

# Enhancing and simplifying capital market supervision and regulation

---

## 1. Objectives and expected impact of the MISP supervisory proposals

---

### 1.1 Objectives and rationale of the proposed supervisory reform

The Chair emphasised that the streamlining and strengthening of supervision for trading and post-trading infrastructures is one of the most ambitious elements of the Market Integration Package (MISP). The objective is to achieve more coherent supervision, reduce duplication and foster more integrated and competitive European capital markets, in line with the broader EU agenda on competitiveness and simplification and the Savings and Investments Union (SIU). The proposed shift towards EU-level supervision for significant infrastructures (trading venues, CCPs and CSDs), combined with the introduction of the Pan-European Market Operator (PEMO) concept, which will allow such operators to manage multiple trading venues across Member States under a single licence and centralised supervision, is intended to clarify responsibilities, enhance consistency across jurisdictions and provide greater predictability for cross-border entities. The MISP also proposes strengthening the supervisory toolkit to support ESMA's supervisory convergence powers and reduce fragmentation in the parts of the market that will remain supervised at the national level.

A policymaker explained that the MISP proposal is part of the broader objective of building the SIU, which requires tackling structural barriers to investment in the EU, including high financing costs, as well as fragmentation and complexity in the financial system. Fragmentation is a central issue that materialises in inconsistent interpretation and uneven application of rules across Member States and duplicated requirements. This generates higher compliance costs and legal uncertainty, particularly for cross-border activities. For example, in the current system, a trading venue operating across multiple Member States may need to obtain separate licences and approvals in each jurisdiction, which acts as a deterrent to pan-European operations and limits investor and issuer choice.

The Commission's proposal represents a significant shift, combining enhanced supervisory convergence with elements of centralised supervision. It is based on a tailored approach to supervision, recognising that a "one-size-fits-all" model is not appropriate given the diversity of market infrastructures. Significant cross-border entities would be subject to EU-level supervision, while less significant ones would remain under national oversight, supported by stronger cooperation and convergence mechanisms.

An industry representative considered that the MISP proposal addresses many of the inefficiencies of the current supervisory landscape, which is increasingly complex and fragmented, as multiple national competent authorities (NCAs) oversee cross-border infrastructures, creating complexity, inefficiencies, lack of clarity and, in some cases, suboptimal supervisory outcomes. While supervisory colleges have been introduced for certain post-trading infrastructures, fragmentation persists and can create uncertainty as to who is ultimately responsible, particularly in stressed situations. Conversely, situations of quasi-supervisory monopoly which exist in certain cases are not conducive to the healthy functioning of European markets.

The industry representative emphasised that the primary objective of the reform should be to enhance supervisory efficiency in a way that supports competitiveness, at a time when NCAs face increasing difficulties in supervising cross-border infrastructures effectively. Strengthening supervisory coordination and clarifying the allocation of responsibilities, as proposed in the MISP, is essential to improve predictability and reduce costs and burdens for market operators. The introduction of explicit cooperation obligations, together with the possibility to delegate tasks between ESMA and NCAs, are additional pragmatic improvements, enabling more flexible and tailored supervisory arrangements as market integration progresses. These elements could be extended over time to a broader set of entities and activities.

### 1.2 Expected impact of the proposal

A public representative expressed strong support for the Commission's proposal, considering it a necessary step to strengthen cross-border activity in European capital markets. A move towards EU-level supervision of cross-border venues and market infrastructures is essential to ensure greater consistency in supervisory decision-making and reduce duplication, both of which are highly valued by market participants.

A regulator emphasised the strong political momentum in favour of advancing towards greater single European supervision, marking a clear shift compared to previous discussions on revising the European Supervisory Authorities framework. Growing market support for such developments is also a positive signal, reflecting that the proposal is well calibrated and can deliver value for pan-European operators. This shift must now be accelerated, notably by implementing direct supervision at ESMA level of key market infrastructures, such as PEMOs trading venues and significant cross-border post-trade infrastructures.

An industry speaker suggested that the success of the

MISP should be assessed through concrete business outcomes, with performance indicators related to efficiency and competitiveness, such as improvements in time-to-market and the ability of EU-based players to grow and compete internationally.

## 2. Design issues and implementation challenges

### 2.1 Remaining design issues and supervisory convergence challenges

A public representative highlighted that the scope of the framework must be clearly defined, in particular the distinction between significant and non-significant entities, which is likely to be a key point of debate in the legislative process and may create loopholes. The Commission's criteria based on size and cross-border relevance provide a sound starting point, but will require further refinement, particularly in the post-trading space. Another issue concerns the allocation of responsibilities between EU and national levels. The division of tasks should avoid creating new coordination challenges and must support timely information flows and effective enforcement. EU-level supervision should focus on cross-border and group-level oversight and on ensuring supervisory consistency, while national authorities should retain responsibility for day-to-day surveillance.

A regulator noted that while the MISP proposals are likely to strengthen supervisory convergence, two areas of further improvement could be considered. First, cooperation arrangements between the centralised and domestic levels should be more clearly anchored in Level 1 legislation, by establishing common principles and tools (rather than detailed operational rules) that can be applied consistently across different areas, ensuring a more coherent and predictable supervisory framework. Second, stronger powers should be considered to ensure the convergent implementation of Level 3 measures, which play a key role in promoting supervisory convergence. In particular, enabling ESMA to ensure the effective and consistent application of Level 3 guidance, notably through the use of the revised Article 17 of the ESMA framework, which allows ESMA to intervene where EU law is applied incorrectly or inconsistently by national authorities, would represent a significant step forward.

An industry representative identified a remaining gap in the MISP proposal, namely the absence of a mechanism to periodically assess whether supervisory arrangements remain aligned with the level of market integration. The introduction of a supervisory efficiency test would help ensure that the framework remains fit for purpose over time and continues to support competitiveness.

### 2.2 Supervisory capacity

An industry speaker stressed that ensuring sufficient operational capacity at ESMA will be critical for the success of the reform. Centralisation can only be

effective if the supervisory authority is adequately resourced; otherwise, it risks becoming a bottleneck and slowing down supervisory processes.

A policymaker also noted that ESMA will require appropriate operational capacity and governance arrangements to fulfil its expanded mandate, while stressing that ESMA already has relevant experience, notably in the supervision of CCPs.

A public representative agreed that the proposed framework raises supervisory capacity constraints. While ESMA has experience in supervising third-country CCPs and can develop the necessary resources, expertise and data infrastructure, this will take time and must be carefully managed to avoid overloading the system during implementation.

An industry speaker noted that ESMA already directly supervises a number of entities, including systemically important CCPs based in third countries, demonstrating its supervisory capability, but stressed that additional responsibilities must be matched with adequate resources and staffing.

A regulator confirmed that ESMA is well prepared to take on an expanded supervisory role and has demonstrated its ability to scale up quickly but stressed that the availability of sufficient resources and capacity will be essential to ensure an efficient and effective supervisory framework. ESMA will build on its existing capabilities, while working closely with NCAs. This collaboration is essential to ensure the effective implementation of the new framework.

### 2.3 Implementation approach

An industry speaker considered that while a move towards centralised supervision is positive, a pragmatic and carefully calibrated approach is required. Centralisation should not be seen as an objective in itself, but as a tool to support the broader objectives of SIU. A "big bang" or overly broad centralisation approach should be avoided in the short term, given the risk of overburdening ESMA. Beyond resource constraints, developing the necessary processes, expertise and supervisory experience to support this transformation will take time. In the near term, a more focused and tailored approach should be adopted, concentrating on areas where fragmentation is most significant and where centralisation can deliver the greatest impact, notably pan-European equity exchange groups currently supervised through colleges of national authorities. Such a "narrow and deep" approach would support effective implementation and allow supervisory capabilities to scale gradually.

A policymaker stated that a gradual approach would not be sufficient, as incremental progress over the past fifteen years has not delivered the expected results. Given the need for stability and clarity for market participants, the objective should be to move towards an ambitious framework from the outset, capable of delivering a meaningful step forward in achieving the objectives of the SIU.

Another industry speaker added that centralised supervision should be treated as an urgent priority

rather than a gradual, longer-term evolution, notably in the post-trading area, given the immediate challenges related to competitiveness and market attractiveness.

### 3. Supervision of trading venues and the Pan-European Market Operator (PEMO) regime

#### 3.1 The PEMO regime: key features and expected benefits

A policymaker explained that the PEMO regime will allow trading venues to operate multiple markets across the EU under a single licence and unified authorisation, combined with central supervision of core organisational and operational aspects. The MISP proposal also clarifies the definition of groups of trading and post-trading infrastructures, to ensure consistent application of the supervisory framework.

A regulator considered the PEMO regime a priority and viewed the proposal as striking the right balance between enhanced EU-level supervision and the preservation of national legal frameworks and supervisory responsibilities, offering appropriate safeguards and a pragmatic approach. ESMA would be granted the authority to issue a single licence, while national legal frameworks and responsibilities for market surveillance would be preserved at local level, avoiding the need for full harmonisation, which would entail excessive complexity and lengthy negotiations. For significant cross-border infrastructures, direct supervision is more efficient than relying on supervisory convergence mechanisms, which can be resource-intensive relative to the benefits they deliver.

Another regulator agreed that the PEMO regime represents a major improvement with strong potential to enhance market integration. It will allow groups operating multiple trading venues across Member States to reduce costs and eliminate duplicative regulatory burdens, particularly for those organised under federal structures. By enabling these groups to operate under a single licence, PEMO will reduce the need to maintain multiple fully-fledged national legal entities, thereby simplifying their organisational set-up and allowing them to manage their activities more efficiently across the EU. The PEMO regime is not intended to replace existing passporting mechanisms, which may remain more appropriate for trading venues operating under less integrated or more locally focused organisational models. For example, groups operating venues in different Member States with limited cross-border integration may prefer to continue relying on passporting arrangements.

#### 3.2 Limits and conditions for the effectiveness of the PEMO proposal

A regulator emphasised that maintaining proximity to local market ecosystems will remain essential in the PEMO context, as issuers and investors require direct engagement and a close understanding of local

market conditions. This implies preserving a meaningful local presence of market infrastructures in the Member States where a PEMO operates. To reconcile European integration with this local dimension, the regulator suggested that a requirement to establish branches could be considered, allowing activities to be conducted closer to local markets while avoiding the complexity of maintaining multiple subsidiaries. These branches would retain adequate resources, organisational capabilities and local functions, calibrated to local needs. From a supervisory perspective, this approach would allow PEMOs to be supervised at group level by ESMA, while ensuring a clear allocation of responsibilities with NCAs, which would remain responsible for day-to-day market surveillance, as well as issuer and investor-related aspects.

An industry speaker supported the overall ambition of the MISP to improve the supervisory landscape for trading venues and the PEMO concept which reflects the inherently cross-border nature of trading activity, liquidity and technology platforms. At the same time, the effectiveness of the framework will ultimately depend on how it is implemented in practice. For pan-European operators, the key issue is not only who supervises, but whether the framework effectively supports cross-border activity, scalability and fair competition. There is a risk that the current proposal could lead to a two-tier system, with some venues subject to centralised supervision and others remaining under national regimes, thereby perpetuating fragmentation through parallel supervisory models, rather than reducing it. The new framework will support cross-border expansion and the SIU only if it is perceived as delivering greater simplicity and predictability.

The industry speaker also stressed that maintaining proximity to local ecosystems is essential for trading venues, as they rely on a close understanding of local market specificities, liquidity patterns and regulatory environments, particularly for SME markets. The effectiveness of the supervisory model will therefore depend on its ability to combine consistent EU-level application of the rules and supervisory convergence at ESMA level with the expertise and on-the-ground knowledge of NCAs. Clarity is also essential, including a clear allocation of supervisory responsibilities, well-defined escalation mechanisms and legal certainty for market participants, in order to avoid overlaps and delays in decision-making.

Another industry speaker emphasised the critical importance of fixed income markets for achieving the objectives of the SIU, noting that euro-denominated bond markets significantly exceed equity markets in size (with €27.4 trillion in outstanding bonds compared to €16.4 trillion in EU equity market capitalisation).

The industry speaker further stressed that the MISP proposals are largely designed with equity markets in mind and may not be appropriate for other asset classes. Supervisory approaches should therefore be carefully calibrated to reflect the specific characteristics of different markets, ensuring that integration efforts

are focused on areas where genuine fragmentation exists. Bond markets, in particular, already function efficiently with largely frictionless cross-border trading and no significant liquidity fragmentation. Bond trading platforms also typically operate under a single national supervisor and use passporting to serve clients across the EU. Extending centralised supervision to such segments that do not face the same structural challenges as equity markets should be avoided, as it could dilute the effectiveness of the overall approach and complicate ESMA's work.

---

## 4. Supervision of post-trading infrastructures

---

A public representative stated that the case for further integration is strongest in post-trading markets, where scale is essential to support risk management, liquidity and investment in infrastructure and technology. Fragmentation in clearing and settlement generates inefficiencies and additional costs, and deeper integration is needed to ensure that capital market activities develop within the EU rather than shifting to other jurisdictions.

An industry speaker strongly supported the MISP proposal for post-trading market infrastructures. In the clearing space, supervisory fragmentation significantly delays time-to-market for new initiatives, as firms must engage with multiple national supervisors whose differing interpretations, practices and risk tolerances result in lengthy and inconsistent approval processes. In addition to these formal approval timelines, extensive informal pre-filing discussions can last many months and are not reflected in official timelines. Even following improvements under EMIR 3.0, firms may spend 18 to 25 months in such preliminary exchanges before submitting a formal application. As a result, similar projects can take anywhere from a few months to several years to be approved across Member States, despite operating under the same EMIR framework. These delays and inconsistencies undermine fair competition by creating uneven playing fields across jurisdictions. Centralised supervision would allow market infrastructures to operate under a single set of supervisory expectations, enabling them to compete on equal terms while improving consistency in the interpretation of regulatory rules and risk assessments. This would also enhance transparency, comparability and simplicity for market participants, thereby strengthening the attractiveness of EU markets for both European and international clients.

The industry speaker added that EU-level supervision would strengthen the EU's position in international regulatory discussions, by allowing engagement with other global jurisdictions at the appropriate level. A further benefit is that a single supervisor would be exposed to a wider range of cases, allowing for more mature and consistent judgement on risk management. Under the current model, national supervisors often oversee only one CCP in their jurisdiction, meaning

that many regulatory questions are effectively addressed for the first time. A more centralised framework would therefore also improve knowledge accumulation and support more consistent supervisory judgement over time.

---

## 5. Improving the EU legislative approach

---

### 5.1. Embedding competitiveness in the legislative framework

An industry representative emphasised that the relationship between supervision and competitiveness requires clarification, as the question of whether competitiveness should be incorporated into the mandates of ESMA and NCAs is frequently raised.

The industry representative cautioned against creating unrealistic expectations regarding the role of supervisors in this area, as they cannot compensate for shortcomings in the legislative framework. Supervision cannot be designed to foster competitiveness, as enforcement and sanctioning, for example in cases of market abuse, must follow consistent standards. Competitiveness should instead be embedded primarily in legislation, ensuring that Level 1 rules are clear and effective, and subsequently reflected in well-designed Level 2 and 3 measures aligned with Level 1. It should also be integrated into the legislative process itself, requiring the Commission and co-legislators to demonstrate that proposals and amendments support the EU's competitiveness.

### 5.2 Simplifying and clarifying the rulebook

A regulator stressed that greater supervisory and regulatory clarity is a key source of simplification, as market participants benefit from a clearer understanding of what to expect from their supervisor. The Commission's push for deeper harmonisation of the rulebook is welcome, notably through the transfer of provisions from directives into regulations. Improving the integration and use of supervisory data at EU level is also an important element of market integration and simplification, through more consistent data collection, reduced duplication of reporting requirements and enhanced data sharing and aggregation at ESMA level.

An industry speaker observed that converting directives into regulations is not sufficient in itself, as this should not be a simple transposition exercise but an opportunity to simplify and restate the rules in a clearer and less burdensome way.

The industry speaker further emphasised the need for a disciplined approach to Level 2 measures, noting that secondary legislation often expands well beyond what was initially intended at Level 1 and can become a source of excessive burden. Instead, Level 2 should complement clear and stable principles set out at Level 1 helping to establish a rulebook that is easy to navigate. In addition, a more forward-looking and stable legislative approach is needed, ensuring predictability over time and avoiding repeated structural changes

that create uncertainty for market participants. Digitalisation can support the implementation and supervision of rules, in particular by streamlining reporting, data exchange and supervisory processes. However, it must be deployed in a way that avoids generating additional complexity and costs.

Another industry speaker suggested that central supervision and simplification could reinforce each other in a virtuous circle. Level 2 frameworks have become excessively detailed in many cases, partly in an attempt to ensure convergence across national approaches, resulting in complex granular requirements that require significant interpretation and implementation efforts by firms. A more centralised supervisory framework would make it possible to move away from this level of detail by limiting national interpretations and would help restore a better balance between Level 1 and Level 2 legislation, with stronger focus on outcome-based and risk-based approaches at Level 1.

A public representative stated that the MISP proposal already represents a step forward in terms of simplification and agreed that Level 2 measures should remain limited and not be used to address issues that ought to be resolved at Level 1. Delivering on supervisory data is also essential for strengthening the supervisory framework.

A policymaker supported the emphasis on clarity, simplification and legal certainty. The legislative framework should be as clear as possible, with reliance on Level 2 measures limited to what is strictly necessary for implementing Level 1 requirements. This approach should also guide the legislative process for the MISP.