscape and asked about protecting customers and consumers from falling victim to fraud, how liabilities should be allocated and how effective redress can be ensured.

A regulator reported that developments are underway that will deliver more consumer protection through stronger customer authentication, greater transparency, and more direction in terms of liability and refunds. These developments also promote outside court dispute resolution systems. From local experience, the Office of the Arbiter for Financial Services (OAFS) has established guidance on shared liabilities, how liability will be shared and detailing instances when payment processors may be fully or partially liable. This guidance is publicly available to both industry participants and clients. Having such guidance at the European level and having cooperation between the different outside of court mechanisms, are fundamental. Cases of fraud are assessed across Europe, so enhanced consistency in assessing liability is vital.

An industry representative stated that fair and clear liability rules are paramount for maintaining trust in the banking system. Consideration must also be given to the financial stress and harm experienced by fraud victims, particularly when they were unable to prevent the fraud. Placing all liability on banks could incentivise careless behaviour among consumers, creating a moral hazard with long-term negative consequences. High reimbursement rates may also encourage exploitation by fraudsters, leading to even more fraud, and, ultimately, bank losses would increase costs for customers.

4.2 Liability should reflect the ability to prevent fraud, not just the position in the payment flow

An industry representative emphasised that liability should align with the ability to reasonably prevent the fraud. Frauds often originate on social media platforms, and banks are not at the origin of fraud. A societal approach is needed to address this issue, which extends to liability rules. Regulation towards banks should be risk-based rather than overly detailed, allowing them to allocate resources effectively to reduce risks and avoid simply 'ticking boxes'. Continued dialogue between all parties is essential.

The Chair suggested that that raises a sensitive question regarding the distribution of liability between victims and financial institutions.

5. Enhancing cross-border intelligence sharing and collaboration

5.1 Fraud is inherently cross-border, but intelligence-sharing is too slow

The Chair commented that technological innovation has a crucial role to play. Fraud is inherently cross border.

An industry representative stated that effective information sharing is achievable, citing decades of experience in financial crime investigations that demonstrate that public-private collaboration can be successful in significant cases. However, speed and scale are primary obstacles to existing systems. Delays of days or weeks render shared intelligence obsolete by the time it reaches relevant parties. This is a particularly acute issue given the speed that fraudsters work at.

In the first instance, there is a question around the participants that are included. Expanding participation beyond traditional public-private partnerships to include fintech companies, payment providers, social media platforms, and other relevant entities is essential. The amount of data pertinent to understanding fraud networks extends far beyond the regulated sector.

5.2 API-based systems and pre/post-filing SAR mechanisms can enable real-time response

An industry representative highlighted that there are privacy-protecting technologies and various approaches to determining that, within a system, some information can be shared. One approach is pre-filing Suspicious Activity Reports (SARs), enabling proactive collaboration, or there can be post-filing of information. A robust reporting framework, Application programming interface-based (API) sharing capabilities, the right set of partners and the ability to share real-time data are key components of an effective cross-border reporting system.

5.3 GDPR must be clarified to enable protective data sharing for fraud investigations

The Chair agreed about the need for speed and scale and asked how the Anti-Money Laundering Authority (AMLA) can help in facilitating effective cross-border intelligence sharing.

A regulator recounted a personal experience of purchasing items online where a payment was flagged as potentially fraudulent by her bank, which prompted reflection on the infrastructure required by banks for such detection, and current limitations in information sharing. It should be asked why each individual entity must address this issue independently. There are GDPR concerns, but there are potential solutions.

Privacy must be respected, but citizens also need to be protected. Even relatively small attempted fraudulent payments erode trust in the financial sector. There is a shared responsibility for addressing these issues. AMLA is focused on foundational development and staffing, but information sharing and technological enhancement of both AML and fraud prevention will be tasks it takes on. Vigilant engagement with the sector will be undertaken to facilitate these practices and explore effective methods.

Exchanges of Views

Exchange of views on the prospects of global regulatory coordination

Jean-Paul Servais - Chair of the Board, IOSCO
David Wright - President, EUROFI

David Wright

Welcome, Jean Paul Servais, a long-standing friend. He has just mentioned that he is now in his 18th year as Chairman of the Financial Services and Markets Authority in Belgium – surely a record. He should be regarded as the doyen of European financial services regulation. In addition, he currently chairs IOSCO, having previously served three mandates as Vice Chair. As the former Secretary General of IOSCO, it was no surprise to me that he was reappointed for a second mandate in May 2024. Under his leadership, IOSCO has strengthened its influence and become increasingly dynamic.

His CV is extensive: he is also Chair of the OECD Corporate Governance Committee, represents Belgium on the ESMA Board, and serves on the European Systemic Risk Board. There is arguably no one in Europe with greater experience and knowledge of regulation.

Today, our focus will mainly be on IOSCO. Jean Paul, you chair both IOSCO and the OECD Corporate Governance Committee, giving you a unique perspective. At the same time, we face a turbulent and, I would say, dangerous geopolitical environment. How is this context affecting IOSCO, and how can the organisation help reduce fragmentation globally?

Jean Paul Servais

Good morning, everyone, and thank you, David, for your kind introduction, which I may not deserve. It is always a pleasure to return to Eurofi, the essential forum for discussions on financial regulation. I am grateful to Didier and his team for their consistent courtesy in inviting me.

Allow me to share a few thoughts. As you know, I sometimes prefer to be outspoken, even if not always politically correct. Unlike many, I am not overly pessimistic. The real question is what stakeholders – companies, markets, investors, and consumers – need. When people say it is a new era for IOSCO, my reaction is positive.

In my view, IOSCO has four main roles. First, to focus on policy areas where it can add value. The goal is not to produce endless new regulations – I am not seeking a place in the Guinness Book for the largest number of rules – but rather to be as useful as possible. Increasingly, IOSCO is prioritising vulnerability assessments, risk identification and implementation.

A notable example is our work on sustainable finance. In my first mandate as IOSCO Chair, IOSCO endorsed the ISSB standards – a call for action. From day one, jurisdictions were free to decide whether and how to adopt or use these standards. Three years later, 60 jurisdictions across all continents implemented them. That is more than I would realistically have expected at the outset.

The next step is to provide meaningful support to those who need practical guidance. In sustainable finance, for example, preparers, users, and consolidators of financial statements want clarity. Hence our shift from standard-setting towards capacity building.

The same applies to our toolkit for crypto and digital -assets, which the IMF now uses in its Financial Sector Assessment Programme (FSAP). Cooperation with the FSB and volunteering jurisdictions has been vital. It is equally important to recognise and respect the role of industry, investors, and the media in building knowledge. Sharing experiences and good practices is crucial.

Recent examples illustrate this approach. We heard from the new UK Economic Secretary to the Treasury about efforts to streamline and simplify regulation – valuable lessons for others. I welcome such initiatives: no one benefits from thousands of pages of unnecessary regulation. IOSCO also cooperates increasingly with other global bodies. During David's time as IOSCO Secretary General, the FSB was newly created. Today, IOSCO works closely with the FSB, notably on liquidity management and leverage.

Thanks to colleagues such as Sarah Pritchard at the FCA and Cornelia Holthausen at the ECB, we have achieved significant progress. A subgroup involving IOSCO and its members is now examining data issues in non-bank financial intermediation (NBFI), recognising that "to measure is to know". Similar partnerships extend to the OECD, the World Bank, and the IMF, with whom we are preparing our third joint conference.

What distinguishes IOSCO, compared with other organisations as ECOFIN, is its practical, collaborative approach. It is not simply about delivering political messages, but about working inclusively with its 130 member organisations. Our Memorandum of Understanding on enforcement cooperation enables active information-sharing and cooperation. Enforcement cooperation among our members is critical, and IOSCO is moving firmly in the right direction.

David Wright

Thank you, Jean Paul. You have indeed strengthened IOSCO's focus on implementation – not only agreeing broad principles but also monitoring how they are applied. I also recall my own efforts to broaden IOSCO's cooperation with institutions such as the OECD and money-laundering authorities. This is encouraging.

Let us now turn to another subject close to your heart: retail investor protection. How is IOSCO progressing here, and what are your objectives?

Jean Paul Servais

An excellent question. The starting point is to acknowledge that regulators cannot work in an ivory tower. The younger generation engages with finance in very different ways. They rarely visit a physical bank branch or read lengthy documentation. They interact through their phones, digital platforms, and trading apps. This requires us to adapt.

This shift is why we launched work at IOSCO under the leadership of Derville Rowland. We must address the behavioural changes driven by technology. The popularity of crypto-assets, for example, lies partly in their simplicity of access – just a click. In contrast, investing in long-term assets is more complex.

We therefore need to facilitate diversification for young investors while ensuring transparency, speed, and control. IOSCO has been at the forefront of analysing this transformation. Our recently redesigned website reflects this priority, with publications on retail distribution, digital engagement practices, and the role of influencers in shaping investor behaviour.

Financial literacy also remains essential. I often use the analogy of Lego: building a model is a gradual process, piece by piece starting with the easiest one. That principle should also apply to investing. We need to explain to younger generations that patience is a virtue, and that chasing quick returns exposes them to false promises and risks.

Historically, IOSCO focused more on wholesale markets and technical issues. Today, however, we are increasingly addressing the needs of ordinary retail investors. This shift is both necessary and positive.

David Wright

That is indeed encouraging. Let us conclude by discussing technology more broadly. How is IOSCO addressing developments such as crypto-assets, tokenisation, and artificial intelligence?

Jean Paul Servais

Technology is a key focus. We have launched a taskforce that looks at financial technology such as tokenisation, crypto-assets, distributed ledger technology (DLT), and artificial intelligence, chaired by our colleague from Singapore, Tuang Lee Lim.

Markets are moving rapidly from proof of concept to real-world applications, particularly with tokenised assets. These innovations have the potential to improve efficiency and transparency. Our task is to strike the right balance: supervisors must protect investors while facilitating the benefits of new technology.

In Belgium, I created a specialised AI team of PhD-level economists, statisticians, and mathematicians. Their work has transformed supervision, providing new tools to detect market abuse and assess value for money. Increasingly, supervisors are asking industry a simple but important question: does this product offer adequate returns relative to its costs?

More generally spealing, IOSCO's principle-based approach has proven effective: our recommendations often pave the way for later legislative action at EU level, as seen with UCITS, rating agencies after the subprime crisis, the AIFMD, benchmarks, ... The same approach is now being applied to crypto-assets.

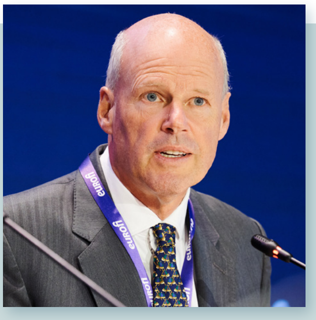
IOSCO brings together 130 jurisdictions, representing supervision of 95% of global financial markets. This requires understanding the "red lines" of each jurisdiction. International cooperation depends on this. Avoiding fragmentation demands compromise and added value – sometimes, as we say in Belgium, finding a middle ground. I am optimistic that we can achieve this.

David Wright

Jean Paul, it has been a great pleasure to have you with us. Your strong commitment to cooperation across jurisdictions and to ensuring IOSCO remains ahead of the curve is widely appreciated. Under your leadership, IOSCO is more influential and forward-looking.

I also want to acknowledge another valued colleague here with us today: Tajinder Singh, Deputy Secretary General of IOSCO – the encyclopaedia and wise man of the organisation.

Thank you both very much.



Conversation with Sir Stephen Hester

Sir Stephen Hester - Chair, Nordea
David Wright - President, EUROFI

David Wright

It is a great pleasure to welcome Sir Stephen Hester, Chair of the Board of Nordea Bank. He has a long and distinguished career, including as Chair of EasyJet, Lead Independent Director of Kyndryl, and former Group Chief Executive of RSA Insurance and the Royal Bank of Scotland. He studied Politics, Philosophy and Economics at Oxford University with outstanding results.

Stephen, thank you to you and to Nordea for your ongoing support of Eurofi. Let me begin by asking: how do you see the banking sector coping with the current climate of heightened geopolitical uncertainty? Do you feel the ground shifting under your feet?

Stephen Hester

Thank you for the kind introduction. In many respects, it is business as usual for the banking sector, both in Europe and globally. The sector is solid, strong, and resilient. Banks have the talent, skills, and products needed to operate effectively.

Of course, the external environment is uncertain. Technology, for example, brings both opportunities and risks. It creates resilience challenges and competitive threats for those that fail to adapt. Banks face these issues in the same way as other industries.

Uncertainty also affects consumer confidence, which in turn influences demand for services and growth opportunities. But overall, European banks are in good shape. They are serving customers and supporting economies effectively. The challenges we face are not fundamentally different from those facing other businesses. That said, there are specific competitiveness issues for European banks, which I know you will want to explore.

David Wright

Yes, indeed. Let us turn to competitiveness. Where do European banks stand compared with international counterparts, particularly in the US? Twenty years ago, some European banks were among the largest in the world. Today, they are a fraction of that scale. Are we becoming uncompetitive?

Stephen Hester

The European banking sector does face competitiveness challenges. Some reflect Europe's broader economic performance, while others are specific to banking.

It is true that European banks have a higher cost of capital than their US peers. This makes services to the real economy more expensive and discourages reinvestment of earnings. Investors prefer dividends and buybacks unless exceptionally high returns are available.

Why is the cost of capital higher? Fundamentally for two reasons. First, Europe's economy is less dynamic than that of the US. It benefits less from economies of scale, is more sclerotic, and less growth-oriented. Banks mirror the economies they serve, so Europe's economic weaknesses feed through to banking.

Second, there is a self-inflicted problem: overregulation.

European banks are subject to overlapping, inconsistent, and sometimes excessive rules. Regulation is vital, but it should be consistent, predictable, and proportionate. Unfortunately, parts of the European framework have become burdensome without clear benefits for consumers or financial stability.

David Wright

Can you give some examples of where regulation puts European banks at a disadvantage?

Stephen Hester

Certainly. European banks are held to higher capital standards than American banks, both in capital ratios and in the complexity of calculations. Bureaucratic requirements are heavier, consuming huge amounts of management time and resources.

A recent example is the environmental, social and governance (ESG) area. These are vital issues, but one can debate whether they should be areas of bank regulation rather than issues for companies to address in cooperation with society. I would argue ESG is important, but it should not be imposed through bank regulation.

Another issue is scale. US banks benefit from a very large, relatively seamless domestic market. In Europe, consolidation faces major obstacles and political resistance. We see controversy around potential mergers in Germany, Spain, or Switzerland. Europe sometimes wants large institutions that can compete globally, but at the same time resists their creation.

European banks are in good shape overall – well capitalised, with strong talent and products – but these disadvantages mean they compete on unequal terms with international peers.

The warning signs are most evident in globalised sectors such as payments, where US firms like Visa and MasterCard dominate, or in asset management with Vanguard and BlackRock. Economies of scale can allow such players to take over entire segments. While retail and local banking remain resilient and more difficult for global firms to penetrate, Europe must not be complacent.

David Wright

Around a year ago, Mario Draghi and Enrico Letta published major reports on revitalising the European economy and strengthening the single market. From your perspective, are things moving, or is it still business as usual? Banking Union, for example, still seems incomplete.

Stephen Hester

I welcome the direction of travel. The Draghi report in particular recognised that Europe is in an uncomfortable position. It lacks both the economies of scale that the EU was designed to create and the agility that smaller independent states can exercise. Europe risks being stuck in the worst of both worlds.

Ideally, Europe would identify key areas where scale matters – capital markets being a prime example – and pursue full integration there, while allowing other areas to remain under local or national control. The US offers a useful comparison: despite being a federal system, individual states like Texas or California can pursue very different economic policies, with significant outcomes. Europe should combine economies of scale in some areas with local flexibility in others.

The challenge is political. Progress requires giving up some powers at national level, which often triggers resistance. European politics are unsettled, and public frustration with economic outcomes is high. Many people feel worse off than their parents, unable to afford housing, and lacking prospects for improvement. Unemployment remains low, but discontent is widespread.

In such an environment, achieving consensus on deeper integration is difficult. The direction is right, but implementation may be slowed by political headwinds.

David Wright

Finally, let us turn to the Nordic region. It is often cited as a model combining strong social consensus with economic dynamism. Are you optimistic about its future?

Stephen Hester

The Nordics are indeed a very positive environment in which to live and work. Economies are strong, public finances are in excellent condition compared to most of the world, and there is broad consensus on the respective roles of state and market. Despite a strong social model, business and entrepreneurship thrive, and success is widely accepted.

Capitalism is also more broadly distributed through share ownership than in much of Europe, with Sweden a clear example. Overall, the Nordics provide a very favourable environment.

That said, the region is not immune to broader challenges. With just 25 million people across four countries, four currencies, and four regulators, fragmentation exists even here. Nordea is one of the few banks with a genuinely pan-Nordic structure, but the obstacles to cross-border banking are similar to those in the rest of Europe.

There is still work to do, but I am very pleased to be chair of Nordea and optimistic about the region's future.

David Wright

Thank you, Stephen, and thanks to Nordea for your support. Europe has much to learn from the Nordics, and their ideas are increasingly influencing policy discussions in Brussels. We wish you every success and thank you for being with us this afternoon.

Stephen Hester

Thank you very much.

Conversation with Mark Jopling

Mark Jopling - Head of Global Financial Services, EMEA & APJ, Amazon Web Services (AWS)
David Wright - President, EUROFI

David Wright

I am pleased to welcome Mark Jopling, Head of Global Financial Services for EMEA and APJ at AWS. Mark joined AWS in 2020, holds a PhD and MBA from the University of Warwick, and previously worked in the financial sector. To highlight AWS's scale, in the second quarter of this year, turnover was $31 billion, with $10.2 billion operating income, and annual investment is projected at $80 billion. These figures reflect the immense importance of AWS in supporting growth and innovation in the global financial system.

Mark, thank you for joining us today and for your support for Eurofi. Let me begin by asking: what is driving efficiency and innovation so rapidly in your sector?

Mark Jopling

Thank you, David. The figures you cited are accurate. Since launching AWS in 2006, we have consistently invested at scale, and our customers have used this infrastructure to transform their businesses. From the outset, our aim was not simply to provide infrastructure, but to enable reliable, scalable, secure, low-cost services that would allow organisations to rethink business models. Looking back, that transformation is now well established, supported by numerous case studies.

In Europe, AWS now has eight regions – clusters of data centres located in sovereign states – providing physical presence, infrastructure, and security. This supports financial firms in strengthening operational resilience and delivering innovative services. In recent years, as we scaled, our customers also learned how to use these services safely and securely, aligning with operational resilience, which has become a central regulatory concern.

Efficiency is inherent to cloud services. Customers consume only what they need when they need it, avoiding underutilised assets. This reduces costs and drives innovation, from risk management and fraud detection to personalised client services in wealth management and retail banking.

David Wright

Yesterday, we heard from BNY Mellon about the extent to which AI is already embedded in their organisation. Is that also true for European financial institutions? Are we still at an early stage, or is this becoming a mature business?

Mark Jopling

Cloud adoption is relatively mature, particularly for critical workloads. Generative AI, however, has only been a major focus in the last three years.

Through our service Amazon Bedrock, customers can access large language models from third-party providers, blending them with their own data to generate outputs. Consuming these models through AWS means they benefit from the security and scalability we have built since 2006, combined with their own capabilities in cloud operations.

We recently introduced AgentCore, which represents the next step: agentic AI. Here, software agents perform tasks on behalf of the user – not just making recommendations but completing transactions such as purchasing tickets.

Use cases are emerging across financial services. One of the most important is code modernisation. Many banks still rely on decades-old infrastructure. AI accelerates the rewriting of this code into modern languages, making systems more secure and adaptable.

Another key application is customer journey personalisation. Whether through digital interactions or contact centres, AI enables real-time access to customer data, making interactions more efficient and satisfying.

In insurance, AI supports fraud detection in claims and documents, identifies phishing attempts, and improves predictive analytics for payments fraud. These are live production examples already adding value.

So yes, it is early days for generative and agentic AI, but the technology is transformative. Customers are building on their cloud skills to take full advantage of these new capabilities.

David Wright

Would you say European institutions are lagging behind US firms in adopting these technologies?

Mark Jopling

I would not characterise Europe as lagging. Every example I gave was European. Some are already public references, others are forthcoming. Adoption is fast-moving.

Our AI and machine learning services are deployed across all AWS regions worldwide. European institutions have the same access as their peers elsewhere, and we invest heavily in engineering and customer support to help them make the most of these services.

David Wright

Let us turn to regulation. How do you view the EU's digital and financial regulatory framework? Are there areas that could be improved for cloud and AI adoption?

Mark Jopling

Overall, we are positive. The Digital Operational Resilience Act (DORA), now in implementation, is particularly important. We welcomed it, as it recognises the role of operational resilience in the financial ecosystem. The modernisation agenda that cloud enables is closely aligned with resilience objectives.

We also note recent UK reforms emphasising regulation for both risk and innovation. The key is balance. We do not see a conflict between simplification, resilience, and innovation; they are part of the same continuum.

Our main request is consistency. DORA is new, and consistent implementation across EU countries is critical. Divergent supervisory practices risk creating unnecessary complexity.

The idea of positioning Europe as an "AI continent" is also welcome. It is vital that Europe fosters an attractive environment for investment in cloud, AI, and machine learning, giving European firms access to the most advanced technologies. Initiatives such as the proposed Cloud and AI Development Act can help ensure that. The priority should be to support simplification, avoid fragmentation, and strengthen Europe's competitiveness.

David Wright

Finally, what about the US approach? Do you see regulatory fragmentation between regions, or is convergence possible?

Mark Jopling

Supervisory convergence is valuable both within Europe and globally. Of course, every jurisdiction has the right to set its own rules. But global organisations like ours, and the customers we serve across multiple regions, benefit from interoperability and harmonisation.

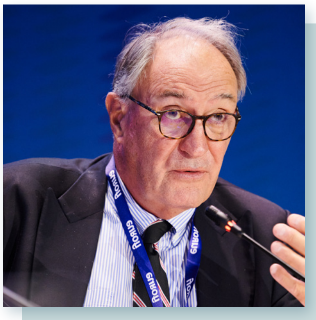
Avoiding conflicting expectations across jurisdictions reduces cost and complexity. Convergence does not mean uniformity, but coordination among regulators – in Europe, the UK, Switzerland, Asia, and the US – helps ensure that innovation and resilience are delivered efficiently for customers everywhere.

David Wright

Mark, thank you very much for being with us today and for your support of Eurofi. Your perspective highlights not only AWS's scale and commitment to Europe, but also the opportunities these technologies offer to improve the efficiency and productivity of our financial sector.

Mark Jopling

Thank you, David

Conversation with Marianne Demarchi

Marianne Demarchi - Chief Executive EMEA, Swift
David Wright - President, EUROFI

David Wright

It is my great pleasure to welcome Marianne Demarchi, Chief Executive for EMEA at Swift. Marianne, reviewing your career, I was struck by your deep European experience – from your work on the Euronext stock exchange transformation to your move to Swift in 2022. Thank you for joining us today and for Swift's support of Eurofi.

I would like to begin with a striking fact from one of your recent contributions to the Eurofi Magazine: "The value equivalent of the world's GDP flows across the Swift network every three days." That statistic vividly illustrates Swift's crucial role in the global financial system.

Let me turn to the evolving cross-border payments landscape. With new players and technologies emerging, how are you adapting, and what does this mean for Swift?

Marianne Demarchi

Thank you, David, and good morning to everyone. The ways in which value is transferred globally have always been diverse. Historically, it was through exchange houses or banks; today we have fintechs, and increasingly we are seeing stablecoins and digital assets. This is healthy, as it improves customer choice and enhances the client experience. Innovation in digital assets is expanding rapidly, and we are participating in many initiatives in this space.

Swift was founded 50 years ago with the mission of standardising cross-border financial communication. In today's fragmented environment, this mission is more relevant than ever. With instant payment systems, stablecoins, and new fintech platforms emerging, our role is to ensure connectivity, integration, and support for global growth.

Our strategy is clear: to serve as a "network of networks." We connect more than 11,500 financial institutions as well as large corporates, ensuring that they can reach as many transaction channels as possible. If such connectivity is not achieved, fragmentation could harm the global economy.

Financial fragmentation can be defined as a reduction in cross-border flows and global economic integration. It has significant potential consequences. Research by the IMF and by The Economist (which we commissioned) shows that fragmentation could reduce global GDP by around 6% and prevent the creation of up to 280 million jobs.

Trade is already being reshaped by the current geopolitical environment. This makes global cooperation all the more essential, not only between the banking and financial sectors but also with service providers and public authorities. Institutions like Swift, positioned as a global public good, are vital in sustaining connectivity.

The global economy relies on complex systems and networks. If these networks do not connect effectively, the economy suffers.

David Wright

Your point on fragmentation is fascinating. For those of us committed to deeper European capital markets integration, those figures are very striking. Let me ask: with digital assets and new technologies, do these new systems prefer to go alone, or do they want to connect? Is there a temptation for them to bypass Swift?

Marianne Demarchi

Some systems may choose not to connect, and that is their decision. However, ours is a network industry – reach is everything. Swift connects 11,500 institutions and provides access to around four billion accounts globally.

Fintechs use Swift because they see the value in reaching a broad client base and participating in the global network.

David Wright

Are volumes increasing significantly?

Marianne Demarchi

Yes. This year we have seen double-digit growth, both in cross-border payments and in securities – as we did last year.

Our key differentiators are reach, resilience, and cybersecurity. Our network availability – “five nines” or 99.999% availability– is exceptional. Maintaining this resilience is essential, given the growing threats in the cyber environment.

David Wright

It is impressive that you achieve this growth despite the evolving landscape.

Marianne Demarchi

Indeed, growth remains strong. Interestingly, regional growth often outpaces global growth, especially within Africa, the Middle East, and parts of Asia.

We are also focused on improving the end-to-end user experience. Payments can now be tracked through banking apps, providing transparency and predictability for corporates, banks, and consumers alike. This supports the G20 agenda for faster, cheaper, more transparent, and accessible cross-border payments.

Currently, 75% of Swift payments reach destination banks within 10 minutes – well ahead of the G20 targets. Nevertheless, efficiency varies by country, due to differences in technology, market practices, manual processes, or regulatory controls such as currency reporting. We are working with national authorities and banks to address these challenges.

Our aim is not only to improve current rails but also to integrate future technologies, including digital assets, into a seamless global system.

David Wright

On resilience: given the scale of Swift, you must be a constant target for cyberattacks.

Marianne Demarchi

That is correct. We maintain a defence system comparable to military standards. We operate three main data centres – two in Europe and one in the US – and a fourth undisclosed location. Each has multiple layers of resilience.

We regularly conduct hundreds of crisis simulations to ensure preparedness. Security is the foundation of the trust we enjoy across the industry, and we are committed to maintaining it.

Looking ahead, quantum computing is a major development to prepare for. We are leading a post-quantum resilience initiative to ensure our cryptographic systems remain secure in a quantum era.

Security must also extend beyond Swift to endpoints – banks, fintechs, and others. Our Customer Security Programme (CSP) requires mandatory controls and audits at each endpoint.

We are also deploying AI. Our AI-enhanced anomaly and fraud detection solutions are already in use across many financial institutions. A particularly promising approach is “federated AI,” where institutions do not share data but instead train shared models to improve fraud detection significantly.

David Wright

Is fraud detection the main area where you see AI being applied at Swift?

Marianne Demarchi

It is certainly one of the most important. But AI is also being used for incident detection, faster resolution of threats, and internal efficiency gains. We will continue to expand these applications.

David Wright

Marianne, thank you very much. This discussion has underlined Swift's immense importance for the global financial system and for Europe, with its headquarters near Brussels. The scale of your network and your resilience are truly impressive. Swift is indeed an example of trust in action – trust from clients, trust from regulators.

We wish you continued success and look forward to hearing more about your technological developments in the future.

Marianne Demarchi

Thank you, David.


Conversation with Jean Lemierre

Jean Lemierre - Chairman, BNP Paribas
David Wright - President, EUROFI

David Wright

Welcome, Jean. It is always a pleasure to have you with us, and I am grateful for BNP Paribas's support for Eurofi from the very beginning. It is always interesting to hear your views. Let me start by asking you, Jean—and I know you think deeply about this—what are the big challenges facing Europe today? There is a sense in the room, perhaps wrongly, that we are simply not moving fast enough.

Jean Lemierre

Your question is: are we moving fast enough?

David Wright

No—are we moving at all?

Jean Lemierre

Europe is not doing too badly. We should stop endlessly telling ourselves the story about the lack of delivery. We have plenty of capital, we have skills and talent, we have a remarkable corporate sector. We have decent financial institutions, and, with some "exceptions", reasonably good fiscal policies and budgets. These vary over time, of course, but overall Europe is not in a bad place. The real question is different. We should not conclude that there is no point in moving forward. Competition is intense. The key issue is speed.

Everywhere in the world we see rapid change—in China and Asia, in the United States—driven by economics, technology, politics and trade. The world no longer operates on the standards we were used to 30 or 40 years ago. Sometimes we still assume that the same standards apply, and that is precisely where we need to adapt, and adapt quickly. So yes, David, I agree with you: Europe is not weak, but we must understand that benchmarks are shifting fast.

It is also important to remember that changing standards is not easy. Changing mindsets takes time. Yet we must be clear: we need to change quickly.

David Wright

Let me put it this way: we agree that we must move quickly. But Europe's political and legislative system, based on the Treaties, is heavy. Emergency provisions exist but are rarely, if ever, used. The consultative process is long, full of impact assessments that often disappear once proposals reach the Council and Parliament, even though they are obliged to produce them. The whole process is slow. Should we try to accelerate by using every aspect of the Treaty? Is that now urgent?

Jean Lemierre

You raise a fundamental question: can the system—or the mindset within the system—change so that it moves faster? Too often, people prefer to secure a large slice of a small pie rather than to grow the pie itself. I like to say that the single market is the baking powder—the key is to make the pie bigger, not just divide it differently.

Whatever we think, Europe's citizens and businesses will not tolerate endless slowness. If the system does not deliver, I fear a reaction. And that reaction could lead to fragmentation. I am struck by how many people in Europe today talk openly about enhanced cooperation—or even simple cooperation—where a few member states agree among themselves to move ahead. That is not the single market, it is just selective cooperation. But if I asked the audience here whether they would support such an approach, many hands would go up.

To a certain extent, it is also a hope. It would create pressure on the institutions to move faster. If small groups of member states begin to act, the institutions will be forced to respond. Already, political and business leaders are talking more about such cooperation, especially in areas like the Capital Markets Union (CMU). If it happens, it may spark legal disputes with the EU institutions, but it will also highlight the need for the system to adapt.

David Wright

I hope you are right, Jean. But it is a real challenge. The Commission needs to use the full extent of the Treaty—rapid infringement proceedings for clear breaches of EU law, enhanced cooperation with as many member states as possible, and even withdrawing proposals if they become meaningless. Simplification is often promised, but hard to deliver. As soon as you suggest that Parliament and member states should provide impact analyses for major amendments, silence falls.

There are also institutional blockages. The European Supervisory Authorities become the default option whenever there is a problem, accumulating mandates until the system is clogged. And beyond that, 10 or 15 years ago, France and Germany provided a strong political motor for Europe. I am not sure we see that anymore.

Jean Lemierre

Perhaps it is coming back. The context is different, but I am hopeful. What matters—and perhaps this is a task for all of us in this room—is to identify priorities where action is urgently needed. In finance, we all know them: securitisation and equity. Both are now on the Commission's agenda. The proposals may not be perfect, but they are steps forward. This is not the time for endless discussion—it is time for implementation.

The same goes for equity. Europe has the capital; there is no reason to hold back. This is the essence of the single market, and we need to return to that spirit. One of the biggest losses of Brexit was precisely this: the UK brought real energy and discipline to the single market, and we must regain that drive. The single market should not be limited—it should be improved. This is in Europe's hands, not America's or China's. It is our responsibility.

The Commission is not the problem here; it is the member states and sometimes businesses themselves. We cannot come to Eurofi and demand the single market, then return home and undermine it.

A second point: speed and the level playing field. On the other side of the Atlantic, approaches are diverging. I am not saying one is better than the other, but we must acknowledge the difference. We cannot operate in isolation. The British, for example, are pragmatic: they wait, they see, they adapt, ensuring a level playing field. There is much to learn from this. It is a source of efficiency and growth.

There are still unresolved issues, such as the Fundamental Review of the Trading Book (FRTB). In such cases, we should consult, take time, and avoid unnecessary decisions.

So yes, there is a lot to do. But we can do it—if we show people that value is created by doing it. Let me finish with a simple story. I was involved in creating the euro. At the time, there were hundreds of arguments against it. Didier still makes some of them today! And yet, we did it—and we were right to do so. The euro was a blessing for Europe. Why? Because it created value for everyone.

Countries gave up sovereignty, yes. But in return, European citizens gained access to the credibility and the cost of funding of the best-rated economies. The impact was extraordinary: in the late 1990s, the cost of funding dropped everywhere, massively supporting growth. That is exactly the kind of story we need to repeat today.

David Wright

Jean, I very much like what you said. Our destiny is in our own hands. It is a question of political will, and we must be more convincing about the economic benefits for citizens—and work hard to demonstrate them.

Jean Lemierre

If I may add one final word: it is about economic and social benefits. People forget that there is a social cost to inaction. It is not about profit. It is about supporting Europe's social model. That is the message we must repeat again and again.

David Wright

Thank you very much.

Conversation with Fernando Vicario

Fernando Vicario - Chief Executive Officer, Bank of America Europe DAC & Country Head, Ireland
David Wright - President, EUROFI

David Wright

It is a great pleasure to welcome Fernando Vicario, Chief Executive Officer of Bank of America Europe DAC and Country Head for Ireland. He has been with the bank for 30 years and knows it inside out, having previously served as Head of Corporate Investment Banking for the EU and Head of Corporate Banking for EMEA at Bank of America Securities. Fernando, we greatly appreciate your support of Eurofi over many years, which makes it possible to organise these sessions.

Today we will focus on international competitiveness. Where does European banking profitability stand compared with the United States, given that conditions seem to be improving slightly? Why do the big differences remain, and what are the key factors?

Fernando Vicario

Thank you, David, and congratulations on bringing together over 1,200 participants at this conference – a testament to Eurofi's convening power across regulators, legislators, and financial institutions in Europe.

To start with the positive, as several speakers have already noted, the earnings capacity of European banks has improved in recent years, supported by a favourable interest rate environment. However, structural differences remain.

Consider market capitalisation. The top three European banks together have a market capitalisation of around €375 billion. By contrast, the top three US banks are valued at approximately $1.4 trillion. If we look further down the rankings, the gap widens quickly.

At the broader level, US-listed companies represent about $70 trillion in market value compared with $15 trillion in the EU. The US offers a non-fragmented market where scale drives profitability, whereas Europe remains fragmented. Greater earnings allow US banks to reinvest more, particularly in IT – a crucial area given the risks linked not only to cybersecurity but also to broader infrastructure resilience. US banks invest on average three times more in IT than their European peers.

It is worth recognising the positive role of regulatory oversight here. Recent cybersecurity stress tests have highlighted where banks are underinvested, with the objective of raising standards and making platforms safer.

Another key difference is the velocity of capital recycling. Securitisation in Europe remains underdeveloped. The new Commission has introduced a simplification agenda, which is welcome, but the current proposals on securitisation reform do not go far enough. The ability to transfer assets off balance sheet and redeploy capital is essential. Today, around 50% of mortgages are financed via covered bonds, which remain on balance sheet. This limits profitability and weighs on returns on assets.

David Wright

On IT and artificial intelligence, we have heard from several banks. Would you agree that AI is being adopted more rapidly in the US than in Europe?

Fernando Vicario

We are moving steadily. At Bank of America, for instance, we are rolling out Microsoft Copilot to staff. The first 1,500 colleagues are already using it, and ultimately our 213,000 employees will be trained. The focus is not just on opportunities but also on risks, particularly data protection. Safeguarding client data and ensuring visibility and control of liquidity remain paramount.

Technology investments have always been a feature of banking, but scale matters. Greater scale means more potential for automation, fewer manual processes, reduced risk, and better cost-income ratios. The industry's goal is to de-risk operations while remaining a reliable provider of services.

David Wright

Let me return briefly to securitisation. You suggested that the Commission's proposal is not ambitious enough. Given that securitisation issues in Europe have historically been very safe, how important is further reform to the competitiveness of European banks?

Fernando Vicario

Securitisation is not the only liquidity pool, but it is a vital one. The current stock of securitisation in Europe is around €250 billion, compared with $1.5 trillion in the US. That represents significant untapped potential.

In the US, a coast-to-coast legal and tax framework makes it easier to structure and execute transactions. There is also a long-established investor base, including insurance companies, which value predictable, reliable, and liquid investment opportunities.

If Europe were able to replicate elements of the US, Australian or New Zealand frameworks, we could unlock an additional €150–200 billion in liquidity. These funds are urgently needed to support EU priorities in green transition, digitalisation, infrastructure, and defence. Banks have a responsibility to help identify and recycle such liquidity to fuel growth.

David Wright

Turning to regulation, some argue that European banks are overregulated compared to US peers, where prudential requirements have been eased. Do you share that view?

Fernando Vicario

We should distinguish between banks supervised under the Single Supervisory Mechanism (SSM) and others. SSM banks have operated under intensive regulation for over a decade. The framework is now well established, and supervision is shifting from examinations to workshops. However, these workshops still involve heavy data requirements and significant follow-up work.

The Supervisory Review and Evaluation Process (SREP) reform is still in its early days. The Commission is pursuing simplification, which we welcome, but compared to the US – where banks operate coast-to-coast and serve tens of millions of customers – European banks face additional complexity.

On climate risk reporting, progress has been uneven. To give an example, the 2024 annual report of Bank of America Europe DAC included 70 additional pages. I doubt many people read or fully understand them. We support transparency and are firmly committed to financing the transition – Bank of America will deploy $1.5 trillion globally in sustainable finance by 2030 – but reporting requirements must remain meaningful.

The Digital Operational Resilience Act (DORA) is another case. Its objectives are sound, but the initial lack of technical standards caused frustration, including among our vendors. This has now been addressed, which is positive. Likewise, Basel Committee standards on risk data aggregation require significant investment. My plea is for a slower, more measured pace of overlapping and transformational regulatory initiatives.

David Wright

The Commission is indeed beginning to act on simplification, but change requires time and co-decision. Another issue that directly affects competitiveness is Banking Union. Cross-border mergers remain highly sensitive, yet they are vital to building a stronger European banking system.

Fernando Vicario

There is substantial room for improvement. Take non-performing loans (NPLs): during the global financial crisis, the US was quicker to resolve them, which supported recovery. Today, NPLs in Europe are low, but the next downturn will come. Europe needs a more harmonised legal and tax framework that allows banks both to offload and to purchase NPLs efficiently.

Another difference is savings. Europeans hold about €33 trillion in savings, of which €11 trillion – one third – are in cash and deposits. In the US, the equivalent share is only 17%. US households hold around $160 trillion in total savings, with a much larger proportion invested in riskier asset classes. Europe needs to accelerate capital market development to mobilise more of its savings productively.

David Wright

Finally, may I ask for your overall sentiment. Is Europe moving in the right direction? You reminded me earlier that in 48 of the past 50 years, US GDP has outpaced Europe's. Is there reason for optimism about European banking competitiveness?

Fernando Vicario

GDP growth is closely correlated with asset growth, and slower GDP growth inevitably constrains earnings. The challenge is to re-energise the European economy so that banks can play their role in supporting it. There are reasons for optimism, but progress is gradual. The glass is half full – but not yet full.

David Wright

Fernando, thank you very much for joining us today and for your continued support. At Eurofi we like to say: once you join, you can never leave.

Fernando Vicario

Exactly. Thank you.

Speeches

Stephanie Lose

Minister for Economic Affairs, Denmark

Opening remarks

Thank you very much for this welcome and let me start by saying, with a huge smile, welcome to Copenhagen, everybody. Thank you for inviting me as opening speaker of the Eurofi Financial Forum 2025. I can see that your programme has many exciting and important topics, including simplifying EU financial regulation and boosting the competitiveness of capital markets. It is indeed a good time to exchange views on how we can improve financial regulation and capital markets and mobilise private investments in the European economy. If I was not so busy preparing for my colleagues arriving for the informal ECOFIN, I would have loved to stay and take part in the discussions on these very important topics.

The Danish presidency takes place at a time where Europe is facing great challenges, both economically and in relation to our security. The world is changing, and many would probably say that it is not for the better. Regardless, the conclusion needs to be that Europe needs to step up. European economies are greatly affected by uncertainty and are indeed facing historical challenges. We need to improve our productivity and competitiveness. At the same time, there is a need to invest massively in our defence, and in the green and digital transition. Therefore, the Danish ECOFIN presidency has two main priorities, European security and European competitiveness. These are priorities that do indeed go hand in hand because a strong and competitive European economy is a prerequisite for financing the strengthening of the European defence. A secure Europe that can actually defend itself is also a fundamental condition for investments and a competitive economy with strong and sustainable growth.

As part of strengthening European defence, we need to support Ukraine. Ukraine's fight is one for all of Europe. A fight for freedom, security and democracy, and for the right to determine one's own future. Europe must lead the way together with other like minded democratic countries. Therefore, continued support for Ukraine is a top priority for the Danish presidency. The financial sector will play a crucial role in addressing the investment needs of Europe. Your importance for economy and society right now, and in general, cannot be underestimated. From a political perspective, we therefore have a huge responsibility to ensure that the financial sector operates within the best possible framework. As you know, Europe also has a great potential to mobilise and attract more private capital. It is well known that European households hold substantial savings as deposits, which to a greater extent could be directed towards capital markets to foster investments in productive companies, innovation, new technologies and scaling up of businesses. Therefore, a central priority for the Danish presidency is the development of the savings and investment union aimed at more efficient and integrated capital markets in Europe. This is a key to mobilise private investments and help innovative companies start up and scale up here in Europe.

An important part of improving framework conditions involves simplifying regulation. Instead of focusing on core business, we risk that businesses spend too much time and resource complying with rules in order to achieve goals that could have been achieved with fewer administrative burdens. European regulation has important benefits, but in order to maximise the net benefits, we do need to minimise the costs. These principles also apply to financial regulation. At the same time, we have to take the context into account. Why we regulate is an important part of the answer to why our regulation today has become more and more complex. The global financial crisis and sovereign debt crisis had severe consequences for the EU economy, public finances and the financial sector. Regulation of the financial sector globally, and within the EU, was rightfully strengthened and made more prudent in the response to the crisis. The aims of this major overhaul of financial regulation have been manyfold, ensuring financial stability, protecting public financing from banking crisis, investor protection and combating money laundering and terror financing activities. Some complexity in financial regulation is unavoidable.

However, over time, financial regulation has grown increasingly complex. Extensive and complex regulation now entails excessive burdens for companies, just as it is also more cumbersome to supervise. We need to find ways to simplify the financial regulation and the question is how. As a main rule, simplification should not lead to less ambitious regulation. Delivering on the simplification agenda has to be done while safeguarding financial stability and other objectives such as fighting money laundering, financial crime, and preserving consumer and investor protection. While simplifying the existing stock of financial regulation, we do need to focus on reducing the complexity in the flow of new regulation. Together with my ministerial colleagues and the central bank governors from the EU member states, I will discuss simpler financial regulation at the informal ECOFIN in the following days. My colleagues and I will also have a more general discussion on how to minimise the cost of the flow of new EU regulation in general.

When it comes to addressing our investment needs, many things can and must be done together in the EU, with the saving and investments union being a prominent example. Structural reforms, including on capital markets in all member states, are vital to ensure that our national economies are strong, resilient, competitive, and provide fiscal space to finance political priorities. There is a significant variation across member states in the depth of the capital markets. A lot of this variation is due to structural differences between countries on pension schemes, tax laws, and so on. This shows that there is a lot of potential in national reforms, peer learning and spreading best practice. Structural reforms also have important implications for the debt sustainability and financial stability in member states, which are particularly important in an economic and monetary union. Reforms enhancing the flexibility and resilience of labour, product, and capital markets are important for improving the allocation of capital and labour, and thereby fostering more productive and dynamic economies, wealth and prosperity.

There are also significant differences across EU countries in terms of productivity and growth potential, and there is a gap between Europe and the best performers in the world. There is significant potential in closing the gaps in economic performance through national structural reforms. I believe that all EU member states have homework to do. I will discuss this with my colleagues during the informal ECOFIN meeting.

Lastly, one of the main priorities for me is that we need to tackle the burdens of EU legislation in general. Financial regulation is not the only area where the complexity has gotten out of hand. The potential for simplification is present across policy areas, as witnessed by the omnibus packages from the Commission.

With the potential to harmonise and simplify across 27 legislative frameworks, common EU rules are often vital to strengthen the single market and thereby boost innovation and productivity. EU legislation does have benefits, but to make the most of it, we must minimise burdens. We are fighting a battle that we cannot win if we reduce burdens with one hand but introduce new ones with the other hand. Therefore, I will work for a strong, forward looking focus on upcoming new EU legislation to ensure that we get it right the first time, ensuring gains are as large as possible, and burdens as small as possible.

As a policymaker, I must be honest and say it is difficult to obtain even a rough horizontal overview of the total cost, burdens and benefits stemming from the new EU legislation in the pipeline. Sometimes, proposals are not accompanied by an impact assessment with sufficient estimates of the cost. Addressing these shortcomings is a clear ambition of the Danish presidency. Simplifying existing rules is not enough. New or revised rules must be designed to provide maximum added value, entail a minimum of burdens, and result in benefits that outweigh the cost. That sounds obvious and easy, but even recent history shows us that it is not the case, so we have our work cut out for us. Thank you.

Christian Kettel Thomsen

Chairman of the Board of Governors,
Danmarks Nationalbank

Stability through simplicity

Thank you, to Eurofi for bringing this valuable forum to our capital.

Tonight, I will share three messages.

Message number one – The financial regulation has reached a point where the marginal value is often far exceeded by the added burden.

The current framework is a child of the Great Financial Crisis and rules were strengthened, and rightly so.

But with it came a tremendous volume of rules and technical specifications. The level of details and in-terplay between regulations is mind-boggling.

Seen in isolation most rules are at the time of introduction justified and sensible.

But taken together the burdens of some requirements and rules do not measure up to the intended benefits.

Legislative procedures and the approach by the numerous stakeholders have incentivised more regula-tion – and more complex regulation.

Although regulations are introduced at the EU level, negotiations are often based on national perspec-tives.

And while regulatory frameworks should encompass an array of business models, amendments are made to tailor for special interests.

This has led to today's regulatory behemoth.

The existing and future regulations need to be simplified, and new rules must add real value to finan-cial stability.

Message number two – Meaningful simplification is only possible if core regulations remain prudent and ambitious.

There is a broad consensus around reducing burdens, and I believe recent negotiations reflect this positive shift.

But we must also stay focused on the overall goal: financial stability and trust in financial institutions.

We should therefore keep focus on the core pillars: capital requirements, liquidity requirements, and a strong resolution framework.

These core pillars are the foundation of the financial regulation and stop blocks against another crisis.

However, regulation in these areas is also highly complex and sometimes overlapping – which we also must look into without loosening the core pillar's prudence and ambition.

But as long as these core pillars remain materially prudent, there is plenty of room for simpler and lesser regulation in other areas.

Message number three – We need to pace, to coordinate and above all to compromise to create simpler regulation.

Simplifying incoming rules and technical standards is a given priority. It will save companies from transition costs and avoid sunk investments in new IT systems.

But after the low hanging fruits have been picked the challenge is tougher.

Simplifying existing rules is delicate craft – it demands careful pacing, broad coordination, and real compromise – with compromise probably being the hardest but also most important.

This is because complexity stems from national options, industry exemptions and carve-outs – and simpler regulation means fewer of these.

We must find the right speed. Everyone is rushing to revise rules and show results.

But as we say in Denmark: "Hurry slowly". Some frameworks, like the rules on capital requirements, cannot be refined in a few months.

This is the "slowly" part. But currently, the "hurry" - or the lack of it - worries me more.

All changes – no matter importance - go through the same slow procedures and prolonged debates. The urgency we speak of must be present on all levels.

The first omnibus package, which paused and reduced sustainability reporting, was a good start. It showed that the EU can act and reduce burdens meaningfully.

Also, the omnibus packages have shown that new routes to revise regulations should be explored.

Furthermore, we must act together.

Many authorities and stakeholders have launched taskforces and working groups to work on simplification. But without coordination, we risk rowing in circles rather than forward.

The Commission's work, led by Commissioner Dombrovskis, is an example of how to coordinate and ensure consistency.

Tomorrow, I will join finance ministers and fellow governors to discuss simplification.

I hope we can build strong support and commitment to move forward.

I'll bring the same three messages conveyed to you

First - The financial regulation has reached a point where the marginal value exceeds the added burden.

Second - Core regulations should remain prudent and ambitious.

And third - We need to pace, to coordinate and above all, to compromise in order to create simpler regulation.

Thank you.

Valdis Dombrovskis

Commissioner for Economy and Productivity;
Implementation and Simplification,
European Commission

Building a stronger, more competitive, and dynamic European economy

Good afternoon, ladies and gentlemen.

Thank you for the invitation to join you today.

Eurofi remains a crucial forum for exchanges and discussions on the financial and economic developments that are shaping Europe and the world today. And we have much to discuss in today's fast-changing and challenging climate.

For we meet today in a changing world being shaped by alliances led by might, revolutionary technological changes and transactional diplomacy.

Europe must quickly find its place in this new world to protect its citizens and secure its prosperity.

Today, I would like to focus my remarks on four policy fields in which the European Commission is taking action to achieve this objective and build a stronger, safer and more competitive Europe.

Firstly, meeting our security challenges by rebuilding our defensive capabilities.

Secondly, securing our prosperity by enhancing our competitiveness.

Thirdly, as a central pillar of this competitiveness drive, simplifying our rules and regulations to facilitate investment, growth and innovation.

And finally, strengthening our common currency and enhancing our strategic autonomy through the digital euro project.

I am pleased and grateful that, in each of these four areas, the European Commission is closely aligned with the priorities of the Danish Presidency.

Firstly, on security.

We all know our economic performance and security are mutually reinforcing, with each sustaining the other in a cyclical relationship. You simply cannot have one without the other. Recent developments have only underscored this.

Russia's war of aggression against Ukraine is also a direct and deliberate attack on Europe, on our shared values, and on our way of life.

Three and a half years on from the beginning of Russia's full-scale invasion, Ukrainians continue to hold the front line against this brutal Russian aggression, demonstrating remarkable courage and resilience to the entire world.

Ukraine must be defended.

The EU must continue to provide all possible political, economic, and military support to Ukraine.

This includes ensuring that its financing needs are covered in 2026 and maximising financial pressures on the Kremlin's war machine.

Denmark is leading by example in its support for Ukraine.

By providing over €9 billion in military support, Europe, Ukraine and the world will remember that Denmark stood on the right side of history during one of modern Europe's darkest hours.

Of course, Russia's expansionist ambitions extend beyond Ukraine.

The extraordinary escalation in Russian attempts to test, probe and provoke by violating European airspace, is a timely wake-up call for anyone still in doubt.

We must acknowledge this fact and prepare accordingly by rebuilding Europe's defence capabilities and developing our defence industry.

This will require massive and sustained investment, including private investment, and strong cooperation with our allies.

The EU is now taking bold and necessary steps to facilitate the investment needed to strengthen our defence capacities.

The European Commission's ReArm Europe Plan/Readiness 2030 initiative will help mobilisation of an unprecedent volume of resources: up to €800 billion of additional defence spending over the next four years.

The €150 billion SAFE instrument, an important pillar of this plan, has already been fully subscribed, with 19 Member States having requested support.

This transformative financing will fund investments in key areas such as missile defence, drones, and cyber security.

We will also invest to support Member States along our eastern borders with the Eastern Flank Watch – boosting our real-time surveillance so that no movement of forces goes unseen and building a drone wall.

All Member States must take part in these efforts. We simply must invest more to maximise economies of scale and the impact of additional defence investments.

Because together, we are more than the sum of our parts.

Beyond the direct positive spillovers of higher defence spending into the wider EU economy, investing in our security is the single most essential action we can take to deter aggression, protect our way of life, and secure our long-term prosperity.

In today's more hostile world, our long-term economic prosperity is increasingly linked with our capacity to project strength and defend ourselves.

This brings me to our competitiveness agenda.

That we need to improve competitiveness is nothing new.

Europe benefits from many strong economic assets – including the Single Market, the rule of law,

strong institutions and a highly educated workforce – which have helped us to navigate a series of economic shocks and crises in recent years.

However, we have been lagging behind our international competitors for example in productivity growth and innovation for over two decades.

There is now a broad consensus that we have reached a moment of reckoning where, given global

developments, we must take action to make the most of our advantages and maximise innovation, productivity, and growth.

The European Commission has already made good progress with its "Competitiveness Compass" across the three pillars identified in the Draghi Report, namely closing the innovation gap, making decarbonisation a growth driver, and reducing dependencies on the outside world.

We are taking action to turn the report's recommendations into reality.

To drive innovation, for example we have launched InvestAI, an initiative to mobilise €200 billion for investment in AI, including a new European fund of €20 billion for AI gigafactories.

We have proposed a new Competitiveness Fund as an important new element of the next long-term European budget which will double the funds available for research in strategic technologies.

To diversify our trade, we have – in the last year alone – reached new trade deals with Mercosur, Mexico and Switzerland, while advancing negotiations with India, Thailand, the United Arab Emirates, among others.

To reduce our dependencies on the outside world, the European Union has selected 47 strategic projects across Europe for support under its Critical Raw Materials Act, including projects on copper and cobalt mining in Finland, lithium processing in Portugal, and battery recycling in Italy.

All of this – and more – is already underway.

Yet we also need to untap the full potential of our greatest economic asset.

The EU's Single Market is home to 450 million people and 26 million businesses.

What should be a world-beating engine for growth remains remarkably underdeveloped.

This is especially when it comes to our Single Market for services.

We have announced a Single Market Roadmap to 2028 to increase the pace of removing internal barriers.

We must also do more to integrate European capital markets to better channel household savings – estimated at €10 trillion – towards the productive investments that will provide for our future prosperity.

Our strategy for a Savings and Investments Union provides the framework to achieve this goal.

The European Commission is determined to do what is necessary to meet the moment, maximise our

many advantages and improve Europe's competitiveness to secure our long-term prosperity.

Next to simplification.

The European Commission has identified cutting red tape as the key to unlocking Europe's full competitive and productive potential, thereby securing our long-term prosperity.

Simplification means making EU rules and regulations simpler, more proportionate and easier to navigate.

It means allowing our businesses the freedom to redirect their time, energy, and resources away from paperwork and towards innovation, investment, and growth.

It means rewarding dynamism and rejecting inertia.

We have a clear roadmap to guide our simplification agenda and are already moving forward at pace and with purpose.

We have been listening to those navigating our rules and regulations when designing our simplification proposals. This engagement has already fed into our proposals and led to real changes that can make a real difference.

Since the beginning of this year, the European Commission has presented six simplification omnibus proposals, including in agriculture, defence, due-diligence, and sustainability reporting.

These proposals will result in less paperwork, less overlaps, less complex rules.

A conservative estimate puts the annual savings stemming from these simplification proposals at around €8.4 billion.

Further omnibus proposals are on their way in the coming months, including on digital and environmental requirements.

But this is just the beginning.

Our overall objective is to simplify administrative procedures to reduce costs by 25% for all companies and by 35% for SMEs. This means cutting around €37.5 billion in annual administrative costs by the end of this Commission's mandate in 2029.

Again, I am heartened that the Danish Presidency recognises the importance of reducing regulatory burdens and has prioritised implementation of the simplification agenda.

The European Commission is determined to deliver on a simplification agenda that encourages investment, innovation and scaling here in Europe.

And we are now working towards an ambitious Commission work programme for the next year, including further simplification proposals.

We must ensure that our rules and regulations work for our citizens and businesses, not against them.

Finally, a word on the digital euro project.

The digital euro is a powerful symbol of our commitment to be at the forefront of embracing the digital age and making the most of all the opportunities that it offers. It will play an important role in modernising and securing the resilience of the EU payments market.

It will safeguard the important role of public money in our society and be an engine for competition and innovation in the European payments market and the wider economy while preserving citizens' privacy.

Recent developments in today's more complex, conflictual world have also underlined the urgency of making progress on the introduction of the digital euro.

The digital euro can be an important pillar of strengthening the EU's strategic autonomy by increasing the euro's resilience vis-à-vis other currencies, payment systems, and "stablecoins" not denominated in euro.

We simply cannot afford to cede technological control over the EU's financial system and economy entirely to others.

The European Commission's proposals on the establishment of the digital euro are currently under discussion in the Council and the Parliament.

I am hopeful, especially given the impetus that current global developments are providing, that we can make important progress on the digital euro in the weeks and months ahead.

I am heartened that the Danish Presidency shares this urgency and has prioritised negotiations on the legal framework with a view to securing an agreement in Council by the end of the year.

And I would like to commend them for the progress already made and, once again, reaffirm the Commission's commitment to provide all necessary support.

To conclude, ladies and gentlemen, Europe has reached a crossroads.

We can and must take decisive action, while safeguarding our democracies and the rules-based system. The European financial industry has a crucial role to play here.

Private investment is essential to boost our competitiveness and defence capabilities.

The EU's diverse and resilient financial system has vast potential to channel more savings towards these productive investments.

European policymakers must empower our financial industry to get on with this work.

In doing so, I am confident that, as we have done many times before, Europe will meet this moment.

Thank you.

Maria Luís Albuquerque

Commissioner for Financial Services and the Savings and Investments Union, European Commission

Making our markets work for us

Good afternoon, ladies and gentlemen.

It's a pleasure to be with you today. I have had the privilege of engaging with many of you since taking on the role of Commissioner for Financial Services and the Savings and Investments Union.

This Financial Forum offers us a chance to take the pulse of the financial services sector, exchange perspectives, and develop a shared understanding of the challenges and opportunities ahead.

The last time we met in this format was in Warsaw in April, and the mood was marked by uncertainty.

The prospect of new U.S. tariffs loomed large, with forecasts warning of a serious impact on EU growth in the worst-case scenario. That would have been bad news for European businesses, workers, and citizens alike.

And it was in Warsaw last April where EU finance ministers came together to pledge unity in face of the US's decision to disrupt our trading relationship.

Since then, we have come through, as the Commission President mentioned in her State of the Union address, with the best possible deal out there, giving European businesses an advantage over their competitors. But most importantly, and I expect crucially for many in this room, it gave businesses the necessary stability, as well as a chance to breathe.

In this time of global insecurity, stability for businesses is not evident. We, as the European Union, need to work towards a situation where external factors cannot easily derail our progress. This underlines the need for a more competitive Europe, and indeed, as we heard last week in the State of the Union address, our ability to determine our own destiny.

The Competitiveness Compass announced in January charts the course towards a stronger Europe, and the Savings and Investments Union will provide the fuel for us to reach our destination by freeing up Europe's investment capability.

When we last met, we had only just launched the Savings and Investments Union strategy. Well, six months down the road, we have already started delivering. I would like to use my remarks today to speak about what progress we have made in recent months, and what is coming around the corner.

In June, we launched the first major initiative under the strategy, with our proposals to revitalise EU securitisation.

The reforms we propose will boost the EU's securitisation market, which in terms of its relative size, lags considerably behind other major jurisdictions. The market for securitisation in Europe is also highly concentrated, with 80 percent of securitisation activity happening in just five Member States.

Like most other parts of the SIU, this proposal is about channelling more investment into the real economy. It is about fuelling growth, innovation, and job creation across the EU. For financial institutions, it creates new opportunities to issue securitisations and free up capital for further lending to citizens and businesses. For investors, it offers more choice and deeper, more dynamic capital markets.

To deliver this, we have focused on making the market easier and cheaper to operate in, while safeguarding financial stability.

The proposal is now in the hands of the European Parliament and Member States. My services and I stand ready to support them so that we can move quickly and deliver positive change on the ground.

And we do need to move fast, the world is not waiting for us.

Over the summer, we pressed ahead with preparing the next elements of the SIU Strategy. We launched several consultations, and the response from both the public and industry was strong.

I am sure many of you in this room contributed, and I would like to sincerely thank you for that. Your input and experience as practitioners in the market is invaluable to our work.

The next major items, which will be launched later this month, relate to Savings and Investment Accounts and financial literacy.

Experience across several Member States, and indeed further afield, shows us that Savings and Investment Accounts, SIAs, can be a powerful tool to boost retail participation in capital markets, particularly when paired with the right incentives, like tax benefits.

That is why we will issue a Recommendation encouraging Member States to adopt SIA frameworks, aligned with best practices we have identified. While fully respecting that taxation is a national competence, the evidence clearly shows that incentives matter for citizen engagement. So, our proposal will also include guidance on tax incentives.

Once published, we will closely monitor Member States' follow-up. Some already have schemes in place. But many do not, and here lies a real opportunity to open the door to greater investment and wealth creation for their citizens.

Alongside this, we will launch a Communication on a comprehensive EU Financial Literacy Strategy.

Too many of our citizens still struggle to manage their finances effectively. With the right knowledge, everyone could feel empowered to make informed financial decisions, budget better and save more.

Financial literacy will also raise awareness of the risks and opportunities of investment solutions.

This is about more than individual resilience and wellbeing, though that alone is vital. Higher financial literacy and wider retail participation will also contribute to more funding for European companies and priorities.

We know that Europeans are some of the best savers in the world, and there is an opportunity here for Europeans to be a part of the solution, while reaping the benefits of Europe's success.

Looking beyond the coming weeks, towards the end of the year, we will publish a package on pensions, as well as proposals on market integration and supervision.

On pensions, a stronger supplementary pensions sector can serve a double purpose: providing citizens with greater financial security in retirement, and at the same time helping to channel long-term savings into capital markets and strategic investments that boost the EU economy. This is all the more important as we face common demographic challenges across Europe.

Pensions, by their very nature, are long-term. That is why they are such powerful drivers of capital market development. It is no coincidence that the Member States with the most advanced supplementary pension systems are also those with the deepest capital markets. My vision is to see this success replicated across the Union.

Of course, pensions remain a national competence, and Member States are at very different stages of development. That is why we will issue a Recommendation on auto-enrolment on occupational pensions, pension tracking systems and dashboards, guiding towards best-practice options those who wish to introduce or strengthen these tools.

In parallel, we will propose targeted changes to the IORP II and PEPP frameworks. For IORP II, our focus is on bringing more transparency on costs and returns, stronger risk management, and ensuring greater long-term value for members - the workers and citizens whose savings they manage. For PEPP, we will propose changes to make the framework more efficient and attractive for investors and providers. Both reforms are designed to mobilise more savings towards productive investments.

Beyond pensions, and within the same timeline, we are also working to advance market integration.

By year end, we will present a legislative package on trading, post-trading, and asset management.

The goal is to remove cross-border barriers, cut administrative costs, and simplify the rules.

As we progress towards deeper market integration, it is crucial for the EU supervisory framework to evolve as well. Industry feedback highlights challenges such as divergent supervisory practices, duplications and inconsistent application of EU law. This creates additional costs, complexity, and legal uncertainty for operators. In addition, supervisors lack a coherent overview over cross-border entities and activities, and coordination is limited in case action is needed outside a national context.

That undermines competitiveness, discourages cross-border activity, and makes the EU a less appealing investment destination.

We are considering two avenues to approach these problems:

First, we are considering a proposal to transfer supervisory powers to ESMA for the most significant cross-border entities. In this context, we are looking at possible centralised supervision of certain market infrastructures, such as central counterparties, central securities depositories, and trading venues. We also see the benefit of more centralised supervision for new and rapidly evolving areas where supervisory capacities need to be up to the task, such as Crypto Asset Service Providers.

This targeted centralisation of supervision becomes even more logical in a context where market barriers are removed, implying significant scope for increased cross-border activity in our Savings and Investments Union. This in turn requires sufficient supervisory capacity to deal with cross-border situations.

Let me be clear, transferring supervision to ESMA would not sideline national authorities; on the contrary, it would imply efficient cooperation with national authorities, in the interest of ensuring better oversight and more informed decision-making.

In parallel, efforts will continue on enhancing the use and effectiveness of supervisory convergence tools, which currently have limited application.

All of this would imply changes to the governance and decision-making processes of ESMA, and we have various models to consider based on other existing models of centralised supervision.

Like any great reform, building a true Savings and Investments Union requires collective conviction and buy-in from every corner of the Union.

I have made it a priority to visit every Member State, and I am committed to reaching all of them by early next year.

In every capital I have visited, the message is the same. Stakeholders see the clear, tangible benefits of our strategy. And in each capital, I have made it clear that once the proposals are on the table, it is our shared responsibility to move from theory to practice, and swiftly.

Before I finish, I would like to return to something I outlined the last time we gathered in this forum six months ago: my vision for the SIU.

I want to be clear that within the Commission, we have no intention nor appetite to replicate any other market.

In the same manner that Europe forged a new path for itself through the creation of the Single Market, significantly transforming global trade and boosting our global standing, we have the potential to do this again with our financial markets.

The Savings and Investments Union is European by design, driven by our collective desire for concrete positive impact for citizens, and built on our core values of diversity, inclusion, and empowerment.

It will create a virtuous cycle of investment, where our citizens can invest in their own futures and in the future of our economy.

So let me underline that this project is not an effort to replicate the US, the UK or any other existing market; it is an effort to create something entirely new and authentically European, grounded in our own values.

I want to thank you all for your continued support in this effort, and I look forward to hearing your feedback on our upcoming proposals.

Thank you.

Aurore Lalucq

Chair, Economic and Monetary Affairs Committee, European Parliament (ECON)

Safeguarding the EU financial, banking and monetary sovereignty

Good afternoon, ladies and gentlemen. It is a real pleasure to be here in Copenhagen this afternoon, a city known for its openness, innovation and strong European spirit. I remember the call for unity, for strength, for ambition, that resonated at Eurofi in Poland not so long ago. Yet when I look at the decisions taken over the past months, what I see is not a stronger Europe but one that risks weakening itself at a time when history demands the opposite. It is my understanding that Mario Draghi feels quite the same. I would have loved to stand here today and congratulate us all on finding a concrete solution to the Draghi report one year later and on advancing the Savings and Investment Union (SIU) in meaningful ways. Unfortunately, things have evolved quite differently.

On the one hand, last week in the European Parliament, we adopted the report for which I served as rapporteur and I am very proud of this achievement. However, I must admit to being not only disappointed but concerned about our broader path. For years, we have spoken about the urgent need to retain European funds that continue to flow to the US and about finding solutions to keep our money working for Europe rather than enriching our competitors. The numbers, as you know, are stunning. Nearly 300 billion flows out of the EU annually, mostly across the Atlantic. We have debated, we have crafted policy papers about stemming this financial exodus and then we signed an agreement with the US for 600 billion of investment that we promised them, instead of doing anything we can to invest it in our own sustainable growth. We are serving European funds on a silver platter so I was wondering: do we really want Europe to succeed? By we, I mean all of us, public and private sector, policymakers and businesses. Are we more concerned by our own selfish and short-term interests rather than Europe's future? Are we already surrendered before the battle has even begun because if we continue down this path – speaking of sovereignty while at the same time handing over the keys to our financial independence – then perhaps we should save ourselves the trouble and simply rename it 'American Investment Union'.

There is another fascinating display of European cognitive dissonance: digital euro. Here we are, gathered among some of the finest financial minds in Europe, yet we find ourselves in the peculiar position of having, at least from the European Parliament side, no report on this crucial matter. We spend countless hours discussing digital finance, artificial intelligence, the imperative to be at the forefront of technology, to be on par with the digital revolution that will reshape our economies. Yet, when it comes to the digital euro, suddenly technology becomes the enemy. Innovation transforms overnight from saviour to threat. Let me be crystal clear about what refusing the digital euro actually means. It means we are depriving Europeans of choice, of their freedom. We are telling our citizens that while they can choose between paying with their phone, their card or cash today, tomorrow we will limit their options because we are too timid to embrace our own monetary sovereignty.

Here is where the argument becomes truly surreal. Some people tell us they feel more threatened by their own central bank than by companies that live by increasing fees for banking card services. Think about that for a moment. Some are more concerned about a European public institution whose mandate is stability and whose governance is independent than about private entities whose primary concern is – legitimately, by the way – to maximise shareholder returns. Some argue that the digital euro threatens banks, conjuring spectres of bank runs and systemic risk. These are arguments to which not only the ECB but also the Commission have responded. As Mr Cipollone wisely noted during his last intervention in the ECON Committee, if we ever reach the point of bank runs, then the digital euro will be the least of our concerns. Moreover, the money that remains in circulation can be reinvested into euro balance sheets, helping avoid illiquidity rather than creating it.

Some argue that this solution should be developed by the private sector. I am not saying it should not. I recognise that you are working on it. I have finally observed new European solutions emerging. However, to be frank, I still struggle to understand why the solution you aim to develop, if it ever comes to life, should be the priority. I have expressed this on previous occasions, but I believe we are losing sight of a crucial point. Implementing a digital euro is fundamentally a matter of monetary sovereignty. It is about preserving the delicate and long-standing balance between commercial money and central bank money. I wonder if the hesitation stems from a misunderstanding of the term 'digital euro'. This is not a new product. It is simply digital cash. Therefore, I urge you to act as a facilitator.

I warn now about simplification, which has become something of a sacred incantation in European policy circles. Yes, simplification is helpful and even desirable but we must be very careful not to confuse simplification with deregulation. Many say this, but very few actually mean it. It is not desirable to get rid of rules that have been constructed to protect our citizens and our markets, and let us be clear: simplification alone will not shield us from the geopolitical shocks we face, nor from the unpredictability of the Trump administration, nor from Chinese competition. At a time when our industries are under attack, we cannot afford to look elsewhere and fight the wrong battles. We cannot spend our time endlessly making and unmaking regulations. This is not governance. It is policy chaos. What markets need, what investors need, what citizens need, is predictability, consistency and rules that evolve mindfully, carefully, rather than oscillating wildly based on the political trends of the moment.

One of today's roundtables concerns Basel III implementation. I hear the argument of the level playing field with which I disagree because underneath this argument, we surely imply the lowest common denominator. As such, we limit our power to make sovereign decisions. Ultimately, and looking notably at the report published by the IMF regarding the Financial Stability Assessment Programme, our banks are doing well. Our supervisors are doing an excellent job and this is great news. We can only commend the work and effort that has protected our economy from a financial crisis. However, the IMF also notes that adopting and implementing robust prudential standards should remain the primary focus of financial regulators and gaps with international standards should be addressed. To put it plainly, let us not dig our own grave.

To be frank, I believe this is where our true competitive advantage lies. After SVB and after Credit Suisse, we were proud that Europe was not affected by this turmoil because Europe is stable, also thanks to the framework we collectively put in place. If we truly want sovereignty, productivity and fairness for our citizens, we must invest in ourselves, embrace innovations such as digital euro and safeguard the stability that is our greatest strength. This choice is clear. Either we remain spectators of a future shaped elsewhere or we become the author of our own collective destiny. Together, as public and private sector, we must rise to the same responsibility to shield our economy, protect our industries, defend our freedom and preserve the respect of private property. This is how we keep Europe strong, sovereign and free.

In April, I stood before you calling for financial sovereignty and a renewed form of European unity. I acknowledge that some part of the business community showed courage and responsibility. Yes, I also know that others, among them policymakers, did not, so I will again launch this call for European unity. You may think I am a naïve person and maybe I am but let me tell you something: it is far more than naïve to believe you can navigate alone, giving priority to your short-term interests, amid the aggressive policy of Donald Trump, Putin's war and China determining rights, so politic is back, not in the way we want it, for sure, but it is back and we must accept the world as it is. We must work together and be united so I am counting on your support for the euro, for the digital euro. Let me remind you of something, that one of the first decisions Donald Trump took is getting rid of the digital dollar, so please, think of where you want to stand. Thank you so much.

Erik Thedéen

Chair, Basel Committee on Banking Supervision & Governor, Sveriges Riksbank

Resilience pays: the strategic value of regulation and supervision

Introduction

Good morning, and thank you for inviting me to speak today.

It's a pleasure to be here in Copenhagen. Nowadays travelling from Stockholm to Copenhagen is quick, but it still involves crossing a border. In banking, just like in Scandinavia, even close neighbours need strong bridges. These bridges are not just for trade and travel. In banking, they are built for trust, shared standards and a willingness to cooperate.

And that is exactly what regulation and supervision, when done well and robustly, provide to banks. They are not barriers to business, but strategic advantages to make firms stronger and more profitable.

My message today is a simple but important one to remember: regulation and supervision are in the interest of both banks and the wider economy.

Regulation as a profit centre

A popular narrative in banking is that resilience is a "defensive" quality. It is something you need to survive a crisis. It has insurance-like protective properties. Capital and liquidity requirements are often portrayed as a tax or a burden on profitability. Banks are often quick to lump them in their "cost centres" and treat them as a compliance exercise.

And yet reality time and again suggests otherwise. Resilience is more than a shield. It is a source of competitive strength for banks. The Basel III standards, far from being a constraint, can be a strategic asset as they do not just prevent bad outcomes, but enable good ones.

Well capitalised and liquid banks are better placed to lend during stress, to win new businesses when others pull back and to be the counterparty of choice when trust is a scarce commodity. Liquidity buffers allow banks to ride out shocks without forced sales, preserving their franchise value. In a crisis, strong banks set the terms of trade. Weak banks take what they can get.

We have seen these dynamics at play over and over again. There is now unquestionably strong empirical evidence that it is strong banks – those that are well capitalised and have robust liquidity levels – that can support the wider economy and contribute to its medium-term prosperity.[1] During the recent bouts of market turbulence, banks with strong balance sheets gained market share, expanded client relationships and were able to price risk on their terms.[2] The higher capital levels of Basel III helped banks support lending during the Covid-19 pandemic.[3] Banks were the dog that did not bark. After the Great Financial Crisis (GFC), banks' cost of capital decreased when the Basel III reforms were announced, which suggests that markets recognise strength.[4] In other words, strong banks do not just survive crises. They are able to assist the real economy and be part of the solution, not part of the problem. Well capitalised and liquid banks will be winners in the long run.

These facts should not be surprising. Capital is a powerful funding tool for banks, and not some sort of relic that is burdensomely stored away or "held" by banks.[5] It provides banks the confidence and stability to grow and lend to households and businesses.
The same is true for liquidity. A strong liquidity position is not idle cash sitting unproductively on the sidelines. It is the fuel that allows banks to meet obligations, seize opportunities and support clients in all market conditions. Historically, banks have not always seen the longer-term benefits of higher capital and liquidity levels. Regulation and supervision have played – and still play – an important role here.

At the same time, policymakers should be humble and open-minded in assessing the impact of regulations, including Basel III.[6] Like any major reform, its real impact can only be understood over time, and with a willingness to examine a broad set of empirical evidence. Equally, banks should acknowledge that, almost 20 years since the GFC, widescale public support measures are still being deployed in response to market shocks; their self-resilience has yet to be truly tested.

This is why the Basel Committee has a comprehensive evaluation work programme, where we carefully assess the empirical effects of regulations that have been implemented and the lessons from crises. For example, the Committee is currently assessing whether the specific features of the Basel Framework performed as intended during the 2023 banking turmoil.

But let's be clear: we cannot fairly evaluate reforms that have not yet been fully implemented. The first step towards any honest assessment is for all members to implement Basel III in full and consistently. Only then can we judge, with credibility, whether the framework has delivered on its promise. And like before, we will continue to assess how best to safeguard the safety and soundness of the global banking system, taking into account the future challenges we face. For some, diluting standards might seem attractive in the short term, but my message to them is that history shows that such a move inevitably erodes the very advantage that well run banks have earned over time.[7]

Supervision as a strategic asset

Banks do not just enjoy a strategic advantage from robust regulation. Supervision is just as valuable a source of banks' commercial success.

Large internationally active banks are among the most complex organisations in the world. They span multiple business lines, operate across several jurisdictions and handle trillions in assets. Even the best-managed, most well intentioned banks can miss risks that are hiding in plain sight. That is not a reflection of weakness. It is simply the reality of running a large, complex institution in a fast-changing environment.

This is where supervision proves its value. A strong, independent supervisory authority offers a trusted second set of eyes in assessing risks and banks' viability.[8] One that sits outside the internal hierarchy, free from groupthink and insulated from short-term commercial temptations. Supervisors can see patterns across institutions, compare practices across jurisdictions and bring forward insights drawn from forums such as the Committee.[9]

Supervision should not be seen as an "us versus them" relationship. Supervisors are not rivals standing in the way of banks' success. Instead, banks should look to supervisors as a partner in resilience. They are a source of independent challenge, fresh alternative perspectives and early warnings.

Banks already pay handsomely for exactly that kind of service from external consultants. Yet supervision offers all that and more, except it is built on a public mandate, informed by international best practices and delivered at a fraction of the cost.

So calls to weaken supervisory judgment or reduce its scope don't just limit oversight. They deprive banks of a valuable perspective that can help shape their competitive success.
In a fastchanging financial landscape featuring technological innovation, the growth of non-bank financial intermediation and heightened geopolitical developments, any confident bank should welcome scrutiny, knowing that this can only make it stronger.

This is why the Committee is continuing its work to strengthen supervisory effectiveness, drawing on the lessons from the 2023 banking turmoil. In the first instance, the Committee is working on developing a suite of practical tools to support supervisors in their day-to-day oversight of liquidity risk, interest rate risk in the banking book, the assessment of the sustainability of banks' business models and the importance of effective supervisory judgment. These tools do not change or replace existing standards or guidelines. Nor are they intended to impinge on national supervisory practices. The Committee will publish an update on the outcome of this work later this year.[10]

Conclusion

In conclusion, regulation and supervision are powerful strategic assets for banks, particularly when they are anchored in global standards. The banks that win over time are the ones that continuously invest in strength, welcome scrutiny and compete on trust.

Banking is global. Risks can be transmitted across borders instantly. If jurisdictions fragment their frameworks, we invite a race to the bottom, which is in no one's interest, including banks' depositors and investors. Recognising these dynamics, the Group of Governors and Heads of Supervision, the Committee's oversight body, unanimously reaffirmed its expectation to implement Basel III in full and consistently, and as soon as possible.[11]

Global standards like those set by the Basel Committee help well run banks operate across borders with confidence and give every jurisdiction the strength of the whole. If finance is global, stability must be too.

Thank you.

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Lucy Rigby

Economic Secretary,
HM Treasury, United Kingdom

Speech

Good morning, everyone. Thank you very much indeed, David, for that very kind and warm introduction. It is my absolute pleasure to be here at Eurofi with you all today, all the more so because this is my first international speech that I am making as the newly appointed Economic Secretary to the Treasury and City Minister. In fact, I am so new that those of you with a hard copy of the Eurofi magazine will notice that my article has a photo of my predecessor attached to it. We will have to tell the Prime Minister going forward that he needs to bear in mind Eurofi's print deadlines when he is conducting his reshuffles.

It is genuinely a real and particular privilege to be making this speech and to be with you all in Copenhagen today. I say that principally because this government wants the UK to have a warmer and more collaborative relationship with our friends in the European Union than we have had in recent years, and so, as Economic Secretary to the Treasury, there really is no better audience for me to be talking to today.

I am wholly of the view that the UK's financial services sector is a shared asset for the whole of Europe as we look to deliver those better outcomes that we want to see for citizens and industry and to fund generational investments in defence, in infrastructure, and indeed in clean industry as well, so I was delighted when we were able to agree the EU UK strategic partnership at the leaders' summit in May. This was of course a real milestone in improving our relationship with our closest trading partner, and it provides a platform to deepen our relationship in the many years ahead.

I was also very pleased indeed to see the EU's financial services commissioner Maria Luís Albuquerque was at the Chancellor's Mansion House speech earlier this year. This is a clear signal of the more positive relationship between the EU and the UK, and indeed specifically of improved engagement on financial services in particular. I very much value the constructive dialogue between the Treasury and the European Commission through the Joint EU UK Financial Regulatory Forum, which will meet in just a couple of weeks' time. It is absolutely vital that we, as policy makers and industry leaders, come together at events just like Eurofi to discuss common challenges and to share ideas and perspectives. All of these efforts that I have just run through, and wider efforts as well, are helping to reset the relationship between the United Kingdom and our closest friends and trading partners while strengthening our foundations and making our economies collectively more resilient.

I am confident that the closer collaboration I have just been referring to will deliver real benefits for the economy and not just for the financial services sector, but for business and consumers right across the piece. That includes our synchronised approach to T+1 implementation that I have already been talking to many people about today. It is coming into effect in October 2027 and will minimise costs for firms across Europe. In this new global era, it is important that governments across Europe offer clear leadership and as much certainty as we possibly can while working with like minded allies around the globe to ensure that we build a better future for everyone.

We are facing up to many of the same challenges. The EU and the UK are both working to ensure that our regulatory frameworks are fit for purpose, properly calibrated and not unduly limiting growth and investment. We are both exploring ways to safely harness innovation in the financial sector, and we are both looking at ways to better channel private savings into productive investments. I know that the EU is looking to develop the Savings and Investments Union (SIU), and I am very keen indeed that we share our learnings, and particularly those from our efforts to develop our capital markets reforms, which are built on our commitment to open and global capital markets. I am keen to build on those discussions here today and regularly across the years.

Providing leadership and stability has been a real focus of the UK government's first year in power, and these are the foundations of our plans for the future. We have been very clear that economic growth is our number one priority as a government with financial services very much at the heart of those plans. We have acted decisively in support of growth through the sector. Many of you will know that, in July, the Chancellor launched the Financial Services

Growth and Competitiveness Strategy, which is building on the foundations of financial stability with a 10 year plan to unleash the potential of financial services in the UK. We have set out the widest ranging reforms to financial services regulation in over a decade. They are designed to deliver growth by embracing innovation, unlocking retail investment and ensuring that regulation supports growth rather than hinders it.

We need to be very clear. This is not about getting rid of regulation that is helpful or proportionate. As a former lawyer – David referred to my role as Solicitor General – I know the benefits of adherence to common standards. I fully appreciate that it is the trust and certainty that comes with those standards that make my country a dependable and reliable partner and provide the bedrock upon which stability, certainty, investment and growth can all flourish.

Taking on the financial services brief within government, I know that the UK's model of financial regulation is respected around the world. Effective regulation and high standards are incredibly important, and they protect citizens, businesses and lenders. We are steadfast in our commitment to those standards, which are the foundations of the global financial system and global free trade. Respect for those standards and global norms is a competitive advantage, and that insight will always drive the UK's approach. The appointment of Andrew Bailey as Chair of the Financial Stability Board demonstrates that commitment, and I am very pleased indeed by his well deserved selection for that post.

It is no contradiction to acknowledge that the UK has developed a domestic regulatory environment that can, at times, be unwieldy and very complex. It is a system that has sought to eliminate risk entirely rather than recognising that some risk is just part of a more proportionate approach. The right regulation will uphold financial stability while also, for example, enabling banks to lend, invest, grow and compete internationally. That is why the UK is taking significant steps to tailor the capital framework.

We have committed to upholding the ring fencing regime to protect financial stability while taking forward meaningful reforms to support growth. The Financial Policy Committee is reviewing its assessment of the levels of capital needed to support financial stability. We are committed to implementing Basel 3.1, and we are introducing the new requirements for lending and trading activities from 1 January 2027. New modelling requirements for market risk come into force on 1 January 2028. This allows time for clarity to emerge in other jurisdictions. It gives banks the certainty they need to plan and invest in the UK, and it minimises operational complexity for internationally active banks.

We have also updated our regulatory framework for central counterparties enabling it to be revised in what we consider to be an agile and responsive way by our central bank, the Bank of England. As with recently implemented changes to the EU's regulatory framework for CCPs, the proposed changes are targeted and intended to enhance resilience with a focus on setting clear expectations, maintaining international standards and streamlining regulatory processes to improve efficiency and foster innovation. Through these changes, it is essential that we create space for the innovations that will keep the sector growing and meeting the evolving needs of consumers.

The financial services strategy sets out how we will make that space as well as actions that the government itself will be leading. The most relevant for today is the creation of the Office for Investment, which is going to be a concierge service bringing civil servants, regulators and industry together to support international investors who want to establish or grow their presence in the UK's financial services sector. It will provide a single front door for regulatory and wider business support, faster and simpler regulatory authorisation for firms, and a regulator led scale up unit to engage with fast growing and innovative companies. These measures will enhance the UK's technologically advanced international financial centre and further improve the ability of fintech firms to start, scale and list.

I want to mention one further area that is crucial for innovation across Europe and in the United Kingdom. That is savings. We need to unlock the productive capital that is currently held in cash savings. In the UK alone, there are billions and billions of pounds' worth sitting in savings accounts. Frankly, this is capital that is currently neither working as hard as it should for savers, nor is it helping businesses that want to start and scale but need funding in order to push on. Together with the Financial Conduct Authority, which you will know is headed up by Nikhil Rathi, who I believe is on a panel either in this room or elsewhere, but is certainly here at this conference today, we are rolling out a system of targeted support to help customers to understand and make financial decisions to grow their savings. This will rebalance how we discuss the benefits and risks of investing. This will represent the biggest reform of financial advice and guidance in more than a decade and will be a step change in the support available to consumers to begin investing. I know that the EU is taking similar steps to channel savings and pensions into more productive investments via the SIU strategy as well.

In conclusion, I will end where I began, which is to say that the health of our financial services sector is integral to the success of both the EU and the UK. It serves as the foundation and engine for the growth that we all want to see. I hope that we can continue to work together, cooperate, collaborate and meet shared challenges together to the benefit of us all. I am very much looking forward to working with all of you in my new role and to the rest of this conference. Thank you very much indeed.

Martin Moloney

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Enhancing supervision: challenges and opportunities for the EU

Disclaimer:

The views expressed in these remarks are those of the speaker in his role as FSB Deputy Secretary General and do not necessarily reflect those of the FSB or its members.

I'm told that the last public execution in this lovely city of Copenhagen occurred in the 1770s for a form of securities fraud. In an important sense, all forms of penalty imposed on an entity reflect the reality either that supervision has failed or that it hasn't been tried. A key part of getting closer to 'the system working well' – and a part that, I suggest, is particularly relevant to the EU – is whether supervision and the structure of regulatory institutions is working well. In different parts of the world, pre-emptive supervision and post-fact enforcement play different roles and these are legitimate differences of approach. The European approach, entirely legitimately, places a predominant reliance on supervision; but the organisational structures are, as the IMF observed in its recent Financial Sector Assessment Program on Euro Area policies, complex.

At its heart, supervision relies on two key ideas:

- First, that human beings tend to comply more with rules when there is a chance that their compliance will be checked; but
- Secondly, and perhaps more importantly, that financial service providers want to manage their own risks and will benefit from an external party checking how well they are doing that.

Both goals need to be attended to in good supervisory practice. But you are winning when you are promoting good risk culture and you are in some difficulty when you are forced to focus on checking compliance.

It is important for Europeans to ask themselves: 'Given how complex our supervisory structures have to be, how do we know we are doing supervision well?'

What we all saw in the banking turmoil of 2023 was how supervisory problems can leave you with a crisis on your hands no matter how good the rules. Let me take a now-familiar, non-European example: Silicon Valley Bank was an example of a bank with an unusual business model and very substantial interest rate risk, where the supervisors struggled to compel the management to adopt appropriate risk management practices.

The old saying is that hard cases make bad laws, but they do make for good examples for supervisory training.

To achieve good supervisory outcomes, we must promote among our supervisors a capacity for well-balanced and well-informed judgement. Understanding that leads me to suspect that the FSB will need to do more at a global level on the quality of supervision itself. How should the EU also think about this question of the quality of supervision?

Let me illustrate the particular European challenge with a couple of examples: cyber and crypto.

Cyber resilience

In the case of cyber risk, we all know that we are operating in an increasingly dangerous environment.

The challenges are cross-societal rather than financial sector specific; but they are also cross-jurisdictional, particularly as the EU becomes more integrated. The EU has wisely developed an ambitious piece of legislation in the form of the Digital Operational Resilience Act (DORA).

But challenges remain.

Reliance of the EU financial sector on cross-border, third-party, critical service providers is rising. Small companies understandably struggle with the increasingly burdensome and costly requirements of good security. Within member States, regulatory authorities can be fragmented, applying different approaches or standards to different sectors. Incident notification arrangements can be fragmented, slowing the response speed down.

Comprehensive threat intelligence needs to be gathered in every member State, centralized and distributed out. The initiative of the ECB in developing the Threat Intelligence Based Ethical Red-teaming (TIBER) framework is particularly welcome in that it sets a base level for the quality of testing of the resilience of entities which provide core financial infrastructure in the EU. But even this welcome standardised approach to testing faces the risk that the criminals can develop more quickly than the EU community can respond. Inadequate testing can become a dangerous reassurance.

Jurisdictions in the EU have an opportunity to develop a unified jurisdictional map of the threat landscape. Information in the DORA registers could provide deeper insights into the changing structure of the sector and the emerging risks. I understand that these registers have a way to go in jurisdictions before this information is comprehensive. But when they are, national analysis of the third-party contracts will provide a rich source of information on concentration risk and channels of systemic risk which should feed into supervisory planning. Getting to that situation is very important precisely because the sector is changing so quickly.

Slow information exchange during an incident can be a major cause of harm. The FSB has done important practical work in developing its Cyber Incident Response toolkit[1] and the Format for Incident Reporting Exchange (FIRE)[2] to promote prompt and efficient responses to attacks. FIRE was developed to tackle fragmented reporting requirements and coordination challenges across jurisdictions. The EU needs consistent, efficient approaches that reduce operational burdens and ensures speedy incident-response communication within and across EU jurisdictions.

Supervisory approaches which engage smaller financial entities to get their defences into as good a state as possible, within the costs they can bear, are needed throughout the EU and will require prudent exercise of judgement by supervisors, rather than a one size fits all approach. Where one sectoral regulator develops good practice, this needs to be shared across the jurisdiction. I cannot over emphasise the importance of a robust schedule of onsite supervisory visits, but done by expert supervisors who understand what good looks like in terms of cyber protections. This is not just about checking that there are cyber risk governance procedures in place, it is about the supervisor providing the senior leadership of a financial services firm with an honest, if sometimes uncomfortable, message about how well prepared they are for a cyber-attack and being listened to when they provide that message. Strong supervisory judgement is required to do that well, but it is costly and difficult to put in place the required expertise.

The EU like many other parts of the world is constantly being eyed by cyber criminals as full of potential rich pickings. Whenever they are successful in the financial sector in the EU, one of the potential reasons for their success might be this complex set of supervisory arrangements under DORA, unless care is taken. I am not saying that the DORA framework is inherently flawed or anything like that. I am saying that its complexity requires – as the ECB recognized with TIBER – that there must be a relentless drive to make this complex system work to a high standard.

The Artificial Intelligence (AI) Act has wisely recognised the cyber risk attaching to AI models. It has imposed on General Purpose Artificial Intelligence Systems, which are systemically risky, requirements for advanced cyber security measures. Supervision sits, again, with national competent authorities, this time with the EU AI Office having a coordinating role. The structure is entirely legitimate. The challenges for the quality of supervision are evident.

Crypto-assets

In its recently published tenth edition of its Nonbank Financial Intermediation Risk Monitor, the European Systemic Risk Board highlighted that the interconnectedness between crypto-assets and traditional finance have intensified at the same time as there has been a sharp rise in crypto-asset valuations and the expansion of stablecoins. They, rightly, emphasised the necessity for comprehensive risk monitoring.

Crypto-assets are an obvious area of emerging risk. This reality demands well-designed regulation and insightful supervisory oversight of these activities.

The EU's Markets in Crypto-Assets Regulation – or MiCA –aims to establish a comprehensive regulatory framework for crypto-assets, particularly the service providers that operate in this space. From our perspective, having made global recommendations on this issue, this is very welcome.

However, the implementation of MiCA is complex. Much of the supervision is delegated to member States. There is still a distance to go in translating MiCA into fully functioning supervisory regimes across all member States.

This degree of delegation also creates coordination challenges for EU and national authorities, who must ensure that the 27 national competent authorities regulate and supervise crypto-asset activities consistently.

Innovation often outpaces regulation. When regulatory frameworks lag, supervision serves as the critical first line of defence to address emerging risks. It must be good enough.

Supervisors must anticipate threats as crypto firms rapidly expand their products and offerings, such as crypto-asset borrowing and lending, which currently falls outside the scope of MiCA. Regulatory updates will, no doubt, close these gaps in time. In the meantime, having supervision so fully distributed across 27 national authorities is a particular EU challenge for holding the line.

It makes sense to delegate the supervision of small innovative entities to member States. But that is a challenge if operating across borders is at the heart of the business model of those small innovators. It becomes even more of a challenge when some of the entities whose regulation is being delegated in this way are not small innovators but large well-established global firms, as is the case in the crypto sphere.

Supervising crypto-asset service providers requires significant resources and expertise. The delegated model that the EU has adopted requires the EU to duplicate expensive supervisory expertise. Ensuring robust supervisory oversight of complex, globally active entities requires a unified approach that transcends national boundaries, leveraging shared expertise and fostering consistent standards. This challenge, however, is not unique to the EU. In the FSB's 2024 crypto progress report, 80% of member jurisdictions identified cross-border coordination and cooperation as a 'very important' regulatory challenge. But the issue of coordination within the EU is both a particular challenge and a particular opportunity because of the regulatory structure issue.

Conclusion

In the end, in my view, supervision should target the supervision of the culture of a firm and the goal of supervision should be to promote effective management by the firm of the risks it faces. Of course, that is not always possible. Incentives can be misaligned, and financial services providers can intentionally break rules. In that case, supervision becomes the handmaiden of enforcement. But ideally, we should never reach that point.

One of the questions we have to ask at the FSB is if there is more we can do to promote good supervision across the globe.

One of the questions, you all face as members of the EU is how to achieve robust high standards of supervision across the EU, while respecting the competencies of member States and the complexities of the structure of the EU itself. One of the choices the EU has to face every time it introduces a new regulatory regime is how to structure the supervisory responsibilities. As such regimes are rolled out, it can become quickly obvious that the chosen structure could be refined for better effect. Where that happens, is the EU able to respond nimbly?

We are moving further and further into a period where sensitivity to the relationship between regulation and growth is rising, and geopolitical uncertainties are morphing endlessly into new threats and challenges. I suspect all European policy makers will increasingly come to the realisation that weak supervision is becoming even more of a core risk and wise supervision is a strategic opportunity. Just yesterday at this very conference, the Commissioner's remarks suggest the opportunity is understood. This is good news. Thank You.

1. https://www.fsb.org/2020/10/effective-practices-for-cyber-incident-response-and-recovery-final-report/.
2. https://www.fsb.org/2025/04/format-for-incident-reporting-exchange-fire-final-report/.

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