

# Will SIU proposals boost the attractiveness of EU capital markets?

## 1. Rationale for the SIU and implementation approach

### 1.1 Remaining challenges for EU capital markets

An industry speaker noted that progress in the development and integration of EU capital markets over the past decade has remained uneven. While the implementation of the Listing Act and the growing adoption of savings and investment accounts across the EU are encouraging developments, many European pension funds continue to follow conservative and debt-oriented investment strategies, requiring further reform in this area, which remains largely a national responsibility. Structural weaknesses also persist, notably excessive fragmentation of securities trading and insufficient transparency for effective price discovery, as current regulatory frameworks tend to favour bilateral trading and internalisation. More lit trading and a framework supporting fair competition in the trading space are therefore needed to improve price discovery and liquidity.

Another industry speaker highlighted persistent fragmentation in post-trade infrastructure as a major obstacle to cross-border activity and a source of high costs for retail investors. As a result, cross-border trading within the EU remains limited and investors prefer to invest on US markets.

### 1.2 SIU objectives and implementation approach

A policymaker emphasised that further developing and integrating EU capital markets is essential for the European economy, notably to improve capital allocation across the EU, increase productive investment and support the financing of innovative start-ups and scale-ups. The Commission's SIU impact assessment illustrates the scale of the expected benefits from these developments, including long-term GDP gains ranging between €1.4 trillion and €3.6 trillion, a potential 30% reduction in settlement costs through greater interconnectedness and compliance savings of around €100 million for venue operators.

Europe currently has a significant window of opportunity to further develop its capital markets. The current political momentum behind the SIU should be seized, notably following the Council's call for substantial progress by the end of 2026 on key measures including securitisation and the supervisory framework, as heads of state and government increasingly recognise the importance of deeper and more integrated capital markets for Europe's competitiveness. This timeline should support rapid progress on game-changing measures such as the

Market Integration and Supervision Package (MISP), but without reducing the overall ambition of the package. The SIU strategy must indeed be treated as an integrated package based on a coherent approach that needs to be fully implemented, as the expected benefits will not materialise if measures are cherry picked and politically sensitive measures excluded or postponed. Geopolitical developments are also making the EU appear more attractive as a stable and predictable investment destination, particularly for investors seeking to diversify away from US assets and the US dollar. Without the reforms proposed under the SIU, however, this capital is likely to move elsewhere.

The policymaker added that the SIU should benefit all Member States. The objective is not to concentrate financial activity in a few financial centres, but to develop strong local financial ecosystems across the EU capable of financing local economies within a more integrated single market. The SIU is both a top-down EU legislative project and a bottom-up process requiring action from Member States, notably to create environments conducive to investment and risk-taking and to implement measures in areas of domestic competence such as funded pensions and financial education, which will necessarily require more medium-term efforts.

The panellists broadly supported the direction and ambition of the SIU proposals also acknowledging the current political momentum. Additional comments were made regarding the implementation approach and the conditions required for the effective delivery of the SIU.

An official welcomed the Commission's hybrid approach, combining legislative measures, recommendations and flexibility for Member States to act collectively or individually. An example of collective action is the "Finance Europe" label recently launched by a group of Member States in the context of the Competitiveness Lab initiative. The timetable for concluding negotiations on both the MISP and the pension package is very demanding. While preserving the integrity of the package remains important, prioritisation of certain more consensual measures, such as the extension of the DLT pilot regime, may become necessary if negotiations prove too difficult to achieve within a short timeframe.

A regulator expressed optimism regarding the expected market impacts of SIU, highlighting both the strong political momentum and the need to seize the current opportunity to deliver a transformational shift in European capital markets. National authorities also have an important role to play completing EU initiatives in areas under national competence and through their knowledge of specific domestic risks and vulnerabilities.

## 2. Key SIU priorities for developing deeper and more attractive EU capital markets

### 2.1 Regulatory simplification and supervisory convergence

Several panellists stressed that the simplification of the regulatory framework and the strengthening of supervisory convergence proposed in the MISP are key priorities for developing deeper and more integrated EU capital markets.

An industry speaker noted that, although individually justified, the accumulation of regulations introduced over the past decade, combined with differing national implementation, has increased the complexity and fragmentation of the EU capital markets framework across Member States. In this context, implementing the MISP is a priority for simplifying the framework and strengthening EU capital markets, but its ambition must be preserved throughout the trilogues. The Commission's decision to revisit previously negotiated measures is also welcome, as some provisions removed during earlier negotiations remain necessary to support the integration and competitiveness of EU capital markets.

An official also welcomed the regulatory simplification proposals contained in the MISP, which aim to reduce duplications and simplify parts of the framework, thereby lowering costs and increasing efficiency. Some elements of the MISP may however increase costs, making it important during trilogue negotiations to distinguish between measures that genuinely simplify the framework and those that could create additional burdens.

Another industry speaker stressed that implementing single supervision at EU level is essential to support cross-border activity, as the current set up creates significant complexity for cross-border operators facing inconsistent interpretations and applications of EU rules, such as MiFID, across Member States.

A regulator observed that a clearer and properly designed EU-level supervisory framework is also needed. ESMA should be equipped to assume additional supervisory responsibilities, but the respective roles of ESMA and national authorities must be clearly defined and should not result in additional costs or complexity.

### 2.2 Trading and post-trading integration

A regulator emphasised that more cross-border activity and greater market consolidation are needed to support deeper and more liquid European capital markets. Public market liquidity should also be strengthened through a framework that appropriately balances competition, transparency and liquidity.

An industry speaker considered the Commission's MISP proposals aimed at reducing fragmentation in post-trade infrastructure to be a step in the right direction, but expressed doubts regarding the willingness of all Member States to support such reforms, as illustrated by

reactions to the proposal to introduce a depositary passport for UCITS. French stakeholders for example are opposed to this measure, which could support greater European integration, considering that their domestic framework is more protective for investors. Genuine progress therefore depends on the ability to reach agreement on such sensitive integration measures.

A policymaker noted that the proposed 28th regime for innovative companies, currently focused on corporate law, is intended to evolve progressively through a modular approach and could later be extended to other areas, including securities clearing and settlement. The ongoing consultations on shareholders' rights may also lead to further changes affecting these activities.

### 2.3 Financing EU SMEs, scale-ups and innovative firms

Panellists broadly agreed that improving financing conditions for SMEs, scale-ups and innovative firms is a central objective of the SIU and requires both deeper capital markets and a stronger investor base.

An official observed that ensuring an effective flow of capital to the EU economy requires better awareness among companies, especially SME, start-ups and scale-ups, of capital market opportunities, low barriers to market entry in terms of cost and timelines and a sufficiently strong investor base to ensure adequate capital supply. While larger firms tend to be attracted to larger and more liquid markets, local financing solutions are also needed for smaller companies and future scale-ups that remain at an early stage of development.

The official also considered the extension of the DLT pilot regime as a useful reform, particularly for smaller firms requiring rapid access to financing, as DLT systems can support faster and more agile interactions with capital markets.

A regulator stressed that SMEs, which represent the vast majority of European firms, continue to face barriers to scaling and accessing financing to support innovation. Improving SMEs' access to private credit, venture capital and public markets therefore remains essential, alongside greater availability of risk capital through larger institutional investors, stronger IPO activity and better information on available financing opportunities. Existing initiatives supporting SMEs should continue to be developed, including enhanced research coverage under the Listing Act, the proposed establishment of securitisation platforms to improve financing opportunities for smaller firms and SME credit-rating initiatives within the Competitiveness Lab.

A policymaker noted that the Commission plans to issue an ambitious legislative proposal on venture capital funds by the end of 2026 in order to address the EU's lack of scale in this area,

### 2.4 Retail investment incentives and pensions

Some panellists noted the importance of measures to develop retail investment and supplementary pensions.

A regulator highlighted savings and investment accounts as one of the key pillars of the SIU and an

important mechanism for redirecting household savings towards productive investment, provided they remain simple, accessible and cover a broad range of financial instruments. Their effectiveness nevertheless depends on tax incentives, which remain largely within Member State competence and may require a common approach, potentially linked to the 28th regime. Stronger pension schemes are also important for supporting deeper capital markets and the scaling of European companies.

An industry speaker stressed that divergent tax policies are problematic, with some countries introducing capital gains taxes that run counter to the objectives of the SIU.

### 3. Remaining gaps and additional reforms for strengthening the SIU

The panellists identified a number of areas where further action is needed. Martin Merlin noted that further work beyond the current SIU communication will be required. The mid-term review of the SIU action plan will provide an opportunity to identify additional measures.

#### 3.1 Advancing tokenisation in EU capital markets

An industry speaker considered that insufficient attention is being paid in Europe to the tokenisation of securities, including shares, ETFs and bonds, despite its relevance for retail investors, notably younger investors who are increasingly attracted to low-cost and accessible trading models. The US is moving rapidly in this area, with Nasdaq having recently obtained approval from the SEC to trade tokenised instruments and NYSE expected to follow, meaning that European retail investors will soon be able to trade on these platforms on a 24/7 basis. At the same time, concerns are emerging in the US regarding the risk that the multiplication of tokenised trading venues could fragment liquidity. Europe could therefore position itself as an alternative in this market, but it currently lacks a comparable offer. Without a faster development of securities tokenisation in Europe, European savings are likely to continue shifting towards US markets.

A policymaker agreed that tokenisation will require intensified reflection in Europe, given the rapid pace of developments in the US.

#### 3.2 Developing a competitiveness mindset

An industry speaker suggested that a competitiveness mindset should be further developed among European and domestic public authorities in order to support the objectives of the SIU. In this respect, the EU is lagging behind the UK and the US. The objective is to ensure that supervisors integrate competitiveness considerations into their actions and that national competent authorities (NCAs) contribute to the objectives of the SIU from a European rather than a purely domestic perspective, while maintaining high regulatory standards. Such a competitiveness mandate should be embedded throughout the regulatory and

supervisory chain, including Level 1 and Level 2 rulemaking and NCAs.

Another industry speaker agreed that a change of mindset is needed to ensure that EU and Member State authorities act from a common perspective aimed at strengthening both European and national competitiveness. National specificities have too often been used to justify divergence from common European approaches, thereby increasing complexity and discouraging participation in some markets. A competitiveness mandate should encourage regulators to assess whether existing requirements create unnecessary operational burdens once financial stability objectives are adequately addressed.

#### 3.3 Encouraging market-led integration and liquidity provision initiatives

An industry speaker stressed the importance of encouraging market-led consolidation initiatives likely to support the integration of European capital markets. Euronext which operates across eight European markets is a practical example of market-led integration, contributing to increased liquidity and trading volumes and also attracting listings beyond its domestic markets.

Another industry speaker noted that greater proportionality is needed in the application of prudential requirements, as existing rules limit the ability of banks and investment firms to provide liquidity and support deeper capital markets. This issue should be considered in the context of the upcoming banking review, as banks may step back during periods of market stress because of prudential constraints, while non-bank liquidity providers may continue to provide liquidity. Deep and liquid capital markets consequently require frameworks that allow liquidity providers to grow and encourage new entrants. Investment firms are willing to play a greater role as liquidity providers in Europe, but often avoid exceeding balance-sheet thresholds beyond which they would be treated as banks despite not conducting bank-like activities. As a result, many firms prefer allocating capital outside Europe, notably in the US or APAC, where such constraints do not exist. The example of a German liquidity provider that abandoned its MiFID licence because of prudential complexity and reallocated capital to the US was also cited as a concrete illustration of European rules pushing activity outside Europe.

More broadly, the industry speaker argued that industry could play a more active role in the integration and modernisation of European capital markets if supported by an appropriate regulatory and supervisory environment. In this respect, the move to T+1 settlement is positive, as a driver of automation and operational efficiency.

#### 3.4 Improving SME financial literacy and investor risk culture

An official stressed the importance of maintaining focus on core objectives, including financing growth and innovation and ensuring adequate long-term savings for citizens, alongside financial stability and investor protection. The financial literacy component of the SIU

is welcome, but additional actions are needed to help SMEs and start-ups better understand and take advantage of capital market opportunities, including through national initiatives such as regulatory sandboxes and market-led efforts. The behavioural and cultural barriers limiting retail participation in capital markets, notably the greater risk aversion of European investors compared with the US, must also be addressed in order to encourage retail investors to participate more actively in capital markets and reallocate part of their savings away from bank deposits.

The official also highlighted the risks linked to the growing reliance of younger investors on social media and digital platforms for investment decisions. While these channels may accelerate retail participation, they may also create vulnerabilities if not properly managed.

A regulator also emphasised that a broader cultural shift away from excessive risk aversion is needed, with measures taken at both European and national levels. Financial literacy must be strengthened both among retail investors and SMEs.

### **3.5 Providing incentives for long term investment in the EU economy**

An official stressed the importance of long-term investment incentives, notably tax incentives encouraging retirement-oriented investment, although taxation remains politically sensitive and largely within Member State competence. Incentives should also ensure that mobilised savings effectively finance the European economy rather than flow abroad, as one of the overarching objectives of the SIU is to support investment and growth within the EU.

An industry speaker agreed that tax incentives are important to support investment. Detrimental financial transaction taxes imposed or increased in several Member States such as France should be avoided.

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## **Wrap up**

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The Chair noted the broad support expressed for the Commission's proposals and the shared sense of urgency to move forward in a favourable political context for the SIU, following limited effective progress on CMU over the past decade. The recent European Council conclusions establishing clear end-2026 deadlines for several key SIU priorities, create an opportunity to move from long-standing discussions to concrete delivery.

The Chair also underlined the broad consensus emerging around several key SIU objectives and proposals including the financing of SMEs and scale-ups, further integration of EU securities markets, pensions, retail investment and financial literacy. The importance of market-led consolidation notably regarding market infrastructures, was also highlighted as a means to enhance efficiency and liquidity and reinforce the perception among international stakeholders that Europe is genuinely moving forward on capital market integration and development. At the same time, several important issues remain to be addressed, including tokenisation.

Many of the issues raised during the discussion, including financial literacy, retail investor behaviour and tax incentives, require action at Member State level. It is hoped that Member States will contribute actively to these efforts and that the SIU package can be delivered within the deadlines agreed by EU heads of state and government.