

EUROFI

HIGH LEVEL SEMINAR MARCH 2026

Organised under the auspices of the Cyprus Presidency of the Council of the EU

Summary



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Foreword

The Eurofi March 2026 High Level Seminar was organised under the auspices of the Cyprus Presidency of the Council of the EU.

Over 1000 participants from the public and private sectors attended the Seminar, which featured 40 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 Seminar addressed Europe's macroeconomic challenges, including the impact of current global trade tensions, and examined the main 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 Seminar'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, as well as the policy initiatives, reforms and regulatory developments being discussed or implemented in response. We hope you find this summary informative.

This report, together with the other documents published for the Seminar - including the latest editions of the Monetary and Macroeconomic Scoreboards, the Regulatory Update and the March 2026 issue of the Eurofi Views magazine - are available on our website www.eurofi.net.



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I. ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU

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Makis Keravnos - Minister of Finance, of the Republic of Cyprus

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Christodoulos Patsalides - Governor, Central Bank of Cyprus

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Valdis Dombrovskis - Commissioner for Economy and Productivity; Implementation and Simplification, European Commission

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Maria Lu s Albuquerque - Commissioner for Financial Services and the Savings and Investments Union, European Commission

Speech

Pierre Gramegna - Managing Director, European Stability Mechanism (ESM)

Savings and Investments Union: Powering Europe's innovation and resilience

Roland Lescure - Minister of the Economy, Finance and Industrial and Digital Sovereignty, France

Speech

Gabriel Makhlouf - Governor, Central Bank of Ireland

Bridge to the future: Mobilising Europe's savings in a fragmenting world

Villeroy de Galhau - Governor, Banque de France

Little time left to wake up: Can we reconcile Europe with speed?

Markus Ferber - MEP, Economic and Monetary Affairs Committee, European Parliament

Speech

Avgi Chrysostomou-Lapathiotis - Director, Financial Services Directorate & Deputy Economic Director Public Debt Management Office, Ministry of Finance, Cyprus

Speech

Axel Weber - President, Center for Financial Studies, Goethe University Frankfurt

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Sir Jonathan Hill - Member of the House of Lords & Member, Financial Services Regulation Committee

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ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU

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Relaunching investment in the EU in a context of over-indebtedness

The Chair opened the discussion on relaunching investment in the EU in a context of increasing concerns about excessive debt levels. The debate sought to diagnose the evolving macro-financial landscape and its consequences for productive investment, assess the structural constraints holding back growth, and set out the policy actions required to restore credibility, strengthen integration and mobilise private capital.

1. A changing macro financial landscape: debt, divergence and emerging vulnerabilities

1.1 Diverging macroeconomic policies reveal the limits of public support in addressing Europe's persistent productivity challenges

A policy maker emphasised that extended fiscal and monetary support has not resulted in long term improvements in productivity and investment. Following the Covid 19 pandemic, the Union's fiscal and monetary policies were broadly aligned. However, these policies diverged following the Russian invasion of Ukraine: fiscal policy remained largely supportive or neutral, but monetary policy was tightened. Macroeconomic policy is not usually the main driver of productivity growth. It can encourage private investment, but it is just one of many influencing factors. The energy shock following the invasion of Ukraine has had a significant impact. Europe's post Covid recovery initially matched that of the US, but the two jurisdictions' paths diverged after this point. Although the EU labour market has remained resilient, the energy shock has visibly impacted economic activity, inevitably leading to a decline in productivity. This demonstrates the importance of the nature of fiscal support. While the Recovery and Resilience Facility (RRF) successfully boosted public investment in Europe, post Covid and post invasion fiscal support has sought to shield workers and companies from the economic fallout. While this has maintained social cohesion, it has not contributed to productivity.

The Chair commented that unemployment in Europe has historically helped to prevent low levels of productivity. However, demographic changes have led to reduced unemployment, which in turn may have slowed down productivity growth in the short term.

1.2 High public debt in Europe: a risk to financial stability, but limited crowding out effects

A regulator stated that high public debt poses a significant challenge in the current geopolitical climate. The most indebted governments will struggle

to manage the increase in household energy bills resulting from the recent war. In the long term, high public debt poses a major threat to financial stability, as it is often exacerbated by the close relationship between banks and sovereign debt.

However, there is less reason to be concerned about the crowding out effects of high public debt on financial markets and their capacity to support the real economy. First, only a portion of national savings funds public debt. A substantial proportion of national savings may be effectively channelled into initiatives that align with individual risk return profiles and the wider Union's growth objectives. Data from 2025 shows that Italian investments in Undertakings for the Collective Investment in Transferable Securities (UCITS) were double those in government debt, with government bonds accounting for just a quarter of total real savings. Secondly, when public debt was at its peak in Italy, there was a thriving entrepreneurial scene and financing was available for private ventures. The market has always treated Italian public debt as sustainable, as evidenced by the strong demand for Italian government debt. Finally, Italy has relatively low levels of private debt alongside its high public debt, which may prove advantageous. Simply put, the crowding out effect of public debt on private debt can be viewed positively.

1.3 Stable on the surface, fragile underneath: debt, rates and Europe's urgent investment challenge

An official emphasised that the EU must focus its attention on restoring private investment, enhancing productivity and achieving long term growth. Remarkably, global debt markets have demonstrated resilience in recent weeks, months and years, demonstrating a strong capacity to absorb shocks despite geopolitical tensions, trade disputes and increasing uncertainties. Beneath this surface of stability, however, potential risks are accumulating.

1.3.1 The lack of productive investment

An official stated that advanced economies' reliance on demand support, public spending and highly accommodative monetary policy has not resulted in sustained productivity gains or a lasting recovery in investment because much of this borrowing has not been directed towards financing new productive investment. As older debt, financed at lower interest rates, matures and is refinanced at higher rates, fiscal pressure increases without necessarily fostering growth.

1.3.2 Mitigating crowding out risks and safeguarding investment in a high interest-rate environment

An official observed that over the past three years high borrowing costs and high yields have occurred

simultaneously, breaking the pattern that had existed since 2008. Notably, long term yields have risen significantly, partly due to higher term premia resulting from concerns about fiscal trajectories. As a consequence, higher sovereign borrowing costs can crowd out private investment either directly or indirectly through portfolio reallocation. Investors may shift away from riskier assets because sovereign yields now offer higher returns. This is particularly true in the EU, where capital markets remain relatively shallow. Additionally, governments are leaning towards shorter term borrowing. While this may mitigate the impact of higher interest costs in the short term, it increases refinancing risk and makes public finances more vulnerable to rate shocks. In the near term, these higher refinancing requirements can also restrict the scope for more productive investment. The issue is not only the level of public debt, but also its composition.

1.3.3 Managing rising market volatility as debt markets become more reactive

An official highlighted the growing reliance on more 'price sensitive' and leveraged investors in debt markets. As central banks reduce their balance sheets, markets become more dependent on investors who respond more strongly to changes in yield. These investors provide significant liquidity to the market, but this investor landscape may amplify volatility and reduce the stability of financing. This shows how the current policy mix may be causing distortions, such as capital misallocations and overreliance on public support, rather than encouraging dynamic private investment.

In conclusion, there are three policy priorities for the EU: restoring fiscal credibility in Member States; fostering better quality public and private spending; and further strengthening of the capital markets through initiatives such as the Savings and Investments Union (SIU).

1.4 More debt, less alignment: why Europe must rebuild credibility to unlock investment

An official emphasised that a new phase of more disciplined, investment oriented and market enabling policies is necessary at both national and European level. The OECD's 2026 Global Debt Report set out the increasing divergence in Member States' fiscal positions and the continued growth in aggregate borrowing. Global borrowing is on the rise and is forecast to grow even higher in 2026. Currently, there are 109 trillion in sovereign and corporate bonds outstanding, of which 75 trillion are sovereign and 34 trillion are corporate. Issuance in 2025 alone was 27 trillion and is projected to reach 29 trillion in 2026. These are extraordinary numbers. This growing reliance on debt is occurring at a time of increasingly demanding and uncertain financing conditions. The divergence in fiscal positions among EU Member States makes it difficult to take common action; the Union's fiscal credibility is only as strong as its weakest link. High debt levels in certain countries raise concerns about fiscal sustainability and can affect

investor confidence, which is particularly relevant because of the rise of price sensitive investors. This persistence of national approaches is partly due to the fact that incentives are not aligned, as Member States face different fiscal constraints, financing conditions, and political pressures.

2. Structural constraints on investment: fragmentation, competitiveness and external perception

2.1 High energy prices and fragmentation threaten investment and competitiveness

An industry speaker emphasised the importance of understanding the scale of Europe's investment needs. Moody's estimates that the EU will require €7 trillion in funding by 2030 to address structural challenges such as technological and geopolitical transformations, demographic shifts and climate related issues. This figure does not include the additional €0.5 trillion required annually until 2030 to meet other climate policy objectives. The stakes for policymakers are extremely high and urgent.

The conflict in the Middle East exacerbates Europe's existing vulnerabilities. This is demonstrated by the EU's exposure to high energy prices. As a net energy importer, Europe experiences a direct economic impact from global price shocks. Despite successful efforts to reduce dependence on Russian energy, Europe has not significantly narrowed the energy price gap with the US. Natural gas prices in Europe remain around three to five times higher than in the US. This poses a significant structural challenge to key European industries such as chemicals, steel and fertilisers.

The price pressure on European end users is expected to increase as the demands on Europe's energy networks grow. Investment in electricity grids is projected to rise from €36 billion to around €52 billion in 2027. Despite accounting for 27% of global imports as the world's largest LNG importer, the EU's bargaining power is limited by its fragmented purchasing and internal rules. This position of relative weakness constrains Europe's investment and policy decisions. Persistently high energy costs limit industrial competitiveness and restrict investment in technological transformation. For instance, European data centre capacity is expected to almost double by 2028. Investment in this capacity is expected to be around €375 billion over the next four years. Data centres are highly energy intensive and are expected to account for 5% of total electricity consumption by 2030, up from 2% in 2025. In light of these transmission needs, the cost of European energy is a strategic disadvantage. This could slow the pace of scaling up AI and infrastructure when speed is of the essence.

The Chair noted that the EU's energy policy was guided by the need to respond to an invasion rather than purely by cost. While diversification has diminished its

bargaining power, this was a lesson that was learned when the lack of diversification became a problem. Until the green transition is achieved and Europe can harness its own natural resources, this weakness will persist.

2.2 Unlocking Europe's investment potential: tackling fragmentation and scaling innovation

2.2.1 Closing the gap in R&D and intangible investment by deepening the single market

An industry speaker explained that energy is not the only barrier holding back productive investment. Regulatory fragmentation and administrative burdens have a significant impact on the investment climate. The European Investment Bank (EIB) estimates that 62% of EU firms face a fragmented internal market when doing cross-border business. Eliminating these barriers could increase a firm's investment intensity by around 10%, with even greater benefits for intangible investment, which is crucial for innovation.

More broadly, Europe's lower spending on R&D and intangibles is the main reason why productive investment is lower in the EU than in countries such as the US. Europe tends to concentrate on mid-tech industries such as automotive, telecommunications and consumer goods rather than high-tech industries such as aerospace and software. The relative fragmentation of the capital markets, the regulatory environment and the lack of scale constrain EU small and medium-sized enterprises (SMEs). There are ongoing initiatives seeking to address these challenges through simplification and the recently proposed 28th regime. These are welcome steps to improve the single market, but the EU's internal barriers, such as overly complex rules and limited Member State ownership, will test the commitment of European policymakers to deliver effective change in the coming years. In a rapidly changing environment, Europe cannot afford to postpone these crucial decisions.

2.2.2 Using defence investment as a catalyst for industrial growth and innovation

An industry speaker observed that the EU's fragmentation constrains defence spending. Defence is a sovereign capability with national and fiscal implications, but it cannot be viewed in isolation. EU defence procurement policy is currently fragmented and highly reliant on non-European imports for advanced systems and technologies. As spending shifts away from personnel and pensions towards equipment, R&D and other operational expenditure, the EU-based defence industry's ability to scale up will be critical. Spending on equipment is projected to rise from 29% of defence spending in 2024 to 40% by 2030. Addressing these challenges is crucial from a geopolitical perspective and an economic one. Increasing the proportion of equipment produced within the EU could stimulate local innovation, boost fiscal multipliers and promote economic growth. Defence R&D often leads to positive technological spillovers. In highly innovative regions, an increase of 1% of GDP in defence R&D can lead to an increase in private R&D of almost 2% of GDP over 10 years. Simplifying processes, acting with urgency and

prioritising key projects will be central to driving the EU's policy agenda.

2.3 Unlocking Europe's growth potential: from fragmentation to investment and resilience

An official observed that the conflict in the Middle East has illustrated Europe's ongoing susceptibility to shocks. However, the positive news is that Europe has a strategy to increase resilience. The EU must act swiftly and avoid taking shortcuts that could compromise the European economy.

2.3.1 Mobilising private investment by cultivating an attractive and integrated business environment

An official suggested that the best way to attract private investment is to ensure that firms perceive Europe as a place where they can earn competitive returns on capital and reap the rewards of innovation. Europe's fragmented markets disincentivise business investment. The European economy is composed of an excessive number of smaller and older firms. In the United States, stock market valuations for firms under 50 years old amount to \$42.9 trillion compared to \$5 trillion in the EU. Completing the single market and bridging domestic policy gaps could solve this issue entirely, enabling innovative firms to expand and enhancing productivity by around 20%. This higher productivity would subsequently attract up to €800 billion in additional investment over 10 years, which could lead to a 35% increase in GDP over time. There is no reason to leave this huge amount of money on the table. Around half of these gains would arise from domestic reforms to labour markets, a growth-oriented tax system, reduced bureaucracy and strengthened innovation policies.

2.3.2 Completing the single market and advancing CMU will boost productivity and scale

An official explained that EU-level initiatives also have a role to play. First, European firms must be able to sell across borders. Currently, the cost of doing business across EU Member States is two to three times higher than it is across US states. Reducing trade barriers could enable firms to grow while increasing competition. Secondly, the EU needs fully integrated capital and labour markets. Currently, there is extensive duplication across EU Member States. Achieving a true Capital Markets Union (CMU) would improve liquidity and enhance risk sharing. Similarly, the cost of migrating between EU countries is about eight times higher than the cost of migrating between US states. Qualifications should be recognised seamlessly and social security should be portable.

2.3.3 Reducing energy fragmentation to strengthen resilience and competitiveness

An official emphasised that energy fragmentation is a strategic vulnerability. Energy prices are too high and too susceptible to external shocks. Uncertainty must be reduced by maintaining carbon pricing. Access to cheaper and cleaner energy will increase resilience. By taking decisive action, Europe could again become a hub where ideas flourish, investment thrives and prosperity is shared.

The Chair commented that these remarks echo a recent speech given by Isabel Schnabel, who said that Europe's principal lack is scale rather than ideas, talent or resources.

2.4 How non EU investors view Europe

2.4.1 Limited concerns over EU debt levels

An industry representative described how non EU investors view the prospect of investing in the EU. First, financial investment remains stable as international such as Asian and Middle Eastern investors are diversifying from US dollar denominated assets. EU level indebtedness is not considered problematic because it is offset by balanced external trade figures and the euro's perceived strength. Although public debt in some EU countries is a concern, it is not a priority for most foreign investors. Several factors contribute to the EU's attractiveness as an investment destination. For equities, these include the quality of large European corporations and comparatively lower entry prices than some US or Asian stock exchanges. Euro denominated sovereign debt can be appealing due to its attractive ratings and broad liquidity. Currently, the debt levels of individual states are generally not viewed as problematic.

2.4.2 Industrial investment in the EU lacks competitiveness, but key sectors retain their appeal

An industry representative noted that non EU investors see challenges with industrial and physical investments in the EU due to the high labour costs, energy prices, taxes and levels of regulation in Europe. Europe's competitiveness is being further eroded by the ongoing crisis in the Middle East. However, the EU is strong in sectors where these challenges are less influential, such as luxury goods, cosmetics, wine and spirits, food, pharmaceuticals, defence, aeronautics and rail. Local content requirements also enhance the EU's attractiveness, particularly in the automotive industry. Lastly, infrastructure remains an appealing sector due to solid business cases, the stable legal environment and protection against inflation.

3. Policy priorities: integration, credibility and mobilisation of private capital

3.1 Fiscal constraints and political trade offs: advancing the investment and integration agenda

3.1.1 Improving the quality of public spending and financing the energy transition

A policy maker welcomed the demand for European debt but noted that the fiscal situation in the EU is very different to that in 2022. The quality of public spending is important, especially when national budgets are under pressure. This underlines the importance of reducing energy dependence, which will require substantial investment. There is mounting pressure for compensatory measure, but the action taken must not hinder the transition to energy independence.

Further deepening of the internal market, including the capital markets, is the right path in the present global climate.

3.1.2 Overcoming political fragmentation and national vested interests to deliver the single market

A policy maker commented that the challenge of making progress is not simply a national versus European issue. Policymaking at all levels involves a balance of interests and policies rarely benefit everyone equally. Genuine conflicts can and do arise between national and European interests, but these conflicts are usually due to a specific group successfully lobbying a national government. The SIU is a good example of this. It is widely recognised as beneficial for the Union as a whole, but any discussion of practical measures always becomes more complicated. The pushback against the proposed rules on reduced commission based retail distribution is a case in point. John Berrigan received letters from 14 finance ministries opposing this measure. The proposals aimed to enhance investor protection and market integration but clashed with certain business models. The owners of these business models were highly successful in lobbying governments against the new rules.

The benefits of the single market need to be communicated more widely, but communication alone is not enough. Meaningful European reform will require a shared sense of urgency and an understanding that inaction will make everyone worse off. Secondly, the negotiation package must be sufficiently comprehensive to ensure it is not actively opposed. Thirdly, proper reform requires stable and confident governments capable of withstanding pressure from opposing groups. Currently, the sense of urgency is more pronounced than it has been in some time. Concerted efforts from national governments, the European Union and the marketplace are required to take Europe forward in terms of investment.

3.2 Public private investment and a European safe asset: aligning finance with common goals

A regulator described how Italy has recently established strategic funds which combine public and private investments. These funds aim to invest in companies with robust growth prospects while also enhancing access to essential raw materials and strategic supply chains. At a national level, public private partnerships can significantly revitalise financial markets and channel resources towards more ambitious shared goals. As the Draghi report states, public initiatives will only succeed if they are linked to specific missions and projects. Ensuring greater coordination at the European level begins with a clear shared definition of the objectives. In this context, a fundamental debate on the development of a European safe asset is needed to ensure genuine financing capacity.

3.3 Why global investors could turn to Europe: integration, geopolitics and a trusted euro

An industry representative emphasised that reducing operational costs in the EU will require greater integration, increased scale, faster adoption of new

technologies and harmonised local regulations. There are three key ways to make the EU more appealing to non EU investors. First, the integration of financial services in the EU should be accelerated. The delivery of financial services is highly burdened by local regulations, particularly in retail. Secondly, the geostrategic context provides an opportunity for the EU to establish itself as a more important region for countries seeking to navigate relationships across the globe. This geopolitical position could stimulate investment in the EU as these countries seek to foster relationships with the EU. Thirdly, the euro is a reliable reserve currency thanks to the credibility of the European Central Bank (ECB). The current Middle East crisis is likely to reaffirm that the euro is well managed and represents long term stability.

3.3 Towards an EU industrial strategy: aligning national efforts and mobilising investment

3.3.1 Coordinating national strengths to build European champions and strategic autonomy

A regulator stated that a common EU industrial policy is needed to ensure that Member State level initiatives align with Europe's common objectives. First, it is crucial to avoid dispersing resources across many different Member States. Instead, tasks should be distributed in an organised manner to achieve European strategic autonomy in the medium to long term. This could involve establishing specialised centres of excellence to leverage a particular country's unique skills, geographical location or infrastructure. Politically, this will be challenging. While undoubtedly more complex than harmonising financial market regulation, it is essential. Only through this approach will Europe develop major champions on a sufficiently large scale to compete internationally. This is an integral part of the narrative set out in the Draghi report and should underpin the future of Europe. Reinforcing this narrative is vital. National governments require the support of their citizens to implement major reforms. The European Commission's recent call for evidence on intergenerational fairness, focusing on youth unemployment and pension reforms, is a prime example of this.

3.3.2 Leveraging pension reforms and long term savings to support investment and the SIU

A regulator noted that the European Commission's November communication as part of the SIU pension reforms successfully presented an effective narrative. This communication addressed pension monitoring systems, dashboards and automatic enrolment. Italy's government has recently introduced auto enrolment measures for new private sector employees in supplementary pension schemes. According to OECD figures, 97.4% of people aged 15 to 64 in the Netherlands participated in pension schemes in 2025, compared to 52% in the UK and just 26.7% in Italy. In Sweden, pension fund assets accounted for around 115% of GDP, whereas in Italy the figure was just 11.7%. If other Member States were to emulate these practices, it would contribute to the SIU by increasing long term savings, standardising default investment pathways

through lifecycle funds and enhancing the capacity of institutional investors to channel resources into the real economy. Importantly, it should also help to address the issue of Europe's ageing population.

The Chair emphasised that there are many areas where the industry and the public authorities could collaborate. The November communication on the SIU pension package received significant attention from the industry. Recent meetings with representatives from the banking and insurance sectors have suggested that a way forward is possible.

3.4 Rebuilding credibility to unlock investment: less debt and more alignment

3.4.1 Mobilising investment through integrated capital markets, credible policies and trust

An official highlighted the importance of the perceived value of European level action. The key consideration for the markets is whether an EU initiative enhances investment opportunities and risk return profiles. If this is not sufficiently apparent to citizens, taxpayers and voters, national self interest will naturally dominate. Initiatives such as the SIU can play a crucial role here. Europe has significant savings, but these are not always channelled efficiently towards productive investment. Strengthening the capital markets by improving debt, liquidity and integration would mobilise these savings more effectively and support private investment.

To achieve this, several conditions must be met. First, there must be a clear and credible policy framework. Investors need to have confidence that the rules will be stable and interpreted consistently, that the fiscal trajectories of Member States are sustainable and that markets will remain open and integrated. Secondly, the benefits must be tangible to everyone. For households, this means better investment opportunities and returns. For firms, this means improved access to financing. For governments, it means a more resilient and diversified investor base. Thirdly, there must be trust in financial markets and between Member States. Without a fundamental level of trust, it will be impossible to achieve fiscal discipline and policy coordination. Ultimately, national self interest prevails not because of a lack of ambition, but because of a lack of alignment in the underlying incentives and conditions. Addressing this will require stronger national fundamentals and a more credible and effective European level framework.

The Chair agreed that virtuous behaviour is needed to build trust. This is true in financial markets and between countries. Indeed, the word 'credit' comes from 'credere', which means 'trust'.

Overall, the discussion highlighted that Europe's investment challenge is not only financial, but also structural and political. Addressing it will require a combination of credible macroeconomic frameworks, deeper market integration and stronger alignment of national and European incentives.

Innovation and medium to long term financing: what more is needed?

1. Setting the scene: innovation, competitiveness and the scale up financing gap

The Chair explained that innovation is the main driver of productivity, competitiveness and structural change, and is essential for addressing Europe's current competitiveness challenges, which are exacerbated by ongoing energy and price shocks. In his keynote address to the conference, Pierre Gramegna highlighted the importance of venture capital (VC) in fostering innovation and addressing the significant challenges around scale-up funding. In the first round of the discussion, the panel identified the key structural challenges affecting Europe's capacity to finance innovation and scale up companies, using the recent report by Jörg Kukies and Christian Noyer as a starting point. The second round addressed non financial sector factors that inhibit innovation and examined the prospects for the EU's new 28th regime.

1.1 Diagnosing Europe's scale up financing gap

1.1.1 Insufficient fund size and limited institutional participation

An official explained that the Kukies/Noyer report diagnosed Europe's key structural weakness as the difficulty of scaling up innovative firms. The first key issue is scale. EU venture and growth funds are smaller than their non EU counterparts, particularly in the US and UK. This results in smaller investments and hinders participation in larger funding rounds, limiting the potential for European scale ups to grow. Institutional investors in Europe have limited exposure to venture and growth assets due to regulatory restrictions, allocation frameworks and a lack of familiarity with the asset class.

1.1.2 Market fragmentation and weak exit conditions

Another key challenge is market fragmentation. The European capital markets are segmented along national lines. The variations in legal, tax, regulatory and supervisory frameworks obstruct cross border investment and the creation of pan European funds. Europe's shallower and less attractive exit markets cause a liquidity bottleneck, which affects everything from fundraising to development. These factors hinder access to the scale up capital and are even often more pronounced in smaller and less developed capital markets. The Kukies/Noyer report calls for amendments to the regulatory framework and a concerted effort to mobilise long term savings on a large scale.

1.2 Structural constraints in smaller markets: scale, home bias and institutional participation

An IFI representative set out the key challenges encountered by the European Bank for Reconstruction

and Development (EBRD). First, market size has a significant impact in smaller economies. Despite substantial EU support, there are still challenges relating to depth, liquidity, diversification and asset structure. Home bias is another challenge which is present in both bigger and smaller markets. Finally, in some cases institutional investors, specifically pension funds, are prevented from participating in private equity and venture capital by various national rules and regulations. In many EU nations, there is a reluctance to allocate to private equity due to the perceived risk, which can be due to unfamiliarity with the asset class. A recent study in Poland highlighted the challenges created by the limitations of the investor base.

1.3 Lessons from regional integration: the Baltic experience

An IFI representative described how the EBRD and the EC have helped the three Baltic countries to establish a shared market framework. These countries have developed shared infrastructure, including unified exchange ownership and central securities depository (CSD), and launched joint financial products. Uniquely within the EU, they are classified by MSCI as a single market with a common index classification, reflecting a level of integration beyond the EU as a whole. However, the common Baltic market still lacks the scale and liquidity required to reach emerging market status. This highlights the structural challenge of achieving sufficient market depth. The Chair added that the establishment of a shared capital market or stock exchange in the Baltic countries enables greater economies of scale.

1.4 Addressing specific financing barriers: IP valuation and access to scale-up funding

A policymaker commented that the Kukies/Noyer report highlights the importance of scale-up finance and its relevance to the Savings and Investments Union (SIU). Scale-up financing is crucial to fostering innovation, which in turn is vital for competitiveness. Although around 24% of global unicorn founders originate from Europe, more than half relocate to the United States, highlighting Europe's difficulty in scaling up innovative companies domestically. Innovative companies often lack tangible assets and therefore face significant difficulties accessing bank lending due to the lack of, or inadequate valuations of intellectual property (IP). The Commission aims to address this gap by exploring the development of a public guaranteed scheme with the EIF, secondary markets for IP rights, IP securitisation and IP tokenisation. These initiatives are expected to be further developed for the next Multiannual Financial Framework (MFF).

2. Financing innovation: market dynamics and investment channels

Building on this diagnosis, the discussion turned to the functioning of the financial markets and the different channels through which innovation can be financed in Europe.

2.1 The Nordic financing model: building a supportive ecosystem for venture capital

An industry speaker explained that the Nordic financing model comprises numerous 'pockets' of finance that bolster venture capital at different stages. This financial structure diversifies the risk and attracts local and international capital.

2.1.1 Strong domestic capital and local ownership structures

To establish this kind of ecosystem, there must be a robust domestic capital base. Early stage national financing attracts international investors, which look for reliable local partners and liquid markets. Equally, the existence of a local ownership framework and substantial domestic capital reserves ensures competitiveness and fosters the development of high quality projects.

2.1.2 Expanding the venture ecosystem and widening institutional participation

The capital markets must support companies throughout their growth lifecycle, particularly those operating outside traditional lending models. The venture ecosystem must expand. Increasing the number of limited partner investors and using state supported fund of funds structures can deepen the market and promote fund development. Institutional investors need to invest in illiquid alternatives to expand the capital base. In Sweden, pension funds invest in start ups and risk capital through a state pension fund dedicated to unlisted equity. Denmark has a similar structure, which has indirectly invested in over 800 companies in the last decade.

2.1.3 Public private cooperation and risk sharing mechanisms

Collaboration is essential. Risk sharing through public private partnerships has become more common in the Nordics and the EU. Instruments such as InvestEU are vital for fostering innovation. Enhanced public private cooperation can ensure genuine risk mitigation and mobilise more private capital. Alongside traditional equity financing, alternative sources of capital are becoming more important.

2.2 Private credit as a growing pillar of Europe's innovation financing and risk capital

An industry representative highlighted a structural gap in risk-bearing capital within European capital markets, noting that around 75% of corporate funding in the United States comes from non-bank sources, compared to only about 12% in Europe, which remains largely reliant on bank lending. Private credit can be a viable alternative for long term risk capital. It is flexible enough to adapt to companies with uncertain or evolving cash

flows and specialised collateral structures, and it can address underserved or complex market segments by providing financing solutions where traditional funding is unavailable. The private credit market is projected to reach between €680 billion and €760 billion by 2028, driven by demand from infrastructure, renewable energy, artificial intelligence and data centres as well as stronger institutional backing. The development of private credit should lead to more flexible financing solutions, which are particularly beneficial for start ups and innovative companies.

The Chair noted that several significant credit risk issues have arisen recently in the US and Europe. An industry representative acknowledged that private credit is not risk free and is currently subject to increased market scrutiny. Maintaining strong credit quality remains critical. The Chair replied that private credit offers some benefits, but it cannot be an area of unlimited risk taking.

2.3 Mobilising European savings: pension funds, retail investment and tax reforms

A policy maker highlighted several key EU level initiatives to improve market financing. First, there is the proposed savings and investment account, which is intended to direct the €10 trillion of domestic savings in the EU towards more productive investment. Secondly, pension funds can provide crucial support for start up financing. However, pension funds remain significantly underdeveloped in Europe, representing around 25% of GDP compared to approximately 150% in the United States. The Commission intends to revitalise the Pan European Personal Pension Product (PEPP) by encouraging member states to grant the PEPP a tax advantage that is similar to those offered to domestic products. Finally, there is still a key challenge around withholding taxes. Despite the existence of a single market, withholding taxes act as a customs duty on financial flows. The Commission is seeking to make significant progress in this area in the upcoming omnibus initiative scheduled for June.

2.4 Reassessing Europe's funding model: misallocation and the shift to innovation capital

A public representative argued that Europe is facing a shortage of innovation capital and a fundamental misallocation of resources. More private capital must be directed towards public private collaborations and the process for allocating EU funds should also be reconsidered. Currently, two thirds of financing is spent on cohesion and agriculture, leaving one third for industrial policies and other impactful areas. The majority of these funds are distributed to large corporations, which have the financial capacity to finance projects without public support. The EU's funding model should focus on closing the innovation capital gap. There must be a fundamental reorientation of EU funding priorities towards innovation capital rather than a series of incremental adjustments.

2.5 Unlocking investment: reforming EU funding instruments and mobilising private capital

A public representative emphasised that InvestEU must be significantly enhanced to leverage funding more

effectively. First, a small and medium sized enterprises (SME) quota should be implemented within InvestEU. Secondly, procurement must be modernised. Less than 1% of EU public spending supports innovative companies. The relative lack of significant companies founded in Europe over the past 50 years illustrates the need to reevaluate the EU's industrial policy. Institutional and retail investors need to be encouraged to invest in venture capital rather than in private equity. By capping returns and losses with public guarantees, venture capital could become a more attractive option. The currently proposed measures are insufficient to increase innovation capital to the necessary levels, and further securitisation reform is needed to support the housing market and other areas.

3. Policy responses and the future of European capital markets

In light of these challenges, the panel discussed the policy responses required to strengthen Europe's financing ecosystem and support long term investment.

3.1 Boosting long term financing and scale up investment: EU policy responses

An official remarked that Europe's long term capital base must be strengthened by creating the conditions for larger and more resilient growth funds. EU level action should focus on removing fragmentation and building scale. This includes advancing the 28th regime; using the EIF and the European Tech Champions Initiative (ETCI) 2.0 as cornerstones of the scale up architecture; and delivering concrete progress on the SIU.

A policy-maker underlined the importance of InvestEU in mobilising investments. With a guarantee of €26.2 billion, InvestEU has successfully leveraged over €372 billion in public and private investments. The aim is to continue this trajectory in the next MFF by making an additional investment of €200 billion and seeking to achieve a multiplier effect of 14.8. Across the €234 billion budget for the European Competitiveness Fund (ECF) and the €175 billion budget for Horizon Europe, there will be €409 billion focused on accelerating growth in strategic technologies, particularly clean transition and industrial decarbonisation. Two of the key initiatives are the ETCI and the fund of funds launched by the European Investment Bank (EIB) Group in 2023. These initiatives aim to mobilise over €20 billion in EU scale up investments. The upcoming European Innovation Investment Pact (EIIP), developed with the EIB Group, aims to encourage institutional investors to allocate a portion of their assets to EU funds of funds and venture capital funds. The Chair commented that a significant amount of public private cooperation will be needed to achieve a multiplier of 14.8.

3.2 Strengthening EU integration: legal frameworks, capital mobilisation and strategic priorities

3.2.1 Strategic context: integration, savings mobilisation and geopolitical shifts

A public representative observed that the 28th regime is an innovative digital legal framework designed to

complement national corporate structures and facilitate cross border scale up. The SIU aims to channel savings in low risk deposits towards productive investment. There have also been efforts to encourage retail investment, develop supplementary pensions and integrate market supervision by transferring responsibilities to European Securities and Markets Authority (ESMA). However, the militarisation of Europe's finances is irreversible. It has become a defining factor in investment because security is now the top priority. The rediscovery of mutual security is addressed in Article 41.7 and this factor will influence the next MFF. The Chair agreed on the need to understand the macroeconomic implications of the huge increase in defence spending.

3.2.2 Addressing legal fragmentation: the 28th regime as a core integration tool

A policy maker noted that the EU's fragmented legal landscape delays company formation, increases costs and discourages scale up. The 28th regime is a strategic response to these challenges. The EU Inc. proposal is an ambitious legal regime designed to facilitate seamless operations and growth across the EU. The aim is to retain firms that might otherwise move abroad by allowing them to benefit from a single EU legal system. EU Inc. offers expedited registration, enabling companies to register within 48 hours for under €100 with no minimum share capital requirements. The regime proposes streamlined and fully digital procedures for setting up a company, helping founders to start or restart ventures quickly and cost effectively. It also aims to create better conditions for investment and talent acquisition and to provide complete access to the single market, Europe's greatest asset. The proposal also has important tax and fiscal implications. It includes rules on insolvency, among other provisions, which are currently under review by the co legislators. It is hoped that the European Parliament and the member states will support the proposal to enable regulatory convergence, which will be crucial for the success of the 28th regime in achieving comprehensive integration.

3.2.3 From design to implementation: limits and conditions for success

A public representative expressed his appreciation for the EU Inc. proposal, which was prompted by developments in the start up industry. The fact that the proposal is contained in a regulation ensures uniform application across Europe. While the swift digital registration process is commendable, the digital opt outs could allow notaries to reintroduce complexity through exemptions. Notably, there are no provisions on labour mobility in the proposal. A de minimis clause could permit temporary employment contracts under national terms and conditions, which would address some of the practical difficulties of navigating the single market. There are also concerns around the disparities in judicial interpretation.

An official stated that scope and taxation are essential for the success of the 28th regime, particularly with regard to employee equity and stock option plans. Addressing these issues is vital for start ups and scale ups to avoid bottlenecks. The regime must be simple. If it is too complex or incomplete, adoption rates will be low.

Balancing harmonisation and political feasibility will be the key to effective implementation.

3.3 Simplification and investor confidence: key conditions for a strong VC ecosystem

From an investor perspective, these reforms must also ensure confidence and predictability. An industry speaker highlighted the importance of maintaining investor confidence and robust pricing mechanisms. Equity investors play a critical and highly sensitive role in the scale up phase. They are highly reactive to policy uncertainty and have the potential to withdraw rapidly in the face of indecisiveness. Therefore, policy stability and predictability are key to sustaining market confidence and attracting venture capital. By reducing the complexity of dealing with multiple stakeholders, the 28th regime could significantly enhance the venture capital ecosystem.

3.4 Geopolitical shifts and their implications for Europe's financing priorities

Concluding the panel, a public representative noted that geopolitical realities will likely shape European financial priorities in the future. The growing emphasis on defence and security is already altering the course of European investment priorities. Clearly, action is necessary at both national and European level to address the shortfall of private capital. Despite its bureaucratic machinery, Brussels is beginning to respond to these challenges.

Overall, the discussion highlighted a broad consensus on the structural barriers to scaling up innovation in Europe and the urgent need to mobilise public and private capital more effectively. While a wide range of policy initiatives is underway, their success will ultimately depend on effective implementation, stronger investor confidence and Europe's ability to act at scale. In a rapidly changing geopolitical and economic environment, strengthening the financing of innovation is not only a policy objective but a strategic imperative for Europe's long-term competitiveness.

Relaunching growth and investment: what role for monetary policy?

The session took place against a backdrop of heightened geopolitical uncertainty and overlapping shocks, particularly related to energy prices and global tensions. Discussions focused on the implications of this more volatile environment for monetary policy, inflation dynamics and growth prospects in the euro area. Panellists examined both the short-term policy response and the longer-term structural challenges facing Europe, including productivity, technological change and the evolving role of the euro in the global financial system.

1. A more shock-prone world: assessing risks and macroeconomic uncertainties

This first part of the discussion focused on the increasingly shock-prone global environment, examining the nature of recent energy and geopolitical shocks and their implications for inflation and macroeconomic dynamics.

1.1 Navigating overlapping shocks: implications for monetary policy and structural change

The Chair began by emphasising that the environment is becoming increasingly prone to overlapping shocks. In that context it was striking that despite frequent large shocks, not least the changing global trade regime, monetary policy was able to stay in "a good place" for around a year. The question now is whether the latest energy price shock is different and requires a reaction from the European Central Bank (ECB).

1.2 Lessons from 2022: navigating the current energy shock

A Central Bank official highlighted four key differences between the recent shock and the 2022 energy price shock. First, inflation was already relatively high in 2022 before the energy price shock hit, reflecting supply chain disruptions and the recovery from the initial phase of the pandemic. Second, growth rates were much higher in 2022 than the subdued growth experienced in the euro area over the past two years. Third, interest rates were negative in 2022, whereas they are now at 2% in the euro area, providing the central bank with greater flexibility. The fourth difference is that the public reaction was different in 2022, as people had little recent experience of an inflationary episode. Now, with fresh memories of rapidly rising prices and emerging wage pressures, firms, consumers, and governments may react with greater urgency.

The key to success is to be well positioned, maintain vigilance and be prepared to act quickly should signs of second-round effects emerge.

1.3 Geopolitical uncertainty and 'wait and see' dynamics: short-term risks, long-term opportunities

An industry representative emphasised the greater intensity and unpredictability of geopolitical shocks today. It is unclear how long conflicts will last. In such an environment, the natural response is to adopt a 'wait and see' attitude towards monetary policy, the private sector and investment. This delays decisions, with the implications for monetary policy remaining unclear.

In the longer term, however, there is reason for optimism. Technological change is happening more quickly. If industries, the private sector and institutions learn how to harness the benefits of rapid technological change, it will be possible to lead the economy out of this uncertain situation much more effectively than before.

1.4 Energy shocks, persistent inflation and the risk of stagflation

A market expert stated that, historically, all crises involving sharp increases in energy prices have led to recessionary pressures and inflation. The current conflict in the Middle East is pushing prices up, creating both inflationary and recessionary risks. Even if energy prices were to decline, the overall price level would be higher than before the shock occurred, indicating that the impact on inflation dynamics would be long-lasting.

Europe needs to intensify its structural policies, which have not been developed sufficiently over time. The current environment points to a prolonged struggle against both inflation and stagnation. In this context, monetary policy cannot be neutral and must maintain a clear anti-inflationary stance. It would be unrealistic to expect prices to return to their previous levels. Some economic damage is inevitable, but it is essential to limit its extent as much as possible.

2. Monetary and fiscal policy responses to shifting energy, inflation and growth dynamics

The discussion then turned to the appropriate monetary and fiscal policy responses in this context, with a particular focus on managing uncertainty, preserving policy credibility and avoiding counterproductive interventions.

2.1 Monetary policy in a world of overlapping shocks and non-linear risks

A Central Bank official highlighted the increasing significance of geopolitical uncertainty, observing that the global landscape is more prone to conflict and characterised by overlapping shocks that interact in

complex ways. Shocks may initially emerge as supply-driven disturbances before evolving into broader demand shocks, increasing the likelihood of non-linear economic effects. In this context, firms and households may react more quickly and strongly to high inflation, making it more challenging to calibrate monetary policy.

2.1.1 Scenario analysis as a tool to navigate uncertainty without guiding market expectations

A Central Bank official explained that the ECB's recent strategy update has placed greater emphasis on dealing with uncertainty, particularly through the enhanced use of scenario and sensitivity analyses. Although monetary policy decisions remain anchored in a baseline scenario, alternative scenarios are employed to evaluate risks and gain a clearer understanding of how the economy could evolve under different circumstances. In the latest projection round, the ECB introduced adverse and severe scenarios based on different energy price development assumptions. Unlike the baseline scenario, these scenarios are not consistent as they do not incorporate an endogenous monetary policy response and should therefore not be interpreted as alternative policy paths. Instead, they serve as analytical tools to gauge the potential economic impact of shocks and the scale of policy adjustments that might be required, without constituting alternative policy paths or direct signals for market pricing.

2.1.2 Monitoring high-frequency data, expectations and fiscal interactions to detect regime shifts

A Central Bank official stated that a key challenge lies in assessing in real time whether the economy is deviating from the baseline towards one of these alternative scenarios. It is important to closely monitor the source of shocks and the emergence of non-linear dynamics. This requires a greater reliance on granular, high-frequency data in order to detect early changes in behaviour. De-anchoring of inflation expectations or more aggressive repricing by firms would be critical signals requiring immediate policy action.

In 2022, fiscal policy added a significant positive demand shock. In the current context, however, fiscal space is more limited, suggesting that policy responses should be smaller, more targeted and focused on alleviating peak pressures rather than providing broad income support.

Overall, the ECB's approach remains meeting-by-meeting and data-dependent. In an environment of heightened uncertainty, it is more appropriate to clearly communicate the reaction function of monetary policy than to provide forward guidance on future decisions.

2.2 Communicating monetary policy in uncertainty and avoiding counterproductive fiscal responses

The Chair added to the previous intervention, noting that in times of uncertainty scenario analysis can be a very useful tool to communicate for central banks. The Chair also agreed that an untargeted fiscal response that distorts the price signal and prevents demand for energy from adjusting accordingly would be problematic. There is no reason for such a response at this stage, as the current energy price shock is not as severe as the Russian gas shut-off. The impact on household balance sheets,

including for vulnerable households, remains limited. Untargeted, fiscally costly measures could create the expectation that the government is the main insurer against all external shocks.

2.3 Rising debt, energy shocks and the return of inflation risks

A market expert identified two significant trends that are currently shaping the environment. OECD countries are grappling with mounting public debt, with government debt projected to surge from 83% to 86% of GDP by 2026. Furthermore, the IMF forecasts that European public debt will reach approximately 130% of GDP by 2040. This is the most serious fiscal situation since the Second World War and must be taken into account when assessing inflation risks. Secondly, geopolitical tensions in the Middle East are impacting energy prices. Oil prices have risen significantly, from around \$60 at the start of the year to above \$100. This combination of rising debt and higher energy prices creates a challenging macroeconomic environment.

2.3.1 Fiscal deterioration and higher energy prices as key drivers of a more fragile macroeconomic environment

A market expert acknowledged that a temporary increase in energy prices could, in theory, be overlooked by monetary policy, but there are four important caveats. First, if the increase persists, it could be passed on to consumers, resulting in permanently higher prices even if energy prices subsequently decline. Secondly, it is important to closely monitor core inflation, which remains high, particularly in the eurozone and the US. Thirdly, there is an abundance of global liquidity; years of accommodative monetary policy continue to fuel strong debt dynamics and relatively narrow spreads. Fourthly, the recent rise in long-term interest rates may reflect growing investor concerns.

2.3.2 The case for a more preventive monetary stance and stronger fiscal discipline to avoid stagflation

A market expert argued that the balance is shifting towards a more preventive monetary policy stance. Given that the primary objective of central banks is to maintain price stability, interest rates may need to increase further despite high public debt levels and risks of fiscal dominance in order to avoid a stagflationary scenario.

Even if energy price shocks prove temporary, the combination of persistent fiscal deficits and elevated inflation risks should not be underestimated. In the most pessimistic scenario, inflation is projected to reach 4.8% in 2027. Monetary policy must be considered in relation to fiscal policy. A lack of fiscal discipline would necessitate a more restrictive monetary approach; conversely, if fiscal policy were to become more disciplined, monetary policy would be under less pressure. In other words, if fiscal policy remains expansionary, monetary policy would need to be more restrictive, whereas greater fiscal discipline would ease pressure on monetary policy.

A prolonged conflict in the Middle East would lead to lasting increases in price levels. Vigilance is important, as the failure to act appropriately could result in a more difficult stagflationary environment.

3. Structural challenges and long-term transformations for European growth

Beyond short-term policy challenges, the panel also addressed longer-term structural issues shaping Europe's growth prospects, including productivity, technological change and the evolving financial landscape.

3.1 Resilience, structural weaknesses and policy priorities in the euro area

A Central Bank official explained that the domestic euro area economy was showing a fair degree of resilience before the start of the war, but this has now changed. Over the past six years, the euro area has experienced four significant crises: Covid, the Russian invasion of Ukraine, the announcement of tariffs and the conflict in the Middle East. During Covid, projections proved wrong. In this context, central bank models struggle to capture sudden changes in the behaviour of households and firms.

3.1.1 Resilience, forecasting errors and changing economic dynamics

A Central Bank official underlined that the euro area is facing a structural problem of weak potential growth and productivity. Addressing this requires continued progress on key European policy priorities, such as completing the banking union, advancing the savings and investment union, and deepening the single market. Studies by the IMF and the ECB suggest that there is substantial untapped potential within the European Union. Given the current situation, structural reforms should be accelerated.

3.1.2 Structural reforms, targeted support and the role of monetary policy in sustaining growth

A Central Bank official cautioned against placing too much emphasis on short-term challenges, such as calls to offset rising energy prices. Any support should be temporary, targeted at the most vulnerable and not undermining price signals or slowing down the energy transition. Recent developments highlight the need to accelerate the transition and to reduce Europe's dependence on fossil fuels for economic and geopolitical reasons. The weak fiscal position of many countries limits the scope for policy responses. The primary role of monetary policy is to maintain price stability; this is the most effective way in which central banks can support sustainable growth.

The Chair noted that, while Europe is currently experiencing a big structural shock, if it continues with the energy transition, the impact of such a shock would be very different 10 years from now. Therefore, it is important to continue with and accelerate the energy transition, and to be careful with bailout packages because of the fiscal costs.

3.2 Artificial intelligence, investment and policy challenges for European growth

3.2.1 AI as an opportunity amid uncertainty and Europe's structural constraints

An industry representative described artificial intelligence (AI) as a major opportunity, while cautioning against excessive optimism regarding its short-term impact on productivity. The economic effects of AI are still uncertain. The associated investments are substantial because they require not only intangible assets but also significant physical infrastructure. While the new technologies are extremely powerful, they must be governed. The governance of the distribution of these technologies should promote larger rather than fragmented markets and support the development of skills.

There is a growing disparity between the United States and Europe in terms of investment, innovation and resource allocation. Europe could risk entering a period of low growth if it fails to act decisively. There is a need for clear policy signals to make Europe an attractive place to invest. The incomplete implementation of key initiatives such as the banking union and the capital markets union hinders Europe's economic performance. Institutional fragmentation, often driven by non-economic considerations, further complicates the situation.

3.2.2 AI, policy mix and financial stability risks: macroeconomic implications

A Central Bank official agreed that, in a geopolitical environment characterised by frequent shocks, fiscal interventions should be used only where necessary and withdrawn quickly. While the primary objective of central banks is to manage inflation, inadequate action from other policies could necessitate tighter monetary conditions, which might dampen demand.

Europe did not benefit fully from the previous digital transformation and cannot afford to fall behind in the AI transition. Failure to act would result in persistent underperformance, with significant geopolitical and social implications. Europe can still succeed if it acts decisively on structural reforms.

There are potential financial stability risks linked to the scale of investment in AI infrastructure. In 2025, US investment in AI-related infrastructure reached 2.1% of GDP, a historically significant level, second only to the US purchase of Louisiana in 1803. If this momentum were to weaken due to energy shocks, this could cause instability at both the investment stage and the stage of delivering expected productivity gains.

From a macroeconomic perspective, stronger productivity growth driven by AI could eventually lead to higher interest rates. In the short term, however, productivity gains could exceed wage growth, creating disinflationary pressures. The overall impact will depend on whether investment-driven demand materialises in Europe or elsewhere. Significant uncertainty remains regarding these dynamics.

3.3 Stablecoins, monetary sovereignty and the challenges for policy transmission

A Central Bank official emphasised that the digitalisation of payments and financial markets is a positive development that offers significant opportunities.

However, from a monetary policy perspective, it also poses important risks, particularly with regard to monetary sovereignty and the transmission of monetary policy.

The growing popularity of stablecoins, particularly those tied to foreign currencies, could diminish the significance of central bank money as the foundation of the monetary system. Furthermore, stablecoin issuance could alter banks' funding structures by shifting resources from stable retail deposits to more volatile wholesale funding. This would increase liquidity risks, weaken intermediation capacity, and potentially affect the transmission of policy rates, given that wholesale rates tend to adjust more rapidly than deposit rates.

There are two main responses to these developments: regulation and adaptation. In terms of regulation, micro-prudential, macroprudential and conduct supervision is important, including the role of the EU's Markets in Crypto-Assets (MiCA) framework. Regarding adaptation, central banks must adjust to the evolving financial landscape. A key example of this approach in the retail sector is the digital euro. Central banks are seeking collaboration rather than competition with the banking sector.

More broadly, technological developments could have a significant impact on monetary policy and how it is implemented, meaning that central banks will need to adapt their frameworks. The financial liberalisation of the 1980s led to a shift away from targeting monetary aggregates; similar adjustments may be necessary today. Rather than trying to resist technological innovation, Europe should look to proactively adapt to it.

The Chair noted that the digital euro is a key path to bring central bank money into the digital age.

3.4 The international role of the euro in a changing geopolitical environment

A Central Bank official observed that, for the euro to play a stronger international role, it is necessary to respond to increasing demand. The new repo facility is one such response. However, further steps may be needed. Geopolitical uncertainties are prompting discussions about the extent to which the euro should assume a more prominent role. History shows that periods in which different currencies compete for dominance can be challenging.

However, a stronger international role for the euro may also entail downsides, such as appreciation pressure and other challenges that need to be taken into account. The best approach is therefore to be well prepared, which is what the ECB is aiming to do in response to these inherently political developments. In terms of transactions and reserve holdings, the US dollar still remains the dominant currency worldwide. It is unclear how the situation may evolve in the future, underscoring the importance for Europe to be well prepared.

The Chair noted that, for Europe to be well prepared, it needs to have a single market and a deep capital market.

In concluding the discussion, the Chair stressed the importance of structural reforms in strengthening

Europe's medium-term growth potential. Europe must move forward with EU-level reforms to remove market frictions, deepen the capital markets union and establish an energy union, while national reforms are also needed to increase productivity and living standards. Growth is essential to maintain Europe's social contracts, particularly given long-term spending pressures and the need for fiscal consolidation. Every crisis leaves scars, but there was confidence that Europe can enact policies to limit the impact of this shock and emerge stronger over the medium to long term.

The discussion highlighted the increasing complexity of the current policy environment, marked by overlapping shocks, persistent inflation risks and heightened uncertainty. While there was broad agreement on the need for vigilance, views differed on the appropriate policy stance. Some participants emphasised the need for a more preventive monetary tightening to contain inflation risks, particularly in the context of rising energy prices and fiscal imbalances. Others underlined the importance of a cautious, data-dependent approach, given the uncertainty surrounding the duration and transmission of current shocks.

At the same time, there was a shared recognition of the importance of an appropriate policy mix, including more targeted fiscal measures and greater fiscal discipline. Looking beyond the short term, strengthening Europe's growth potential through structural reforms, technological adoption and deeper financial integration emerged as a key priority. Despite the challenges, there was confidence that Europe can adapt and enhance its resilience over the medium to long term.

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SIU: can decisive progress be made with the current proposals?

1. Progress made on the SIU and future prospects

The panellists broadly supported the SIU proposals, highlighting stronger political momentum than in previous CMU initiatives, as well as the potential of the current package to deliver meaningful improvements in the depth, growth and integration of European capital markets, going beyond incremental measures.

A policymaker emphasised that, following previous attempts to build a Capital Markets Union, the SIU strategy was presented one year ago as a decisive step towards effective delivery of more developed and integrated European capital markets. A broad set of ambitious recommendations and legislative proposals is now on the table and under discussion by the co-legislators.

A public representative noted that the European Council has set highly ambitious objectives for the SIU, calling for substantial progress within the year, in particular on key measures such as securitisation and the supervisory framework, and assigning demanding responsibilities to negotiation teams and finance ministers.

An official observed that, despite several CMU action plans and repeated discussions between the public and private sector stakeholders, little substantive progress has so far been achieved regarding the integration and scale of European capital markets. Progress has nevertheless been made in terms of political impetus and the regulatory framework, with the Market Integration and Supervision Package (MISP) proposal and the securitisation framework, representing significant steps forward, supported by a strong political signal from the European Council. Broad agreement exists on the key objectives of SIU, notably the need for connected trading and post-trading infrastructures to enhance the scale and liquidity of European capital markets, alongside reduced operational frictions, more streamlined regulation and more integrated supervision to avoid regulatory inconsistency, arbitrage and duplication of reporting requirements. These objectives must now be translated into concrete outcomes, which will require maintaining ambition and consistency with the high-level objectives of the SIU throughout the legislative process.

A regulator emphasised that the SIU package represents a comprehensive and coherent response to the structural, regulatory and supervisory barriers that continue to limit the further integration and development of European capital markets. The Commission proposals are well targeted, combining measures to strengthen public markets, support private financing channels, enhance funding conditions

for companies and better connect savings to investment, alongside essential reforms of the regulatory and supervisory framework. A significant step forward is now needed, with urgency requiring a shift from policy design to effective implementation in order to deliver tangible results.

An industry speaker also supported the SIU proposals, stressing that effective implementation will require both public authorities and industry to deliver. The current package combines ambition with a more dynamic timeline than previous initiatives, with a clear focus on liquidity, competition and market consolidation.

Another industry speaker considered that the growing political momentum around capital markets reflects a step change in the European policy debate, with broader recognition that deeper capital markets are essential to competitiveness. Regulation is only one driver of market development alongside digitalisation and tokenisation in particular, which are reshaping market access, efficiency and connectivity, and must work in tandem with these developments.

2. Key priorities of the SIU

The panellists highlighted key priorities within the SIU, including the MISP proposal, the development of retail investment and the financing of innovative and growth companies. At the same time, some remaining gaps were identified. An industry speaker pointed to market structure as an area insufficiently addressed despite growing political recognition, notably in the joint letter published on 11 March 2026 by 6 European Ministers of Finance (Advancing the SIU – An imperative for European competitiveness), highlighting that the increasing share of dark and bilateral trading creates an unlevel playing field, distorts price formation, reduces transparency and limits access to liquidity.

2.1. MISP package

A policymaker emphasised that while no single measure can deliver the SIU results on its own, the MISP set out in December 2025 appears to be the most impactful element, with the potential to deliver larger, more efficient, deeper and more liquid capital markets if adopted as proposed. Its success will depend on maintaining ambition, speed and integrity of the package as a whole.

A regulator stated that the MISP plays a central role in enhancing integration and scale, notably through the proposed reforms of the supervisory framework. The overall coherence of the package is a key strength, with mutually reinforcing elements. Improving

supervision, notably with a clearer allocation of responsibilities between EU and national authorities, is essential to ensure both effectiveness and consistency. At the same time, it is recognised that supervisory reform alone will not be enough to unlock capital markets.

An official agreed that the Commission's proposal on supervision is a pivotal component of the package. Innovation is also an important area requiring further progress.

An industry speaker highlighted that regulatory fragmentation remains a major obstacle, particularly in retail markets, where divergent requirements, including inconsistent pre-contractual disclosures, create unnecessary complexity and costs for financial firms operating across the EU, for example by requiring digital tools to be adapted to different national rules. Building a genuine SIU is not compatible with 27 different rulebooks, making it necessary to avoid national gold plating and move towards a more unified framework. Simplifying certain regulatory constraints on banks could also enable them to play a stronger role in capital market intermediation.

A public representative noted that rapid global developments on tokenisation, particularly in the United States, as illustrated by recent approvals by the US SEC to trade certain securities in tokenised form, require close attention to avoid losing competitiveness. A strong emphasis should therefore be placed on tokenisation and DLT, where the EU is already a frontrunner, building on the DLT pilot regime introduced in 2023 to enable larger-scale operations and support the developments of these markets.

2.2 Increasing retail investment

An industry speaker stated that European capital markets suffer both from fragmentation and from insufficient depth and underdeveloped investor base. While the MISP appropriately addresses key aspects of fragmentation, further efforts are needed to build a more resilient and diversified investor base over time. Strong capital markets require a heterogeneous mix of investors across asset classes and time horizons, yet Europe lags behind in both retail participation and funded pensions. Households represent around 40% of equity markets in the United States, compared with around 10% in Europe, while pension assets reach around 125% of GDP in the United States versus around 20% in the EU on average.

The industry speaker further noted that recent growth in household participation driven by generational and technological factors provides some grounds for optimism. The Retail Investment Strategy could reinforce these trends, particularly through simplified advice, which creates a scalable middle ground between execution-only and full paid advisory models and could enable the development of digital, innovative and replicable solutions for a broader investor base. The effectiveness of this approach will depend on its design at Level 2 and on the willingness of market participants to commercialise such solutions. Funded pensions are also a key driver of market depth and an

essential component of the funding ecosystem of scale-ups.

A second industry speaker stressed that the development of supplementary pensions and savings and investment accounts put forward in the SIU are essential drivers of retail investment. Strengthening Pillar II and Pillar III pension systems, including auto-enrolment, is a potential gamechanger, as shown by successful national experience with multi-pillar systems such as in Croatia, where supplementary pensions have reached around 27% of GDP after 20 years. Savings and investment accounts could also significantly support capital markets, by mobilizing part of the €11 trillion held in bank deposits by European households, provided frameworks are simple, accessible and supported by tax incentives, drawing on existing national examples such as Sweden.

A third industry speaker emphasised that increasing the share of savings invested in long-term assets across the EU is essential. This requires measures that enhance the attractiveness of long-term investments for retail investors while allowing adaptation to national specificities. The Finance Europe label initiative launched by 7 member states for retail financial products, for example, provides a useful general framework that Member States can adapt to their local market conditions. Efforts to develop pension savings should also be encouraged, as these are by definition long-term investment vehicles. Building investor confidence is also critical and requires strengthened financial education tailored to national starting points to improve the understanding of risk and return and of the benefits of long-term investment. Greater shareholder empowerment could further reinforce investor confidence by strengthening investors' perception of their impact on the firms they invest in and the broader economy. Simplifying information and reporting is also necessary to build investor confidence, as current disclosures often create confusion rather than transparency.

2.3 Financing innovative and scaling firms

A public representative highlighted that the persistent gap in scaling innovative companies, particularly in later-stage financing such as IPOs and growth capital, remains a key challenge, leading to a loss of capital and talent to other jurisdictions, notably the US. Addressing this requires a broader ecosystem approach that supports companies throughout their growth cycle, including stronger pension systems and appropriate investment vehicles.

An industry speaker noted that further development of securitisation can support financing for infrastructure, innovation and transition projects. Greater integration of European financial markets is also essential to retain financing within the European ecosystem and create a virtuous circle between company performance and returns for savers. The industry speaker also pointed to the need for additional measures on the institutional side to encourage investment in long-term assets, including easing Solvency II constraints on equity investment, particularly in innovative and growth companies offering higher return potential.

3. Conditions for a successful delivery of SIU

The panellists highlighted two key conditions for successful delivery of the SIU: maintaining a high level of ambition and ensuring an effective transition towards greater European integration and EU level governance. An industry speaker also stressed that the development of capital markets depends on the presence of strong, growing companies to invest in, alongside a robust pipeline of investable firms and effective financing channels for innovation and growth.

3.1 Maintaining ambition and integrity of the package

A policymaker emphasised that the level of ambition must be maintained across a package covering a wide range of services, investors and measures including supervision, and should not be weakened by carving out elements that may appear easier to negotiate, as all components are interlinked and follow a common logic. Timing is also critical, with negotiations needing to progress rapidly in line with the European Council's end-2026 objective, given the time required for implementation. Speed should not come at the expense of ambition, however, as a lowest-common-denominator outcome would not deliver capital markets fit for purpose.

A public representative noted that the current SIU package can deliver progress, but ambition must be maintained to fully leverage existing momentum, while preserving the coherence of the overall package, despite emerging discussions about prioritising certain elements.

An industry speaker agreed that ambition is the key driver for achieving sufficient scale and speed in the development of European capital markets. Past calls for caution and incremental approaches are no longer appropriate in the current geopolitical context, which requires more decisive action. While unanimity across Member States remains preferable, it may constrain the pace of progress given differing national priorities, making enhanced cooperation or coalitions of willing countries a necessary option if timelines are not met. Delivery should also combine top-down regulatory action with bottom-up initiatives, with the private sector playing a central role in setting standards and driving consolidation to accelerate integration beyond what regulation alone can achieve. Accelerating such market-driven initiatives may however require in some cases a more flexible approach to competition policy.

3.2 Effective governance and transition from domestic to EU level supervision

An industry speaker emphasised that the Commission proposal to move parts of supervision to the European level represents a potentially radical change requiring strong leadership across all European institutions. A key tension exists between actors pursuing ambitious deeper European integration and those with domestic mandates anchored in existing national frameworks. Without leadership comparable to that seen in the

creation of major European initiatives such as the single currency, Schengen and the customs union, those seeking to preserve national arrangements are likely to prevail. Speed is also essential, as slow implementation would erode momentum and undermine the delivery of meaningful integration.

An official highlighted the importance of governance and the practical challenges associated with the supervisory reform proposed in the MISP that need to be addressed. Key issues include how a strengthened ESMA can remain cost-effective without creating an additional bureaucratic layer, and how to manage the transition from a largely nationally based supervisory system to a more integrated model, without creating a duplicate structure that would add complexity. These are practical aspects that co-legislators can address through careful design. Cost-effectiveness can be ensured through benchmarks, regular reviews and accountability mechanisms, with the Commission proposal already including elements such as a strong executive board to enhance efficiency. Transitional arrangements must be sufficiently robust to ensure a smooth shift, while maintaining a clear objective of moving towards a single supervisory framework. Such concerns should be treated as genuine implementation challenges and not used to dilute the reform.

A policymaker underlined that implementation will be critical, notably for the measures that are largely in the hands of the Member States such as supplementary pensions and savings and investment accounts, which require strong coordination at EU level. The Commission will need to remain involved to ensure effective delivery. Strengthening European supervisory powers requires an ambitious reform of ESMA, with concrete proposals already on the table. While a transition period will be necessary, this should not be used as a reason to delay reform, as sufficient scope and practical options exist to move forward, provided adequate political will is maintained.

A regulator emphasised the need for effective supervision to support the implementation of the SIU. ESMA has developed supervisory experience and strengthened its practices over time, but the additional responsibilities envisaged represent a significant step change. The governance model must ensure clear and agile decision-making, with a single decision-maker able to deliver the clarity and speed expected by market participants. A transition will be necessary, involving a learning process, close cooperation with national authorities and the gradual build-up of adequate resources and capabilities at EU level. While some areas, such as CCP supervision, can be taken on relatively quickly, others will require more time. The priority should be to focus on these more challenging areas, ensuring effective cooperation, efficient use of EU-level resources and the establishment of a robust and efficient supervisory framework.

An industry speaker added that a more bottom-up approach remains necessary in retail markets, taking into account national specificities in saving behaviours and market structure. In France, for example, savers tend to prioritise security and may lack awareness of

Long-term return opportunities due to insufficient financial education, while the market is characterised by a significant role played by insurers and insurance-based investment products (IBIPs), alongside a strong asset management industry offering a wide range of products. These features are not uniform across Member States and should be reflected in implementation approaches.

Wrap up

The Chair noted a more positive momentum behind the SIU, supported by the recent European Council conclusions. The current context represents both a genuine opportunity for Europe to move forward and a geopolitical imperative, as well-functioning capital markets are essential to improving growth and global competitiveness.

Delivering on this opportunity requires translating political momentum into concrete outcomes within the ambitious timeline set by the European Council, as failure to do so would undermine confidence in the Union's ability to act. Progress could be supported by market consolidation and, where necessary, by the use of Treaty instruments such as enhanced cooperation to ensure that progress is not slowed by differing levels of ambition among Member States and avoid delays. Effective implementation will also be critical, requiring an appropriate design of the supervisory and governance framework and ensuring that ESMA is equipped with adequate resources and capabilities.

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.

Wrap up

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.

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.

Building more liquid and efficient markets

Introduction

The Chair emphasised the need to build more liquid, deep and efficient securities markets in the EU in order to unlock investments and strengthen Europe's competitiveness and strategic autonomy, which are the central objectives of the Savings and Investments Union (SIU) initiative. Achieving these objectives requires deeper, simpler and more integrated capital markets, with stronger equity financing and greater retail participation. Despite significant reforms over the past decade through initiatives such as MiFID II, EMIR and the CMU agenda, European markets remain fragmented, with a significant share of equity trading taking place in non-lit venues, while fixed income markets remain largely OTC and retail participation remains relatively low.

This objective of further strengthening and integrating EU capital markets has gained renewed momentum with the Market Integration and Supervision Package (MISP) proposal, which includes several key trading-related measures to address these challenges, notably the expansion of consolidated tapes, open access provisions, interconnectivity measures in the post-trading space and enhanced reporting requirements, as well as proposals related to the supervision of significant cross-border trading and post-trading infrastructures, including the potential development of a Pan-European Market Operator (PEMO) status for groups of trading venues operating across the EU.

1. State of play of European securities markets

1.1 Limited size and liquidity of European markets despite strong fundamentals

A policymaker stated that European capital markets are broadly well-functioning but remain underdeveloped in terms of size, liquidity and depth compared to global peers. Market size remains comparatively low, with equity market capitalisation at 73% of GDP in 2024, compared to 130% in the UK and 270% in the US. Issuance activity also underperforms, with the EU averaging 107 IPOs annually between 2015 and 2024, compared to 360 in the US, a gap larger than suggested by the relative size of the economies. Following a temporary uptick during the Covid period, listings in Europe have declined over the past decade, while remaining broadly stable in the US and increasing significantly in Asia-Pacific.

An industry speaker agreed that, overall, European markets function well, with significant daily trading

volumes at around EUR 92 billion and a majority of activity (approximately 60%) taking place on lit venues, supporting effective price discovery. Recent geopolitical instability has accelerated structural shifts in global markets, with investors and issuers increasingly viewing the EU as a relative safe haven, driving a reallocation of capital towards European markets and potentially supporting listing activity.

A regulator observed that European capital markets benefit from strong fundamentals including high savings, robust financial institutions and significant expertise. However, they remain insufficiently developed to fully meet financing needs for innovation, the green transition and strategic industries, with structural frictions contributing to weaker IPO activity and broader market inefficiencies.

Evidence drawn from the Dutch capital markets, which may be illustrative of broader European trends, shows that while trading activity is increasingly integrated across Europe, liquidity provision remains concentrated among a small number of firms and post-trade infrastructure remains fragmented, limiting the efficient pooling of liquidity across the single market. A small number of trading firms dominate price formation, with the top three firms quoting the best price around 60% of the time and the top five around 80%. In practice, this means that only a limited number of participants are setting the prices at which others trade, which may reduce competition in price formation and, over time, lead to wider spreads and higher trading costs for investors.

A second industry speaker added that recent data indicate that spreads (i.e. the difference between the best buy and sell prices, commonly used as a measure of price quality) and market depth (i.e. the volume available for trading at the best price) have remained stable or improved across major European markets since 2018, with primary exchanges continuing to play a leading role in price formation and liquidity provision.

A third industry speaker highlighted the diversity of market conditions across the EU, pointing in particular to the Nordic markets as an example of strong IPO and secondary issuance activity supported by significant retail participation, which contributes positively to price formation.

1.2 Evolving trading dynamics at domestic and EU level

An industry speaker noted that no significant shift towards OTC or systematic internalisers (SI) trading has been observed at the EU level in recent years, with off-exchange bilateral volumes remaining broadly stable at around 30–35% of total trading. The decline in order book trading has mainly been driven by the growth of other multilateral mechanisms, such as dark pools,

closing auctions and periodic auctions. This reflects both the rise of passive investment and investor demand for a wider range of execution options, but results in reduced transparency. In periods of heightened volatility, trading tends to revert to lit order books however, as investors seek greater execution certainty, although non-displayed and bilateral channels remain important for executing large or sensitive orders. These developments highlight the importance of strong and stable central limit order books, robust market infrastructures and the preservation of investor choice to support efficient price formation and innovation.

A second industry speaker cautioned that the fact that order book quality has not materially deteriorated since MiFID II should not be seen as satisfactory, noting that evidence from Nordic markets points to widening spreads and lower order book depth. In addition, the increasing opacity of European markets is concerning, as a growing share of liquidity is no longer visible to all participants. The increased use of mechanisms such as batch and periodic auctions contributes to fragmentation and reduces the transparency of price formation. In addition, in some markets, such as the Nordics, rising volumes executed through bilateral and non-displayed channels, including SIs, further accentuate this trend. This shift leads to a greater use of midpoint matching, where trades are executed at prices derived from lit market quotes without participating directly in the price discovery process. As a result, lit markets reflect only a partial view of supply and demand, weakening price discovery.

The industry speaker added that the current market structure creates incentives towards dark and bilateral trading, further reducing the visibility of liquidity in secondary markets and weakening price discovery. This may also undermine the attractiveness of European IPO markets, potentially encouraging companies to list in the US, where market liquidity is stronger. A further emerging global trend is the extension of trading hours, which may dilute liquidity across a longer trading day and raise challenges for maintaining consistent and robust price formation.

A policymaker noted that the evolution of execution patterns warrants close monitoring, given the mixed evidence on the evolution of lit and non-lit trading and on the possible shift towards SIs at the aggregate EU level.

1.3 Concentration of trading at market close driven by passive investment

An industry speaker explained that the growing importance of closing auctions, accounting for up to 30–35% of total volumes on certain days, reflects the rise of passive investment strategies, which seek to match closing prices and concentrate trading at the end of the day. This highlights the need for exchanges to handle such volumes in a resilient and stable manner.

A second industry speaker further noted that while passive investment lowers entry barriers and reduces costs for retail investors, it does not directly support IPO activity, highlighting the need for a balance between passive and active investment.

A regulator added that, in the Dutch market, price discovery is also increasingly shifting towards closing auctions, with an increase of around 10 percentage points since 2022 in line with broader European trends.

A third industry speaker observed that the concentration of trading volumes at the end of the trading day is a longstanding feature of European markets, reflecting the demand of market participants and particularly institutional investors for greater price certainty and predictability. The consolidated tape is expected to enhance price visibility throughout the trading day, thereby supporting a more even distribution of liquidity and reducing reliance on end-of-day concentration.

1.4 Fragmentation of EU capital markets

A policymaker highlighted that fragmentation of liquidity is a key structural issue in European capital markets, both across trading venues and along national borders. The high number of execution venues and SIs (341 trading venues and 167 SIs in total) results in smaller and less liquid markets than international peers, particularly the US, where liquidity is more concentrated. This fragmentation contributes to a higher cost of capital for issuers and reduces the attractiveness of public listings. Post-trading fragmentation further exacerbates these challenges, as inefficiencies in clearing and settlement increase operational complexity, limit cross-border participation and prevent the effective pooling of liquidity within a genuine single market.

An industry speaker identified fragmentation as the central structural issue affecting the liquidity and depth of EU securities markets, both in trading and post-trading, with a large number of trading venues, CCPs and CSDs operating across the EU. Fragmentation however primarily lies within domestic markets rather than across national markets, as shown by a recent Oliver Wyman report, with liquidity split between lit venues, dark pools and SIs.

A second industry speaker added that limitations in post-trade connectivity, particularly among CSDs, make it more difficult for funds, including ETFs, to access and invest in securities across different EU markets, thereby constraining their efficient pan-European activity.

A regulator noted that a significant share of trading activity in Europe is already conducted on a cross-border basis, as illustrated by the Dutch market, where only 17% of trading in Dutch large cap equities is carried out by domestic firms. However post-trade infrastructures remain largely organised along national lines. This post-trading fragmentation increases costs and prevents the efficient pooling of liquidity across the single market.

Another regulator emphasised that the original rationale behind past reforms of secondary markets, remain valid and should be preserved. These reforms were designed to support a diversity of trading mechanisms tailored to different asset classes and investor preferences in terms of price, speed of execution and market impact, while fostering competition. The prevailing perception that liquidity fragmentation is detrimental to the attractiveness of primary markets

should be examined carefully. Empirical evidence from the Portuguese equities market shows that fragmentation between 2020 and 2025 coincided with higher overall trading volumes across all stocks and benefitted all types of trading venues, notably MTFs and SIs, without leading to a significant shift from lit to dark trading. Broader participation across trading venues and increased market interest were also observed, including new buy-side and sell-side participants, as well as a rise in active short sellers. Fragmentation can therefore have positive effects on market attractiveness and liquidity, even if activity is distributed across multiple venues. However, the unintended consequences of these evolutions should be carefully assessed in order to identify areas where further action may be needed.

2. Impact and limitations of current regulations

2.1 Importance of progressing the SIU

A policymaker highlighted that the SIU is a critical initiative to enhance the liquidity and depth of European capital markets. It represents a new policy concept, rather than a simple rebranding of the CMU, and now requires effective implementation with no room for complacency. Past legislative negotiations have often diluted ambition through the accumulation of national adjustments, resulting in overly complex frameworks. Delivering on the SIU will therefore require clear and sustained political commitment to translate its policy objectives into concrete outcomes, without which Europe risks missing a critical opportunity to strengthen its capital markets.

An industry speaker emphasised that the current geopolitical environment, marked by heightened uncertainty and weaker economic growth in Europe compared to the US, also reinforces the urgency of advancing the SIU in order to support Europe's strategic autonomy. The actions proposed to strengthen the demand side, notably through initiatives on supplementary pensions and savings and investment accounts are also positive. In this context, the Council's call to rapidly advance key SIU initiatives is welcome, but it is essential to ensure that this political momentum translates into concrete results.

Another industry speaker added that strengthening secondary markets and improving the quality of price formation should also be key objectives of the SIU.

2.2 Addressing level playing field issues

An industry speaker emphasised that the current regulatory framework under MiFID does not provide a genuine level playing field between trading venues. In particular, midpoint matching is subject to stricter regulatory constraints when performed by exchanges (through the reference price waiver regime and associated volume-cap rules), than similar activity conducted by SIs. In addition, while SIs were initially conceived primarily for large or specific bilateral transactions, their use has expanded to smaller and

retail orders, suggesting the need to reassess aspects such as order-size thresholds, tick-size regimes, price-improvement requirements and transparency obligations, in order to restore fair competition and improve overall market transparency.

The industry speaker further noted that venues performing comparable activities should be subject to similar rules, which is not currently the case under MiFID II. This does not imply limiting investor choice or forcing all trading into central limit order books but rather aligning the regulatory treatment of similar activities to ensure fair competition. The competitive advantage currently enjoyed by SIs can be illustrated by the ban on payment for order flow (PFOF), which led to a migration of volumes towards these bilateral execution channels. In the absence of a genuine level playing field across the large number of execution venues operating in Europe, on-going reforms are unlikely to deliver effective outcomes.

Another industry speaker agreed on the importance of ensuring a level playing field across trading venues, so that all liquidity channels can compete on fair terms and support innovation. A review of the rules governing midpoint trading may be needed to allow exchanges to also benefit from this execution mechanism. Midpoint pricing is particularly attractive to the buy side, as it offers improved execution prices, helping to explain the development of SI trading and periodic auctions in response to demand for better pricing conditions.

A regulator concurred that the consistent application of core parameters, such as tick sizes and execution rules, across different trading venues and mechanisms is essential to ensure a genuine level playing field.

3. Expected impact of the MISP on securities market liquidity and efficiency

3.1 Key objectives of the MISP and expected benefits

A policymaker presented the MISP as a coherent package of interdependent measures aimed at removing structural barriers and addressing fragmentation across trading and post-trading segments, in order to improve the efficiency and integration of European capital markets. Fragmentation remains a defining feature of European markets and requires coordinated action across the entire value chain.

In the trading space, the absence of harmonized rules for regulated markets limits integration. The MISP therefore proposes measures to facilitate the operation of cross-border groups of trading venues, notably through the introduction of a new PEMO status, aimed at fostering a more integrated market environment and facilitating the pooling of liquidity across venues and streamlined membership procedures to improve access for market participants.

In the post-trading area, the MISP introduces measures to strengthen interconnectivity between financial

market infrastructures and facilitate cross-border clearing and settlement. These measures aim to improve direct market access for intermediaries, reduce cross-border settlement costs and support the development of a more unified pool of liquidity. Enhanced connectivity between CSDs, while potentially involving short-term implementation costs, is expected to generate long-term efficiency gains and economies of scale, by supporting more seamless cross-border transactions.

An industry speaker expressed strong support for the MISP, which demonstrates political commitment to strengthening and integrating European capital markets in order to support the financing of the real economy. Its success now depends on effective implementation and on reducing remaining frictions in market functioning, including operational and tax-related barriers. The package as a whole is expected to strengthen liquidity in Europe, with components that are mutually reinforcing. Particular importance should be attached to post-trade reforms, notably the simplification and streamlining of the regulatory framework and stronger interconnectivity between CCPs and CSDs. On the trading side, the MISP is also expected to strengthen major European market infrastructures, enabling them to compete more effectively with US and Asian peers and attract global issuers and investors.

Another industry speaker also welcomed the MISP proposals aimed at strengthening post-trade integration and cross-border competition as a means to facilitate access to European markets.

3.2 Remaining gaps and challenges in the MISP approach related to trading

An industry speaker highlighted that the MISP should go further in addressing the growth of bilateral and dark trading, identifying this as a key gap in the current proposals. Previous reforms under MiFID II were insufficient to correct these dynamics. Stronger incentives for trading on lit markets are needed, alongside clearer boundaries between SIs and multilateral venues that play a primary role in price formation, in order to ensure that a sufficient share of trading remains visible to the market and supports robust price formation. Structural imbalances that favour bilateral execution should also be addressed, while preserving the flexibility needed to handle large or sensitive orders that cannot easily be executed in open markets. Simplifying cross-border access and reducing regulatory burdens are further priorities to support more integrated, efficient and competitive European capital markets.

Another industry speaker similarly pointed to the need to reassess the overall market structure, noting that a recent letter from the E6 emphasised the importance of strengthening transparency in equity markets and achieving a more balanced and efficient trading landscape, including between lit and non-lit trading. However, while fragmentation is widely recognised, further reflection is needed as the MISP does not yet provide clear mechanisms to effectively reconcentrate liquidity across trading venues.

The industry speaker also questioned the approach to the consolidated tape in the MISP, stressing that priority should be given to implementing the framework agreed in the previous legislative cycle and learning from its initial deployment before introducing further changes, in order to ensure an appropriate sequencing of reforms.

A regulator added that incentivising deeper liquidity pools requires removing barriers to the consolidation of fragmented liquidity, in particular by reducing the cost of going public and better communicating the benefits of public listings to potential issuers.

3.3 Conditions for an effective implementation of MISP

A regulator emphasised that regulatory stability should guide discussions on the MISP. While the MISP package and the broader SIU agenda are relevant, repeated rule changes should be avoided, as they impose significant adaptation costs on market participants without necessarily generating commensurate benefits. New measures proposed should be subject to an effective competitiveness test to ensure that they can strengthen markets without creating unnecessary regulatory burdens.

An industry speaker added that policy decisions affecting market structure should be based on robust data and a clear understanding of market dynamics. Preserving the strong market infrastructures in the EU, maintaining investor choice and avoiding unnecessary fragmentation are key objectives to pursue to support innovation and attract investment from European and international investors.

The industry speaker further cautioned against relying on blunt regulatory restrictions or hard caps, noting that past microstructure reforms have often imposed significant adaptation costs on the industry without materially improving liquidity or increasing lit trading. The MiFID dark pool caps are an example of this, as dark market share increased following their introduction. Future reforms should therefore be carefully designed to avoid unintended consequences and should prioritise incentive-based approaches that support innovation in lit venues and choice, rather than banning or limiting specific forms of trading.

Another regulator suggested that the MISP should be preserved as a coherent package. Standardisation, harmonisation and improved access to market data with the consolidated tape are key priorities, alongside stronger data centralisation and more centralised supervision.

An industry speaker highlighted the growing importance of data-driven policymaking, with regulators increasingly relying on industry evidence and data sharing to ensure that policy decisions enhance competitiveness relative to the US and Asia. The consolidated tape acting as a "single source of truth" is a key tool to improve liquidity by enhancing price transparency, providing a comprehensive view of market activity, and showcasing the depth and vibrancy of European markets to global investors.

Post-trading integration: expected impacts of the MISP

1. Objectives and key measures of the MISP in the post-trading space

A policymaker explained that the Market Integration and Supervision Package (MISP) responds to long-standing barriers to post-trade integration recently confirmed by the core findings from the 2025 targeted consultation on EU capital market integration: insufficient connectivity across post-trade infrastructures is a major barrier to deeper liquidity pools and effective market integration. The package aims to reduce fragmentation through regulatory harmonisation, enhanced interconnectivity across the value chain and greater use of scale efficiencies, with the objective of reducing costs and facilitating cross-border activity. A central element is the hub-and-spoke model among CSDs, under which major hub CSDs would interconnect and smaller spoke CSDs would link to at least one hub CSD. This is complemented by measures to simplify the establishment of inter-CSD links and to allow CSDs to provide cross-border services without additional national requirements, through improvements to the CSD passporting framework.

Strengthening the role of T2S is another key component of the package. While T2S has introduced a degree of centralisation, the current setup does not yet enable seamless cross-border operations. Mandatory connectivity to the T2S platform for CSDs that settle in one of the platform's currencies is therefore envisaged. Combined with increased inter-CSD connectivity, this would support the development of a network of interconnected nodes allowing participants in any EU CSD to settle transactions across the Union. This is expected to improve efficiency and foster competition between settlement infrastructures, ultimately benefiting issuers and investors.

Legal harmonisation complements these measures. Converting the Settlement Finality Directive into a regulation is intended to increase legal certainty, notably with regard to conflict of laws, the scope of participants and instruments, and system designation. In parallel, updating key concepts and definitions to accommodate DLT aims to ensure that new settlement models can operate within a clear and consistent legal framework.

Last but not least, more integrated supervision at EU level of significant cross-border post-trading infrastructures is also an essential prerequisite for deeper integration.

2. Connectivity measures of the MISP

2.1 Connectivity among post-trade infrastructures

An industry speaker considered that the MISP connectivity measures are moving in the right direction, but that care should be taken to ensure that the benefits of connectivity

are fully realised. In the clearing space, connectivity has already developed over the past decade, notably in cash equities through open access and interoperability, reducing fragmentation and lowering barriers to cross-border activity, with around 75% of European equity volumes now covered. Enhanced connectivity can also contribute to delivering lower costs, improved service levels, greater innovation and increased netting efficiencies. However, existing models do not always provide genuine optionality. In practice, interoperability is in some cases closer to "preferred clearing", where trades are routed to a trading venue's default CCP unless both counterparties have selected the same CCP, limiting user choice and competition.

A second industry speaker emphasised that post-trade integration is primarily an economic rather than a technical issue. Europe's infrastructure is significant, but it lacks scale and liquidity concentration. The MISP post-trade connectivity and passporting measures create the conditions for market-driven integration and could generate efficiency gains and economic value if further integration at the level of the single market can be achieved without undermining resilience or innovation. The CSD hub model recognises an existing market reality, where liquidity has already concentrated in certain infrastructures due to scale effects that reduce friction and costs. Formalising these hubs can reinforce efficiency.

Connectivity, however, creates value only when it leads to liquidity concentration. Cross-border links must reflect actual demand and provide access to liquidity pools, otherwise they add cost without integrating markets. Proportionality is therefore critical, as mandating universal connectivity regardless of demand and potential flows risks increasing complexity and costs, particularly in areas such as asset servicing, corporate actions and investor services, which are not easily standardised. Connectivity should follow user and investor demand and economic rationale, ensuring that it reduces overall all-in costs for users, including connectivity costs, rather than imposing uniform connectivity requirements across all markets to increase the number of connections.

A third industry speaker outlined that the MISP measures improving access between trading venues and CCPs, as well as the MiFIR article 34 provisions allowing participants to designate any EU CSD for the settlement of transactions, are positive but insufficient to address existing dominant positions and siloed structures. Preferred clearing models restrict user choice, as trades tend to be routed to a trading venue's default CCP, limiting the benefits of interoperability. Facilitating access to trading venues for interoperable CCPs and enabling clearing between different preferred CCPs, which is currently not possible, would expand choice and improve efficiency, benefiting market participants and end-investors. Increased interconnections among EU CSDs through a hub-and-spoke model and mandatory

T2S connections for euro and DKK settlement are also positive developments likely to enhance competition and reduce costs. Implementation will however generate significant costs, requiring investment, project management and operational adjustments, with a risk that these costs are eventually passed on to clients and investors.

An official concurred that the MISP reinforces trends already visible in the market, including the development of hub-and-spoke structures and increased CSD links. Making all ISINs available for settlement could also improve the usability of these links, which are currently used mainly for simpler instruments. More broadly, success will not depend on regulation alone, as a number of remaining barriers relate to market practices, in particular the handling and effective use of settlement instructions and operational data.

2.2 Role of T2S and connectivity to T2S

An official noted that mandatory connections to T2S may have limited immediate quantitative impact, as around two thirds of EU CSDs are already connected and some remaining CSDs are not in scope as they do not offer euro or DKK-denominated settlement. However, the qualitative impact could be significant, as frictions persist between T2S and non-T2S CSDs and their respective ecosystems, particularly in transfers and in the movement of securities positions (realignment) between T2S CSDs and ICSDs (international CSDs), which are not fully seamless today. Mandatory connections to T2S could therefore improve automated connectivity between these environments and support more efficient and integrated settlement operations.

The official added that further progress does not require major upgrades to T2S or additional regulation. Several barriers identified in the AMI-SeCo report relate to market practices, notably the handling and effective use of standard settlement instructions (SSIs) and operational data. While SSIs are exchanged and correctly filed, their updating and use in local systems could be improved. Combined with mandatory links, such market-led improvements could enhance settlement integration without waiting for further regulatory or technological changes.

An industry speaker emphasised that T2S is a key enabler but not a complete solution. Market coverage remains incomplete across the EU and, even with mandatory connections to T2S, integration will take time, as fragmentation in legal, operational and asset servicing layers remains difficult to address.

Another industry speaker welcomed the focus on CSD hubs and T2S connectivity in the MISP, noting that their group's structure already reflects these objectives through its ICSD which is connected to all EU CSDs, includes automated position management with T2S and provides a pan-European single-entry point. Around 54% of the group's transactions are already settled in T2S. This model reduces friction between T2S and ICSD environments and illustrates how integration can be achieved through market-led solutions. Partnerships with other trading and clearing infrastructures also support flexibility in asset location, connectivity and execution across Europe,

although building such connectivity has required a long-term effort of several years. Market-led initiatives can further support these developments. A significant migration of international ISINs currently settled outside T2S is underway, expected to increase T2S volumes by around 6–8% and contribute to deeper liquidity pools.

The industry speaker also stressed that T2S has a market responsibility as an infrastructure alongside private actors. Recent and upcoming T2S changes planned for 2026 to facilitate cross-border flows represent progress, but scaling remains a key challenge. Attracting greater settlement activity to T2S depends in part on pricing, as T2S costs currently represent the most expensive component of settlement and require collective attention. In addition, while settlement conducted outside central infrastructures (internalisation) can contribute to efficiency, greater transparency on these flows is needed to ensure a level playing field and equal opportunities across market participants. Faster adaptation is also required, as developments in other jurisdictions notably the US highlight greater flexibility and speed in responding to market and regulatory changes.

3. Remaining integration challenges and harmonisation needs

3.1 Harmonisation needs and prospects of the 28th regime

An industry speaker emphasised that connectivity is necessary for market integration but must be complemented by addressing the barriers that continue to hinder integration. The key issue is whether the regulatory framework enables scale, choice and competition. Experience in clearing shows that interoperability delivers benefits when combined with harmonised risk standards and approaches. CCPs are major participants in CSDs, as their role in clearing generates large volumes of settlement instructions, and they are therefore directly exposed to remaining barriers. The barriers that have the greatest impact on achieving European scale are no longer technical but are mainly legal, operational and governance related. A key source of friction is the layering of additional national operational requirements on top of EU rules, which increases costs and complexity for CSD participants, limits cross-border choice and reduces the ability for European markets to scale. MISP measures such as CSD passporting, greater freedom of issuance and support for cross-border activity can improve cross-border access, but do not deliver end-to-end harmonisation, as legal and operational divergences will persist across markets.

A policymaker noted that further action is needed beyond the MISP measures to address the legal and fiscal barriers to cross-border settlement and obstacles to the cross-border exercise of shareholder rights, which continue to create legal uncertainty and operational costs, even if some frictions can be mitigated by cross-border service providers. The proposed EU 28th regime adopted in March 2026 can contribute to addressing those barriers. The regime introduces an optional single set of corporate rules that companies, particularly innovative firms, can choose

instead of navigating multiple national regimes. Initially focused on company law, the regime is designed to evolve over time. Stakeholder input will be important to assess its relevance for clearing and settlement. A possible review of the Shareholder Rights Directive, supported by a public consultation open until 6 May, is also relevant for capital markets integration.

A second industry speaker agreed that remaining fragmentation is not technical or related to the settlement engine, but driven by differences in legal, tax and operational set ups across Member States. Key barriers relate to insolvency rules, withholding tax, corporate actions and other national constraints such as data centre location, which can override EU rules and reduce choice. An optional 28th regime could act as a pragmatic accelerator of harmonization. Where full convergence of national rules is not feasible, such a regime could provide a single rulebook for cross-border issuance and settlement for issuers and investors seeking pan-European reach. Market developments already show demand, with companies listing in one country and settling in another. Although it would add a further layer to existing frameworks and some complexity, the 28th regime could reduce part of the friction in a pragmatic way, without requiring full harmonisation of existing frameworks.

An official highlighted that the public sector has an important role in addressing legal barriers, including through options such as the 28th regime, targeted national changes or coordinated action among Member States. Certain national requirements, such as local constraints on dematerialised bonds or uncertainties under frameworks like the German electronic securities law, create challenges for non-resident participants and can be clarified without needing major legislative reform. In parallel, market participants need to advance industry standards in areas such as tokens, corporate events and collateral management. Many practices can be aligned regardless of the underlying technology, building on work such as the AMI-SeCo barrier report.

3.2 CSD and fund depository passporting

An industry speaker emphasised that, in the MISP CSD passporting proposals, the provisions in Articles 23 and 49 of the CSDR, which require continued application of national corporate and securities laws in cross-border activity, should be maintained. Preserving these references is important to ensure legal certainty, as national laws will continue to apply in practice. They remain compatible with simplified passporting procedures and are necessary to ensure legal clarity and operational stability.

The industry speaker also noted that the MISP proposes the introduction of a fund depository passport. However, fund depository services remain subject to divergent national rules regarding investor protection, fund operation, bankruptcy, asset protection, segregation and supervision, and the duties of depositories vary across Member States. Current conditions therefore do not support the introduction of a full European passport. A step-by-step approach is required, starting with prior harmonisation, to avoid legal uncertainty and preserve client trust. The timing of this measure is also not appropriate. The AIFMD II review introduced a derogation allowing cross-border appointment of depositories in

specific cases, notably where local supply is limited, which will apply from April 2026 and should be assessed before further changes are considered. The potential impact of introducing a full passport should also be further assessed, as it could lead to increased concentration of depository services in a limited number of jurisdictions, potentially driven by tax and social factors, and reduce competition in a segment where more competition is needed.

4. Role of tokenisation and DLT in post-trade integration

A policymaker highlighted the need to assess whether new technologies, including DLT and tokenisation can help alleviate long-standing barriers in the post-trade space. This was the idea behind the DLT pilot regime, which has been operational since March 2025. The reform of the DLT pilot regime proposed in the MISP aims to make the regime more attractive by increasing its scale, broadening its scope and introducing greater flexibility. In parallel, amendments to the settlement finality framework aim to adapt core legal concepts, such as the definition of systems, participants and settlement finality, to DLT-based operations and improve legal clarity, thereby supporting the development of these technologies.

An industry speaker emphasised that tokenisation should be implemented in a way that supports integration rather than recreates fragmentation. This requires interoperability with existing infrastructures and sufficient liquidity pools, as the emergence of multiple DLT platforms would risk replicating current inefficiencies. The 28th regime could also play a role in this context, provided it remains optional, by offering a common legal framework that may reduce fragmentation.

Another industry speaker agreed that regulation and technology should act as enablers rather than sources of additional fragmentation and complexity. In practice, existing regimes such as MiCA, the DLT Pilot Regime and CSDR are not fully interconnected, creating a risk of fragmentation. At the same time, the market will remain hybrid in the foreseeable future, with traditional and DLT-based infrastructures operating in parallel. Tokenisation and DLT should therefore be approached as part of a broader effort to digitalise and further integrate financial activities. DLT can address certain inefficiencies but will not resolve all post-trade challenges and existing infrastructures will continue to play a central role in areas such as clearing, equities and liquidity management. In this context, the 28th regime, combined with digitalisation, can contribute to efficiency gains. The ability to move assets and access data in digital form, together with a framework enabling the standardised treatment of data, for example for corporate actions or tax, can reduce costs and improve efficiency.

An official agreed that digitalisation and tokenisation will develop alongside continued improvements in traditional infrastructures. The Eurosystem's Appia and Pontes projects aim to support this evolution by enabling DLT and token use while improving the broader ecosystem. Tokenisation can enhance efficiency by streamlining parts of the value chain, reducing operational frictions and

encouraging a rethink of legacy rules and processes. However, simply replicating existing systems on new platforms would not deliver meaningful benefits. The development of standards is also essential to enable interoperability, including consistency between traditional and DLT frameworks in the definition and treatment of securities. Tokenisation is not a panacea, but it offers an opportunity to improve efficiency and, through greater standardisation, support integration and the objectives of the SIU.

Wrap up

The Chair noted that post-trading is essential for cross-border investment, capital markets integration and financial stability, yet remains structurally fragmented in Europe. There was broad agreement that the MISP has the potential to deliver tangible progress, particularly on connectivity and fragmentation, although implementation details, incentives and governance will be decisive in determining its effectiveness.

Complementary issues remain to be addressed in areas where convergence of national rules is difficult, notably legal barriers linked to corporate, securities and insolvency laws, for which the use of an optional 28th regime could play a role. Differences in market practices, including operational processes, asset servicing and the use of infrastructures, also continue to create frictions and need to be addressed in parallel.

Tokenisation also has important implications for post-trading, with a need to ensure that it supports integration rather than creates new fragmentation. The transition towards a hybrid environment combining traditional and DLT infrastructures is the most realistic scenario in the foreseeable future, raising supervisory challenges, notably the need to ensure a consistent approach to risk across different technologies and a consistent treatment of securities regardless of format. In addition to tokenisation and DLT, the collateral directive is a further area where policy work may be needed.

Post-trade process efficiency: T+1 and future evolutions

The Chair noted that post-trade process efficiency is a key component of the competitiveness of European capital markets. Two main drivers are expected to support further efficiency gains: the development of distributed ledger technology (DLT), with the potential to enhance operational efficiency, automation and legal certainty in post-trade processes; and the implementation of the T+1 settlement cycle. The transition to T+1 represents a significant transformation of the post-trade landscape, expected to accelerate the settlement process, reduce counterparty risk and improve liquidity efficiency.

1. DLT and tokenization: opportunities and challenges

1.1 DLT experimentation and on-going adoption in the post-trading space

A regulator highlighted a clear gap between expectations regarding the DLT pilot regime and its actual level of deployment so far. While experimentation has been extensive, including initiatives such as the issuance of tokenised government and corporate bonds, the regime has not reached meaningful scale, with only six infrastructures registered across the EU. This is due to structural constraints of the regime, notably restrictive volume thresholds, and the limited availability of settlement assets, which have kept most initiatives at an experimental stage. Recent proposals made in the context of the Market Integration and Supervision Package (MISP), aim to improve the pilot regime in order to support the broader uptake of DLT solutions in the post-trading space.

An industry speaker welcomed the MISP proposals on the DLT pilot regime, particularly the review of thresholds and the extension of the pilot regime in terms of asset eligibility and the range of participating platforms.

Another industry speaker provided a perspective from a major market infrastructure active in both the US and Europe, drawing on over a decade of experience in DLT and tokenisation and on the recent transition to T+1 in the US. A decade of DLT experimentation has culminated in the integration of digital asset capabilities within their group, reflecting a strategy aimed at bridging traditional financial infrastructure services with emerging decentralised DLT-based ecosystems. In the US, a major milestone has been the recent regulatory approval for their firm to launch tokenisation services for a selected set of US assets, including equities, ETFs and government securities, allowing these assets to be issued and managed within a secure and regulated permissioned blockchain environment. Structured

initially as a three-year pilot, this initiative is a first step towards enabling US capital markets to operate on-chain with 24/7 connectivity. Given the global role of US markets, this development is expected to have broader implications for other markets interacting with the US.

An official emphasised the role of central bank initiatives in supporting the integration of DLT-based assets into existing financial infrastructures. A key development is the eligibility of certain DLT-based assets, provided they comply with collateral eligibility criteria, as collateral for Eurosystem refinancing operations. In a first step, assets issued via DLT components of existing CSDs have become eligible to be mobilised through traditional channels as of the end of March 2026, reflecting a pragmatic approach that builds on existing infrastructures. In a second phase, the Eurosystem is examining the conditions under which natively issued DLT assets, not represented within traditional securities settlement systems, could become eligible as collateral. This requires careful assessment of operational, legal and risk aspects and is expected to follow a gradual, stepwise approach.

1.2 Efficiency gains and market opportunities from DLT and tokenisation

A regulator stated that DLT offers significant potential benefits for post-trade processes. DLT enables end-to-end digital lifecycles, programmable settlement and greater automation, which, combined with tokenisation, can streamline and accelerate the issuance, transfer and safekeeping of securities. Beyond back-office efficiency, DLT can also support the broader objectives of the Savings and Investments Union (SIU). Greater adoption could help channel more savings into productive investments by attracting digitally savvy investors, particularly those seeking more flexible and accessible investment opportunities.

An industry speaker highlighted that tokenisation offers major opportunities. The conversion of traditional assets into digital form has the potential to transform post-trade economics by enabling instantaneous and continuous collateral mobility and the ability to finance positions around the clock. Tokenisation also introduces additional flexibility through real-time transfers and connectivity to blockchain ecosystems, allowing securities to be distributed and accessed across multiple networks, thereby enhancing liquidity and market depth, while preserving integrity and safety. This will allow market participants to benefit from new DLT-based ecosystems, while continuing to rely on the liquidity of existing market infrastructures. The approach is therefore designed to augment rather than replace existing systems, enabling firms to adopt tokenisation without full system re-engineering.

1.3 Interoperability challenges and enabling initiatives

A regulator stressed that the development of DLT-based solutions requires ensuring effective coexistence and interoperability between DLT platforms and traditional financial infrastructures.

An industry speaker agreed that interoperability remains the central challenge for scaling DLT, given the current fragmentation across emerging DLT ecosystems, which risks replicating inefficiencies observed in legacy systems. Effective interoperability is a prerequisite for achieving the full potential of digital securities at scale and for preserving liquidity, mobility and security across systems. Addressing this requires coordinated action on data standardisation, product harmonisation and clearer accountability frameworks, as well as on key operational dimensions such as asset and liability representation, ownership recognition, lifecycle management and collateral mobility.

Another industry speaker also concurred that interoperability is a key condition for the adoption of DLT solutions. While regulation can enable experimentation, operational scalability depends on industry-led technical implementation. DLT-to-DLT interoperability requires seamless exchange of data, settlement of transactions and reconciliation of positions across platforms, while DLT-to-legacy interoperability requires connectivity between DLT platforms and existing infrastructures such as CCPs and CSDs, as well as key intermediaries such as custodians, without which, DLT solutions risk remaining disconnected from real trading flows.

An official emphasised that interoperability has also been identified by the European Commission as a key barrier to scaling DLT-based infrastructures in Europe. Without effective interoperability, both across DLT platforms and between DLT and traditional infrastructures, fragmentation will persist and prevent meaningful deployment. Two main factors can support interoperability. First, strengthened public-private cooperation is essential to develop common technical standards and align market practices. Second, the availability of central bank money as a settlement asset is critical. Preserving the two-tier monetary system, with central bank money as the ultimate settlement instrument, is necessary to ensure stability, trust and integration across both traditional and DLT-based infrastructures.

The official added that two Eurosystem initiatives, Pontes and Appia, have the potential to make a significant contribution along these two dimensions. Both initiatives build on extensive experimentation involving a large number of market participants and reflect a pragmatic, iterative approach. The Pontes project aims to connect DLT platforms to the existing TARGET2 wholesale payment infrastructure in the short to medium term, enabling interoperability with established systems. The Appia project, with a longer-term perspective, seeks to enable settlement in central bank money either on a single shared network or across interconnected networks and to define governance and operational models for DLT

infrastructures, either directly by the Eurosystem or jointly with other parties.

1.4 Operational, regulatory and economic conditions

A regulator emphasised that the uptake of DLT remains conditional on its ability to outperform legacy infrastructures in terms of cost, speed and safety. The high cost of setting up DLT infrastructures implies that, without a viable business model, broader adoption is unlikely in the near term.

The regulator further highlighted the need to adapt the regulatory framework to the use of DLT and ensure effective coexistence with traditional systems. This raises the question of whether the regulatory framework applicable to traditional financial intermediaries may also need to evolve in this context. Technological neutrality remains essential to support innovation without disadvantaging existing infrastructures, while investor protection and market integrity must also be preserved. Significant operational challenges moreover persist for the time being, beyond the lack of suitable settlement assets, notably with a limited scalability of DLT platforms.

An industry speaker stressed that trust is a critical condition for market adoption. This requires embedding compliance, resilience and risk controls directly into technological architectures to ensure integrity and safety. Existing regulatory frameworks in the US have so far proven effective in supporting responsible innovation in this area.

2. T+1 settlement: implementation progress and remaining challenges

2.1 Implementation progress and market readiness

A regulator considered that the T+1 project is well on track, supported by a structured governance framework involving European authorities and the T+1 industry committee, as well as a clear roadmap, with the process now moving from planning to implementation. Survey results from December 2025 provide useful insights, although response rates to the survey vary across Member States and sectors, limiting visibility on overall readiness and potential bottlenecks. Larger firms are more advanced, with around 80% having already established implementation plans, while 60% of smaller firms intend to start preparations in 2026. Interdependencies across the clearing and settlement chain add complexity, as progress differs across infrastructures: 62% of CSDs have completed their implementation plans, compared with only 33% of CCPs and exchanges. A significant concern relates to investment firms' ability to meet trade-date allocation and confirmation requirements, with 56% of respondents indicating that they do not expect to comply by the end of 2026, despite binding rules expected to apply from 7 December 2026.

An official also observed that market readiness remains uneven. Nearly one quarter of market participant respondents surveyed have not yet familiarised

themselves with the T+1 industry committee roadmap, more than half of respondents in most markets still need to define concrete implementation plans, and around one third of firms remain uncertain about when they will implement the relevant recommendations, indicating significant room for improvement. Against this background, 2026 will be a decisive year for the implementation of T+1 settlement, requiring collaborative action across the post-trade ecosystem to ensure market readiness by October 2027.

The official further noted that the Eurosystem, as operator of T2S, is supporting T2S CSDs and market participants in the transition to T+1, with all necessary T2S change requests already addressed in line with industry committee recommendations. These changes, mainly affecting overnight settlement procedures, are on track to be implemented in time.

An industry speaker highlighted the progress achieved by European and international T+1 initiatives, particularly the development of testing frameworks. Testing is critical, as readiness depends on all participants in the settlement chain being able to operate in a coordinated and fully aligned manner.

The industry speaker also cited results from their own market observations, indicating high levels of same-day trade matching (around 97% in the UK and 96.5% in the EU), suggesting a solid starting point for the transition to T+1. However, readiness remains uneven. While one third of the recommendations have already been implemented, 82% of firms report the need for additional budget, and key challenges persist in terms of automation capabilities, particularly for smaller firms, and dependencies across the post-trade ecosystem. At the same time, cost-efficient technological solutions are now available, including for smaller firms, potentially reducing barriers to adoption and shifting the focus from technology constraints to execution and coordination. Remaining technical issues, such as the standardisation and handling of settlement instructions (SSI), a key element for ensuring timely and accurate settlement, can be addressed through continued market engagement, awareness raising and a solution-driven approach. This will be essential to ensure a consistent transition across the more than 30 markets involved.

2.2 Potential benefits and strategic implications

A regulator emphasised that the transition to T+1 is expected to strengthen market resilience, accelerate access to funds, reduce liquidity and counterparty risks, and act as a catalyst for greater automation.

An official added that a successful transition to T+1 would strengthen the competitiveness of the European post-trade sector. Higher levels of automation and further streamlining of processes and data are expected to reduce risk, improve liquidity availability and support capital flows.

An industry speaker stated that T+1 is a catalyst for transforming operating models. From a custodian perspective, implementation involves raising awareness among clients and supporting the transformation of their operations across the full trade

lifecycle, from pre-trade to post-trade to improve efficiency. This includes adapting to new cut-offs, adopting functionalities to improve settlement efficiency such as partial settlement or hold-and-release mechanisms, and aligning with updated T2S timelines, with a view to streamlining processes and increasing automation.

Another industry speaker stressed that T+1 should be seen as an opportunity to redesign post-trade processes and operations, rather than simply accelerate existing ones. T+1 can enable more efficient clearing and settlement processes, including improved netting of trades, which reduces the number of transactions to be settled and helps reduce operational and settlement risk, particularly in more complex segments such as tri-party arrangements and hedge fund activity. Enhanced automation can also support greater consistency across markets and generate efficiencies across the entire trade-to-settlement chain.

2.3 Implementation challenges and coordination requirements

An industry speaker emphasised the need for greater regulatory clarity, in particular regarding the proposed RTS requirement to submit settlement instructions as soon as possible and by 23:59 on trade date, which currently creates legal uncertainty for market participants. An update of the industry implementation handbook will be needed to provide further clarity for market participants.

The industry speaker further underlined that the testing phase represents the next key milestone and must be conducted under robust and well-coordinated conditions. This requires early visibility on the detailed roadmap and technical specifications introduced by financial market infrastructures to ensure that the entire investment chain can prepare consistently, as infrastructures are expected to play a leading role in coordinating the testing programme. Current recommendations are not yet sufficiently followed, creating a risk of misalignment between local markets and further fragmentation within the EU, which calls for stronger coordination efforts. Well-designed testing scenarios and strong market-wide coordination, identified as key success factors in the US, will be critical going forward. All relevant functionalities should be tested as early as possible, including T2S features and settlement optimisation tools, such as partial settlement and hold-and-release mechanisms.

Another industry speaker noted that the US experience demonstrates the importance of automation in improving pre-settlement processes and reducing settlement fails, as well as strong industry collaboration and awareness raising supported by clear regulatory guidance. In Europe, similar guidance is expected from ESMA, the ECB and the European Commission.

An official emphasised that public-private cooperation remains essential for the successful implementation of T+1, as improvements in post-trade efficiency require coordinated action across all stakeholders. A

specific issue concerns the repo market, which plays a key role in managing settlement risk. The shortening of settlement cycles is expected to shift a significant share of repo activity towards T+0, with important implications for the timing of funding and the management of intraday liquidity. To address this, an additional intraday settlement cycle is being introduced in T2S to facilitate earlier settlement. However, this new settlement window must be carefully calibrated to avoid unintended pressure on intraday liquidity, and consistent approaches across CCPs will be critical to prevent imbalances in liquidity management. Although technical, this issue represents a key concern for market participants and illustrates the operational complexity of the transition.

2.4 T+0: emerging implications

An industry speaker noted that interoperability will be critical in the context of a potential move to T+0, which is currently being explored in certain markets. Such a transition raises complex operational and strategic questions. T+0 could take different forms, including near-real time (atomic) settlement, intraday or end-of-day batch settlement, each with significant implications for cash funding, particularly where pre-funding is required, foreign exchange processes, CCP netting and overall settlement efficiency. The potential impact of extended trading hours with a possible move to 24 hour / 5 day trading must also be considered, alongside differing expectations of retail and institutional investors. The desirability and business case for a move to T+0 therefore remain uncertain for the European market, although the topic is expected to attract increasing attention.

A regulator observed that T+1 is a necessary foundation before any potential transition towards T+0.

Wrap up

The Chair noted that the potential benefits of DLT are clear notably in supporting the SIU. However, despite extensive experimentation across Europe, the development of DLT has so far fallen short of initial expectations. Significant cost, operational and regulatory issues remain to be addressed in order to move from experimentation to broader deployment. The proposed review of the DLT pilot regime in the MISP is expected to support the scaling of DLT-based solutions. Interoperability is a key condition for scaling DLT, in particular with the need to ensure effective coexistence between DLT-based solutions and traditional infrastructures. The Eurosystem Pontes and Appia initiatives together with strengthened public-private cooperation are key enablers of more efficient and integrated post-trade processes.

The transition to T+1 is also progressing from planning to implementation, but significant operational challenges remain ahead of the October 2027 deadline, including testing, process adaptation and coordination across the settlement chain. Survey results indicate uneven levels of readiness across market participants, highlighting the need for broader and more timely engagement across the ecosystem. Successful implementation will require strong coordination between public authorities and market participants, alignment across jurisdictions transitioning within the same timeframe, and the incorporation of international experience, particularly from the United States.

Looking ahead, the potential move to T+0, together with the development of extended trading hours, are emerging topics requiring further analysis.

Retail participation in EU capital markets

1. Current state of retail participation in EU capital markets

1.1 Retail investment remains underdeveloped in the EU

An industry speaker emphasised that retail participation varies significantly across regions. According to a global retail investment study conducted in 2025, US households allocate around 30% of their wealth to equities compared with much lower levels in Europe (around 9% in Germany, 5% in France and 2% in Ireland). Retail participation in the EU is constrained by several factors, including lower confidence in financial markets, a less developed direct brokerage sector and the limited use of incentives such as tax-advantaged accounts or auto-enrolment mechanisms. Evidence suggests that such incentives could materially increase participation. In Ireland, for example, 51% of non-investors indicated they would consider investing if they had access to a tax-advantaged account. The gap between the US and Europe reflects both structural and cultural factors. In the US, participation has been largely driven by long-standing policy frameworks, notably tax-advantaged retirement accounts such as 401(k)s and IRAs, which encourage early and sustained investment, whereas European savings have traditionally flowed towards bank deposits, real estate and public pension systems rather than capital markets. Against this backdrop, strengthening retail participation in the EU is key as it supports wealth accumulation and limits inequalities linked to exclusion from capital markets.

A second industry speaker confirmed the existence of a structural imbalance in Europe, with a large share of household wealth (around €10 trillion) held in bank deposits and low-yield savings, despite some exceptions notably in the Nordics. This limits both individual returns and the EU's capacity to finance innovation, competitiveness and strategic priorities. Retail participation represents the missing demand-side pillar of the EU capital markets ecosystem. Even a partial reallocation of retail savings could unlock significant additional market-based financing, improve risk sharing and enhance market resilience, thereby supporting both individual wealth accumulation and the overall efficiency and competitiveness of European markets.

A third industry speaker stressed that retail participation across the EU remains highly heterogeneous, both across countries with strong examples such as Sweden and the NL, and across age groups and gender. Cultural attitudes to risk, emotional barriers and varying levels of financial literacy continue to hinder retail investor participation and the shift of savings towards capital markets. This affects

both the size of capital markets and citizens' financial outcomes.

1.2 New momentum driven by ETFs and younger investors

An industry speaker observed that recent trends point to some progress, including the rapid growth of ETF savings plans. A 2025 study showed that more than 15 million regular ETF savings plans were active in the EU at the end of 2025, representing a 40% annual increase, with projections reaching 53 million by 2030. This trend is particularly promising, given the role of ETFs as an accessible entry point for first-time investors due to their simplicity, low cost and diversification potential. More broadly, effective onramps must be available for novice investors to build trust and confidence and facilitate the transition from savings into productive investment.

A regulator pointed to encouraging developments among younger and more digitally engaged investors, noting that participation among those aged 18 to 40 has increased significantly in recent years, with investment levels rising fourfold. ETFs are often their first investment, contributing to a strong increase in ETF volumes over the past years. However, this increased participation is largely taking place through neobrokers and crypto-asset service providers on an execution-only basis, lowering barriers to entry but also creating new risks, particularly heightened exposure to fraud, with crypto-assets accounting for a significant share of fraud alerts and therefore representing a key supervisory priority.

2. Improving financial literacy and investor information

2.1 Conditions for effectively developing financial literacy

The panellists emphasised the importance of improving financial literacy to foster greater retail participation, while highlighting key conditions for its effectiveness.

A regulator highlighted that across the EU, only around 20% of citizens demonstrate a high level of financial literacy and noted that many individuals tend to overestimate their financial knowledge, despite widespread misunderstanding of basic financial concepts. Survey results in Austria show for example that one third of respondents believe dividends are guaranteed, nearly half consider that stock markets are gambling, and a similar proportion believe that small regular investments are ineffective. These findings underline the need to strengthen financial

literacy, with greater coordination of national initiatives and improved sharing of best practices at EU level to achieve meaningful impact.

An industry speaker agreed that financial literacy is essential to support informed and sustainable retail participation, particularly through a better understanding of diversification, long-term investment and measured risk-taking.

A second industry speaker stressed that financial institutions are identified by investors as their preferred source of information, above traditional and social media or the education system. One key reason is that 42% of retail investors prefer learning by doing. Embedding financial education components directly within investment journeys, beyond traditional product information, can therefore be particularly effective. For example, the integration of a short optional learning module into the U.S. Individual Retirement Account (IRA) enrollment process on their online platform, led to a significant increase in the funding of accounts. This illustrates that targeted educational interventions during the investment process can help overcome many of the educational and emotional barriers to retail investment. This also confirms that the EU's financial literacy strategy should involve strong coordination with the private sector.

A third industry speaker agreed that financial education should not be limited to classroom-based initiatives but embedded throughout the investment journey, particularly in a context where investing is not part of everyday life conversations in Europe. Knowledge alone is insufficient and must be translated into action through behavioural design, including mechanisms such as auto-enrolment, default options and digital financial planning tools. This requires closer collaboration between public authorities and industry to integrate these features directly into financial products and investment processes. Financial literacy should also focus on enhancing accessibility and clarity using plain language to build confidence and make investing more mainstream.

A regulator underlined that "learning by doing" can be a challenging approach in the retail investment context, as building trust takes time but can be quickly undermined if insufficiently informed investors encounter problems. From a supervisory perspective, it is therefore essential to ensure both an adequate level of financial literacy and effective investor protection, alongside strengthened fraud prevention, particularly in digital and execution-only environments.

An official stressed that while financial literacy is essential and the EU strategy, aimed at strengthening coordination, promoting the exchange of best practices and monitoring progress across Member States, represents an important step forward, it is not sufficient on its own to increase retail participation. Evidence suggests that higher levels of knowledge do not necessarily translate into higher investment activity, as behavioural factors such as mistrust, fear of loss and inertia play a significant role. The 2023 Eurobarometer for example shows that some of the countries with the highest level of financial literacy do

not have the highest levels of retail participation, illustrating the weak link between knowledge and actual investment behaviour.

The official also noted that while financial literacy creates awareness, trust is the key driver of action. Strengthening trust requires making financial concepts more accessible, reducing complexity and demystifying financial markets so that they feel understandable and relevant for non-experts. Greater consistency and coordination is also needed in financial literacy efforts across institutions. Currently, multiple actors - including national authorities, the European Commission, the OECD, central banks and the private sector - run parallel initiatives, often with similar objectives but limited alignment. This fragmented landscape risks diluting impact, as citizens are exposed to inconsistent messages, reducing clarity.

The official further emphasised the importance of targeted approaches, using appropriate channels for different groups, such as trusted local institutions for older and more rural populations and digital tools or social media for younger citizens. A more tailored and behavioural approach is needed, focusing not only on increasing knowledge but also on building confidence and enabling individuals to act.

A regulator also called for a less patronising approach towards retail investors, underlining the need to empower individuals through simple, clear and actionable information. Financial literacy efforts should focus on key concepts such as the risk-return trade-off, the long-term impact of fees, diversification and the benefits of long-term investing, delivered through channels that effectively reach investors.

2.2 Improving investor information, protection and trust

A regulator emphasised that the value for money (VfM) measures of the Retail Investment Strategy (RIS) are a critical component for building retail investor trust, with strong evidence that excessive product costs undermine long term investment outcomes. The introduction of VfM principles in the conduct rules of retail product producers and distributors should therefore be beneficial. While the RIS provisions may appear complex, they pursue clear objectives, notably identifying and quantifying total product costs and assessing whether these costs are justified and proportionate, with the aim of exercising discipline rather than regulating prices.

Another regulator acknowledged the opportunities associated with increasing retail participation but stressed the importance of addressing the related risks from a supervisory perspective. Clear guiding principles are needed to ensure that investors understand both opportunities and risks and invest within their financial capacity, particularly in periods of market volatility. A key supervisory objective is to ensure that investors understand how to invest, which has become easier with digital platforms, what they are investing in and the risks associated with different products, as well as what is permitted and what constitutes fraud. Investor protection must also operate effectively at both domestic and cross-border levels.

3. Conditions for an effective implementation of Savings and Investment Accounts (SIAs)

Several panellists considered that SIAs can play a significant role in supporting retail participation, building on the best practices observed in certain Member States. The Commission's blueprint was generally welcomed, while a number of conditions for its effective implementation were highlighted.

An official stated that the Commission's blueprint is a step in the right direction but identified several areas of improvement. SIAs risk adding complexity if their objectives and features are not clearly communicated and if the non-binding nature of the blueprint leads to fragmented implementation across Member States and the emergence of multiple national versions, potentially weakening confidence and limiting participation. While tax incentives, which feature prominently in the current proposal, play a key role, additional incentives should be considered to support uptake. Strong conduct supervision will be essential to build trust and ensure fair and comparable outcomes for investors, including transparent costs, clear presentation of returns, effective complaint handling and advice aligned with investors' interests. Raising awareness around SIAs will also be critical to ensure their effective uptake, requiring substantial communication efforts once the framework is implemented.

A regulator stressed that, for SIAs to be effective, they must provide access to attractive products with appropriate incentives and efficient distribution channels, particularly through digital platforms. A pragmatic approach is required, building on successful national SIA models such as those in Sweden and France, given that certain key elements, notably tax incentives, remain under national competence. The French PEA (Plan d'Épargne en Actions) provides a relevant example of an effective framework combining tax incentives with increasingly digital distribution, enabling access through online platforms and apps, which has helped to expand its distribution and attract new retail investors to equity markets.

The regulator also stressed the importance of simplifying the retail investment journey in this context. Regulatory developments should avoid adding unnecessary complexity and instead support the evolving mindset of retail investors, who are increasingly willing to take some investment risk. In this regard, recent developments in the RIS negotiations, including the removal of the initially proposed best-interest test and the decision not to further extend the appropriateness test, are positive steps towards a more proportionate and accessible framework.

An industry speaker stated that SIAs could be a game changer but are not a silver bullet. A holistic strategy is required, combining SIAs with financial literacy efforts. Simplicity and flexibility are critical design features, with the objective of making SIAs as easy to

open and use as a standard bank account. Broad product eligibility is also important to build trust and confidence, including access to diversified investment vehicles such as ETFs and ELTIFs and where appropriate tokenised assets, as well as geographic diversification to mitigate home bias. While tax incentives remain an important driver, overly complex tax reporting requirements should be avoided, as should excessively restrictive investment ceilings that may discourage participation. Flexibility in withdrawals is also important. While investors should be encouraged to invest for the long term with recommended holding periods and clear communication on the benefits of long-term investing and compounded returns, the ability to access funds remains important to maintain trust and confidence. From an industry perspective, the framework must remain commercially viable and scalable, avoiding burdens such as restrictive fee caps, as illustrated by lessons from the PEPP experience, which could limit provider participation.

A second industry speaker agreed that Member States should develop SIA frameworks building on successful examples such as ISAs in the UK and ISK accounts in Sweden, with a design that simplifies investing, particularly from a tax and administrative perspective, and encourages retail investor uptake. Where investment mandates or tax rules require investment in the EU or in specific Member States, these should remain limited, simple and easy to understand, as excessive complexity or constraints may deter investors. SIAs should therefore be designed with a simple structure at the outset, allowing it to develop over time and only adding sophistication where necessary, in order to maximise accessibility and participation.

The second industry speaker also emphasised that the success of SIAs and more generally of actions to develop retail participation will depend on broader market conditions. A sufficient pipeline of investable assets is needed, supported by ongoing reforms in areas such as securitisation, listings, venture capital and growth funding, as well as initiatives such as the proposed 28th regime, aimed at enabling more EU companies to scale, remain private for longer and ultimately list in Europe. The integration and efficiency of market infrastructure must also be improved, including through initiatives such as the Market Integration and Supervision Package (MISP), to ensure that capital can flow effectively across the EU.

4. Role of digital channels and digitalisation

A regulator emphasised that digital platforms have become increasingly prominent in European markets in recent years, contributing to lower entry barriers, simplified onboarding and more immediate participation. However, supervisory frameworks have not kept pace with these developments, particularly in a cross-border context, as supervisory tools remain largely national while risks, notably fraud, which has

increased significantly in the digital space, are increasingly cross-border. National authorities can act against fraud through measures such as criminal complaints or website blocking, but these tools are often too slow and insufficient to address the speed and scale of digital fraud, especially on social media, and may require coordination with multiple authorities, taking several days or even weeks. Stronger coordination at EU level is therefore needed, with ESMA playing a central role in aligning and strengthening supervisory tools.

The regulator also pointed to the “trusted flagger” mechanism under the Digital Services Act as a potentially effective instrument to accelerate the identification and removal of illegal content online, given the difficulty in engaging with large global social media platforms. The growing influence of influencers also needs to be addressed. While they can play a key role in reaching younger investors, they raise important regulatory questions regarding the distinction between marketing and financial advice, which entail different responsibilities. More broadly, digitalisation can support retail participation only if innovation is accompanied by stronger investor protection, faster and more effective enforcement mechanisms and improved tools to combat fraud, noting in particular that existing investor warnings often lack sufficient visibility to be effective.

An industry speaker emphasised that digital investment platforms can significantly broaden retail participation by offering more intuitive, accessible and education-integrated investing experiences. Their mobile-first investment platform has attracted a younger and more diverse customer base, with an average age of around 35, approximately 40% women and around half first-time investors, illustrating the potential of digital channels to reach previously underserved segments. Greater engagement with personal finances through such platforms can improve investor outcomes, provided that digital innovation is deployed within a robust regulatory and consumer protection framework. In today's digital age, closer coordination on fraud prevention is also needed. The role of technology in expanding investor access, lowering costs, and supporting financial inclusion is now widely recognized by policymakers at the international level, including at G20 level.

The industry speaker also pointed out parallel structural changes in financial markets, with companies remaining private for longer and a growing share of value creation taking place before listing, limiting retail access to early-stage growth opportunities. In this context, tokenisation represents a structural opportunity to address this imbalance by lowering entry thresholds, enabling fractional ownership and facilitating regulated liquidity for assets that have traditionally been illiquid. The MISF also provides an opportunity to strengthen the regulatory framework for tokenised financial instruments and move towards more scalable solutions.

Wrap up

The Chair concluded that retail participation in the EU remains too limited. The €10 trillion held in deposits by EU households underscores the scale of untapped investment potential and the resulting opportunity cost for both households and capital markets. The Irish case illustrates this broader imbalance, with households holding around 38% of financial assets in cash and deposits and only around 2.3% in direct investments, compared to an EU average of 7.5%.

Low participation reflects a combination of factors, including fear of losing money, perceived lack of resources to invest and limited knowledge of investment options, highlighting the importance of financial literacy as a key enabler of participation. Trust is also essential to drive participation and requires coordinated and consistent messaging across public authorities and industry, as well as communication tailored to different audiences.

Digital channels, which are growing in importance as younger investors engage differently with financial services can improve investor access while also requiring careful supervision to address associated risks. Savings and investment accounts are also an important tool. Their design should prioritise simplicity, including simplified tax reporting, and follow a gradual approach to support effective uptake.

Enhancing the role of asset management in the SIU

1. Implications of MISP for the asset management sector

1.1 Key objectives and measures of the MISP for the asset management sector

A policymaker stated that fragmentation remains a persistent issue in the EU asset management sector. Despite the 2019 framework on cross-border distribution, divergent national and EU rules continue to hinder the integration of asset management activities across the Union. The Market Integration and Supervision Package (MISP) seeks to address these barriers by improving market access and operational efficiency, particularly in cross-border contexts, through two main approaches: reducing regulatory fragmentation via more harmonised and streamlined rules, and addressing supervisory divergence through enhanced cooperation among National Competent Authorities (NCAs) and a stronger role for ESMA.

The policymaker explained that the package includes measures to harmonise authorisation, notification and passporting procedures, as well as marketing communications and disclosure requirements. It also introduces an EU depository passport, allowing AIFs and UCITS to appoint depositories located anywhere in the EU, thereby facilitating cross-border provision of depository services. In addition, ESMA is due to play a stronger coordinating role and resolve potential disagreements between home and host NCAs. The MISP also proposes measures to improve the functioning of asset management groups, including a harmonised rulebook to eliminate divergences in national requirements and the facilitation of intra-group resource allocation, which would no longer be treated as delegation. This is intended to reduce administrative burdens and limit gold-plating. Finally, supervisory convergence would be strengthened through an annual ESMA-led review of large asset managers, conducted in cooperation with the NCAs.

An official emphasised that the MISP is part of the SIU initiative, which aims to mobilise household savings, currently largely held in bank deposits, towards productive investment. This implies a strengthening of non-bank financial intermediation, with investment funds playing a central role, thereby highlighting the importance of asset management within the SIU framework. The MISP does not introduce new investment products or fundamentally alter existing fund frameworks but instead focuses on improving efficiency and market integration through simplification, harmonisation and enhanced group synergies, with the aim of reducing costs, facilitating cross-border activity and strengthening competitiveness.

1.2 Expected benefits for asset managers and investors

An industry speaker welcomed the objectives of the MISP and its contribution to further integrating EU capital markets, particularly through its focus on reducing burdens related to cross-border fund distribution, a key component of the single capital market. Fragmentation persists in marketing requirements and distribution conditions, particularly for AIFs, which do not benefit from a unified EU label and therefore face more complex authorisation and passporting processes with varying local conditions. Addressing these frictions through the proposed changes to the cross-border distribution of funds regulation (CBDF) and to the UCITS and AIFMD directives, is essential to facilitate more seamless access to funds across the EU. This would support the mobilisation of private capital towards strategic priorities such as the green transition, digitalisation and defence, while enhancing investor returns.

The industry speaker supported the measures proposed under the CBDF framework to streamline passporting, including limiting additional national requirements, simplifying marketing documentation, eliminating mandatory local presence and harmonising information flows for retail investors. In addition, moving key notification and marketing requirements into directly applicable EU regulation, thereby preventing additional local changes, and introducing a "one-stop shop" approach for passporting could further reduce administrative burdens, shorten time-to-market and facilitate cross-border activity, benefitting both asset managers and investors.

A second industry speaker highlighted that the EU fund framework must continue to evolve, striking a better balance between economic dynamism and investor protection. Fragmentation across jurisdictions in the fund market continues to create friction in distribution and operations, limiting the ability of the sector to channel effectively savings into productive investment.

A third industry speaker highlighted that the proposed MISP measures regarding cross-border fund distribution represent a positive step forward and could further strengthen market integration in two main ways. First, shifting powers from host to home Member States would enhance the effectiveness of the passporting regime and support the development of a more integrated single market. Second, the increased use of regulations rather than directives would eliminate national transpositions, thereby improving consistency and integration.

A regulator also expressed strong support for the overall direction of the MISP, particularly its focus on easing processes and enhancing regulatory convergence. Obtaining approval for marketing materials in other Member States remains challenging due to language requirements, duplicative processes and re-assessments

by host authorities, that may review and challenge content already approved by the home supervisor. The centralisation of marketing notifications and de-notifications, potentially through an ESMA-operated platform, is therefore expected to simplify procedures and enhance consistency across Member States.

A fourth industry speaker also welcomed the MISP as a timely and necessary initiative, noting that many of the issues it seeks to address have been discussed for over a decade, notably in the context of the CMU. The current political momentum around the SIU and MISP is an opportunity to advance EU capital market integration.

1.3 Conditions for an effective implementation of the MISP measures

While broadly supportive of the MISP proposals to further harmonise distribution and marketing rules, several panellists emphasised that their effectiveness will depend on careful implementation, limiting additional national requirements and avoiding unnecessary reviews of existing fund frameworks.

An industry speaker emphasised that the effectiveness of the MISP will depend on striking the right balance between regulatory change and implementation, ensuring that the final framework remains workable and proportionate. While further harmonisation of distribution and marketing rules is important, not all challenges require new rules, and excessive regulatory layering could increase complexity rather than support market integration. The asset management regulatory framework has been recently reviewed and is largely considered fit for purpose, suggesting that priority should be given to the consistent and effective implementation of the MISP's distribution and marketing measures, rather than introducing additional structural reforms for asset managers.

A regulator echoed the need to avoid excessive regulatory change in the near term, particularly given the ongoing implementation of recent reforms such as AIFMD II, as reopening major frameworks too quickly could create uncertainty for both regulators and market participants. Reforms should also be designed so as not to undermine well-functioning frameworks, particularly UCITS, which remains the most successful EU financial product globally.

The regulator further cautioned that, while the convergence of rules and the centralisation of marketing notifications is expected to simplify cross-border processes, it may also introduce additional costs and, if taken too far, lead to excessive standardisation that could reduce flexibility for fund managers in communicating with clients. In addition, the MISP's prohibition of additional national requirements will require a higher degree of harmonisation at EU level, including the removal of optional national choices in UCITS investment rules, supported by effective dialogue between ESMA and the NCAs to address remaining divergences. At the same time, while product marketing processes may become more centralised, cross-border management activities at the management company level would continue to rely on bilateral interactions between home and host supervisors, meaning that their supervision will remain decentralised at this stage.

Another industry speaker noted that the latest reviews of AIFMD and UCITS are still in the process of being implemented, with a deadline of April 2026, making further revisions challenging from an operational standpoint in the short term. In addition, cross-border fund marketing already functions relatively well in practice. For example, more than 1700 funds from other Member States are currently marketed in France.

2. Depository passport: opportunities, limitations and implementation challenges

An industry speaker emphasised that a passport for depository services remains a missing element of the fund EU single market and is long overdue. Such a passport is fully aligned with the objectives of deeper capital market integration, as well as with the logic of the UCITS and AIFMD frameworks. The limited derogation introduced under AIFMD II, which allows NCAs to authorise the cross-border provision of depository services on a case-by-case basis, notably when jurisdictions lack local depositories, remains insufficient due to its restrictive conditions. A full passport would be beneficial by reducing barriers to entry for depository banks, allowing them to provide services across the EU without requiring local establishment. This would be particularly advantageous for smaller Member States with a limited number of domestic providers, increasing choice and competition. It would also promote greater harmonisation of national frameworks, helping to reduce gold-plating and improve operational efficiency, resilience and cost outcomes.

The industry speaker acknowledged potential concerns related to investor protection and differences in insolvency regimes across Member States but argued that these risks can be effectively managed. In particular, the requirement that depositories be authorised EU banks ensures a high level of prudential regulation and supervision. In addition, large depositories already operate across jurisdictions with differing legal frameworks and have the expertise to manage these complexities. Remaining technical issues, including those related to investor protection and insolvency, could be addressed at Level 2 or Level 3, and should not be a reason to delay the introduction of the passport.

Another industry speaker also supported the introduction of a depository passport, noting that it should be seen as a key element within a broader effort to reduce fragmentation and improve the functioning of the EU asset management framework, and is consistent with the objective of achieving greater scale and efficiency in the European fund market.

The industry speaker stressed that the key challenge lies in implementation, particularly in the context of already extensive regulation and multiple ongoing legislative reforms. While Europe has been effective at developing regulatory frameworks, it has been less successful at ensuring simplicity and ease of implementation, including in the asset management framework, resulting

in a high level of structural complexity that already weighs on the sector. In this context, the depository passport should contribute to reducing friction across the system and supporting a more efficient transmission of savings into productive investment, without adding further complexity in an already highly regulated environment.

A regulator suggested a cautious approach to the depository passport, noting that the current model, based on the co-location of funds and their depositories, functions effectively, particularly from a supervisory perspective and in times of crisis. While in a fully integrated market the location of the depository might appear to be less relevant, in practice proximity between funds and depositories, and the ability for supervisors to interact directly with them rather than through other national authorities, facilitates effective supervision and timely decision-making, especially in stressed situations. Similar debates took place during the AIFMD II negotiations, notably in relation to jurisdictions lacking domestic depositories. Targeted exemptions were introduced to address these constraints and allow domestic funds to be launched in the countries concerned, by authorising the cross-border provision of depository services under specific conditions.

The regulator further highlighted that the introduction of a depository passport raises questions in terms of investor protection and the sequencing of reforms, in particular whether further harmonisation of investor protection rules and legal regimes should precede its introduction.

A policymaker considered that concerns regarding investor protection in the context of the depository passport are not justified, as similar cross-border services provided by CRD and MiFID firms already operate under robust prudential frameworks without raising investor protection or financial stability concerns.

3. Intra-group arrangements: expected benefits and remaining issues

An official emphasised the potential efficiency gains associated with the MISP proposals on intra-group arrangements. Under the current framework, management companies must maintain their own human and technical resources and cannot freely rely on other group entities without triggering the full set of third-party delegation rules.

The MISP introduces a framework applicable to groups as defined under the CRD – typically comprising regulated entities such as banks, MiFID firms and other asset managers – distinguishing between resource sharing and reliance within groups. Resource-sharing arrangements would be treated as in-house, with shared resources considered fully integrated into the fund manager's organisation, which would retain direct responsibility and liability. As a result, such arrangements would no longer be treated as delegation and would not be subject to most delegation requirements, subject to notification

to the home supervisor and certain safeguards, thereby reducing administrative burdens. By contrast, reliance on other group entities for specific functions would remain subject to delegation rules, including ultimate responsibility requirements, reflecting their legally distinct status. However, where the entities relied upon are EU-based and EU-regulated, most third-party delegation requirements would not apply, as these entities are already subject to EU regulatory and supervisory frameworks.

The official further explained that the overall objective of the proposal is to generate efficiency gains and cost reductions through group synergies, by facilitating the sharing of resources and supporting more efficient cross-border operations. At the same time, concerns regarding supervisory visibility must be addressed, as intra-group arrangements are not risk-free and may reduce the ability of supervisors to maintain a clear view of how key functions are performed across group entities, requiring appropriate oversight. In addition, the simplified treatment of intra-group arrangements within the EU should not create the perception that delegations to non-EU group entities are inherently riskier, highlighting the need for a balanced and risk-based approach.

A policymaker stressed that treating intra-group delegation in the same way as third-party delegation is inefficient, as it requires management companies to conduct due diligence, monitoring and oversight even when relying on entities within the same group, leading to duplicative processes that do not reflect the integrated nature of group structures. This also contributes to the concentration of UCITS and AIF funds in a limited number of Member States with more developed financial sectors and limits the broader development of the fund industry across the EU.

An industry speaker noted that the MISP proposal to introduce a new concept of EU asset management groups raises questions in terms of clarity, practical application, cost efficiency and added value compared to existing frameworks. Its implementation should therefore remain optional until its implications are fully understood. In addition, large asset managers have already made extensive use of the existing management company passport to optimise their organisational structures across the EU, notably by reducing the number of legal entities through the conversion of subsidiaries into branches, thereby improving cost efficiency.

The industry speaker also highlighted that the main efficiency challenge for EU-based global asset managers increasingly lies outside the EU, where access to global expertise is essential. At present, the proposal primarily focuses on intra-group arrangements within the EU. If this framework proves effective in practice, a next step should be to facilitate intra-group delegation to entities located outside the EU.

A regulator suggested that intra-group arrangements could be better addressed through a proportionality or risk-based approach, by adapting requirements to the risks posed by specific intra-group arrangements. Such an approach would allow for greater flexibility and could also be applied to entities located outside the EU, recognising that risks may differ across structures.

4. Supervisory convergence: expected impact of the MISP

A policymaker emphasised that enhancing supervisory convergence is a key objective of the MISP, building on the work already carried out by ESMA, as supervisory approaches across NCAs remain to some extent duplicative or divergent. In addition, individual NCAs may not have a full view of the activities of cross-border groups, requiring stronger coordination. The proposed ESMA-led annual review is intended to address these issues while remaining proportionate, as it targets only the largest asset managers (those with assets under management above €300 billion), thereby ensuring an efficient use of resources while covering a significant share of the market (representing around half of total assets under management).

An industry speaker welcomed the recognition in the MISP proposal that asset management differs from other capital market activities for which more centralised supervision is envisaged. Fragmentation in the asset management sector is driven primarily by distribution barriers and national rules rather than by supervisory shortcomings, meaning that supervision is not the main lever to address market integration challenges.

The industry speaker considered that the objective of the proposed ESMA-led annual review requires further clarification. If the main objective is to enhance convergence, its scope should not be limited to large asset managers but should reflect a broader range of business models, investment strategies and Member State locations. If the objective is mainly to strengthen entity-level supervision, care should be taken to avoid creating duplicative supervisory layers. Alternative approaches should be explored, notably through enhanced cooperation and more effective data sharing among national authorities. In this respect, the MISP proposal to introduce collaboration platforms as part of ESMA's enhanced supervisory toolkit provides a practical mechanism to improve the collection, management and sharing of supervisory data, which should be a key priority given the significant reporting obligations already in place. In addition, while further supervisory convergence is needed, the priority of the MISP should remain on removing barriers to cross-border distribution, as an excessive focus on supervisory reforms could divert attention from, and potentially delay, progress on market integration.

A regulator expressed support for stronger supervisory convergence, suggesting that existing tools such as supervisory cooperation, peer reviews and supervisory colleges could be further leveraged. In past crisis situations, cooperation and dialogue between national supervisors, both within and beyond the EU, has proven effective in identifying and addressing issues. Supervisory colleges also represent a well-established and effective model for coordination, enabling the involvement of both EU and non-EU regulators and ensuring a comprehensive view of cross-border activities. This approach has been used notably in the context of AML supervision and could be extended to other areas. Supervisory colleges could also be used to implement the review of large asset

managers proposed in the MISP, rather than setting up a new dedicated process, which would entail additional resources and costs. Supervisory colleges would however need to operate at a global level rather than being restricted to the EU. In addition, further clarification is needed on how such a review would operate in practice. A risk-based approach should guide both the frequency and scope of supervision, rather than applying uniform requirements across all entities.

Wrap up

The Chair concluded that panellists broadly supported the direction of travel of the MISP in strengthening the single market for funds, particularly through measures aimed at reducing national barriers and facilitating cross-border distribution. The success of the reforms will depend on effective and cost-efficient implementation, as well as on preserving key features of existing frameworks, notably UCITS. Strong political momentum around the SIU and MISP, illustrated by the call from heads of State and government to advance the supervisory and integration agenda by the end of the year, should be leveraged to support progress on these reforms.

The discussions highlighted differing views on the depository passport, with some participants supporting it as a key step towards deeper integration, greater competition and efficiency, while others emphasised the importance of supervisory proximity and the need for further harmonisation of legal and investor protection frameworks before its introduction.

On asset management groups, the discussions focused on the potential efficiency gains from intra-group arrangements, including resource sharing and reduced reliance on delegation rules, alongside concerns regarding supervisory visibility, the new asset management group concept and the EU-centric nature of the proposed framework.

On supervisory convergence, the discussions underlined the importance of enhanced coordination and data sharing between authorities, while raising questions about the objectives and scope of the proposed ESMA-led annual review, the risk of duplicative supervisory layers, and how to make better use of existing supervisory processes.

Developing supplementary pensions and long-term retail investment

1. Framing the challenge: the pension gap, outcomes and trust

1.1 Setting the scene: addressing the pension gap and mobilising long-term capital in Europe

The Chair began by acknowledging that many EU citizens lack adequate provisions for old age. This is a long-term, politically sensitive issue with no quick fixes. There is also a shortage of risk-based capital in the EU. Pension funds are ideally suited to providing risk-bearing capital. Resolving the pension issue would benefit both citizens and businesses in Europe.

The panellists were invited to summarise their key message on this topic.

An official emphasised the importance of having sufficient assets to establish a deep and liquid capital market. Without this, insurance and pension products will not be attractive.

A consumer representative argued that acting in the best interests of savers should involve providing decent real net returns.

An industry representative stated that the objective is to substantially increase the total amount of supplementary pension savings across the EU.

A regulator indicated that, in order to close the pension gap, supplementary pensions must be reliable, offer value for money to beneficiaries and be backed by strong supervision.

An industry representative stated that the key question is how to turn short-term savings into the long-term investment that Europe needs.

An official argued that pension funds should take the lead in providing access to finance for strategic priorities.

An industry representative emphasised the importance of trusting in the power of markets.

These perspectives collectively highlighted the need to improve both the scale and the effectiveness of pension savings in Europe.

1.2 Improving real returns for savers: tackling costs and underperformance

1.2.1 Misaligned incentives and cost drag continue to erode long-term returns

A consumer representative explained that, despite recent market rebounds, the 10-year median real net return across supplementary pensions and long-term savings products remains around 0.3%, largely reflecting high costs. These costs are driven by misaligned incentives in distribution, with ESMA data showing that inducement agreements can account for a

significant share of ongoing Undertakings for Collective Investment in Transferable Securities (UCITS) costs. In this context, it is paramount that supplementary pensions deliver good value.

1.2.2 PEPP simplification and better product design as levers to enhance value for money

A consumer representative noted that, regarding the Pan-European Personal Pension Product (PEPP), there is an absence of publicly available and quantitative evidence demonstrating that the previous 1% fee cap constituted a decisive barrier to entry. The proposed simplification is welcome, including the removal of mandatory financial advice and the introduction of a default lifecycle investment strategy with strong equity exposure.

Institutions for Occupational Retirement Provisions (IORPs) are important, as occupational pension funds generally perform better than Pillar 3 products. Increased flexibility in investment strategies is a positive development. Previous constraints led to overly conservative portfolios and suboptimal long-term returns. Better alignment of incentives is essential to improve pension adequacy. Improving outcomes for savers, combined with reforms such as auto-enrolment and more effective investment in the real economy, could support progress towards the savings and investments union (SIU). Well-designed PEPP default options can play a key role in increasing participation in long-term investment while also supporting "learning by doing" through simple and accessible investment frameworks.

1.3 Mobilising pension savings for the SIU: improving outcomes and restoring trust in long-term investment

A consumer representative suggested that pensions can help achieve the SIU if three cardinal mistakes from the past are avoided: complexity, high costs and underperformance for savers. The objective should be to mobilise capital and ensure that it delivers good net outcomes for citizens. Systemic underperformance must be addressed. If calibrated correctly, the PEPP default option could draw on the strengths of AP7 Sâfa's institutional benchmark, particularly in terms of equity exposure, lifecycle design and low-cost implementation, helping to deliver better returns and mobilise savings that are currently lying idle in bank accounts. If pension funds strive to deliver better net outcomes for savers and implement good reforms while investing more effectively in the real economy, progress with the SIU should be possible.

1.4 Building trust in pension systems: governance, supervision and the Swedish experience

An official stated that aligning pensions with the objectives of the SIU is feasible, as demonstrated by

Sweden's approach. Building and maintaining trust is paramount. The protection of savers must never be compromised. Regulators should prioritise governance and supervision when addressing the pension gap. Even in a mature and well-functioning system such as Sweden's, past scandals involving pension providers have necessitated supervisory intervention. Maintaining trust requires a realistic approach to risk and transparency with savers regarding how issues are addressed.

With regard to retail savings, instruments such as the ISK are important as part of individuals' overall retirement income. All three pillars of the pension system are equally important and can collectively increase exposure to capital markets.

2. Fiscal discipline, structural reforms and EU initiatives

2.1 Designing scalable and efficient pension products: the PEPP and beyond

An industry representative noted the significant differences between Pillar 1, Pillar 2 and Pillar 3 arrangements across Europe. Recent developments include the introduction of auto-enrolment in Ireland. The success of the reforms will depend on clear and effective tax incentives.

2.1.1 Economic viability and Member State-driven success factors

An industry representative welcomed the measures aimed at making the PEPP financially viable, particularly the removal of the fee cap. The limited number of providers currently active in the market illustrates the shortcomings of the previous framework and the need to ensure the product's economic sustainability.

A shift towards lifecycle investment strategies instead of capital guarantees is needed, as these approaches enable higher equity allocations at earlier stages and contribute to long-term investment in the real economy. The revised PEPP creates opportunities for greater diversification, particularly through increased allocations to private and non-listed assets. The current 5% threshold is too low; comparable products in France can invest up to 15% in private assets. This allocation could evolve over the lifecycle, with higher exposure at earlier stages and lower exposure as retirement approaches.

2.1.2 Avoiding overly prescriptive value-for-money frameworks

An industry representative cautioned against replacing the 1% fee cap with an overly prescriptive value-for-money framework or a benchmark-based system. Such benchmarks could amount to indirect price regulation and risk undermining the viability of the PEPP. Excessive reliance on benchmark-based pricing could discourage value creation by deterring innovative products from entering the market. The success of the reforms will depend on clear and effective tax incentives, as well as

Member States' ability to adapt frameworks to national specificities.

2.2 Rethinking value-for-money supervision: beyond benchmarks towards competition and cost transparency

An industry representative acknowledged that supervision of the industry is always necessary; the real question is how to implement this effectively. The best way to ensure value for money for investors is to ensure that they do not miss out on investment opportunities. Value assessment needs to be practical. There are significant concerns about how the benchmark will work in practice. Competition is the best way to ensure that prices go down. On average, the prices of actively managed UCITS funds in Europe are decreasing and are slightly below those of mutual funds in the US.

It will be difficult to implement a benchmark approach for PEPP. A value-assessment or peer-grouping approach is preferable to a strict administrative benchmark, as comparing products in different countries is complicated. For a value-assessment approach, it is important to consider the entire value chain, including producer and distribution costs. Currently, there is no clear breakdown of fees, which could cause issues when trying to make a workable comparison.

2.3 Supervision and value for money: ensuring sound outcomes in pension products

A regulator noted that, although supervisors play a key role, they cannot deliver positive retirement outcomes on their own and therefore require strong coordination with the industry.

2.3.1 Enhancing governance and flexibility in pension product design

A regulator highlighted that, regarding IORPs, stronger governance and enhanced monitoring of underperformance relative to benchmarks could improve retirement outcomes. Further progress is still needed to increase returns.

The current PEPP has seen limited uptake; the 1% fee cap was one relevant supply-side factor, but not the only, or necessarily decisive, cause one. Replacing the cap with a value-for-money framework is welcome. The move towards a more principles-based approach, combined with greater freedom in investment strategies and a shift from mandatory capital recoupment toward a default lifecycle strategy, is a positive development, but must be accompanied by strong supervision to safeguard long-term outcomes. Additional tools such as branding or labelling could enhance the visibility and attractiveness of the PEPP, particularly among younger savers.

2.3.2 Supervision across the lifecycle to ensure value for money

A regulator emphasised that closing the pension gap requires good products, a sound regulatory framework and effective supervision, and that maintaining trust implies ensuring that pension products remain reliable over very long-time horizons. Supervision should be a

filter to help ensure that products not offering value for money do not enter the market. This should be complemented by ongoing comparative analysis and active supervisory engagement with providers, including adjustments to product features where necessary and, ultimately, the use of corrective measures or even withdrawal of products that cannot prove their costs and charges are proportionate and justified. The pan-European nature of the PEPP requires the development of new methodologies for assessing value for money, going beyond traditional national benchmarking approaches, as purely national benchmarks would not be appropriate for a cross-border product.

2.4 Lessons from the Swedish pension system: governance, trust and cost efficiency

An official explained that efforts have been made to examine the history of the Swedish pension system in order to identify the main factors behind its success that could be adopted by other Member States. Without an established and liquid equity market, it is challenging for pension providers to develop appealing products. However, building this type of market infrastructure cannot easily be replicated in the short term.

Low costs and professional investment management are two key features of the Swedish system. Two main factors have been particularly important in keeping costs low. Firstly, two of the largest occupational pension providers are governed by social partners and operate on mutual principles, with no external shareholders. Secondly, the part of occupational pensions that is open to individual choice is often managed through selection centres, allowing employees to choose from procured insurance products. The shift towards defined-contribution pension schemes is pivotal in the Swedish system's evolution.

2.5 Balancing EU action and national competences to advance pensions and retail investment

An official suggested that the EU package is a positive development, particularly in supporting the establishment of the SIU. EU initiatives must account for the differences between national pension systems, while key areas should remain within the competence of Member States. The guiding principle should be to combine respect for national competences with European action that delivers real added value, with a focus on high-impact cross-cutting measures supported by simplicity, transparency and appropriate financial allocation.

The value-for-money approach is welcome. There is a need to move beyond transparency towards a more effective assessment of outcomes for members. Spain is working towards introducing auto-enrolment mechanisms to promote pension funds.

There is a need to develop a broader retail investor base in Europe, drawing inspiration from models such as the UK ISA and the Swedish ISK; in Spain, work is ongoing on a savings and investment account, although this raises challenges within the national constitutional framework. Strengthening retail participation, supported by appropriate tax incentives, would help

finance strategic priorities while enhancing Europe's competitiveness.

3. Scaling up: participation, markets and financing the economy

3.1 Scaling private pension savings to enhance long-term returns and financing capacity

An industry representative stated that participation, scale and long-term net outcomes are closely interconnected. The package is moving in a broadly positive direction. Although EU initiatives cannot replace national reforms, they can support structural changes and expand coverage across Member States. Strengthening collective occupational pension schemes is important.

3.1.1 Expanding coverage through structural reforms and auto-enrolment

An industry representative outlined three key recommendations. Firstly, supplementary pensions should be made compulsory for private-sector employees, ideally through agreements with social partners. Secondly, supplementary pensions should be mainstreamed across companies by embedding them more systematically at employee level. Thirdly, auto-enrolment should be combined with lifecycle investment strategies as the default option. This allows for greater exposure to equities at a younger age, supporting returns over time and enabling a gradual shift towards lower-risk assets as retirement approaches.

3.1.2 Enhancing outcomes through lifecycle strategies and collective investment

An industry representative noted that lifecycle strategies are usually designed to suit the risk profile of retail investors. They often represent an individual's first point of contact with financial markets. As these strategies are implemented within trusted frameworks, they can help to build confidence and encourage more dynamic investment behaviour over time. In this respect, investing within a structured and protective environment can play an important role in improving financial literacy through practical experience.

Increasing equity investment through private pension savings can support the financing of companies, including small and innovative firms. However, financing long-term investments, particularly through equity, may not always be low-cost. The objective should be to achieve efficiency gains through economies of scale, risk pooling and professional collective investment structures, thereby improving diversification and supporting better long-term outcomes.

The Chair noted that combining the power of markets with auto-enrolment would produce good results. The Netherlands, which has an auto-enrolment system, added another €200 billion worth of pension premiums over the last five years, despite the uncertainty in the markets.

3.2 Combining policy levers to unlock long-term savings and retail investment

An industry representative stated that the main mistake to avoid when designing frameworks to encourage long-term savings and investment would be to rely on a single policy lever. It is important to combine multiple policy tools, such as auto-enrolment, value-for-money frameworks, tax incentives and auto-escalation mechanisms, which have been effective in several jurisdictions. Successful examples such as Sweden and the United Kingdom demonstrate the impact of well-designed frameworks. Once these frameworks are in place, they encourage competition among private providers, who strive to make investment products simpler and more accessible. Failing to harness this competitive dynamic would represent a missed opportunity. New market players, including neo-banks, are driving innovation in user experience and making it significantly easier for individuals to start investing.

Combining simple savings and investment accounts with industry participants' capacity to innovate can transform participation in capital markets. Developments in countries such as Spain, Ireland and Poland illustrate this trend, demonstrating the potential for broader retail engagement in long-term investment.

3.3 Harnessing the power of markets within a sound regulatory and supervisory framework

3.3.1 The case for sustained market exposure over capital guarantees

An industry representative emphasised the need to continue embracing the power of markets, noting that Europe has historically had a strong preference for capital guarantees, which are often associated with lower long-term returns. In some Member States, market-based investment approaches are becoming more widely accepted, including in countries such as Germany.

Concerns remain regarding the risks faced by investors, particularly in cases of poor market timing. Investors entering the market at unfavourable times can still achieve significantly higher returns than by holding cash. For example, an initial investment of €35,000 could grow to around €155,000 over time, compared to less than €50,000 if held in cash, demonstrating the advantages of sustained exposure to financial markets.

3.3.2 Building investor confidence through education and policy frameworks

An industry representative stressed that policymakers, industry participants and other stakeholders have a shared responsibility to continue educating investors and building confidence in long-term investment. Policy frameworks should encourage exposure to capital markets, as this is a key driver of long-term wealth creation and more secure retirement outcomes for European savers.

3.4 Scaling private pension savings to support equity investment and long-term returns

An industry representative stated that integrating private pension savings into the mainstream represents a key opportunity to significantly boost equity investment. This can be combined with strong net long-term returns. Greater exposure to equities can support higher returns over time, as well as improving access to financing for companies. Financing SMEs through long-term equity investment is not always cost-effective. The objective should be to reduce costs progressively through economies of scale and professional collective investment structures. A variety of protective mechanisms could be implemented to support this approach.

3.5 Strengthening Pillar 2 and scaling pension funds' role in financing the economy

An official explained that, although the importance of the third pillar is acknowledged in Spain, reforms since the Toledo process of the 1990s have consistently sought to bolster Pillar 2. Measures such as reducing the maximum contributions to third-pillar personal pensions were intended to redirect savings towards occupational schemes, but they failed to deliver the expected results. This has reinforced the case for introducing auto-enrolment mechanisms.

As institutional investors, pension funds should play a stronger role in financing the economy. Achieving sufficient scale in both Pillar 2 and Pillar 3 will depend on appropriate tax incentives. Pension funds should diversify their investment strategies to include a greater allocation to equities and instruments while still focusing on their main goal of building retirement savings. The current package could help to advance the goal of strengthening Pillar 2.

Reviving the European securitisation market

1. Europe's underinvestment paradox: securitisation is the missing plumbing between abundant savings and a real economy starved of investment

1.1 A market six times smaller than the US and only a third of the way to pre-GFC recovery: the case for rejuvenation is undeniable

An official opened the session by pointing to significantly lower market volumes in the EU compared to the US and other non-EU regions as the core justification for the term 'reviving'. The topic is timely: in June 2025 the Commission delivered a proposal on the subject, ending years of stagnation. The Council adopted its position at year-end 2025; the focus now shifts to Parliament and the forthcoming dialogue.

A regulator framed the debate around three acknowledgements. The post-crisis framework was a genuinely important step, establishing a regulatory structure centred on transparency, mandatory risk retention and the simple, transparent and standardised (STS) label. Despite those reforms, securitisation has never fully shed its reputational baggage of complexity and systemic instability. Most critically, the market still operates below its potential: a deep and well-functioning securitisation system is a prerequisite for a savings and investment union (SIU) that can channel financing effectively toward the real economy. The challenge hinges on striking the right balance: simplifying wherever possible while maintaining robust safeguards.

An official characterised Europe's underinvestment as a paradox highlighted by the Noyer, Draghi and Letta reports: despite higher household savings rates than the US, Europe fails to deploy those savings productively. Excluding government-backed securitisation, the European market remains six times smaller than the US relative to GDP. An industry representative reinforced this: while the US and Australia have exceeded their pre-GFC levels in private-label and non-agency securitisation, Europe is only approximately one third of the way to recovery, and its synthetic market stands at barely half of pre-GFC levels. Even returning to pre-GFC metrics would represent a very strong contribution to banking, capital market development and the financing of the real economy.

1.2 A risk distributor, shock absorber and ecosystem mobiliser: securitisation is not a silver bullet, but a critical pillar for financing the transitions

An official described securitisation as the essential 'plumbing' — the connecting element between banking and financial markets. The task for regulators and supervisors is to build the channels that direct savings toward digitalisation, innovation, venture capital, the green transition and defence. Securitisation enables banks to free up capital, achieve better risk diversification, create new

asset classes aligned with risk tolerance, and act as a risk distributor and shock absorber. After the great financial crisis, regulation tightened considerably; that pendulum must now swing back — but not to the other extreme.

An industry representative stressed that securitisation's greatest strength lies in mobilising the entire ecosystem. It does not merely finance corporates: it reaches consumers, funds critical infrastructure, and supports SME lending, housing, defence and energy transition projects. It brings together banks, insurers, asset owners, asset managers and capital markets, enabling each to contribute its specific expertise. Banks originate and service loans; investors assess and manage risk; capital markets provide scale, liquidity, diversification and resilience. Securitisation is not a silver bullet for all of Europe's growth ambitions, but it is a critical pillar for achieving them.

1.3 The structural risk: replicating the RMBS/covered bond imbalance

An industry representative warned of a structural risk emerging from Europe's continued inaction. Private debt has grown from an estimated 10 billion in 2010 to approximately 2 trillion in 2025, a large share involving asset-based lending and finance. The collateral lost to covered bond issuance equates to more than 20 times the volume of prime RMBS issuance, and significant further collateral has migrated to private credit and direct lending. Europe now risks replicating the same structural imbalance it once created between RMBS and covered bonds — this time between asset-backed securities (ABS) and asset-backed lending (ABL).

An industry representative complemented this: securitisation is above all a universal instrument that frees up lending capacity for households, SMEs and corporates alike. The key priority is to finance the environmental, ecological, digital and demographic transitions across a broad range of activities. The objective is explicitly not deregulation; it is to make rules more risk-sensitive, more proportionate and better calibrated to safeguard financial stability, while maintaining the robustness that builds market confidence.

2. Rules too prescriptive and not proportionate to risk: EU investors effectively locked out of 70% of the global market

2.1 Excessive prescriptiveness increases costs for EU banks and restricts EU investors' access to global markets: a shift toward principle-based obligations is the priority

Another industry representative identified the over-prescriptive nature of the current framework as the root problem. Leaning on formal requirements rather than

principle-based obligations produces two tangible effects: it increases the cost for EU banks to execute securitisation transactions, and it significantly restricts EU investors' access to global securitisation markets. Non-EU issuers are generally unwilling to adopt EU-specific requirements such as ESMA reporting templates. International investors, meanwhile, simply operate outside the EU regulatory perimeter to avoid these obligations. The result is a loss of EU jobs and expertise in asset management, and a structural lack of global diversification for EU investors.

An industry representative reinforced this: EU institutional investors are effectively locked out of close to 70% of the global market — not because those assets carry greater inherent risk (non-EU eligible assets are currently performing strongly), but because the due diligence framework makes investment outside the EU extremely difficult and sometimes impossible. Another industry representative confirmed that the European framework is the most prescriptive and detailed of any major market, with a level of specificity frequently disproportionate to actual investor risk. Recent proposals from the UK's PRA and FCA point in the right direction; the EU risks falling further behind. The goal is not to remove guardrails, but to remove excessive prescriptiveness.

2.2 A playing field unbalanced in favour of covered bonds: disclosure gaps, unlimited asset encumbrance, due diligence paradoxes and the missing mezzanine investor base must all be addressed

An industry representative identified four dimensions of the covered bond asymmetry. On disclosure, there is no comparability between the level required for covered bonds and for RMBS within the EU — a disparity absent in the UK and Australia, where standards are aligned. On asset encumbrance, the EU imposes no limits, allowing banks to encumber up to 50% of their balance sheet to support covered bond programmes, redirecting their best assets from unsecured debt; Australia, Canada and the UK all set explicit limits. The Netherlands illustrates the scale of the shift: broadly comparable RMBS and covered bond issuance in 2006 has become near-total dominance of covered bonds today.

On due diligence, the EU framework imposes penalties on securitisation with no equivalent elsewhere: under current rules, analysing a CCC-rated portfolio requires less reporting than analysing an AAA-rated primary RMBS portfolio — a paradox that penalises the highest-quality assets. Finally, without recovering the mezzanine investor base in Europe, restarting the market will be impossible. The UK mini-budget crisis of September–October 2022 is instructive: UK pension funds sold large volumes of Australian ABS and RMBS paper, and only the immediate presence of domestic buyers in Australia prevented serious spread widening. For strategic autonomy, Europe cannot rely on a purely foreign mezzanine investor base.

2.3 European insurers allocate 3% of AUM to securitisation versus 17% for US insurers: restoring a deep investor base requires removing barriers, not guardrails

The industry representative underlined the disparity: European insurers allocate on average only 3% of assets under management to securitisation when using

internal models, and just 0.5% under non-internal models, compared with 17% for US insurers. Australian pension and superannuation funds are similarly active. Restoring active participation by pension funds and insurance companies is the first structural priority for the European market.

Another industry representative provided a compelling benchmark: in the US mortgage credit risk transfer (CRT) market managed by Fannie Mae and Freddie Mac, regulation explicitly accommodates unfunded risk transfer to insurers. Since inception, 70 insurers have participated, now accounting for approximately 30% of the market, creating significant depth, competition and resilience. In the EU, by contrast, insurance participation in significant risk transfer (SRT) remains below 10%, with only around 15 insurers involved. The current reform rightly proposes to address this imbalance, but certain proposed safeguards risk inadvertently narrowing the investor base rather than broadening it, increasing concentration and EU reliance on non-EU credit funds. An industry representative confirmed that low allocation levels signal not a lack of interest but an accumulation of regulatory barriers making meaningful participation uneconomical, and called for placing insurance companies, UCITS funds and long-term institutional investors at the centre of the debate alongside banks.

3. A package moving in the right direction but requiring critical adjustments before the triologue

3.1 Paradoxically penalising the highest-quality assets: risk weight floors, ERBA tables, variable coefficients and ABCP treatment must be corrected

An industry representative acknowledged that the proposal is moving in the right direction but stressed that several technical parameters require fundamental revision. On risk weight floors for non-rated corporates and SMEs, the Commission's proposal increases floors by 18%, and the Council's proposal offers only partial improvement; in fact, for this category, the status quo would be preferable to the current draft text. On low-risk assets such as residential mortgages, the current framework renders securitisation economically unviable precisely because these assets are too safe: legislative floors do not allow risk to be sold at a cost of RWA release that makes economic sense. A genuinely risk-sensitive framework requires lower floors for lower-risk assets.

On corporate and SME securitisation, the external-ratings-based approach (ERBA) tables must be modified to improve the treatment of the highest credit ratings, which are currently penalised. Without these amendments, the proposal would result in higher risk weights than today, particularly through asset-backed commercial paper (ABCP) programmes — the very asset class that provides immediate liquidity to corporates and benefits SMEs throughout the value chain. Variable floor coefficients also need further reduction. On UCITS, certain Members of the European Parliament have proposed raising the investor concentration limit from 10% to 17%, which would risk

enabling large managers from third countries to build dominant positions and damage market liquidity; the Commission's more proportionate adjustment to 15% should prevail.

3.2 Insurance integration works in theory but not in practice: aligning Solvency II, STS and CRR-LCR eligibility remains achievable in the triologue

An industry representative confirmed that the political intention is sound, but that the interaction effects between Solvency II, solvency capital requirements (SCR), the STS framework and the liquidity coverage ratio (LCR) could collectively continue to block effective insurance demand. On the Solvency II asset side, punitive post-GFC capital charges pushed European insurers out of traditional securitisation. The delegated act represents a positive step, aligning senior STS assets including prime RMBS with covered bonds and unlocking capacity for life insurers, but Mezzanine STS and all non-STS positions remain excessively penalised. If the CRR were to introduce the concept of a 'resilient position', this would provide the natural mechanism to revisit Solvency II calibration beyond senior STS and align it with actual investor risk.

On STS eligibility and the liability side, non-life insurers could free up bank capital through unfunded credit protection and synthetic SRTs without impacting their own liquidity risk as part of the asset liability management. The Commission is right to intend to recognise this channel, but proposed safeguards inadvertently exclude well-capitalised existing providers, producing a framework that works in theory but not in practice. Two principles must guide eligibility design: strategic autonomy — underwriting entities should be EU-based — and workable eligibility assessed at group level under solvency-equivalent regimes, with the resilience test focused on relevant topics such as granularity and the thickness of the junior tranche rather than on bolt-ones such as collateralisation that do nothing for senior risk. Consistently applying risk-sensitive flows across STS and non-STS, and recognising liquid senior tranches under LCR, would reduce friction and support two-way markets. The industry

representative expressed optimism about the EU Parliament's direction, noting that the necessary alignment still remains achievable in the triologue with all involved parties being sufficiently ambitious and willing to listen to key stakeholders.

3.3 A transformative element, not a nice to have: a European platform with harmonised standards and temporary guarantees as an accelerator trigger for market development

An official reiterated that securitisation is fundamentally a mechanism for transferring risk to those best placed to bear and manage it and cautioned that securitisation is inherently complex because efficiency requires it to be — simplification has real limits. To build a genuinely Europe-wide securitisation market, regulators, policymakers and development banks must work together to create a platform that draws in member states not currently active in the market and small banks that remain intimidated by the process. Such a platform would establish harmonised eligibility rules and data standards and develop common structuring practices to increase participation on both the supply and demand sides. This is not a 'nice to have': it is a transformative element that belongs in the recipe for a larger European securitisation market. Implementation must be European, not national — otherwise the target will be missed entirely.

Temporary, market-compatible European guarantees targeting specific asset classes — SME lending, green assets, energy-efficient projects and defence — could serve as the accelerator trigger needed to overcome initial market failures and collective action problems. Once the market reaches a self-sustaining level of activity, public support can be withdrawn. Italy's experience with non-performing loans offers a relevant precedent: the state established a guaranteed-backed system with DG COMP-ratified market terms, then discontinued it once the market was functioning efficiently on its own.

Leveraging the role of banks in the SIU

The role of banks in the development of the Savings and Investment Union (SIU) lies at the heart of the broader debate on Europe's growth, competitiveness and financial resilience. While Europe has traditionally relied on a bank-based financing model, there is growing recognition of the need to further develop capital markets in order to better support innovation, scale-up financing and long-term investment.

In this context, discussions highlighted both the structural differences with the United States and the challenges Europe faces in mobilising its substantial pool of savings more effectively. Rather than opposing banks and capital markets, panellists emphasised their interdependence within a more integrated financial ecosystem. Achieving this balance, however, requires addressing persistent market fragmentation, improving regulatory proportionality and enhancing the overall attractiveness of European financial markets.

Particular attention was given to the need to unlock the large volume of deposits held on bank balance sheets and to develop deeper and more efficient securitisation markets. At the same time, strengthening financial literacy and broadening investor participation were identified as key enablers of a more dynamic investment culture.

1. Europe's financing model at a turning point

This first part sets the scene by examining the structural characteristics of Europe's financing model and the evolving role of banks within the SIU, highlighting key challenges in comparison with the United States.

1.1 From bank-based finance to capital markets: europe's financing gap and the changing role of banks

The Chair observed that Europe is lagging behind the US in terms of productivity and financing innovative companies. Historically, Europe has relied on banks to finance the economy. Through a predominantly house bank system, large European banks held stakes in industrial firms, provided loans and were deeply involved in their operations. Banks acted as industry partners, managing and supporting companies extensively.

In contrast, US banks were prohibited from holding shares in non-financial companies and interstate banking was banned. This meant that robust capital markets were needed as an alternative. During the financial crisis, Europe was criticised for its universal banks, particularly in light of the 2012 Liikanen report, which criticised these banks for proprietary trading and shareholding. This led to a transformation in banking regulations across Europe. There is some irony in the fact that banks arguably performed better when engaging in riskier activities.

1.2 Europe's financing model at a crossroads: why European banking champions matter

A regulator stated that there is some validity in the notion that global players often engage in market-related activities, which emphasises the necessity of a level playing field for such operations. It is crucial to redefine the role of banks in relation to markets, since markets do not operate in isolation. Entities need to facilitate access, provide liquidity and ensure market functionality. However, juxtaposing markets and banks is misleading due to the substantial synergies between them. The relationship between these two components of the system needs to be examined, as well as whether regulation poses an issue. There is doubt as to whether proprietary trading represents market servicing.

European champions are needed who are capable of servicing the European market. European banks currently account for less than half of market activities in Europe. While there should not be complete dominance, there is potential for improvement. In the event of disruption, the European market must continue to function effectively based on its resident actors.

1.3 Strengthening SME financing: the complementary roles of banks, capital markets and public intervention

A Central Bank official agreed with the view that banks and capital markets should not be viewed as isolated entities in competition with each other. What is needed is the development of an integrated ecosystem that effectively supports companies' financing needs. Within this framework, banks will continue to hold substantial influence, reflecting Europe's historical and cultural predisposition towards banking. It is not feasible to change this attitude in a short timeframe, so banks need to play a prominent role. Nevertheless, it is important to simultaneously incentivise capital market growth.

The challenge lies in effectively fostering this dual approach. Banks must play a more prominent advisory role, particularly with regard to small and medium-sized enterprises (SMEs). While SMEs transitioning to capital market financing may initially disrupt banking interests, this should ultimately lead to economic growth in the longer term. This expansion would generate increased revenue for banks as the overall size of the economy grows.

The state plays a pivotal role in developing less mature markets, acting as both a regulator and a product developer. Stock exchanges have the potential to enhance the appeal of the capital market by offering educational initiatives, networking opportunities and competitive global market entry strategies. The underperformance of Central and Eastern European markets compared to Western Europe further underlines the urgency of these efforts. Hungary has introduced convertible loans and employee share ownership schemes to support SMEs, with instruments that are fully market-based and do not rely on public guarantees.

1.4 Strengthening Europe's banking model: integration, competitiveness and financial sovereignty

An industry representative emphasised the structural, cultural and social differences between the European and American financial models, highlighting Europe's reliance on a robust yet more fragmented banking system. Developing an integrated financial system tailored for Europe is vital. European banks are losing market share across various profit segments, which underlines the importance of Europe supporting its banking champions. Banks play a vital role as partners within the economy. Universal banks finance households, SMEs, and corporations, while offering market services that connect European savings to investments.

Growth and competitiveness must be incorporated into regulatory mandates, as demonstrated by recent UK initiatives. The prudential framework must be amended to better support lending activities. A 'European preference' must be adopted to strengthen European actors and ensure financial security across the region. Proportionality should be based on actual risk rather than size. Size-based proportionality fails to accurately identify risks, and could increase fragmentation and undermine consistency within a single rulebook.

2. Unlocking financing capacity: regulation, markets and instruments

This second part focused on the regulatory, market and financial instruments that could help mobilise savings, enhance competitiveness and support the development of deeper capital markets in Europe.

2.1 Enhancing competitiveness and proportionality in EU banking regulation

An official stated that there are areas in which Europe could take inspiration from the US. It is vital that discussions take place on a level playing field. It is also important for Europe not to neglect its existing responsibilities.

2.1.1 Strengthening proportionality in EU rules

An official commented that proportionality is a central issue in the discussions, and European regulations could improve in this area. Basel III is implemented uniformly across all European banks, whereas in the US it is only applied to large, internationally active banks. Proportionality should benefit both large and new companies, and access to market is crucial.

2.1.2 Bridging the gap with the US and mobilising European savings

An official observed that the recent announcement by Michelle Bowman of the US Federal Reserve regarding the recalibration of capital requirements for major US banks requires Europe to respond competitively in order to establish an equitable playing field. There are concerns that Europe is losing market share to its American

counterparts, particularly in the market-based sector. Structural changes have been seen in Europe, focusing on the banking union (BU). The 2022 Eurogroup statement on advancing work on European banking structures should be revisited.

Past reports such as Draghi's have highlighted Europe's lag in productivity and investment regarding the notion of consolidating larger banks. Private investment must be mobilised due to a significant outflow of finance to the US, estimated at almost €300 billion. Banks need to do more to mobilise the approximately €11 trillion in dormant savings and need to consider how they can better support and contribute to financial interests. If the EU wants to complete the BU, then more is needed on the principle of proportionality, including the Basel III compliance agreement.

2.2 Bridging the EU-US Gap in banking: capital markets, regulation and small banks

2.2.1 The role of deep capital markets in US bank performance

A Central Bank official expressed their appreciation for the idea presented. A frequently overlooked factor in European discussions is the numerous small community banks in America that facilitate 60% of SME financing. Recent US adjustments to capital requirements impacting community banks suggest strategic financial shifts. Under the recent proposal of the Basel III endgame, the smallest banks are expected to experience a 7.8% reduction in capital demands, while regional or medium-sized banks will see a 5.2% decrease. The largest banks, or globally systemically important banks (G-SIBs), will receive a 4.8% reduction. Comparative analyses from institutions such as the Basel Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA) indicate that US G-SIBs have historically faced higher capital requirements than European banks.

US banks remain significantly ahead in terms of absolute profit levels. Impact studies have shown that regulation was not the main reason for the profitability of US banks. Instead, their success is attributed to the broader and deeper US capital markets. This environment has facilitated a potential growth rate advantage of 20% for the US over a 15-year period. Europe needs regulatory reform to cut unnecessary bureaucracy without sacrificing stability. The ECB's task force's promotion of capital stack simplification is commendable.

2.2.2 The case for a European small banking regime

A Central Bank official suggested introducing a small banking regime similar to those in Switzerland, the UK and the US, which would focus on small, non-complex credit institutions (SNICs). Strengthening the SNIC regime and encouraging small banking frameworks could simplify and bolster SME financing. While red tape needs to be reduced universally, there are potential benefits for the real economy from an opt-in small banking regime.

The Chair surmised that establishing a small banks regime might be a potentially pivotal factor in enhancing the financing of substantial economic segments, particularly SMEs in Germany and Austria. Such a regime

would be crucial in optimising the efficacy of the European banking sector.

The Central Bank official agreed with this but noted that it is one facet of a larger picture. The Commission's proposal to develop a SIU is vital. Learning from the best practices and successful examples of countries such as Sweden is crucial. Sweden's pension schemes play an important role in providing funding to support SMEs, alongside dedicated SME stock exchanges. Capital markets need to be opened up to SMEs, particularly during periods of growth

An industry representative said that she did not support the approach of a dedicated small banking regime, because it was a question of risk rather than size.

2.3 Mobilising European savings: the role of securitisation and market integration

2.3.1 Addressing balance sheet constraints to unlock bank deposits

An industry representative stated that their bank is familiar with the complex regulatory environment influenced by the Single Supervisory Mechanism (SSM). There is a need for an evolved ecosystem that would expand the current architectural framework where banks would continue to play a pivotal role. Capital markets also play an indispensable role in supporting the banking sector.

European banks hold substantial cash reserves on their balance sheets, but mobilising these savings raises a fundamental balance sheet constraint ('double-entry issue'), as deposits are assets on banks' balance sheets and require mechanisms such as securitisation to effectively recycle them into investments. A robust system is needed to channel these savings into productive investments.

It is crucial to simultaneously focus on structural measures and enhancing financial education. 55% of US adults are considered financially literate, which is considerably higher than the 18% observed in Europe. This shortfall highlights the importance of improving financial education across Europe, which is vital for fostering informed and mature market participation.

There is a stark contrast between the comparatively small and fragmented European securitisation market and the US market. At approximately \$15 trillion, the US market vastly overshadows the EU's €1.2 trillion, despite the regions having closely aligned GDPs when evaluated based on purchasing power parity (PPP).

2.3.2 Developing a deeper and more integrated securitisation market

An industry representative stated that the US banking sector has an advantage in recycling balance sheets, driven by an originate-to-distribute model that facilitates ongoing lending by enabling stock shifts. This points to the necessity of introducing regulatory amendments to improve securitisation encumbrances, potentially starting with adjustments to accounting practices relating to mortgage servicing rights on regulatory balance sheets.

The Chair acknowledged the importance of securitisation in enhancing the role of banks, as it provides a valuable means of recycling banks' balance sheets and directing them towards more productive activities. However, simply having banks trade securitisations among themselves may not be sufficient to revive the market. In addition, the role of non-bank investors, including insurers and investment funds, was highlighted as critical to creating sufficient demand for securitised products.

2.3.3 Broadening the investor base

An industry representative agreed that broadening the sources of demand could improve the market. It is important to look beyond traditional bank transactions and incorporate wider market players, such as investment funds, in order to create robust demand. However, the fragmented nature of the European market is a cause for concern. Standardising processes could pave the way for a deeper, more integrated market with larger pools of securitised assets. Such standardisation would enable assets to be bundled more effectively, making them more attractive to investors.

Significant divergences persist across Member States, for example in foreclosure timelines, ranging from around six months in Denmark to up to four years in countries such as Ireland or Slovakia, limiting the scalability of securitised assets.

The Chair agreed that it was necessary to harmonise the regulatory frameworks governing securitisation. The hope is to establish a cohesive regime across the 28 member states to streamline rules. While the current proposal does not fully achieve this, there is a willingness to discuss potential improvements further.

2.4 Lessons from Canada's approach to SME financing: balancing stability, proportionality and competitiveness

An industry representative emphasised the importance of achieving international coherence through globally agreed frameworks. Canada has a dual regulatory system involving both federal and provincial regulators. Standardisation is essential for effective risk management and cross border operations. However, there is also a need to balance this with competitiveness.

Canada's approach aims to maintain stability while fostering competitiveness. The Canadian securities regulator has launched a pilot scheme requiring smaller venture issuers to report their finances twice yearly, with the aim of reducing compliance costs and enhancing SME competitiveness. Canada's prudential regulator is consulting on capital adequacy requirements, proposing lower risk weights for corporate SME exposures to boost lending capacity while maintaining alignment with Basel. The goal is to ensure a level playing field, maintain market integrity and align with international rules while keeping domestic market competitiveness in mind. In addition, Desjardins channels household savings into local SMEs and cooperatives, illustrating how domestic savings can be effectively mobilised to support the real economy.

Canadian regulation is fairly harmonised with the international rules. The speaker's firm complies with

Basel III and has very strong capital and liquidity ratios, far above the minimum standards. However, international coherence is key. The representative further highlighted financial literacy as key to individuals' informed decision making and to channeling household savings into the productive economy.

3. Towards a fully integrated and resilient financial system

The final part of the discussion explored the conditions required to build a fully integrated and resilient financial system in Europe, including regulatory convergence, cultural change and a renewed approach to securitisation.

3.1 Building an integrated financial system in Europe: beyond fragmentation and towards a true single market

An industry representative emphasised their company's global presence, its strong ties with Europe, and its commitment to regional growth and investment. While banks are essential conduits between savers, companies, and capital markets, they are hampered in their effectiveness by a fragmented regulatory environment. For the SIU to be resilient and successful, a balanced financial system is required that incorporates banks, intermediaries, and institutional investors in complementary roles.

3.1.1 Addressing regulatory fragmentation through harmonisation

An industry representative commented that addressing fragmentation issues is the responsibility of regulators and legislators, who can create a unified regulatory framework to ease these challenges. Addressing fragmentation requires a combination of tools. This includes further harmonisation of national rules, where possible, as well as optional frameworks, for example, an optional 28th regime that can support cross-border activities. More broadly, reducing duplication in the regulatory framework, for example by merging the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and the Total Loss-Absorbing Capacity (TLAC) requirements, and ensuring that competitiveness is considered in policy design were highlighted as important elements to improve market integration.

Banks should engage constructively with policymakers, provide clear insights into regulations that hinder market integration, and offer concrete data and real-world examples. This involvement helps to illustrate the benefits of a unified market approach via seamless cross-border service provision.

3.1.2 Driving integration and cultural change: the role of policymakers and banks

An industry representative highlighted that Europe needs a cultural shift towards a more pan European approach, moving beyond national silos and supporting deeper integration through a more consistent application of rules across the Union. Leadership must come from EU

policymakers. While national perspectives remain important, there is a need, in certain areas, to move towards more European approaches where this supports the functioning of the single market. At the same time, this also requires a shift in supervisory mindset – away from compliance-focused approaches and towards a more proportionate, outcomes-based approach. Banks also have a role to play as partners to policymakers, helping translate this more European, outcome focused approach into practice.

3.2 Strengthening the Banking Union and revitalising securitisation: a shift from regulation to fundamentals

An official emphasised the importance of maintaining unity within the BU, a principle that has been safeguarded since its inception, and of ensuring consistent safety and resilience across institutions, regardless of their size, business models or regulatory frameworks. It may be challenging to achieve similar levels of financial literacy in Europe without pension reforms, since Americans are naturally incentivised to actively engage with market dynamics due to their pension system.

There is a need to revitalise securitisation in Europe in order to catch up with the US. Regulators play a critical role in improving due diligence and reporting practices. The benefits of securitisation must be extended beyond concentrated financial centres and groups to encompass broader participation from more banking groups and regions.

A regulator disagreed that national authorities lack a European perspective. While aspects such as mortgage frameworks should be harmonised, it is crucial to be strategic about what is harmonised. Financial markets do not function in isolation, but are supported by banks, and are closely tied to society and the economy. Rather than designing the perfect securitisation product, it is important to ensure that products which meet people's needs are available.

While it is necessary to expand the investor base around securitisation, there should not be excessive focus on the origination and structuring phases. Although the regulatory aspect of securitisation has received significant scrutiny, greater attention should be given to the underlying economics of securitisation transactions.

The discussions highlighted that strengthening the role of banks within the SIU requires building a more balanced and integrated financial system. Unlocking Europe's financing potential will require combining stronger capital markets with a well-functioning banking sector, supported by proportionate and coherent regulation. Key priorities include mobilising savings more effectively, deepening securitisation markets, and reducing fragmentation across member states. Fostering financial literacy and broadening the investor base will be essential to sustain long-term market development. Delivering on the SIU will depend on a collective shift towards a more European approach, to ensure that banks and capital markets can jointly support growth, innovation and financial resilience.

What role for technology and crypto in the SIU?

1. Contribution of technology to the development and efficiency of capital markets

1.1 Technology as a facilitator of retail participation and investor engagement

A regulator emphasised that technology is contributing to transform retail participation in capital markets by improving access and investor experience, thereby supporting the mobilisation of part of the large pool of household savings in Europe. Fintech platforms are playing a key role in this shift by reducing entry barriers, simplifying onboarding, lowering investment thresholds and facilitating cross-border access, thus attracting younger and first-time investors. These platforms also shape investor behaviour, influencing trading intensity and portfolio allocation, and can nudge investors either towards diversification and long-term investing or, conversely, towards more frequent and speculative activity. This places greater responsibility on firms and regulators to ensure that investment decisions remain informed and aligned with investors' risk profiles.

An industry speaker agreed that digital platforms, notably mobile apps and robo-advisory tools, are contributing to a gradual cultural shift by facilitating investor access, reducing costs and influencing investor behaviour. At present retail participation in capital markets remains limited in Europe due to strong risk aversion and the prevalence of pay-as-you pension systems, which absorb a large share of long-term savings. As a result, only 10% of household financial assets are invested in funds in Europe, compared to 20% in the US. It is however hoped that digital platforms will, over time, contribute to increasing retail participation, improving capital allocation and enhancing market liquidity.

Another regulator welcomed the increasing focus on DLT and related applications such as digital assets and tokenisation in discussions on technology, noting their genuine transformative potential for financial markets, in contrast to trends previously put forward such as the metaverse or NFTs. These developments are highly relevant for the SIU, which aims to better connect European savings with productive investment needs, including financing the green transition, innovation and strategic sectors such as defence.

The regulator however pointed out that more established technologies, such as those underpinning open finance and low latency trading should not be overlooked, as they can also significantly contribute to developing capital markets and improving investor outcomes, notably by enhancing product comparability and helping reduce product costs. This has been seen in other sectors such as energy or telecom, where simple comparison tools and

improved data portability, allowing investors to transfer profiles and avoid repeated onboarding procedures, are key enablers of more efficient and competitive markets.

A second industry speaker underlined that tokenisation can further broaden access to financial markets building on the expansion of retail participation driven by neobrokers. By lowering investment thresholds through fractional ownership and opening access to a wider range of asset classes, it can support the inclusion of previously "unbrokered" investors.

A third industry speaker added that tokenisation combined with stablecoins can enable more direct and efficient interactions between investors and their investments, for example by allowing payments such as dividends to be processed instantly on-chain, thereby reducing costs and simplifying the user experience.

1.2 Crypto as an entry point to retail capital market participation

An industry speaker emphasised that the strong adoption of crypto as an asset class signals a shift in investor preferences, with over 55 million Europeans having engaged with crypto over the past decade and many younger investors entering financial markets through this channel. This reflects growing demand for more accessible, intuitive and digitally native investment experiences. Lessons can be drawn for the SIU from crypto investment platforms, particularly in terms of ease of access and user-centric design.

An official observed that crypto is increasingly functioning as an entry point into financial markets, particularly for younger investors, rather than a niche asset class, thanks to its low barriers to entry, intuitive digital interfaces and greater accessibility compared to traditional financial channels. Crypto and traditional finance are complementary rather than competing systems, with crypto increasingly acting as a first touchpoint in the investment journey.

Another industry speaker noted that traditional financial institutions are adapting to increasing competition from neobrokers and crypto platforms, which have reshaped the investment and asset management landscape through cost efficiency, user-friendly digital interfaces and more appealing investor experience. This has led to growing demand for crypto-related products, prompting many banks to expand their offerings and integrate crypto within broader multi-asset platforms alongside traditional instruments such as ETFs and bonds.

1.3 Efficiency gains and market infrastructure transformation

An industry speaker stated that DLT and tokenisation can lead to a structural transformation of financial

markets rather than a mere digitisation of existing processes, enabling new forms of liquidity aggregation, new ways of organising primary and secondary markets and more direct connections between issuers and investors.

Another industry speaker emphasised the growing adoption of DLT among financial institutions and large corporates, driven by its ability to streamline processes and reduce costs through shared ledger platforms. By reducing the need to reconcile transactions across multiple ledgers, as is currently the case in financial markets, DLT improves transaction efficiency, transparency and speed, while enabling new functionalities. These improvements translate into tangible economic benefits aligned with SIU objectives, including lower costs and faster execution of cross-border payments, as well as reduced costs of issuance, thereby widening access to capital markets for firms. DLT can also help to improve treasury and cash management, generating substantial cost savings for corporates, potentially in the range of around 1% to 1.5% of transaction values according to a recent survey. In addition, DLT can reduce liquidity needs across financial markets by limiting the need for pre-funding, with significant amounts (estimated at around €1.3 trillion) of currently “trapped” liquidity in the European system that could potentially be unlocked.

2. Obstacles and risks in the adoption of technology in capital markets

2.1 Structural and regulatory obstacles to digitalisation

An industry speaker noted that current pilots show that liquidity in DLT-based markets remains limited, with interoperability identified as a critical condition for scaling. Achieving interoperability requires both technical and regulatory bridges between traditional and tokenised infrastructures, allowing liquidity to flow efficiently across systems. At present, several barriers, particularly regulatory constraints such as capital requirements, limit market-making activity and liquidity provision, thereby constraining efficiency gains. Greater flexibility in capital allocation and hedging is therefore necessary to improve liquidity.

The industry speaker further highlighted that, despite progress at EU level, fragmentation persists in the practical implementation of capital market rules across Member States, creating operational challenges for firms active across borders or asset classes and seeking to innovate, and running counter to the objective of the SIU of fostering more integrated EU capital markets. Differences in interpretation across National Competent Authorities (NCAs), for instance regarding the classification of tokenised assets under MiFID, custody requirements and investor protection standards, lead to legal uncertainty and inconsistent supervisory expectations. In addition, the interaction between regulatory frameworks, notably between MiCA and MiFID, raises clarity issues in practice

and adds further complexity for firms operating at the intersection of traditional and digital markets, increasing compliance costs and slowing innovation.

2.2 Risks associated with technological developments in capital markets

A regulator stressed that, while technology brings clear benefits, it reshapes rather than eliminates risks and can support the SIU provided these risks are effectively managed. Several types of technology-related risks can be identified. Behavioural risks arise from digital platforms and social media communications, which may encourage excessive trading and speculative behaviour, particularly among younger and less experienced investors. The growing use of gamification techniques in digital interfaces raises additional concerns. Attention should therefore be given to appropriateness and suitability assessments in digital environments, where simplicity and speed may encourage impulsive decisions. As access to investment products becomes easier with technology, firms and regulators share responsibility for ensuring that investment decisions remain appropriate to investors’ risk profiles and support longer-term outcomes.

The regulator further noted that technology also introduces operational and technological risks, including cyber threats, system outages and dependencies on third-party providers, underscoring the importance of frameworks such as DORA. In addition, risks related to AI, such as bias, lack of transparency and over-reliance on automated decision-making, may have significant consequences for investors. In the crypto space, there are also important concerns in terms of market integrity, misleading practices, unclear custody and ownership arrangements and money laundering.

An industry speaker agreed that crypto products raise specific challenges, notably due to their high volatility and the absence of advisory frameworks, placing greater responsibility on investors and creating reputational risks for financial institutions distributing these products. Financial education is essential to ensure that investors fully understand these risks.

3. EU regulatory framework and future policy priorities

3.1 Adequacy of the current EU digital framework

A regulator considered that regulatory approaches to digitalisation and crypto are broadly aligned at the international level, with global standards beginning to emerge, notably with the IOSCO 2023 recommendations on crypto and digital assets. A first implementation review across multiple jurisdictions including certain EU member states, shows that MiCA is largely consistent with these standards, positioning the EU alongside other leading jurisdictions such as Canada, Hong Kong and Singapore in terms of implementation of key safeguards in the cryptoasset space. Most jurisdictions are moving in a similar direction, with a majority actively implementing IOSCO standards. However, some

uncertainty remains, as the UK framework is still being implemented and the US approach is being finalised with a more innovation-driven orientation.

An industry speaker noted that, while the DLT pilot regime, where Europe has been a frontrunner, is a positive step, its limited scope and restrictive caps are insufficient to generate meaningful market development. Innovation needs to be tested at scale and across borders, implying the need for cross-border sandboxes with common rules and joint supervision. More broadly, despite strong market demand for technology-driven innovation in capital markets, regulatory fragmentation and the lack of clarity in requirements remain key obstacles to achieving the ambitions of the SIU and strengthening Europe's competitiveness.

A second industry speaker stated that current regulatory approaches in Europe do not sufficiently support innovation and competitiveness. Despite the introduction of MiCA, a significant share of crypto activity in Europe remains outside the regulated perimeter, with more than 50% of users still relying on global unregulated providers and major global stablecoins such as Tether continuing to dominate. In addition, while Europe focuses on regulating AI and protecting data, other jurisdictions place greater emphasis on developing and scaling technological capabilities. Moreover, Europe's approach to risk appears to be overly restrictive for supporting the use of new technologies. Investor protection frameworks often lead to excessive or ineffective disclosure, while attempts to limit gamification, an ongoing global trend, seem unlikely to be effective. Investor behaviour and interaction with technology have fundamentally changed, calling for a more pragmatic and technology-neutral approach, focused on outcomes rather than detailed prescriptive rules.

A third industry speaker considered that the EU has established a robust regulatory framework, notably through MiFID II, DORA and MiCA, and that the balance between innovation and risk mitigation is broadly appropriate. However, technological developments, particularly the rise of AI, require targeted enhancements to existing rules, including governance standards for AI-driven advice, behavioural design guidelines and greater transparency for algorithmic recommendation systems, to ensure that technology supports long-term investment rather than speculative behaviour.

The industry speaker also emphasised that regulation alone is insufficient and must be complemented by market-led initiatives. Industry participants should develop interoperable technical standards and common tokenisation protocols, while improving cost transparency for investors and incorporating default investment pathways that guide retail investors towards diversified and long-term portfolios. Stronger industry coordination will help address digitalisation risks more consistently and support more effective scaling.

3.2 Policy priorities to support technology adoption in the capital markets

An official highlighted that a key policy challenge is how to convert the initial engagement of investors with

crypto into sustained participation in traditional capital markets. Several conditions were identified, including the need to strengthen financial literacy to support a shift towards longer-term investment behaviour beyond initial curiosity, to improve the accessibility and user experience of traditional investment platforms to match crypto app standards and attract a broader investor base, and to leverage technology, particularly DLT, to enhance the functionality of financial products and platforms. A further priority is to ensure that regulatory frameworks enable, rather than constrain, technological development, as overly restrictive regulatory frameworks could lead innovation to shift outside the EU or into unregulated environments.

The official moreover emphasised the importance of key MISP proposals in supporting the digitalisation of EU capital markets. In particular, the expansion of the DLT pilot regime is an important step towards integrating DLT solutions into mainstream financial markets, although questions remain regarding whether current proposals are sufficiently ambitious. The focus on post-trade integration and connectivity is also critical, as long-standing fragmentation across national infrastructures, particularly CSDs, may limit the effective integration of new digital solutions with existing market structures. The success of these initiatives will ultimately depend on their effective adoption and implementation.

A regulator added that regulatory responses should strike a better balance between supporting innovation and ensuring effective investor protection, while maintaining safe, transparent and reliable market conditions. Regulatory sandboxes are useful tools to test innovation in controlled environments and to help supervisors better understand emerging risks. Technology, including AI, can also strengthen supervision through improved risk assessment, monitoring and investor protection.

An industry speaker called for a broader shift in regulatory thinking to better support innovation, competitiveness and technological sovereignty in the context of the SIU, emphasizing the need for a genuinely technology-neutral approach that empowers investors, reduces unnecessary regulatory complexity and takes into account global competitive dynamics. For example, disclosure requirements, although essential for informed decision-making, should remain proportionate to the size and nature of investment and to how investors access and use these products.

Another industry speaker added that while technology and crypto can support key SIU objectives - including increased retail participation, improved access to funding for issuers, enhanced liquidity and price formation, greater operational efficiency and cross-border integration - unlocking these benefits requires supervisory convergence, robust governance (notably for digital advice) and a more scalable DLT frameworks (such as the reviewed DLT pilot regime). Looking ahead, the priority should not be the creation of new rules, but the effective implementation, interoperability and scalability of existing frameworks. Moving from experimentation, with initiatives such as sandboxes and

the DLT pilot regime, to large-scale integration is a critical step in fully realising the contribution of technology to the SIU.

3.3 Operational conditions for scaling technology

An industry speaker suggested that an effective integration of digital ecosystems with traditional financial systems is essential to avoid fragmentation and the emergence of parallel financial structures.

Another industry speaker underlined that a key constraint to the development of DLT-based financial markets at present is the absence of an effective “cash leg” for on-chain transactions. While progress is being made by the ECB on central bank digital money, it is not yet available at scale and the same applies to tokenised deposits. In this context, MiCA-regulated stablecoins remain the only currently operational on-chain settlement option in Europe. The greater clarity provided in the Market Integration and Supervision Package (MISP) proposal on the potential use of regulated stablecoins (e-money tokens) for the settlement of transactions in financial instruments is welcome, but the overall pace of implementation remains too slow, with legislative timelines and subsequent licensing processes likely to delay market development. A faster regulatory process is essential to enable Europe to fully benefit from these innovations.

The industry speaker also noted that, while the development of euro-denominated stablecoins is a positive trend, many European firms require access to non-euro settlement, particularly in US dollars. The remaining uncertainty regarding the use of global US dollar stablecoins by EU firms for settlement purposes, due to the lack of clarity on how stablecoins issued outside the EU can be used under existing regulatory frameworks, remains a key obstacle to the development of DLT-based financial markets, requiring clearer policy guidance.

Wrap up

The Chair concluded that the discussion highlighted significant and rapid changes in financial markets driven by technological developments, including digital platforms, cryptoassets and DLT-based infrastructures, which are reshaping both market functioning and the way investors, particularly younger ones, engage with financial investments. These developments, seen by the panellists as meaningful innovations complementing existing financial systems rather than passing trends, were considered to bring clear benefits in terms of accessibility and efficiency, while requiring adjustments in market practices and regulatory frameworks. Current EU policy initiatives regarding capital markets, including the MISP, still provide only limited coverage of technological developments, focusing primarily on incremental adjustments such as targeted changes to existing regulations (including CSDR and SFDR) and the scaling of the DLT pilot regime.

Three further points emerged from the discussion regarding policy priorities. First, the importance of ensuring legal clarity, particularly in areas such as tokenisation, stablecoins and the DLT pilot regime, to provide a predictable environment for innovation. Second, the need to avoid additional regulatory complexity and lengthy processes, and to rely more on market-driven solutions. Third, the importance of interoperability, both within the EU and potentially at global level, as a key condition for scaling these technologies and supporting a well-functioning single market.

Sessions



BANKING AND INSURANCE REGULATION

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Improving the competitiveness of the EU banking sector

Improving the competitiveness of the EU banking sector is a key policy priority. While European banks are sound and resilient, structural challenges, such as fragmentation, insufficient scale and regulatory complexity, continue to constrain their global positioning. Discussions focused on the drivers of this competitiveness gap and the policy responses required to address it, particularly in the context of the Savings and Investments Union (SIU).

1. Defining and assessing the EU banking competitiveness gap

1.1 Understanding the drivers of EU banking competitiveness: structural constraints and definitional ambiguities

The Chair noted that the share performance of the EU banking sector has outperformed the wider market recently. The return on equity of European banks is comparable to that of US banks. However, while European banks dominate traditional banking markets, they lag behind their US counterparts in capital market activities. It remains unclear to what extent the performance of the European banking sector reflects broader characteristics of the European environment, such as lower growth in traditional markets, greater fragmentation and a lower level of capital market activity. Prudential requirements have also been identified as a potential contributor to competitiveness challenges.

The notion of competitiveness itself is not straightforward. It may refer to performance in capital markets, the market share of European banks in specific activities, or the level of competition within the sector. It may also relate to market concentration, traditionally used by competition authorities as an indicator of competitive dynamics.

1.2 Banking competitiveness as a strategic imperative for Europe: a widening gap despite strong fundamentals

An official emphasised that competitiveness is a strategic imperative for policymakers. A strong banking sector will be essential to achieve Europe's ambitions in areas such as defence, energy and industrial sovereignty. Strategic autonomy is also a crucial consideration. Sectors such as payments and digital services have become dominated by foreign players. This must be avoided in the banking sector. Competitiveness should be understood as the ability to compete sustainably and efficiently, going beyond profitability alone. While European banks are generally healthy and profitable, their market capitalisation remains lower than that of their global competitors, and their market share has declined significantly in key strategic segments, including

corporate financing, equity issuance, M&A advisory and market services.

The forthcoming European Commission report is expected to analyse the drivers of the competitiveness gap. These may include a less favourable macroeconomic and financial environment, differences in market structures, fragmentation within the EU, technological and innovation gaps, and regulatory differences. While prudential requirements are unlikely to be the primary driver, growing divergence with the US, particularly with respect to Basel requirements, is a concern.

1.3 Understanding the EU banking competitiveness gap: a holistic, open and evidence-based assessment

A policymaker highlighted the consensus among speakers that banks are in a strong position. In addition, they are increasingly resolvable in the event of a crisis, reflecting the strength of the regulatory framework, including the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Nevertheless, serious concerns remain, notably the competitiveness gap and the risks associated with the lack of a level playing field.

1.3.1 An open and evidence-based assessment of the competitiveness gap

A policymaker indicated that the European Commission consultation aims to develop a comprehensive understanding of the drivers of the competitiveness gap before identifying appropriate policy responses to these challenges. Factors driving the competitiveness gap may include low growth, low interest rates, excessive regulatory burden, insufficient scale and efficiency and fragmentation. The Commission is explicitly seeking quantitative, evidence-based contributions to the consultation, rather than political or policy statements. Previous criticism has suggested that the regulatory framework sometimes lacks a holistic perspective. The current approach therefore aims to assess all dimensions jointly, including micro-prudential, macroprudential and resolution frameworks.

1.3.2 Key priorities: simplification, market integration and scale

A policymaker stated that simplification should not be equated with deregulation but is instead about reducing unnecessary complexity in the legal framework. It remains unclear whether reducing or simplifying capital requirements would improve competitiveness. Divergent national practices make cross-border activity difficult. Completing the banking union, particularly through the establishment of a common deposit insurance scheme as its third pillar, is therefore essential to foster trust and support the development of a true internal market in banking. Scale is another key consideration. Consolidation should be encouraged, enabling European banks to compete more effectively at the global level.

2. Structural drivers of the competitiveness gap: fragmentation, regulation and scale

Building on this initial assessment, discussions then focused on the structural drivers of the competitiveness gap, particularly fragmentation, regulatory complexity and constraints on scale.

2.1 Beyond interest rates: structural drivers of EU banks' lower profitability

A regulator emphasised the importance of understanding the drivers of the lower profitability of European banks compared to their US counterpart, and the extent to which this gap can be attributed to the European prudential framework or other factors. A 2019 Federal Reserve study concluded that around 30% of the gap could be explained by differences in interest rates, suggesting that the remaining 70% is driven by other structural factors. Although the global environment has evolved since then, these findings indicate that non-monetary factors remain highly relevant. These factors include fragmentation, the lack of a harmonised framework for certain market activities, such as securitisation, and the traditional focus of European banks on retail banking, where increased competition leads to lower margins than in investment or corporate banking.

2.2 The illusion of a single rulebook: hidden barriers to integration in EU banking

An industry representative highlighted that fragmentation remains the key constraint for EU bank's competitiveness, despite the existence of a theoretical single rulebook. Regulation also plays a role. Progress on the SIU must be complemented by the completion of the banking union. Although the focus is often on institutional elements, such as a common deposit insurance scheme, barriers within the single market also need to be addressed. In addition to cross-border merger and acquisition (M&A), the digital provision of cross-border services could play a key role in deepening both the banking union and the single market. However, this potential is constrained by the divergent application of theoretically common rules across member states, in areas such as digital onboarding, Strong Customer Authentication or data protection requirements. In practice, a true single rulebook does not exist.

2.3 The incomplete banking union: measuring fragmentation and advancing integration

A regulator pointed to the incomplete banking union and commented that banking requires a certain level of scale to operate effectively, although new technologies are changing how this scale can be achieved. While some promising consolidation operations and cross-border transactions have taken place in recent years, fragmentation continues to limit efficiency and scale. A key question is how to measure the cost of the incompleteness of the banking union. Institutions such as the International Monetary Fund (IMF) have attempted to approximate these costs, including by comparing them to trade barriers.

Action should focus on two key areas. Firstly, market participants should be encouraged to maintain and

further strengthen the momentum towards harmonisation. Secondly, in line with recommendation 18 of the European Banking Authority (EBA) report published in October 2025, a regular assessment should periodically assess the effectiveness and appropriateness of the regulatory framework.

An industry representative indicated that, from the perspective of most banks, regulation and supervision have the greatest impact on competition, outweighing fragmentation and other more cyclical elements.

An industry representative suggested that the competitiveness of the banking sector is shaped by three important dynamics: macro growth, market design and prudential calibration. Improvements in these areas would enhance profitability without compromising stability. Although lower capital requirements are not being requested, increased requirements increase divergence from other jurisdictions and impact on the competitive landscape. A transition from a largely national, event-driven regulatory approach to a more systemic, EU-wide framework would enable European banks and ecosystems to scale more effectively across borders.

2.4 Capital constraints and competitiveness: the burden on EU banks

The Chair noted that there is a broad consensus that the low market share of European banks in the market-based finance area is concerning.

An industry representative stated that, rather than theoretical debates about how stringent US versus EU capital frameworks are, evidence shows that EU banks suffer from higher and ever-growing capital constraints. The average capital ratio for US banks and even only US global systemically important banks (G-SIBs) is 13%, compared to 16% for SSM-managed EU banks and 14.5% for EU G-SIBs. This clear discrepancy reduces their capacity to lend and participate in capital markets in the EU. The Chair noted that comparing capital requirements between regulatory systems is complex, but on the basis of best estimates, including from the ECB and PRA, the largest EU banks would have higher capital requirements under the US rules.

2.4.1 Rising capital constraints and regulatory complexity

An industry representative noted that unpredictability in capital requirements arises from discretionary supervisory decisions and frequent gold plating. In addition, complex capital stacks with binding constraints interact with each other, particularly the multiple maximum distributable amount (MDA) triggers and demanding minimum requirements for own funds and eligible liabilities (MREL).

Over the previous 10 years, outstanding loans in the eurozone have increased at a compound annual growth rate (CAGR) of slightly less than 1.5%. During the same period, the eurozone's gross domestic product (GDP) has grown by a similar low amount. Lending is a vital source of credit for economic growth. If bank lending is constrained, the EU economy will not thrive. By contrast, US bank loans to businesses and households increased by 5.5% in 2025, up from an average rate of 3% over the

previous years. This is likely the result of regulatory reforms in the US at the beginning of 2025.

A 2025 study of 15 major EU banks revealed that, between 2021 and 2024, 90% of their retained earnings were allocated to supervisory add-ons and buffer increases. This left just 10% of organic growth for lending, and market participation as well because any activity linked to capital markets must comply with excessive risk-weighted asset requirements. These constraints need to be addressed to improve the banking sector's capacity to finance the European economy.

2.4.2 Impacts on lending capacity and proposals for reform

An industry representative noted that the Financial Times described the recent Fed proposals as a slashing of capital rules in order to boost lending in the US. While there is no appetite in Europe to slash capital rules, the excessive regulation, i.e. above the Basel agreements? must be eliminated. An important step would be a Commission-facilitated workshop exploring how to eliminate gold plating, particularly with regard to capital markets requirements, market risk and different types of counterparty risk requirements.

2.5 From regulatory comparisons to simplification: strengthening the EU banking framework

A regulator underlined the need to be careful when comparing the EU versus the US regulatory framework. He shared that the EBA is running some analysis on such comparison. There are also structural differences between the EU and the US. For instance, US banks can transfer some of their assets to government-sponsored enterprises (GSEs) and securitise them. This is not currently possible in the EU but is included in the SIU proposal and would significantly benefit the financing of the EU economy.

The decreasing market share of banks in market-based activities is a long-term trend, not merely the result of recent conditions. While competitive funding could be beneficial, other considerations besides pricing efficiency must be taken into account. The focus should be on removing excessive complexity. This will require a collective effort from the EBA, SSM and SRB, with assistance from the Commission.

3. Policy responses: from fragmentation to scale and integration

Against this backdrop, panellists discussed the policy responses required to address these challenges and strengthen the competitiveness of the EU banking sector.

3.1 From fragmentation to scale: the SIU as a catalyst for mobilising savings and transforming Europe's financial system

A policymaker emphasised that the SIU represents a shift from the original Capital Markets Union (CMU) approach, reflecting a growing recognition of the complementarity

between banking and capital markets. 10 years on, progress on the CMU remains insufficient. In particular, there is a clear disconnect between the strong political support expressed at the highest level for both the capital markets union and the banking union and the outcomes of negotiations in the Council and the Parliament. While there was initially a perception that capital markets could be developed at the expense of banks, it is now widely acknowledged that progress in one area reinforces progress in the other.

The SIU aims to address fragmentation and support scaling up across capital markets, as well as in trade and post-trade activities. However, moving towards more centralised supervision in capital markets will only be feasible if accompanied by the establishment of a genuine single rulebook. Although Europe is not a small region, in the context of capital markets it continues to operate as if it were composed of 27 separate markets. It is striking that an economy with one of the highest savings rates globally is still unable to efficiently finance its companies and strategic priorities.

An industry representative shared that growing up in Romania demonstrated how fragile prosperity can be. Europe has great potential, but must lead by example, invest in resilience and take responsibility for the future.

3.1.1 Structural obstacles to scale: fragmentation, complexity and underutilised savings

An industry representative stated that a number of obstacles require attention. First, national supervision, insolvency regimes and post-trade systems result in fragmented capital markets, which directly impacts financing costs and liquidity, making it more difficult to scale up. Secondly, Europe's high level of savings does not flow into the economy, which reduces opportunities for risk transfer and increases dependency on bank balance sheets. Thirdly, the complexities of gold plating, overlapping rules and national overlays slow down processes and create fixed costs for distribution platforms and intermediation activities. Fourthly, limited consolidation and an incomplete banking union have resulted in subscale institutions that struggle to optimise resources at a group level.

The current reporting requirements are an example of the issues caused by fragmentation. The reporting requirements for exchange-traded derivatives mean that ABN AMRO must report 6 billion data fields on a daily basis, whereas US competitors face a much smaller reporting burden. This excessive reporting burden has limited economic value.

3.1.2 The role of the SIU: scaling Europe's ecosystem and mobilising capital

An industry representative advised that Europe's advantages, such as excellent universities, strong research, ambitious entrepreneurs and vibrant hubs, should be scaled across borders to transform local excellence into a strong, resilient European ecosystem. The SIU can play an instrumental role by facilitating scaling, reducing fragmentation and mobilising savings. Capital and banking markets are complementary. Europe will need to undergo multiple integrated transitions, including those relating to energy, security, technology

and mobility. Completing the capital markets union, accelerating securitisation, and calibrating prudential buffers appropriately will enable the banking sector to direct more capital towards financing these transitions and building a stronger Europe.

The Chair suggested that, although the system is very complex, this should not necessarily result in higher capital requirements.

3.2 Scale, governance and regulation: towards a more integrated EU financial framework

An industry representative noted that scale is a critical issue. Regulatory barriers extend well beyond financial regulation, with fiscal, labour, tax and insolvency frameworks also constraining firms' scalability and access to capital markets. A more holistic approach is needed. Recent initiatives, such as the Competitiveness Lab, the 28th Regime and a stronger role for ESMA are very welcome. The introduction of a secondary objective for EU supervisory authorities related to competitiveness or growth, similar to the UK framework, could improve transparency and accountability, and align the mandate of these agencies with the priorities of the Commission and the Eurogroup. The importance of non-bank financial institutions (NBFIs) is growing and there is therefore a risk of regulatory arbitrage. This could be addressed by greater transparency and enhanced global coordination through standard setters such as the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO).

3.3 Targeted reforms to strengthen scale, integration and the level playing field

An official advised that, rather than following the US into a deregulation agenda, the resilient, well-supervised and well-capitalised banking sector that has been developed over the past 15 years must be preserved. The focus should be on targeted reforms to enable banks to compete without compromising stability. Requirements should be tailored to the level of risk and support the real economy while removing the gold plating of Basel standards in Europe. Capital rules should be simplified, and the decision-making process for levels 2 and 3 measures should be streamlined. Lastly, a better integration of the European market should ensure that banks are able to scale up and operate cross-border, both with the EU and globally.

3.4 Reforming finance without weakening banks: ensuring complementarity, stability and ambition

An official observed that European banks will benefit from the reforms proposed by the European Commission under the Single Market Agenda (SMA), particularly those relating to securitisation, market infrastructures and supervision. Co-legislators must aim to reach a swift agreement that maintains the high level of ambition needed to overcome the obstacles that banks face in the current environment.

The value of traditional banking should not be forgotten. Recent challenges in semi-liquid and private credit funds in the US have emphasised the vital role of banks in transforming liquidity. Market-based and traditional balance-sheet banking are both necessary and

complementary. A resilient and competitive banking sector and a level playing field in both markets must be preserved.

A regulator suggested that relaxing prudential requirements should not be the priority as other factors may have more impact on competitiveness. The prudential framework has proven its worth in recent years.

Conclusion

Discussions highlighted a broad consensus on the need to strengthen the competitiveness of the EU banking sector by addressing key structural constraints, notably fragmentation, insufficient scale and regulatory complexity. Panellists also emphasised that enhancing competitiveness should not come at the expense of financial stability, which remains a core strength of the European framework. However, views diverged on the relative importance of specific drivers, such as the role of regulation versus market structure, and the appropriate policy responses. Some panellists highlighted the need to alleviate regulatory constraints, while others pointed to fragmentation and lack of scale as the primary obstacles.

Overall, there was a shared recognition that improving competitiveness will require a more integrated and efficient European financial system. Delivering on this objective will depend on the EU's ability to translate strong political ambition into coherent, timely and sufficiently ambitious reforms, notably in the context of the SIU.

Breaking the Banking Union deadlock

The discussion on 'breaking the Banking Union deadlock' highlighted a broad consensus on the need to deepen financial integration to strengthen the stability and competitiveness of the European economy. While significant progress has been achieved over the past decade, participants emphasised that fragmentation remains a key obstacle, limiting risk-sharing, constraining cross-border banking activity and weakening the overall efficiency of the system.

Against this backdrop, the debate focused on identifying the main sources of fragmentation and outlining the conditions required to complete the Banking Union. A central theme was the need to rebuild trust among stakeholders through a balanced policy package, combining enhanced risk-sharing mechanisms, including a European Deposit Insurance Scheme (EDIS), with stronger guarantees on risk reduction and the effective free movement of capital and liquidity within cross-border banking groups.

1. Financial integration as a systemic imperative for the Banking Union

1.1 Breaking the Banking Union deadlock: financial integration as a systemic imperative

1.1.1 From fragmentation to systemic risk: the cost of inefficiencies and more frequent financial crises

An official emphasised that a high degree of financial integration is crucial to maintain the economic and financial stability of the eurozone. It is no exaggeration to describe fragmentation as a systemic risk. Financial institutions and markets that focus solely on the domestic economy create perverse links between economic and fiscal developments and financial stability in each jurisdiction. Given the lack of monetary tools at the national level, this could undermine the stability of the European economic and monetary union. Integration would increase efficiencies within the system and directly benefit European citizens. Additionally, the stability gained through integration could reduce the frequency and real economy costs of financial crises.

1.1.2 Financial integration as a driver of risk-sharing, competitiveness and scale in the Single Market

An official noted that a more integrated European financial system would act as an effective cross-border risk-sharing mechanism and would be a crucial component of a competitive European financial industry. To achieve the necessary scale, the expansion of European financial entities within the economic area must be facilitated. These entities must be able to take full advantage of the European single market, which is impossible in a fragmented financial industry.

The collective failure of European authorities to deliver ambitious reforms and further financial integration stems from an excessive focus on short-term policy interests. Prioritising the completion of the Banking Union is essential to facilitate the removal of existing regulatory barriers (e.g. ring-fencing) for financial integration. While simplifying existing rules is welcome, it cannot substitute for the more far-reaching and politically challenging institutional reforms that are needed.

1.2 Banking Union and competitiveness: advancing integration over simplification

An official suggested that the Commission's report on banking competitiveness will provide useful insights. Competitiveness is primarily achieved through integration rather than simplification. The competitiveness aims will not be achieved without a deep liquid market for capital and the banking sector. Home-host labelling is not always helpful and can reinforce a misleading mindset. For example, Italy is both home and host.

2. Persistent fragmentation: regulatory, structural and operational barriers

2.1 Banking fragmentation in Europe: a barrier to competitiveness and strategic autonomy

An industry representative noted that risks around competitiveness and financial sovereignty arise from fragmentation. European banking frameworks must enable banks to finance strategic priorities while remaining globally competitive. European banks will need to grow within the single market to generate the necessary economies of scale. Currently providing around 75% of financing to the European economy, European banks will be essential to financing future strategic needs.

Ringfencing and regulatory fragmentation

An industry representative observed that, despite the development of single supervision, capital and liquidity ringfencing requirements mandate that capital requirements and the resolution framework are applied at individual and sub-consolidated levels. Although cross-border liquidity waivers exist, they are rarely used in practice. The internal minimum requirement for own funds and eligible liabilities (MREL) results in resources being trapped in subsidiaries, despite the presence of group-wide resolution strategies.

Macroprudential buffers vary significantly across member states, creating financial borders within what should be a single jurisdiction. Banks in the US or China do not need to navigate these variations. Estimates by the European Central Bank (ECB) and the Association

for Financial Markets in Europe (AFME) suggest that €225 billion of capital and €250 billion of liquidity is currently trapped in subsidiaries. This significant amount could be released through cross-border waivers. Opting for transposition at an individual level with regard to the output floor could further intensify this challenge.

2.2 Scale, competitiveness and the need for a supportive prudential framework

An industry representative suggested that the high level of fragmentation has prevented European banks from achieving economies of scale, with non-EU banks increasingly dominating key strategic segments in Europe. US banks, for example, benefit from a unified home jurisdiction and upcoming prudential relief as part of the implementation of the Basel Accord. Self-imposed barriers in European financial services therefore increase the risk of strategic dependence. The DG FISMA consultation on banking competitiveness provides an important opportunity to assess whether the prudential framework supports Europe's strategic objectives. Competitiveness and stability should be pursued together and not viewed as opposing demands.

2.3 Liquidity Constraints and Regulatory Barriers: Rethinking Integration to Support Growth and Stability

An industry representative emphasised the need to build financial stability and support growth in the real economy, while also addressing current fragmentation. Quantitative tightening is materially affecting liquidity conditions, reducing liquidity in the system and impacting banks' balance sheets. This is resulting in increased net funding gaps and liquidity being trapped in pools of excess funding across cross-border banking groups. Current legislation would permit liquidity waivers, for example making up to €30 billion of excess liquidity available within the speaker's cross-border group. With full branchification, this figure would double.

The current regulatory framework hinders cross-border mergers and acquisitions in Europe. Only contributions equivalent to 12 months of the deposit guarantee scheme (DGS) can be transferred. Additionally, a significant amount of MREL is lost due to the 18-month maturity period of the eligible liabilities that a bank can absorb when acquiring another bank.

The Chair noted that, despite the creation of the single supervisory mechanism (SSM) and single resolution mechanism (SRM), trust is still lacking.

2.4 Banking Fragmentation in Europe: Balancing Integration with Economic Diversity and Trust

While earlier contributions emphasised fragmentation as a potential source of systemic risk, a former official offered a more nuanced perspective, noting that fragmentation may represent a lost opportunity but does not necessarily constitute a systemic threat, instead reflecting the structural characteristics of the European economy. He commented that although there is trust in European institutions there are concerns regarding trust in banks, which are often perceived as 'European in life and national in death'. The fragmentation of the European

banking system represents a lost opportunity, but not a systemic risk. Instead, it is an inherent characteristic of the European Union's economic system.

2.4.1 Structural diversity and local banking models

A former official noted that the US is often used as an example of what Europe should aim to achieve, particularly with regard to its well-developed capital market. However, the core of the European economy consists of small and medium-sized enterprises that borrow money from local banks with which they already have an established relationship. Unlike in the US, where political union occurred before the creation of a single market and monetary union, the granularity of the European Union's banking system and the resulting characteristics of the Banking Union are due to its history. Significant differences remain between the economic structures and banking sectors of different European Union countries.

There is sometimes a perception that smaller countries oppose decisions that would strengthen the banking sector or enable mergers between banks in order to prevent larger banks from entering their markets. However, the opposite is true of Lithuania. With a return on equity in the Lithuanian banking system of over 20% in 2023, Lithuania is keen to encourage banks to enter its market and increase competition in its economy.

2.4.2 Trust, competition and the home-host balance

A former official remarked that the risk-averse policies of some banks can make financing difficult to obtain. This can be mitigated through the establishment of national promotional institutions or European public mechanisms, such as the Recovery and Resilience Facility (RRF) and the European Investment Banks. This is another difference between the European and US economies. Home-host issues are inevitable and will persist in the granular European economy. When reducing barriers to cross-border banking activities, it is important to remember the unequal power balance between home and host countries. As the weaker player in the relationship, host countries should be compensated where appropriate.

Issues are still outstanding in the discussions around resolution. There is a view that not only those banks that are too big to fail should be resolved. Although the closure of smaller banks would not create systemic problems at the European level, they are vital for local economies and require resolution at the point of failure.

3. Building trust and completing the Banking Union: towards a comprehensive policy package

3.1 Building trust in the Banking Union: from institutional integration to removing remaining barriers

A regulator suggested that the creation of the SSM's supervisory board as the single supervisor and the

SRM's has rendered the notion of home-host tension obsolete. Cooperation is now very deep at all levels, starting from the work of joint supervisory teams (JSTs) and internal resolution teams (IRTs) all the way to the top of each organisation involved. In this institutional setup, the lingering lack of trust feels like a legacy issue rather than a current reality.

3.1.1 Single point of entry and integrated supervision

A regulator explained that the single point of entry strategy is the preferred resolution strategy in the vast majority of cases involving significant institutions and often also for less significant institutions. Under this strategy, in the event of failure, the banking institution would be resolved as a single group. This allows for the harmonised resolution of the entire group, including subsidiaries. Under the single point of entry strategy, prepositioning of internal MREL is not always necessary, as MREL resources can be managed flexibly at group level.

Thanks to the SPE, there are less reasons for putting up internal barriers to the circulation of liquidity and capital within the Banking Union. Liquidity waivers are determined by supervisors. In a crisis, given the fact that the framework has been tested and the high degree of cooperation of everyone involved, the preconditions are there for these waivers to become more frequent.

The situation is a bit different when a bank is active also outside the Banking Union. Nevertheless, we worked very hard in developing close ties with all our peer authorities. In fact, Resolution Colleges enable interaction, engagement and trust-building with non-Banking Union Member States. A similar approach is used for third countries, such as Japan, the US and the UK, where different authorities can share experience and practice through Crisis Management Groups.

3.1.2 Remaining obstacles to trust

A regulator noted that there is still some reluctance, even within the Banking Union, to remove internal barriers due to the lack of a European Deposit Insurance mechanism. This crucial third pillar would provide the confidence that, if a resolution decision is not taken, a national liquidation decision would not overwhelm the local Deposit Guarantee Scheme.

Similarly, a liquidity backstop for the Single Resolution Fund (SRF), granting ex-ante sufficient firepower even for the largest liquidity crises, would also be instrumental in providing the necessary confidence to reduce internal barriers.

3.2 Completing the Banking Union: legal integration, risk-sharing and trust

Progress on EDIS and intragroup financial support was widely seen as closely linked to greater flexibility in the use of capital and liquidity within banking groups, forming a central trade-off underpinning trust among stakeholders.

3.2.1 Intragroup financial support and legal barriers

An official emphasised the importance of market integration for strategic autonomy. The SSM and the SRM are effective governance arrangements, but there

is still a lack of trust between home and host. Some gaps remain in European legislation, such as the absence of an EDIS. As noted by another speaker, arrangements around DGSs can hinder mergers. An EDIS would overcome this.

The legal entities that make up cross-border banking groups are governed by national solvency rules that could prevent the smooth transfer of funds in times of crisis. The European framework must therefore enable intragroup financial support to proceed smoothly in all situations. While harmonising all insolvency rules across Europe would be an almost impossible task, it should be considered within the more limited context of cross-border banking groups.

3.2.2 EDIS and risk-sharing: benefits, asymmetries and the need for complementary measures

An official summarised that, although much progress has been made, the main aim of the Banking Union, namely to denationalise banks' risk, has not yet been achieved. Under the current approach, there remain excessive constraints for the deployment of European funds to resolve the crises of significant banks within the Banking Union. Domestic funds, including national deposit insurance schemes, are therefore required to address bank failures within the monetary union. The crisis management and deposit insurance (CMDI) package does not directly address this issue and is therefore not expected to materially advance risk mutualisation, nor to significantly contribute to the completion of the Banking Union.

Denationalisation of risk will involve transferring some risk from domestic to European sources. The benefits arising from this, such as the increased efficiency of an integrated deposit insurance scheme compared to national protection schemes, will not be evenly distributed across countries, particularly when risk is concentrated in certain jurisdictions. Therefore, other complementary measures must accompany the creation of an EDIS. The most important of these is the SSM, which has already been introduced and is performing well in its role of overseeing bank risk collectively.

3.2.3 Risk reduction and removing barriers: conditions for political agreement and deeper integration

An official stated that reducing risk will be critical to building the mutual trust and political support needed to facilitate the transfer of risk and complete the Banking Union. Areas of particular focus include sovereign risk, which existing prudential controls do not address sufficiently. Introducing controls for the concentration of exposures in the domestic sovereign e would be beneficial from political and economic perspectives and should therefore be part of the negotiating package leading to the completion of the Banking Union. Moreover, the industry will need to support, or at the very least not oppose, any new measures. It might not be possible to complete the Banking Union without introducing at least some constraints, and possibly a full ban, on ringfencing practices, particularly with regard to host authority stipulations that affect the domestic subsidiaries of pan-European banks. That would generate operational

gains, such as the ability to centralise resources and therefore manage them more effectively. Banks would have more incentives to become pan-European, therefore further integrating the industry. As was noted previously, this will enhance the competitiveness and improve the stability of the banking sector. Finally, the diversification benefits related to creating an integrated deposit insurance scheme could result in the ability to mandate a smaller target size for deposit insurance as a proportion of the cover. This would provide some relief with regards to the contribution by the industry

3.2.4 The missing pillars of integration

An official advised that the focus should now be on intragroup financial support, liquidity resolution, and the creation of an EDIS. These are the final three elements needed for the success of the Banking Union. There is a great deal of political momentum. The market integration and supervision (MIS) package considers the issue from the perspective of financial markets. The idea of a pan-European market operator (PEMO) has been discussed.

National authorities still foresee situations in which subsidiaries might not receive timely group support or local financial stability concerns could override the strategies of cross-border banking groups. Without an enforceable and uniformly applied legal basis for intragroup financial support, doubts remain as to whether capital and liquidity would effectively flow within a banking group under stress. Supervisory convergence alone cannot replace the need for a legal environment that enables such mobility.

3.3 From fragmentation to integration: priorities for a more cohesive European banking framework

An industry representative advised that the approach should be to build a strong, deep banking market and then address the safeguards. Action is needed in five key areas. First, free movement of capital and liquidity within cross-banking groups should be enabled. Secondly, internal ringfencing should be reduced. Thirdly, national discretion should be reduced through convergence of macroprudential frameworks. Fourthly, the regulatory environment should be simplified and additional fragmentation limited. Finally, enhancing clarity and predictability around cross-border consolidation will clearly signal that achieving scale is a key strategic priority for the union.

3.4 Advancing EDIS: Reducing Inefficiencies and Enabling Cross-Border Banking

An industry representative indicated that their firm fully supports an EDIS and is open-minded about what form it should take. Funds have been allocated at the national level and the focus should now shift to the European level. Experience shows that adding buffers or output floors at the level of individual banks results in overcompliance with the global Basel framework and creates inefficiencies within a group. There are many other examples. The creation of an EDIS could help to address and reduce these inefficiencies.

The expected review of the intragroup large-exposure rule hopefully will also result in a system that hinders less the free flow of funds. As suggested by a previous speaker regarding sovereign exposure, some form of concentration limits could be useful. The development of intragroup large-exposure agreements in host member states will likely depend on the context. There are legal requirements around liquidity waivers. Now is the time for all stakeholders to engage and make commitments. Through dialogue, the industry will be able to provide reassurance, aware that many of the current inefficiencies will be eliminated over time.

The Chair commented that current geopolitical events have highlighted the need for integration and increased the momentum behind the Banking Union. The initial focus should be on increasing trust. Secondly, the issues around the third pillar must be addressed.

Overall, the discussion made clear that completing the Banking Union is first and foremost a political choice requiring a credible and balanced package. Progress on EDIS must be accompanied by stronger risk reduction and the establishment of robust, legally binding intragroup support mechanisms, alongside the removal of barriers to the free movement of capital and liquidity within cross-border banking groups. Without a comprehensive and balanced agreement across these elements, trust will remain insufficient to move forward. Ultimately, breaking the deadlock will depend on the willingness of Member States to align national interests with the collective benefits of a more integrated, resilient and competitive European banking system.

Simplifying EU banking regulation

The discussion focused on how to simplify the EU prudential and supervisory framework without weakening financial resilience. Panellists highlighted the cumulative complexity created by layered capital, liquidity, resolution and reporting requirements, as well as by supervisory practices and fragmentation across Member States. The debate addressed both immediate avenues for simplification within the existing framework and broader structural issues linked to proportionality, competitiveness, harmonisation and the incomplete banking union.

1. The sources of complexity in the EU prudential framework

1.1 Simplifying EU banking regulation while preserving resilience

The Chair noted that overlapping or overly complex prudential requirements, supervisory practices, and reporting obligations can create unnecessary burden for supervised banks. Recently the focus has been on simplification but without deregulation. Specific questions remain regarding how the current architecture, comprising mixed EU and national rules, can be simplified while the banking union remains incomplete and the home/host debate is unresolved.

The European Commission and co-legislators state that financial stability is a core asset and suggest more integration, alongside targeted revisions to regulations. Two reports from the European Central Bank (ECB) in December express willingness to reduce complexity and duplication while maintaining resilience and supervisory effectiveness.

1.2 Improving the usability of the prudential framework

1.2.1 Layered requirements and siloed design

A Central Bank official stressed that the accumulation of multiple safety layers, combined with several capital layers, create significant opaqueness and operational complexity. This makes it challenging for banks, supervisors and investors to identify binding constraints, evaluate the effectiveness of loss-absorbing capacities and determine how buffers can be utilised in stressful situations. Mechanisms such as Maximum Distributable Amount (MDA) triggers and the coexistence of different quality layers in particular contribute to uncertainty regarding capital usability and resilience.

1.2.2 Towards a more integrated framework and a simplified regime for smaller banks

A Central Bank official suggested a more integrated, system-wide approach to calibrating prudential requirements. The current siloed design can lead to unintended cumulative constraints. A binding leverage

ratio can render risk-weighted buffers ineffective, while Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements can duplicate capital requirements when Common Equity Tier 1 (CET1) is used. A more integrated framework could reduce the number of parallel constraints, improve transparency and ensure that safeguards remain effective, while preserving the usability of buffers in stressful situations.

Regarding proportionality, attempts to tailor rules to different bank profiles may in fact increase complexity. While the Small and Non-Complex Institutions (SNCI) framework is a step in the right direction, it does not fully address the needs of very small institutions. A more fundamental simplification could include replacing risk-weighted capital requirements with a higher leverage ratio and simplifying liquidity requirements. Reporting frequency for most metrics could be reduced to semi-annual, focusing on key indicators rather than full Basel III templates. Reviews of governance, credit underwriting and operational resilience nonetheless remain important for small banks. A simplified regime could be introduced on a voluntary basis, initially focusing on the smallest and most burdened institutions.

1.3 Addressing cumulative complexity

An industry representative observed that the post-crisis prudential framework has successfully strengthened the resilience and capitalisation of European banks, which is supported by more robust supervision. However, the framework was designed with crisis prevention and systemic risk containment in mind, whereas the current environment requires private capital to be mobilised to support growth, innovation and strategic investment in Europe.

1.3.1 Interactions between regulatory layers and supervisory processes

An industry representative stated that the increasing complexity of the framework is delivering diminishing returns due to the cumulative interaction between the multiple layers of requirements. These regulatory layers are further compounded by dense supervisory processes, including inspections, model investigations, central reviews and ad hoc data requests.

This cumulative structure reduces predictability, particularly with regard to capital expectations and distribution constraints. It also reduces transparency, particularly where binding requirements interact with supervisory expectations. Finally, it reduces usability due to duplicated supervisory exercises and extensive reporting obligations.

1.3.2 A more integrated and risk-focused supervisory approach

An industry representative argued that simplification should not weaken prudential safeguards and should be based on a more integrated approach. This requires

an assessment of the combined impact of capital, leverage, liquidity and resolution requirements across the entire system, rather than analysing each component in isolation. This would help to identify unintended cumulative constraints and improve transparency for banks, supervisors and investors.

Supervisory practices should prioritise material risks more effectively. For example, formal supervisory findings can be limited to material deficiencies. Minor issues can be addressed through supervisory expectations. Greater transparency in Pillar 2 methodologies and supervisory expectations would enhance predictability further and help to avoid banks' precautionary over-capitalisation.

1.4 Reducing overlaps between going-concern and gone-concern frameworks

An industry representative suggested that reducing overlaps between capital and resolution requirements is important. The interaction between the going concern and gone concern frameworks, particularly in the context of EU banks operating with the concepts of Total Loss Absorbency Requirement (TLAC) and MREL in parallel, introduces opaqueness through overlapping metrics, parallel constraints and uncertainty about which triggers are binding in different scenarios.

Industry participants call for a stronger focus on cumulative effects. In order to reduce overlaps, inconsistencies and unnecessary complexity, policymakers should distinguish between requirements that add resilience and those that mainly increase costs or duplicate coverage. The Chair observed that the complexity also stems from the activities of the banking sector and not just from regulation.

2. Delivering simplification within the existing framework

While the first part of the discussion focused on identifying the main sources of complexity, panellists also highlighted that a number of simplification measures can already be implemented within the existing institutional framework.

2.1 Enhancing efficiency in EU banking regulation

A regulator commented that the EBA plays a central role in implementing technical standards (ITS), regulatory technical standards (RTS) and guidelines, and it fosters supervisory convergence across the EU. The SSM is developing a new Supervisory Review and Evaluation Process (SREP) framework and next-level supervision principles in collaboration with the EBA.

Proportionality has long guided EBA policy work, including through the advisory committee on proportionality. In October, an EBA task force published 21 recommendations aimed at improving the efficiency of the regulatory and supervisory framework. The EBA focuses on removing unnecessary layers and reducing burden through better regulation rather than deregulation.

Following 15 years of post-crisis reforms, the EBA has initiated a review of the framework to ensure its continued fitness for purpose. 20% of future Level 2 and Level 3 mandates were identified as not providing sufficient value and have been deprioritised in coordination with co-legislators. Most recommendations can be implemented without amending Level 1 legislation.

Proportionality is already embedded in several areas, particularly reporting by SNCIs, which submit significantly less data than large banks. However, EBA analysis shows that proportionality is not always fully applied in practice, particularly in supervisory processes such as SREP. The EBA therefore calls for proportionality to be applied more systematically, including by developing a simplified framework for SNCIs without creating a separate regime.

2.2 Reducing regulatory burden

A regulator stated that the EBA is currently reviewing all Level 2 and Level 3 regulations from the last 15 years using a common methodology. The aim is to ensure that these regulations are fit for purpose and up to date. Where this is not the case, the regulations can be reduced or potentially dispensed with.

The EBA also aims to move beyond regulatory issues to address convergence and ensure that the single rulebook is applied consistently. The EBA has instruments for achieving this convergence and intends to intensify the peer review methodology, benchmarking and exchange of practices to make the divergent application of regulations transparent. Producing direct regulations rather than having directives is also a step in the right direction.

Reporting is another priority for reducing regulatory costs and simplifying processes for banks. This includes strengthening the coordination of data requests, as making individual requests is very burdensome and costly. A public EU large reporting repository will be established to enhance transparency, improve alignment at EU and national levels, and prevent repetitive reporting applications.

The EBA is committed to reducing the reporting burden by at least 25%. For example, the annual internal ratings-based (IRB) benchmarking exercise was reduced from 6,000 to 200, with the requirements being integrated into the standard reporting process. Consequently, it no longer has to be changed on an annual basis. A new consultation paper on supervisory reporting is forthcoming and will demonstrate the extent of the reporting reductions being pursued. These changes do not require any Level 1 changes and are therefore within the EBA's remit.

2.3 Operational priorities for effective simplification

An industry representative identified three priorities: better integration of supervisory activities, stronger prioritisation of material risks, and the development of digital-by-default supervision through harmonised reporting and systematic data reviews. The key challenges for simplification, and the ideas highlighted in the ECB report, will be implementation and practice. A holistic review of total requirements is also necessary to avoid overlaps.

2.4 Proportionate, risk-based and accountable supervision

An industry representative supported increasing transparency and reducing operational burdens. Complexity originates at Level 1 but increases exponentially at Level 2 and Level 3. Supervision often holds banks to prescriptive requirements, creating unnecessary and costly operations that cause economic inefficiencies. A cultural shift is needed towards tailored, proportionate, and risk-based approaches focusing on real material risks. Clearer guidance and more efficient processes are encouraged, and the focus at all levels of legislation should be on material risks.

There should be clear, principle-based regulation at Level 1 focusing on outcomes, and trust in national supervisors to apply rules proportionately. Simplification at Level 1 must not introduce complexity at Levels 2 and 3. Open dialogue focusing on outcomes rather than tickbox exercises is encouraged, alongside accountability for the proportionality and effectiveness of legislative actions. She also noted the need to increase transparency in the decision-making process for Pillar 2R, to enhance banks' ability to conduct capital planning.

Structured consultation processes, cost-benefit analyses, and greater accountability of regulators are also required.

3. Simplification, proportionality and competitiveness

Several speakers underlined that operational improvements alone would not be sufficient. Lasting simplification also requires addressing broader structural issues related to market fragmentation, proportionality, harmonisation and the incomplete banking union.

3.1 Banking union integration

A public representative identified two types of complexity. One stems from the regulatory framework itself, where multiple supervisory decisions and overlapping buffers can result in an incomplete view, and a lack of legal certainty regarding capital requirements. Member States continue to introduce exceptions at Level 1, which increases complexity.

The more fundamental source of complexity lies in the incomplete banking union and the fragmented single market. This creates complexity for banks, legislators and supervisors alike, and hinders the effectiveness of efforts to simplify regulation. Therefore, to increase competitiveness and simplify regulation, the debate should focus on accelerating the development of the banking union.

3.1.1 Addressing national fragmentation and diversity

A public representative observed that EU legislation must accommodate the varying national markets in which authorities seek to ensure financial stability while addressing domestic priorities. This makes it difficult to define consistent categories of banks, since the same

institution could be small in one country but not in another, depending on the relevant market sizes. The fragmentation of the banking market hinders the effective implementation of proportionality. Progress on proportionality therefore depends on the further integration of the single market.

3.1.2 Banking union integration for proportionality, competitiveness and simplification

A public representative advised that advancing the banking union is essential for simplification and competitiveness, as it would enable capital and liquidity to circulate more freely. There is also a need for greater harmonisation of macro-prudential frameworks, and progress on cross-border consolidation and the European Deposit Insurance Scheme (EDIS), which are necessary for the consolidation of the single market. Without these advances, attempts to simplify regulation or adjust capital requirements within the current fragmented system are unlikely to deliver meaningful improvements in competitiveness.

The Chair noted that having 27 countries with different banking sector sizes and shapes presents various situations. The ECB provided its views in December and seeks industry feedback regarding its two reports. The ECB will likely issue a public answer to the consultation by the European Commission before 19 April.

3.2 Addressing national fragmentation to ensure a level playing field

An industry representative observed that, despite a largely harmonised regulatory framework, differences persist in the implementation of both directives and regulations, as well as in supervisory practices. This leads to an uneven playing field across Member States. Relying on national authorities to avoid gold plating is difficult, as they tend to focus on domestic market conditions and to safeguard financial stability in its region - rather than adopt a pan-European perspective.

There is significant variation in the implementation of macro-prudential measures, such as the systemic risk buffer (SRB) and the countercyclical capital buffer (CCyB), as demonstrated by European Systemic Risk Board (ESRB) data. These differences lead to overlapping requirements, different capital requirements for banks active in Europe, and reduce transparency regarding the risks addressed by each measure.

A more harmonised prudential framework should exist at the EU level, including greater transparency in how some buffers are calibrated and a more holistic approach to avoid overlaps between national measures and EU-wide requirements. Overlaps are created by the coexistence of nation-specific risk-weight floors under the Capital Requirements Regulation (CRR) and the upcoming output floor.

3.3 The need for harmonisation and timely regulatory action

An industry representative commented that the banking sector is more robust than it was 15 years ago. Prudential regulation remains complex due to overlapping requirements, different national practices and, to some

extent, gold plating. The ECB report is welcome, because concrete ideas are needed to have a constrictive discussion. Changes must create an equal regulatory environment for banks operating within the EU, contribute to a competitive Europe and enable growth and innovation for banks' customers.

Two general messages for EU policymakers concerning competitiveness and the prudential regime were raised. Firstly, a holistic view is necessary. Cross-border banks with activities both inside and outside the banking union, experiences the complexity under discussion. Harmonisation must occur at the EU level rather than there solely being a focus on the banking union. Secondly, policymakers should consider short and medium-term actions alongside long-term perspectives, in order to avoid years of delay to reach agreement and to implement. Immediate action is needed to resolve the issues with competitiveness. Examples include reviewing the implementation of the output floor and the CRR, specifically the transitional arrangements for corporates without external credit ratings, as well as ongoing efforts to simplify and streamline reporting.

3.4 ECB proposals to reduce complexity in capital and supervisory frameworks

An industry representative stated that the ECB proposals provide a credible basis for simplification. The core diagnosis and remedy represent strong areas of common ground. The ECB task force recognises that there are too many elements in the risk-weighted and leverage stacks and recommends simplifying by reducing the number of elements and making the structure clearer in order to improve transparency, reduce uncertainty and maintain resilience.

3.4.1 Excessive complexity in EU capital stacks

An industry representative added that the layering of bank capital requirements and buffers in the EU is significantly more complex than in the US. Large EU banks can face two types of risk-based Pillar 2

requirements and more than five systemic buffers, compared with no Pillar 2 requirement and three buffers in the US.

3.4.2 Simplified capital structures

An industry representative noted that merging multiple buffers in the capital stack and simplifying the leverage stack align with the objective of simplification. The ECB's recommendation to align MREL and TLAC, including simplification of the MREL framework, is consistent with industry views that there is a need to move towards using TLAC to calibrate gone-concern requirements.

Simplification must also extend to supervision. The supervision agenda aims to make supervision more efficient, risk-based and proportionate. The SREP reform is also positive. Even when legal frameworks are stable, operational burdens can increase if supervisory expectations resemble binding law instead of allowing banks to tailor their approaches to their business models.

Overall, the ECB reports provide a credible basis for progress by anchoring on simplification while maintaining resilience, preserving supervisory effectiveness and upholding international standards rather than treating simplification as deregulation. Open discussions regarding duplicative areas of the framework or unnecessary requirements that drive costs with minimal benefit are necessary to declutter requirements.

Divergent global implementation of Basel III

The implementation of Basel III has progressed significantly, but it is increasingly marked by divergence across jurisdictions, raising concerns about the level playing field and the consistency of the global regulatory framework. In this context, the panel focused on the EU's position, balancing the benefits of a robust prudential framework with the need to address fragmentation, complexity and evolving international dynamics. The panel was structured around three key themes: the global state of Basel III implementation and the emerging areas of divergence; the strengths and challenges of the EU framework; and the policy responses required to enhance coherence, simplify regulation and support the competitiveness of the European banking sector.

1. Basel III implementation: the global state of play

The Chair opened the panel by noting that Basel III implementation was incorporated into the banking package in January 2025. Basel III is almost fully implemented in the EU. Only the Fundamental Review of the Trading Book (FRTB) remains outstanding. Many other global jurisdictions have made commendable progress. The US has recently announced a new proposal that would represent a significant step towards the implementation of Basel III.

1.1 Divergence undermines competition and financial stability

1.1.1 Uneven implementation and fragmented timelines

An industry speaker observed that the implementation of Basel III has revealed several key points of divergence between jurisdictions. While some countries adopted the standards more promptly and consistently, others have postponed implementation or introduced adjustments. For global players, adapting to this fragmented landscape entails additional effort and increased cost. FRTB implementation took effect in Switzerland in 2025, while implementation will begin in the EU and UK in 2027, and continuing in the UK in 2028.

1.1.2 Operational burdens, competitive distortions and risks to financial stability

An industry speaker explained that these divergences create complexity and undermine the global level playing field. Banks headquartered in jurisdictions which have implemented the rules more stringently or on a timely basis face a competitive disadvantage compared to competitors in regions with less strict rules or delayed implementation timelines. These inconsistencies affect banks' competitive positioning, profitability, operational strategies and international resource allocation. They result in regulatory gaps and overlaps, which complicate

cross border risk assessments. Ultimately, regulatory divergence compromises financial stability by leaving risks unaddressed or incentivising firms to shift activities to less regulated markets. Without renewed effort to close these gaps, the differences between jurisdictions will widen and the global level playing field could be placed in jeopardy.

1.2 Basel III in the United Kingdom: a delayed but steadfast approach

1.2.1 A revised timeline with targeted flexibility to align with global developments

A regulator noted that the UK published its final Basel III rules in January 2026. Full implementation is scheduled for 1 January 2027, with the exception of the market risk internal model approach. Firms can continue to use their existing models for market risk until 1 January 2028 in order to allow for the possibility of alignment with the forthcoming US rules. The UK is two years behind its original implementation date of 1 January 2025. The UK is following the same transition path, albeit with a delayed entry point. The fully phased-in output floor should still be implemented according to the original timeline of 2030.

1.2.2 Balancing compliance, competitiveness and financial stability in the UK framework

A regulator explained that the UK approach incorporates adjustments in areas such as corporate credit valuation adjustment (CVA) and counterparty credit risk, but it remains compliant with the Basel framework. The PRA has confirmed that it will consider its secondary competitiveness objective as part of Basel III implementation. However, the UK regulators' mandate prioritises financial stability. The UK regulators will only seek to promote competitiveness and growth if it does not compromise this primary objective.

1.3 Basel III in Japan: stability, predictability and the case for greater consistency

An industry representative stated that large banks in Japan have been implementing Basel III in full from March 2024. Japanese banking groups have maintained robust tier 1 and common equity tier 1 (CET1) positions, thanks to their strong balance sheet structures and compliance with the Basel framework. The overall trajectory under Basel III has supported stable capital ratios and transparent risk management. This shows that timely implementation of internationally aligned standards with supervisory predictability can promote growth.

1.4 Who drives divergence? Rethinking global Basel implementation differences

A regulator commented that divergences between jurisdictions are often driven by lobbying from major

international banks. He noted the need for a clearer understanding of differences in capital requirements across jurisdictions, as claims that EU requirements are tougher than those in the US remain contested and may rely on misleading comparisons. The UK is seeking to implement a radical approach to regulatory simplification for small banks from 1 January 2027. However, this approach will not be implemented internationally in order to preserve the UK's compliance with the Basel framework.

An industry speaker stressed that the Basel framework must acknowledge the reality of divergence. The Basel standards should aim to manage divergence intelligently and find common ground for convergence through evidence based reviews of supervisory divergence and implementation outcomes. While there must be some form of global consistency, it must take account of reality.

2. The EU prudential framework: strong foundations and structural challenges

2.1 Delivering Basel III in Europe: a milestone for stability and competitiveness

2.1.1 The CRR/CRD negotiations have delivered compliance while reflecting EU specificities

A public representative stated that the negotiations on the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) have delivered significant progress while taking account of a wide variety of stakeholder views. The latest Basel Committee report on the implementation of Basel III confirms that the EU has achieved compliance. This shows that the Union is a truly international partner and it ensures the future safety, stability and competitiveness of the European banking system.

2.1.2 Strengthening the banking union: consolidation, competitiveness and financing the real economy

A public representative emphasised that financing should be more accessible and cheaper when banks are more stable. Stability enables banks to supply liquidity to the real economy. There is widespread anticipation about the results of the European Commission's public consultation on the competitiveness of the EU banking sector. Accelerating the consolidation of the single market is the best way to enhance competition and competitiveness in the EU banking system.

2.2 EU banking framework: strong foundations in a challenging environment

2.2.1 Robust regulation and Basel III implementation support resilience in a challenging environment

A policy maker emphasised that European banks are well capitalised, profitable and resolvable. This is partially due to the robust regulatory framework which has been developed over the past decade, including the establishment of the Single Supervisory Mechanism

(SSM) and Single Resolution Mechanism (SRM). The successful implementation of Basel III means that European banks are entering the current period of geopolitical uncertainty from a position of strength.

2.2.2 Addressing fragmentation and divergence through evidence based and holistic policy action

A policy maker asserted that EU banks' falling market share in investment banking can be attributed to a wide variety of different factors. The European Commission has launched a consultation in order to gather evidence to inform future policymaking. The Commission expects stakeholders to express a variety of views, but respondents must provide facts and figures rather than opinions. It is clear that regulatory divergence can distort the level playing field.

For example, divergent approaches to FRTB can lead to market distortions. FRTB implementation has been delayed twice and plans are in place to mitigate any discrepancies that might competitively disadvantage European banks. The European Commission is studying the implications of the US re proposal and is prepared to act to mitigate discrepancies. Ultimately, the scale of EU banks needs to be addressed by reducing the fragmentation of the internal market. In this context, the Savings and Investments Union (SIU) and the completion of the banking union become even more important.

2.3 Competitive disadvantages: rethinking the EU's prudential approach

2.3.1 Divergences and capital layering are constraints on competitiveness and financing capacity

An industry speaker stated that global divergence is affecting EU banks' decisions on capital and resource allocation. EU banks face a structural competitiveness gap driven by a layering of capital, buffers and supervisory add ons. The lack of a single authority capable of assessing the complete capital stack is a significant problem.

On average, the CET ratio for EU banks is around 16% compared to 13% for their US counterparts. This difference is primarily due to EU top ups and overlaps rather than an increase in underlying risk. This supervisory discretion carries a real economic cost. Since 2021, discretionary measures have absorbed around €100 billion of capital from the 15 largest EU banks, which restricts up to €1.5 trillion of financing for the real economy. This is particularly significant given Europe's rapidly increasing investment needs. In this context, a rigid unilateral stance on Basel is risky. While peers are delaying, recalibrating or diluting the framework, an inflexible approach risks creating a permanent disadvantage with no commensurate benefits.

2.3.2 A strategic regulatory review to restore flexibility, scale and investment capacity

An industry speaker remarked that the solution is not deregulation, but rather a strategic regulatory review. While remaining Basel aligned, the EU should stop further regulatory escalation and apply targeted flexibility to the timing and calibration of certain measures to enhance the Union's overall financing

capacity. In practice, this will involve aligning the timing and substance of FRTB with peer jurisdictions in order to avoid unilateral capital shocks in EU market activities; neutralising the disproportionate effects of the output floor on low risk mortgages and investment grade corporates; rationalising the buffer stack and eliminating overlaps and EU specific add ons; liberating trapped capital and liquidity by treating Europe as one banking jurisdiction; and embedding competitiveness into supervision. In an economy that is 75% bank financed, optimising the prudential requirements is crucial. As global convergence falters, Europe should prioritise calibrated flexibility over strategic self disadvantage.

The Chair commented that the debate lacks an impact assessment of the current state of Basel implementation. The regulatory and supervisory authorities should support the co legislators by providing the facts they need to strike the right balance in the regulatory framework.

2.4 Additional implementation challenges

2.4.1 Complexity and gold plating

An industry representative highlighted that the main issues with the Basel framework emerge in implementation and enforcement. The EU's implementation of Basel III is unnecessarily complex in certain areas, such as the distinctions between the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and the Total Loss Absorbing Capacity (TLAC). Global players recognise the complexities, costs and challenges of operating within the EU; they do not see Europe's competitor jurisdictions as lazy, unsafe or unregulated.

2.4.2 Simple and consistent rules will support Europe's strategic objectives

An industry representative observed that there is also divergence within the Union itself. When a directive is transposed into national law and enforced by national supervisors, it often differs significantly from the original text. This divergence must be addressed for the EU banking sector to become an effective tool in supporting Europe's strategic objectives. Hopefully, the European Commission's consultation will result in targeted rules that focus on realistic objectives and a reduction in excessive reporting requirements.

3. Towards coherence: simplification, coordination and policy responses

3.1 Rethinking capital and competitiveness: the case for completing the banking union

3.1.1 Challenging the trade off between capital requirements and lending

A public representative challenged the assumed trade off between capital requirements and lending. There is no peer reviewed evidence for the claimed trade off between capital requirements and loan supply. It is

argued that high capital requirements limit loan supply and Europe's significant investment needs warrant a reduction in capital requirements. More evidence is required for these views. The trade off may well work in the opposite direction. Higher capital requirements could mean safer banks and greater access to finance, enhancing banks' capacity to fund the real economy.

3.1.2 Simplification, integration and capital mobility

A public representative stressed that completing the banking union must be the utmost priority. Merely reviewing the prudential framework will not support the real economy and the competitiveness of the banking system. The supervisory framework does require simplification. There are many different supervisors making decisions and many different capital buffers. As there is no single market, member states, finance ministers and national supervisors insist on tools that do not foster a competitive European banking sector. While the EU's simplification agenda is impressive, these efforts must focus on completing the banking union rather than on reducing capital requirements.

The use of capital and liquidity waivers should be expanded in order to increase intragroup mobility of capital and liquidity. Current regulations have resulted in capital and liquidity being trapped within member states. Freeing up this capital would help to finance the real economy.

When the output floor was implemented, the European Parliament advocated applying it at a consolidated level. However, due to the Council's position and the fragmentation of national markets, the output floor was accepted for application at both the consolidated and local levels. In this context, more work is needed on the European Deposit Insurance Scheme (EDIS) and the review of cross-border mergers.

While the EU's agenda for simplification is impressive, these efforts must focus on completing the banking union rather than on capital requirements.

3.2 Simplifying the prudential framework: capital stack and reporting reforms

The Chair noted that the EBA is actively looking into simplifying the capital stack. As part of its recommendations for improving the regulatory and supervisory framework, the EBA proposed simplifying the micro, macro and resolution frameworks and their interactions with each other. It may be beneficial to create new types of colleges where authorities can discuss the impacts, overlaps and gaps of their respective measures. The EBA will soon be publishing a significant proposal to reduce harmonised reporting, which will include both EU level and national reporting requirements. This simplification agenda is also seen as a key lever to improve the efficiency and competitiveness of the EU banking framework.

3.3 Enhancing predictability through simplification and supervisory consistency

An industry representative agreed that simplifying the capital stack would streamline the framework. Aligning

the national approaches to the macroprudential framework will enhance predictability, which is a key priority for international banks. In general, consistency in supervisory practices is as important as harmonised regulation for cross-border banking groups. The best supervisory approaches are dialogue led and involve horizontal benchmarking, clear milestones and consistent coordination. Supervisory colleges offer many of these benefits.

3.4 Holistic prudential regulation will enhance efficiency and coherence

A policy maker emphasised the importance of adopting a holistic approach to regulation. There is no 'silver bullet' for regulatory divergence. Lowering capital requirements will not be sufficient unless the Union's internal barriers are eliminated and the banking union is completed. There should be synergy between the macroprudential, microprudential and resolution frameworks.

The Chair noted that the EBA has put forward a report on how to foster the efficiency of the regulatory and supervisory framework. In that report, on recommendation is exploring the possibility of taking a holistic approach to the microprudential, macroprudential and resolution requirements. Basel III remains a key pillar of financial stability, but its uneven global implementation is increasingly affecting competitive conditions across jurisdictions. The priority for the EU is to adapt its framework to the external environment while preserving its strengths. Reducing fragmentation, simplifying regulation and advancing the banking union will enhance competitiveness, but a pragmatic approach is needed to manage divergence without undermining the credibility of global standards. To that end, a more coherent, evidence based and holistic policy framework will be essential.

Macroprudential framework review

The panel addressed the ongoing review of the EU macroprudential framework, which has played a central role over the past decade in strengthening the resilience of the European banking system. The introduction of macroprudential buffers in the aftermath of the global financial crisis (GFC) significantly enhanced banks' loss absorbing capacity and enabled the financial system to remain robust and continue supporting the economy even in periods of severe stress. However, there is a growing consensus among policymakers and market participants that the framework has become increasingly complex, multilayered and heterogeneous. This reflects the need to accommodate differences in financial structures, risk profiles and economic conditions across member states, but it has led to overlapping instruments, diverging methodologies and inconsistent supervisory practices. The coexistence of EU level coordination and predominantly national implementation has contributed to fragmentation, raising concerns about transparency, proportionality and the overall effectiveness of macroprudential policy.

These challenges are particularly significant for cross border banking groups, which often face multiple or overlapping capital requirements that address similar risks using different instruments. Diverging national approaches to risk assessments and legal interpretations can result in materially different outcomes for institutions with comparable risk profiles and in some cases can create de facto capital ring fencing and limit the efficient allocation of capital and liquidity. This may ultimately distort the level playing field, increase compliance costs and curb the competitiveness of the European banking sector.

In this context, the discussion was structured around three themes: the sources of complexity and heterogeneity in the current framework as well as their practical consequences for banks; the structural drivers of complexity, including possible avenues for simplification; and the way forward, which includes the options to enhance convergence, improve governance and ensure the framework remains effective and proportionate while preserving the flexibility needed to reflect national specificities.

1. Complexity and heterogeneity in the macroprudential framework: sources and consequences

1.1 Growing complexity and governance challenges

A regulator observed that significant governance and coordination issues have arisen in the macroprudential framework, particularly since the creation of the Single Supervisory Mechanism (SSM). The proliferation of specialised instruments and buffers makes it increasingly difficult to maintain a clear and

comprehensive view of the overall capital framework, thereby weakening its readability, consistency and effective governance.

1.2 Heterogeneity: justified differences and unwarranted divergence

1.2.1 Heterogeneity can be a reflection of the structural differences between national financial systems

An official noted that some heterogeneity in macroprudential policies is legitimate, reflecting genuine structural differences between national financial systems. Some economies remain largely bank centric and have relatively underdeveloped capital market. In some, banking sector maintains a capital surplus above regulatory requirements so it can absorb losses and continue providing financial services even in highly stressed scenarios. Therefore, structural features of an economy necessarily affect the calibration of macroprudential policy

1.2.2 Unwarranted divergence is driven by non risk factors

An official emphasised that not all divergence is justified by the underlying fundamentals of national economies, however. The differences in the timing and ambition of countercyclical capital buffer (CCyB) activation or in the scope of the systemic risk buffer (SyRB) can be products of institutional capacity gaps, political pressures or variations in methodology.

1.3 Inconsistent application of tools and a lack of transparency in the framework

An industry speaker observed that the SyRB is an EU specific form of gold plating that does not exist in the Basel framework. The concept of systemic risk is subjective and there has been considerable variation in application in practice. A broad interpretation of systemic risk and a lack of accountability for eliminating overlaps is resulting in a suboptimal situation. Commercial real estate (CRE) is an instructive example. Banks employ prudent risk management practices when doing CRE business. The primary approach is via Pillar 1 credit risk management; Pillar 2 is employed when a supervisory authority deems this insufficient. However, there are three EU systemic risk buffers related to CRE and five countries apply risk weight floors to it. It is not clear why these buffers and floors remain in place.

A regulator responded by noting that CRE risks have not been resolved uniformly. While some member states have addressed these vulnerabilities, others are still undergoing restructuring or facing unresolved issues, such as parts of Scandinavia and Germany. This continued uncertainty justifies the persistence of calibrated macroprudential measures.

Clearly, banks face considerable heterogeneity. In practice, a bank has no visibility on the capital regime it

will encounter if it decides to operate in another country. A macroprudential review would be an ideal opportunity to address the heterogeneity and uncertainty in the framework.

1.4. Buffer usability, market constraints and ring fencing as obstacles to effectiveness

1.4.1 Limitations on buffer usability: market reactions and regulatory interactions

An industry representative explained that the EU's well intentioned supervisory measures have created practical challenges for banks. In practice, buffers are not always used for their intended purpose. National authorities often consider issues such as market reactions, level playing field concerns and interactions with other prudential requirements. In particular, the usability of buffers remains a key issue. Banks are often reluctant to use buffers due to the risk of negative and unpredictable market reactions.

1.4.2 Capital ring fencing and broader regulatory constraints on cross border resource allocation

An industry representative pointed out that capital ring fencing within the EU restricts the movement of capital and liquidity, limiting the capacity of banking groups to support struggling subsidiaries or allocate resources. For instance, challenges arise from the duplication of macroprudential elements within the resolution framework. The market confidence charge (MCC) increases Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements, which can be particularly restrictive in Central and Eastern Europe (CEE), where strong real economic growth, higher than usual inflation and increasing penetration are contributing to double-digit credit expansion. Meeting these needs requires rapid growth in both capital and MREL-eligible instruments. While banks may partially address capital needs through more conservative dividend policies, securing large-scale and continuous issuance of MREL-eligible debt is far more difficult. It is costly, sensitive to market conditions and exposes banks to execution risk, especially in unstable environments. These challenges may slow the region's economic convergence.

2. Understanding complexity: structural drivers, effectiveness and options for simplification

2.1. Structural drivers of complexity and resilience

2.1.1 A resilient framework shaped by structural factors and successive shocks

A regulator emphasised that the macroprudential framework has ensured that the financial system continues to support the economy during periods of severe stress. In contrast to a decade ago, the EU banking sector is now robust, profitable and capable of sustaining lending even in highly uncertain conditions. The framework's complexity is not accidental but

reflects the economic and institutional environment in which it was developed. Established in the aftermath of an asymmetric crisis, it matured during a succession of shocks and the evolution of a more 'permanent' macroprudential stance. It is only natural that different member states require different macroprudential policies.

2.1.2 Cautious simplification and the complementary roles of micro and macroprudential policy

A regulator stressed that simplification efforts should be approached with caution. Any reduction in complexity must not endanger financial stability or the capacity to address evolving and heterogeneous risks across the Union. Simplification should carefully balance the objective of reducing complexity with the need to preserve financial stability. Microprudential supervision should remain the first line of defence; macroprudential policy should play a complementary role.

2.2 Preserving the benefits of the existing framework while addressing convergence gap

A regulator agreed that good progress has been made over the last decade. The macroprudential framework has been a positive development. Some macroprudential challenges can be addressed through macroprudential policies, such as capital buffers or borrower based measures (BBMs). However, it is important to differentiate between solving a problem and discontinuing a policy. A policy may be part of the solution and should not necessarily be discontinued because the issue has been resolved. While it is sometimes necessary to release a buffer, it is not always sensible to stop a policy simply because a problem has been addressed. The historical circumstances in which the EU macroprudential framework was created help to explain some of the present difficulties with its governance. The EU's macroprudential policy framework took this form because the economies and markets of EU member states are not fully synchronised or integrated. This shows why further efforts to increase convergence between member states are needed.

2.3 Towards simplification and convergence

2.3.1 Layered complexity of the capital framework

An industry speaker agreed that the current buffer architecture is highly complex, with layers of capital requirements stacked on top of each other like the layers of a lasagne. Understanding these buffers and how they interact with each other is a challenge for banks and investors. At the base of the lasagne is the Pillar 1 capital requirement, which is typically set at 8%. This is accompanied by the static capital conservation buffer (CCoB). One way to simplify this requirement would be to define the Pillar 1 requirement as 10.5% rather than '8% plus CCoB'. The macroprudential layers comprise the CCyB, SyRB and the systemically important financial institution (SIFI) buffers. Individual capital requirements also exist, such as the Supervisory Review and Evaluation Process (SREP) ratio. Further simplification is possible in this layer. Differentiation should certainly be made between the significant institutions supervised by the European Central Bank

(ECB) and the less significant institutions (LSIs), which come under national supervision.

2.3.2 Implementing the ECB's 'two buffer system' could drive simplification and convergence

An industry representative noted that in December 2025 the ECB issued a structured proposal aimed at simplifying the system. The cornerstone of this proposal is the transition to a unified 'two buffer system', which would consist of a non-releasable buffer and a releasable buffer designed to address cyclical risks, which could be deployed during downturns. The non-releasable buffer would combine the CCoB with the higher of the Global Systemically Important Institution (G SII) or Other Systemically Important Institution (O SII) buffer to reflect structural and institution-specific risks, forming a stable and permanent part of banks' capital. The releasable buffer would merge the CCyB and SyRB and would be used to address cyclical and macroprudential risks, allowing authorities to release capital effectively during downturns. This would create a more coherent and integrated set of instruments, enhancing efficiency and reducing administrative burdens. Ultimately, the objective is to ensure that capital requirements more accurately reflect systemic risks. A simplified, harmonised and more targeted framework would support financial stability and competitiveness.

An industry speaker agreed that the overall structure of the EU's macroprudential buffer system could be simplified substantially. This approach would improve the readability and usability of capital requirements for both banks and investors. Further simplification is possible in other areas, including the SREP framework, but it should be carefully calibrated to ensure that it strengthens, rather than weakens, financial stability. The detailed design of any new framework will require additional input from national competent authorities.

3. The way forward: governance, convergence and policy trade offs

3.1. Enhancing risk sensitivity and reducing methodological divergence

An industry representative noted the importance of understanding the extent to which the macroprudential framework is risk-based or methodology-driven. Studies suggest that around two thirds of macroprudential requirements are driven by methodology or its interpretation rather than underlying risk. While the EU's push for convergence is to be welcomed, the framework remains only partially risk-based. In this context, it will be necessary to clarify the extent of discretion left to national authorities. In some cases, these decisions may reflect domestic political considerations rather than underlying risk. Ultimately, from a banking perspective, more centralised decision-making at EU level would be preferable to the current system. Without further reform, issues of interpretation and predictability are likely to persist, particularly for banks operating across multiple jurisdictions.

3.2 Improving governance and coordination at EU level

3.2.1 Harmonised rules, fragmented markets: towards centralised buffer setting and clearer guidance

An industry speaker remarked that, although the EU's banking regulation rules are completely harmonised, its banking markets are not. The significant differences between product offerings reflect different client needs and preferences. Under the current system, a functional buffer regime would need to consider 27 sets of country-specific risks and the preferences of 27 different national competent authorities (NCAs). It is important either to centralise the setting of buffers or to provide additional guidance to NCAs. Currently, the responsibility for macroprudential policy lies with different types of authority in each member state, usually the central bank or the banking authority. Harmonising the rules and the responsible authority and providing clear guidance would enhance predictability, align buffer parameters more closely and make it easier for investors and banks to operate.

3.2.2 Striking the right balance between EU level coordination and national discretion

A regulator remarked that removing national authorities from the macroprudential framework could distance decision making from country-specific market circumstances. One solution to this issue is to enable NCAs to use a common toolbox. In some cases, centralised decision making can fail to take into account the specific situation of member states. There must be a balance between EU level and national decision making. It is important to retain awareness of local circumstances and avoid excessive centralisation. The use of common benchmarks would be an improvement, but any common decision making must also take national circumstances into account.

A regulator commented that Italy and Germany both have economies based on small and medium-sized enterprises (SMEs), but German SMEs tend to be much bigger and generally operate in different sectors. Italy cannot make the same decisions as Germany and vice versa. The economic damage caused by this would result in substantial economic and social pushback.

3.3 Distinguishing justified heterogeneity from unwarranted divergence

An official cautioned against equating greater EU-level centralisation with prudential soundness, warning that such a one-size-fits-all approach would be both analytically flawed and politically counterproductive. The EU framework should be able to distinguish between heterogeneity justified by national conditions and that driven by other factors. The experience of capital and liquidity ring-fencing has demonstrated the risks of insufficient coordination, pointing towards the need for greater harmonisation in some respects and greater flexibility in others. Any EU-level framework would inherently risk being disproportionate for certain countries and banks. The ESRB should play a greater role in identifying potential misuse of macroprudential space and in providing clear criteria for distinguishing legitimate national action from regulatory

protectionism. The right approach is methodological convergence, incorporating soft law, shared analytical frameworks and capacity building. Introducing EU-level calibration of national capital buffers should be approached with considerable caution. Ultimately, risk profiles differ significantly across Member States.

3.4 Improving implementation: enhanced coordination could mitigate capital stack overlaps

An industry speaker emphasised that Pillar 1 should remain the foundation of the capital framework. She stressed that excessive overlaps in the capital stack point to a lack of coordinated oversight and to the absence of a clear, consolidated view of cumulative capital requirements, resulting in inefficiencies and reduced transparency for banks. Aligning macroprudential decisions with EU-wide stress testing methodologies could reduce discrepancies across jurisdictions. The question of decision-making remains central to addressing overlaps. While the microprudential supervisor could act as the sole decision-maker, this raises concerns about the level playing field and institutional complexity. As a practical step, the role of supervisory colleges should be strengthened. The home supervisor could be tasked with identifying and eliminating overlaps in the capital stack across jurisdictions. This would enable a more coordinated and quantitative assessment of total capital requirements while maintaining the participation of national authorities.

3.5 The limits of stress testing and coordination mechanisms in guiding capital decisions

A regulator noted that EU stress tests have evolved into an exploratory tool to assess system-wide vulnerabilities, rather than a basis for capital-setting or supervisory decisions. It is important to approach these issues with caution, without overestimating the precision of available tools. It is unrealistic to suggest that a supervisory college can guarantee the supply of financial services to the economy during a period of stress.

Conclusion: balancing resilience, fairness and convergence in a complex framework

The Chair summarised the discussion, noting that it will be challenging to resolve the issues with the macroprudential framework. While there is broad agreement on the need for resilience, especially in the current geopolitical climate, the framework must be fair to all market participants. While the EU macroprudential framework has proven effective in strengthening resilience, the complexity and fragmentation of the system pose important questions. There is broad agreement on the need to improve coherence and usability, but there are differing views on the appropriate balance between EU level convergence and national discretion. Simplification and convergence should therefore be pursued with caution. Any reforms must preserve financial stability and the ability to address diverse and evolving risks across the Union. In this context, the ongoing review represents an important opportunity to enhance the consistency and effectiveness of the framework while carefully managing the trade offs inherent in its evolution.

Diversity of the EU banking sector: what ways forward?

The diversity of the European banking sector is widely recognised as a key strength, supporting financial stability, resilience and the financing of the economy. At the same time, it raises important questions about how the regulatory and supervisory framework can ensure consistent standards while reflecting the wide range of business models across the EU.

There is broad consensus on the importance of a harmonised single rulebook and the principle of proportionality. However, translating these principles into practice remains a key challenge, particularly in the context of increasing regulatory complexity and evolving supervisory expectations.

Against this backdrop, discussions focused on how to better balance harmonisation and diversity, enhance risk-based supervision, and adapt the framework to broader objectives such as competitiveness, strategic autonomy and the financing of the European economy.

1. Preserving diversity in a harmonised European banking framework

1.1 European banking diversity

The Chair stated that diversity is an established characteristic and fundamental strength of the EU banking landscape, as evidenced by its varied business models, footprints, activities and strategies. It facilitates the allocation of funding to the areas of the EU economy that need it most, and mitigates the risks associated with herd behaviour and systemic contagion, thereby enhancing the sector's resilience to economic shocks. The objective is to preserve, foster or enrich this diversity, which leads to consideration of the appropriate prudential treatment, the balance between harmonisation and proportionality and whether these concepts are in tension. Participants also highlighted the potential impact of regulatory design and proportionality on consolidation trends within the banking sector.

1.2 Embracing harmonisation while preserving diversity

1.2.1 A single rulebook

A Central Bank official observed that a key objective of the banking union and the single rulebook is to ensure meaningful oversight of all banks in the eurozone, whether they are global systemically important (G-SIBs) institutions or local, cooperative or mutual banks. The harmonised single rulebook ensures a uniform level of supervisory rigour and prevents regulatory arbitrage

arising from divergent national regulations and thresholds based on size. Proportionality is integral to this framework, as stipulated by the Capital Requirements Directive (CRD).

1.2.2 Common rules and joint supervision

A Central Bank official commented that current applications of proportionality include distinctions between SIs and less significant institutions (LSIs), with, for banks supervised directly by the ECB, varying levels of Joint Supervisory Team (JST) engagement based on size and complexity .

In addition, the regime for small and non-complex credit institutions (SNCIs), with assets totalling less than €5 billion, features simplified reporting requirements. SNCI institutions currently report approximately 30% of the data required under the full financial reporting framework (FINREP).

Efforts have also been made to refine the Supervisory Review and Evaluation Process (SREP), which has been improved by prioritising key risks and adopting a more risk-based approach. Further improvements are planned for the coming year.

Business model sensitivity is also considered through questions on how clusters and peer groups are used, which facilitates comparative assessment without demanding uniformity, since not every entity will be in the same group. This allows for a better balance in the risk-based approach taken by supervisors.

Nonetheless, the current framework can still be improved. The Governing Council's High-Level Task Force has recommended expanding the degree of proportionality in the EU under the existing SNCI regime in a prudent manner. Efforts are also being made to reduce and harmonise the applicable requirements across member states, to minimise the patchwork of national implementations and avoid fragmentation.

In parallel, the ECB's Supervisory Board has overseen a project aiming to simplify the supervisory approach by asking simpler questions and focusing on specific risks rather than all risks over multi-year cycles when this is less relevant. The goal is to respect diversity in the banking sector while maintaining consistent risk policies and risk appetites across all institutions.

1.3 Opening the market to innovative solutions

An official emphasised that when discussing proportionality from a supervisory perspective, insufficient focus appears to be given to market openness and the emergence of new entrants, such as neo-banks. Prioritising support for Schumpeterian creative disruption in discussions with supervisors is crucial.

2. Limits of the current EU framework

2.1 EU banking regulation

2.1.1 *The increasingly complex rulebook*

An industry representative observed that, to date, regulatory reforms have possessed merit. They increased the own fund capital and liquidity requirements for European banks, which is positive for financial stability. However, the regulatory framework in the financial sector has grown an unprecedented amount, both in scope and complexity, creating risks for institutions of all sizes. The multi-layered structure of legislation poses compliance challenges for both authorities and banks. Independent regional banks are extremely important for local economies, and the complexity disproportionately affects regional banks. It hinders their ability to comply with all requirements, which contributes to the decline in their numbers.

2.1.2 *Towards a more risk-sensitive and proportionate framework*

An industry representative stated that nobody wants deregulation. The aim is to make it easier for the financial sector to comply with the requirements. A comprehensive financial omnibus act is needed at Level 1 to address this issue. However, reliance on omnibus legislation alone was seen as potentially risky, given uncertainty regarding its scope and content. The current one-size-fits-all approach is neither risk-sensitive nor proportionate, and it increases complexity. Past relief measures, such as those for SNCIs under the Capital Requirements Regulation (CRR), focused solely on reporting and disclosure requirements, which was insufficient. A more substantial, risk-oriented act is needed to stimulate financing and investment in Europe.

Consideration should be given to aligning the implementation of the Basel framework with the approaches adopted by other jurisdictions that offer special regimes for small and regional banks. The EU should carefully consider which banks to implement the Basel Act for, and where future relief could be granted. Currently, Europe applies the entire Basel framework to all types of banks and should consider how to simplify compliance for smaller institutions.

2.2 Beyond incremental proportionality

2.2.1 *Limits of incremental proportionality*

A regulator outlined that Germany is home to around 1,300 banks, accounting for around two-thirds of all Eurozone banking institutions. Many of these banks are very small. A pure one-size-fits-all approach would produce unintuitive results for such a range of banks. European institutions recognise the need for risk-based supervisory practices that are tailored to the characteristics of individual institutions, including their size and complexity, as well as the risks they pose to the overall system.

A tiered system is already in place, comprising an intensive Tier 1 supervision dedicated to SIs, where JSTs and numerous people from various institutions examine the banks. Tier 2 comprises the LSIs, and it could be argued

that there is already tiering within the LSIs. Attempts are being made to reduce the requirements for small banks.

Incrementally progressing means proportionality and risk-based supervision will take time. Germany's implementation of the EBA guidelines involves applying proportionality wherever possible. BaFin has introduced new subsets of banks to specify its expectations on certain topics. A new version is being published that deliberately excludes significant institutions, due to the more complex supervision they require.

2.2.2 *Designing a simplified regime for smaller banks*

A regulator suggested there should be more than just incremental changes. The European environment is very complex and needs to be more efficient. Germany has proposed a rough design for a regulatory regime specifically tailored to smaller banks. This regime would entail higher capital requirements in exchange for simplified operational and reporting obligations, in an attempt to avoid criticism about the loss of a level playing field. However, if the requirements are much simpler and many supervisory elements are removed, high capital charges will be necessary. A separate regime has many virtues and can be implemented without compromising capital or the system's overall safety.

An industry representative commented that banking supervision operates within established political commitments geared towards growth and strength for all enterprises and the broader economy. Supervisory practices present significant compliance challenges for smaller banks. There is no appetite to provide relief for weaker banks.

The Chair underscored the importance of understanding the trade-offs inherent in simplification efforts, to avoid mistakes observed in other jurisdictions.

2.3 Proportionality and resilience

2.3.1 *Enhancing risk sensitivity*

A Central Bank official stated that resilience is a prerequisite for proportionality, and not an alternative. The European prudential framework has consistently demonstrated its robustness in the face of recent pressures. The focus should be on enhancing risk sensitivity and operational effectiveness, rather than relaxing existing regulations. The regulatory and reporting landscape is very complex, and overly formalistic processes are not properly aligned with institutions' actual risk profiles. A one-size-fits-all approach creates unnecessary compliance costs and diverts management attention away from material risks. The current approach risks creating too many institutions that are too small to comply, which could paradoxically reinforce market concentration and the "too-big-to-fail" dynamic instead of mitigating it.

The revised SREP framework introduces a risk tolerance framework with a multi-year approach. This is designed to direct supervisory efforts towards the most significant risks and the specific risk profile of each institution. The SREP reform also incorporates a new, tiered follow-up process for findings, and more focused SREP letters that clearly highlight priorities and key risk drivers. These changes, coupled with enhanced risk-based methodologies

and reduced data requirements, are intended to free up resources for allocation to the most critical areas. The intention is to align legal principles with a risk-calibrated supervisory approach. The SSM is pursuing this objective within a coherent framework by improving risk sensitivity without excessively fragmenting supervision.

2.3.2 Anchoring proportionality in resilience

A Central Bank official emphasised that proportionality has limits. Size alone cannot be equated with risk. Small banks may pursue niche business models or engage in activities that are inherently risky and present significant vulnerabilities, thereby meriting a more intrusive approach. Furthermore, the increasing digitalisation of business models introduces operational complexities that could narrow the scope for lighter regulatory regimes. Therefore, any simplification measures must be accompanied by robust structural safeguards, including solid capital buffers, strong governance structures, and adherence to appropriate standards. This will allow supervisory relief to be reversed if risks escalate. Institutional diversity is a means to an end. It supports financial stability and sustainable economic growth. Supervisors should strive to remove unnecessary friction while preserving the resilience built up over the past decade.

The Chair highlighted the significant impact of the approach to supervisory judgment. A crucial aspect is discerning whether differences in application stem from objective risk-related factors or other considerations and evaluating the impact of potentially diverging practices on the integrity of the single market.

2.4 Embedding risk-based proportionality in banking supervision

2.4.1 True risk-based approaches

An industry representative observed that, despite the consensus on respecting diversity, the merits of a single rulebook and not wanting to deregulate, there are significant differences in terms of implementation and operationalisation. The tendency to adopt a one-size-fits-all approach persists, despite acknowledged efforts to streamline processes. In reality, supervisory practices often rely on established benchmarks for best practice and fail to adequately accommodate the diversity of business models. Low-risk banking models are often not considered sufficiently. Banks encounter difficulties in demonstrating their low-risk profile within the existing framework.

2.4.2 Towards a cultural shift in banking supervision to support competitiveness

An industry representative commented that the Commission's simplification process marks a turning point. The ability of all banks, particularly savings banks, to provide financing is at stake. Attention should be paid not only to the regulation itself, but also to supervisory practices. Banks should consider the secondary mandate, which takes competitiveness and stability into account alongside financial stability. If that is not possible, a 'financing the economy test' could be conducted for each new regulation or amendment to delegated acts, to assess the impact on banks' capacity to provide financing.

However, impact assessments are not consistently considered. A fundamental cultural shift within banking supervision is needed. Rather than categorising banks based on their institution type, those with inherently low-risk models or specific governance structures should be recognised accordingly.

3. A more efficient, risk-based and strategic European banking framework

3.1 Evolving banking supervision

An industry representative stated that the ECB and SSM have demonstrably improved the quality of the European banking sector over the past decade. As the banking sector matures, new expectations emerge regarding how supervision should evolve. As well as differentiating between large and small banks, it is also important to distinguish between strong and weak institutions. A robust culture within an institution is vital for preventing failure and safeguarding the funds of European depositors. Strong banks will have strong SREP scores and ratios. SREP should consider how well-developed and established a bank's culture is, as this is relevant to the likelihood of a bank failing and to depositor confidence.

Supervision should pay closer attention to banks with weaker fundamentals. The aim is not to reduce supervision, but to make it smarter, which includes banks having fewer supervisory meetings. A risk-based, proportionate and outcome-focused supervisory approach should be embedded in practice. The administrative burden on well-performing institutions should be reduced without compromising prudential standards. Supervision intensity should be aligned with institutional strength, involve fewer meetings and inspections, and have fewer ad hoc requests for consistently robust banks.

The ECB's drive for internal efficiency should not result in an increase in on-site visits or meetings for banks with strong fundamentals. Supervision should focus on what is important for banks rather than on how they operate. Progress has been made by making the SREP more risk-based, but the impact remains limited at the operational level. Supervisors should focus on elements that directly impact financial stability. Today's supervisory framework is still too prudent, detailed and intrusive.

The Chair emphasised that proportionality should not subsidise loss-making business models, and attention has to be paid to how good behaviour from banks is rewarded. Before the SSM, supervisory practice involved starting meetings by recognising the bank's achievements before addressing the areas that need improvement. Dialogue should acknowledge the positives alongside identifying deficiencies.

3.2 Smarter supervision in a digital age

An industry representative highlighted the potentially transformative impact of AI on the banking landscape, particularly given the risk of a winner-takes-all dynamic caused by digitalisation. The growing dependence on apps

and generative AI for financial advice could cause clients to turn to unregulated alternatives, which is a significant change that regulators may be overlooking in discussions about open finance. EU employees are increasingly being trained to use, and encouraged to utilise, AI tools. The way customers approach financial services will change. These factors should be considered when addressing competitiveness issues as part of the Commission's consultation process.

3.3 Addressing US dominance in wholesale banking

An industry representative asserted that there are no impediments to new entrants within the EU's banking sector, given the significant growth of digital banks and newcomers. However, the substantial dominance of US-based banks, which exceeds 50% in the wholesale market, is a critical issue and a unique problem for sovereignty among international jurisdictions.

3.4 Simplification, competitiveness and unlocking capital for the economy

3.4.1 Streamlining the regulatory framework

An official noted the significant momentum surrounding these topics. The Commission is holding ongoing consultations, and the European Council reached conclusions the previous week. The banking agenda should be considered in the context of broader political objectives, such as strategic autonomy.

Simplification is part of a broader process underway within the Commission, but institutions like the EBA, ECB and the SSM can do more. Rather than relying solely on omnibus legislation, a more comprehensive approach should be adopted, given the uncertainty regarding its scope and content.

Serious efforts should be made to transform directives into regulations to avoid gold-plating and divergent implementations. Additionally, a thorough review of empowerment levels within Level 2 and Level 3 measures should be conducted to reduce the overall complexity of the rulebook.

Proportionality should be applied consistently to significant institutions and smaller banks alike. It is also beneficial to maintain a supportive framework for new companies entering the market. Aligning the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) with the Total Loss-Absorbing Capacity (TLAC) requirements, particularly for larger banks, could further streamline the regulatory landscape.

3.4.2 Strengthening competitiveness and unlocking capital

An official stated that it is important to have a level playing field globally, so Europe should try to follow in the footsteps of its peers, particularly the US. Steps to neutralise the impact of trading rules on bank capital are welcome. The previous week, the Fed proposed overhauling capital requirements for US banks and releasing up to 5% of capital, which will require a response.

There is a need to mobilise private investment within Europe and to re-evaluate existing capital requirements, including the number of capital stocks and buffer layers.

Although this is a sensitive issue, it should be part of the discussion so that capital can be freed up for the benefit of the economy.

Consolidation among larger players is important, and the Commission does a great deal with regard to the rules on mergers and acquisitions. Simplification should occur as quickly as possible to enable progress on the Capital Markets Union (CMU). Some of the capital relief could be used to finance the economy. With regard to the Banking Union, the principles set out in the 2022 Eurogroup statement remain applicable. The Banking Union must be completed through consensus, taking into account regulatory treatment of sovereign exposures, the European Deposit Insurance Scheme (EDIS) and potential waivers regarding ring-fencing. The proportionality principle should apply to these areas.

4. Conclusion

The Chair argued that there is convergence on the principles and the need to reflect diversity considerations. However, considerations should extend beyond the banking sector itself and encompass factors such as economic growth, banking objectives and political considerations, particularly strategic autonomy and global competitiveness.

A key challenge lies in execution. Regulation can be refined by carefully considering the difference between rules and regulations versus directives, and their specific content. Incentives can be established to define the sizes of organisations and to reward compliant behaviour.

Impact assessment methodologies must be strengthened. In the EBA's report on strengthening the efficiency of the regulatory and supervisory framework with 21 recommendations published in October, the EBA suggests carrying out periodic reviews every three to five years. In addition, the EBA is suggesting bringing together micro/macro resolution authorities. This would provide co-legislators with information for their consideration and circumvent the complexities of implementing a competitiveness mandate through supervision or regulation. An upcoming EBA consultation on reducing reporting requirements was also highlighted, with stakeholders encouraged to contribute.

Discussions confirmed broad agreement on the importance of preserving diversity within a harmonised European banking framework, while highlighting persistent challenges in its practical implementation. Striking the right balance between harmonisation and proportionality remains central, particularly in the context of increasing regulatory complexity and continued reliance on one-size-fits-all approaches. At the same time, proportionality must remain firmly anchored in resilience through robust safeguards and genuinely risk-based supervision. Moving forward, progress will depend on both regulatory refinement and a shift in supervisory practices, alongside greater attention to competitiveness and the financing of the economy. Ultimately, the key issue is one of execution, requiring stronger incentives, more systematic impact assessments and a more evidence-based approach to policymaking.

Leveraging the role of insurance in the EU economy

1. Striking the right balance between enabling innovation and safeguarding consumers through fair pricing and real oversight

1.1 Combining technology neutrality with strong governance to keep the human insurer ultimately responsible for AI outcomes

A supervisor drawing on her recent industry experience prior to joining the National Financial Market Authority, emphasised that the supervisory mandate is dual: enabling innovation while preserving technology neutrality, but only where digital innovations safeguard consumers through fair pricing and real oversight. AI allows insurers to develop better products, maintain competitiveness and discover complex risks such as cyber or environmental risks more effectively; without innovation, customers would eventually turn away, and resilience and the business aspect form part of the mandate because Europe would be much worse off without insurance. However, being data-driven and using differential pricing demand careful supervisory oversight to ensure transparency and fair treatment, since data alone should not determine insurance eligibility — clear guidance is needed to prevent discrimination or unjustified exclusion. From a supervisory standpoint, strong governance and controls are expected: regardless of how extensively AI is implemented, model results must be explainable, and the human insurer ultimately remains responsible for those results and must understand how AI arrives at any specific outcome. Supervisors must themselves be fit for the future by building technical competences capable of distinguishing good from bad governance — one of the FMA's main projects, aiming for 360-degree oversight combining different insurance risks for a more sustainable, successful market.

1.2 Facilitating trustworthy AI through FinTech innovation hubs, regulatory sandboxes and supervisory convergence under EIOPA guidance

A representative of a Central Bank agreed that striking a balance between enabling innovation and maintaining customer protection remains a real challenge for supervisors, and described the toolkit deployed by the Bank of Greece to facilitate it. Since 2019, a FinTech innovation hub has acted as a forum where firms — including insurers — discuss innovative products, business models and business cases with the supervisor and receive non-binding guidance on supervisory expectations. Since 2021, a regulatory sandbox has provided a controlled platform allowing undertakings to test products under supervisory protection; uptake has been limited but AI developments are expected to

increase the utility of these tools, which also let supervisors see upcoming developments. On AI specifically, supervisory requirements call for trustworthy systems that are lawful, ethical and robust, both technically and societally. Several elements are essential: human autonomy must be safeguarded through the capacity to intervene at any point in the cycle; the prevention of harm requires that vulnerable groups (children, people with disabilities, the elderly) keep access without unjustified exclusion; fairness implies a right to contest AI decisions and seek effective redress; and explicability ensures procedures are transparent and easily communicated. Prudential and supervisory convergence is key — the whole community faces the same challenges, and convergence in practices under EIOPA guidance is essential.

2. Closing protection gaps in climate and demographic risks through public/private partnerships and global pooling

2.1 Sharing extreme climate risks through robust public/private mechanisms to preserve insurability and the principle of mutualisation

A representative of the industry observed that climate events are becoming more frequent, intense and costly, with losses reaching nearly €300 billion worldwide in 2024, including €40 billion in Europe. The situation calls for political and public responsibility and for strong public/private partnerships: the French national catastrophe (NatCat) scheme is an effective mandatory home insurance system with automatic coverage for natural disasters, and when extreme climate risks are shared between public and private stakeholders, premiums remain affordable and insurability is preserved. Without such mechanisms, grey areas emerge where insurance becomes prohibitively expensive or unavailable. The principle of mutualisation must therefore be protected through public action and through insurers' commitment to maintaining coverage across all territories. An expert added that climate risk is one of the most intense and growing problems everyone will face: globally, less than 50% of losses are insured, and in Europe EIOPA has helped raise attention to the protection gap. Even where insurance is mandatory, as in France since 1983, the growing cost and intensity of natural catastrophes may push coverage costs up sharply and create regional divergences. Thanks to EIOPA, European insurers have accepted the principle of mutualisation of risk and of solidarity, which cannot be realised without participation by the state and local authorities.

2.2 Investing in prevention, adaptation and territorial resilience as reinsurance costs climb

A representative of the industry explained that beyond risk coverage, public/private schemes, prevention funds, risk mitigation measures and adaptation plans are crucial to social stability and territorial resilience. CNP Assurances acts on prudential risk mitigation while financing the transition: clients receive personalised alerts ahead of severe weather events through customer portals (drawing on a partnership with Predict), and the firm participates in a drought initiative with France Assureurs, the CCR and MRN, given that 10 million French homes face high drought exposure by 2050. Through its bancassurance model with La Banque Postale, the firm informs clients about climate risk and enables action through preferential financing, reduced premiums and support for home adaptation. CNP Assurances has €33 billion invested in green assets and supports innovation in energy, renovation and resilience. An expert noted that insurers have evolved from simply calculating premiums on risk toward growing participation in prevention, with many creating subsidiaries to advise clients in exchange for premium reductions. Reinsurance costs have climbed by 50% between 2022 and 2025, making coordination between the state and private companies essential — in France, the CCR takes half of the reinsurance cost. Resilience is decisive: the French state has instituted a special fund for local authorities to accelerate reconstruction in the most exposed zones, helping to avoid mass migration and the decline of local regions.

2.3 Pooling longevity risk globally and bringing clarity to long-term retirement products

A representative of the industry observed that longevity and biometric risks are core expertise areas for life insurers, and that quality of life — not just lifespan — matters: the defined benefit schemes signed in the 1970s might not cover such extended lives. From its global perspective, MetLife pursues two lines of action: providing annuities within a retirement framework (including conversions of defined benefit schemes into longer-term annuities for more reliable income), and longevity reinsurance — similar to non-life pooling, life insurance requires pooling whose size and diversity determine risk mitigation, with global engagement avoiding overreliance on too few reinsurers in any one region. Ongoing discussions with EIOPA and the IAIS are encouraged to mitigate risks expected to crystallise over the next 10 to 20 years. On annuities, definitions and methods differ across geographies; further conversations are needed to make these products consumer-friendly and cost-effective. Recent debates around the Pan-European Personal Pension Product (PEPP) may not have brought enough clarity on cost structures and risk mitigation; hedging against inflation, currency risk and volatility is much more expensive today than two years ago. Clarity and transparency must be brought into the whole ecosystem — insurers, regulators and consumer groups. An expert added that increasing the financial literacy of individual savers matters, since most retail investors prefer government bonds or guaranteed investments — a question of long-term mentality.

3. Mobilising patient capital through Solvency II review, a deeper single market and European scale-up funds

3.1 Using Solvency II capital reliefs and better securitisation to channel investment into bankable long-term projects

An expert explained that the Solvency II reform agreed in 2023–24 is expected to increase available solvency headroom through risk margin recalibration, alterations to the matching adjustment framework and refinements to the volatility adjustment, reducing non-economic volatility while maintaining the prudential architecture and increasing insurers' possibilities to invest in long-term projects. A Commission proposal also seeks better use of securitisation: insurer reserves invested in Special Purpose Vehicles are far lower in Europe than in the US, and the move could improve investment in long-term projects and infrastructure. However, increased Solvency II room is not automatically dedicated to long-term projects: it depends on market dynamics, financial fragmentation, and the availability of bankable, standardised and correctly remunerated projects in Europe. Reports on Next Generation indicate the European market struggles to offer attractive returns versus other jurisdictions. A representative of the industry recalled that the European insurance sector represents half of EU GDP; CNP Assurances, with €314 billion in euro funds and €108 billion in unit-linked products and 85% of assets invested in Europe, is firmly established as patient capital. A supervisor FMA added that capital reliefs in Solvency II should be used properly for the green and digital transformation; a representative of a Central Bank added that capital released through volatility adjustment, risk margin and administrative cost reductions can support sustainable and green investments and the SIU.

3.2 Strengthening cross-border supervision and meaningful proportionality – not deregulation – for a true single market

A regulator noted that cross-border insurance activity is growing significantly and necessitates supervisory coordination. A representative of a Central Bank commented that cross-border activity has grown over 10 years of Solvency II, but improvements are needed in transparency and the elimination of supervisory blind spots: the upcoming Solvency II review will improve cooperation between home and host supervisors, with home supervisors gaining a mandate to share information, and host supervisors strengthened through enhanced joint on-site inspections. EIOPA's mediation function will become more prominent. A supervisor FMA noted that Austria acts both as home supervisor for a large Austrian insurer present in 27 other countries and as host, since the premium volume of non-Austrian insurers operating in Austria exceeds that of domestic insurers — trust, timeliness and effectiveness in colleges are key. Crucially, proportionality is not a call for deregulation but a genuine focus on reducing

operational burden, especially for small, non-complex insurers: real simplification must occur after 15 years of regulation. A representative of the industry reported MetLife Europe's 11 branches operating from Ireland under the single market since 2011 — proof that the model works — but flagged only 60-75% overlap among 11 different sets of conduct rules; using regulation rather than directives would assist convergence, and the FiDA Regulation must not solidify fragmentation. He appealed for the single market for insurance to be discussed as frequently as the banking union — a wish echoed by an expert calling for improving a real single market.

3.3 Reducing the capital cost of risky assets through public-action guarantee mechanisms to finance European champions

A representative of the industry emphasised that, from a prudential perspective, measures reducing the capital cost of risky assets — the guaranty mechanism, the Solvency II revision framework, the long-term equity investment framework — are welcome and allow CNP Assurances to take on more risk while keeping its overall envelope constant. However, these measures alone will not address structural under-investment in

strategic sectors. As highlighted by the Noyer/Kukies report, Europe has a strong innovation ecosystem but lacks funds to support scale-up during capital-intensive phases, so promising companies seek financing outside the EU, weakening European competitiveness. The TB scheme, launched by France in 2019, channels private and institutional savings toward technology investment funds and has mobilised €12.5 billion via 150 approved funds. Beyond such initiatives, the European ecosystem requires further strengthening: there is a lack of asset managers with sufficient scale, ratings and benchmarks focus too much outside the EU, and coordinated action must foster large quality European funds — including European scale-up funds — entrust management to European asset managers, promote European rating agencies and realign benchmarks with the EU's long-term savings needs. The priority is therefore reducing the capital cost of risky assets through guaranty mechanisms with public action, to finance startups and champions. A regulator closed by noting that significant changes require involvement from insurers regarding where they invest, state support for fat tail risk and consumer participation, while the Solvency II review enters into force next year and SIU discussions continue.

Climate insurance protection gaps

1. A widening, systemic protection gap: managing the boundary between insurable and uninsurable risks

1.1 Climate change as a risk multiplier: reducing, not redistributing, rising risks

A Policy Maker opened the panel by noting that widening climate protection gaps are increasingly recognised as a systemic challenge for Europe's resilience, fiscal sustainability and financial stability. Physical climate risks are rising in frequency, severity and geographical spread, and climate change now acts as a risk multiplier, with damage cascading across supply chains, public finances and labour productivity.

An Industry Representative noted that climate-related losses already exceed \$100 billion annually for the fifth consecutive year and are set to double every seven to eight years especially for perils as thunderstorms and hail, floodings and bush fires — reaching eight times current levels in 20 years without adaptation or mitigation measures. Neither member states nor insurers can absorb such a burden, which would ultimately fall on taxpayers or policyholders. The imperative is therefore to reduce, not redistribute, rising risk. Decarbonisation remains essential, even as the trajectory shifts from 1.5°C towards 2.3–2.5°C.

An Official noted consensus on the diagnosis but not on solutions. Climate risks produce direct fiscal impacts: Ireland has suffered significant flooding and a wind event worth €300–400 million in losses. The European Climate Risk Assessment highlights complex and cascading risks across systems and borders, showing that Europe is not adequately prepared, with adaptation policies lagging the pace of change required.

1.2 Growing insurability pressures: mandatory cover and shared responsibility across markets, states and the Union

A Policy Maker explained that rising premiums, tighter coverage and a lack of insurability in some high-risk areas are widening protection gaps, raising difficult policy questions about affordability, risk awareness and post-disaster public compensation. As private risk-sharing comes under strain, the potential transfer of climate risks to households, national budgets and European solidarity instruments is an increasingly important concern. The key challenge is no longer whether gaps exist, but how Europe manages the evolving boundary between insurable, hard-to-insure and uninsurable risks, and how responsibility is shared between markets, member states and the Union.

An Industry Representative observed that, with the natural catastrophe protection gap at around 60%

based on last year's losses, insurers have a critical role to play. This is precisely why several European countries have introduced mandatory coverage laws asking insurers to help fill the gap.

An Official noted that not every loss can be prevented: some claims will remain uninsurable because cover would be too expensive, and public money will then have to step in. Efforts must therefore focus on what is genuinely insurable. Ultimately, not everything can be insured: some phenomena, such as coastal erosion, are certain by nature and fall outside the scope of insurance.

1.3 Low take-up and insurance literacy: the Italian case for compulsory cover and transparency

An Industry Representative drew on research by the Centre GREEN, an Italian consortium funded by the Recovery and Resilience Facility. Around 91% of Italian municipalities face at least one geological, hydrogeological or seismic risk relevant to catastrophe insurance. Up to end-2024, before compulsory catastrophe cover for Italian SMEs was introduced, only 9% of companies were insured against earthquakes and floods and just 0.1% covered for all NatCat perils; take-up has since increased but remains far from sufficient.

Awareness has only recently taken hold, driven by a sharp rise in extreme events — roughly four times as many over the past two years, including Sicily's sea storms and major landslides. A negative correlation is observed between risk level and take-up: even where risk is clearly visible, take-up remains low.

Several hurdles need addressing. Insurance literacy in Italy is generally low, as for other financial products. A stronger insurance culture requires tailored, clearly explained products with full transparency on what is covered. Some risks — such as Campania's daily bradyseism — are intrinsically hard to price. After the recent coastal storms, many policyholders discovered they were not covered for storms above a certain intensity threshold. This is less a question of taxonomy than of transparency. Adapting will require interventions that go well beyond insurance itself.

2. Insurers' broader role: prevention, adaptation and impact underwriting as imperatives to keep risks manageable

2.1 Pricing risk as a single, understandable financial signal: impact underwriting to reward adaptation

A Regulator noted that, since this topic had already been discussed at the previous Eurofi conference without improvement, progress is all the more urgent. The insurance sector plays a core role in resilience

through its pricing of risk: insurers translate a highly complex climate hazard into a single, understandable financial signal. This supports economic stability, helps society gauge risks and contain fiscal impact. Pricing also rewards adaptation and mitigation: the more a policyholder does to reduce risk, the lower their premium.

This role of incentivising adaptation — what EIOPA calls impact underwriting — remains in its early stages. EIOPA has just published a consultation paper on whether dedicated treatment in the Solvency II capital calibration could be justified by adaptation measures, looking at risk sensitivity, materiality and proportionality. Industry feedback would be very valuable; such a treatment would be risk-based and would have a positive impact on society.

A Policy Maker encouraged industry to contribute to the consultation. An Official added that climate change also presents opportunities for the sector: insurers can act as assessors, managers and carriers of risk, and as investors, providing critical economic signals through risk-based pricing about the changing risk environment.

2.2 A striking business case for prevention: push and pull to build resilience by default

An Industry Representative argued that public infrastructure investment must be part of the answer: natural catastrophes flood not only homes but also streets, hospitals and critical infrastructure. Initiatives such as Build Back Better show what can be done, but investment in prevention — dikes and flood barriers such as the Thames Barrier, which has delivered a remarkable return over 50 years — is equally essential. Without prevention, such risks become almost uninsurable. Yet the business case is striking: every €1 invested generates €4–10 of losses avoided per major event.

A combination of push and pull factors is required. The push side involves robust building codes restricting construction in high-hazard areas; the pull side offers incentives supporting prevention and resilience, including public-private partnerships. Given the billions being invested in infrastructure and housing, climate resilience should be built in by default, just like energy efficiency standards. Replacing an oil tank with a heat pump, for instance, improves both carbon footprint and resilience. Investment in resilience and prevention must take place now, to keep areas insurable, affordable and habitable.

An Official emphasised that the link between insurance and prevention must be reinforced — as France already does nationally. This can be reflected in the price or the conditions of the contract. Where prevention is not carried out, costs will be considerably higher afterwards.

2.3 Not single events but a series of interconnected events: from claims compensation to systemic resilience and relocation

An Industry Representative observed that risk transfer is the natural starting point: insurers relieve part of the burden borne by states, homeowners and businesses. Beyond risk transfer, their role should broaden into

advising individuals, enterprises and governments, becoming more holistic over time. Insurers cannot act alone: a multi-stakeholder approach is essential, supported by granular weather data and EU programmes such as Copernicus and ECMWF.

An Industry Representative, echoing the Regulator on adaptation, argued that what is being observed is not a single event but a series of interconnected events. Adapting has implications beyond insurance: it will affect investment decisions, drive relocation choices and require interventions aimed at building systemic resilience rather than simply paying claims. For some regions it is becoming existential. Social cohesion support — reskilling affected populations and supporting relocation — deserves attention: Christchurch, where a whole city was relocated after an earthquake, is a powerful reminder.

An Industry Representative added that insurers bring two further forms of value: significant data and experience, critical to channel limited resources towards areas where prevention can genuinely change the risk profile; and risk transfer itself, where broader coverage reinforces the mutuality effect that keeps insurance affordable.

3. Sharing responsibility: common tools, skin in the game and public-private partnerships

3.1 Fragmented national approaches: a harmonised EU observatory of emerging protection gaps

A Regulator argued that a consistent view of emerging protection gaps across member states would improve transparency for citizens, businesses and authorities. Current approaches are fragmented, making it difficult to assess where risks are becoming uninsurable and where affordability is the issue — two problems that do not always arise together. An integrated EU solution is needed so national measures do not worsen conditions elsewhere. A harmonised perspective would support early warning systems drawing on signals such as rapid premium rises, reduced capacity or coverage withdrawal; a dedicated observatory building on EIOPA's dashboards could bring public and private sectors together.

An Official added that addressing insurability requires combining bottom-up and top-down approaches, since insurability depends on geology, climate, market structure, risk appetite and local claims. France is developing an observatory uniting the CCR, insurers and the official geological survey, producing a granular analysis of 35,000 administrative areas, plus a public website for citizens to check their exposure. Data consistency and availability is crucial.

An Industry Representative noted that many protection gaps also stem from misperceptions: people assume they are not at flood risk because they do not live near a river, whereas global warming now produces heavy rainfall far from rivers. Maps and tools already allow anyone to check their exposure at an address.

3.2 Balancing public backstops and private market discipline: skin in the game in national schemes

An Official observed that several models exist for NatCat insurance, from fully private to public-private, the right choice depending on each territory's risk profile. Two separate questions must be distinguished: structure and level of coverage. In France, solidarity among policyholders combines with a public backstop for natural disaster, the private market handling the bulk of the risk. The backstop intervenes for those specific risks where the private market alone would not intervene. The Nat Cat system is funded by a surcharge on the damage insurance contract. If the surcharge is too high, insurers turn to other private reinsurance markets, and thus, national authorities need to pay close attention to maintaining effective market conditions. With a projected 30–50% rise in claims, coverage level must be addressed distinctly from structure: France recently raised its household surcharge from 12% to 20% and car surcharge from 6% to 9%, having run the scheme for over 40 years.

An Official agreed that national schemes are probably not robust enough to absorb projected losses. They supplement private cover, and public-private partnerships can narrow the gap. A 2023 ECB–EIOPA paper emphasised the need to share costs and responsibilities — the 'skin in the game' principle. Policyholders should retain part of the responsibility against moral hazard: those investing in prevention should benefit from lower premiums. Government-backed protection is more justified for low-frequency, high-severity events than for frequent ones, better left to the private market. Policy intervention must not undermine incentives for risk reduction; inaction carries its own macro-economic costs.

3.3 Common principles for a common problem: from national schemes to regional and EU frameworks

A Policy Maker highlighted several EU-level initiatives, notably the Climate Resilience Dialogue launched by DG CLIMA and DG FISMA, whose July 2024 report analysed drivers of protection gaps. Recent communications on Agriculture, Preparedness and Water Resilience have underlined the need for better financial preparedness; Commissioner Hoekstra is to present a policy initiative later this year. EIOPA and the ECB's 2024 joint paper set out options including an EU-level public-private reinsurance scheme and a reconstruction fund.

An Industry Representative proposed demand-side measures — awareness campaigns, transparency, scheme benchmarking, clearer pricing — and supply-side measures: data-sharing through loss-event pools and a taxonomy of combinational events. This is arguably not classical market failure but a 'planned failure' calling for public-private partnerships. Links between physical and financial events, particularly insurance and banking, also need understanding, since catastrophic events can cause substantial SME defaults.

An Industry Representative argued that common principles suit a common problem: resources ensured through reinsurance or a common backstop, with all parties sharing 'skin in the game'. An Official added that regional frameworks also have a role, France having been approached for technical assistance in that regard. A Policy Maker closed by emphasising continued collaboration, the Commission's door remaining open to ideas and proposals.

Emerging risks in the insurance sector

This session brought together regulators, supervisors and industry representatives to examine the emerging risk landscape facing the insurance sector. Three themes structured the discussion: the interconnected nature of risks in a new era of polycrisis; the need to upgrade supervisory monitoring and risk management frameworks; and the contribution of new technologies, regulatory reform and alternative risk transfer mechanisms to building resilience.

1. A new era of polycrisis: interconnected risks amplifying each other demand integrated management frameworks

1.1 Macro and geopolitical shocks: cumulative vulnerabilities for a resilient but exposed industry

A regulator drew on the IAIS's Global Insurance Market Reports for 2024 and 2025, noting their continued relevance to understand the impact of the current geopolitical situation on the global insurance sector. The macroeconomic environment is one of the primary transmission channels for risk: market volatility, asset repricing, inflationary pressure, higher interest rates and slower growth affect insurers' investments and their capacity to reprice risk. Financial markets entered the current crisis with pre-existing vulnerabilities — elevated allocations to opaque asset classes, questions around asset pricing and high levels of debt. Despite this, the global insurance sector remains resilient, with sound solvency, liquidity and profitability indicators. Direct exposures to the Middle East crisis are reported as limited: war risk is typically excluded from standard policies, though specific cover is available for marine and aviation lines, and disruption to the Strait of Hormuz has raised risk for marine insurers. Additional challenges include energy sector vulnerabilities, trade credit impacts from sanctions and heightened cyber risk. The defining challenge lies in the cumulative and interconnected impact of these diverse risks. The IAIS has convened ad hoc meetings of its working groups and committees, reflecting the importance of international cooperation. The regulator stressed that medium- and long-term vulnerabilities must not be overlooked.

1.2 From energy and food cascades to cyber outages: polycrisis in practice and the end of siloed risk management

An industry representative highlighted the increasingly interconnected nature of risk, noting that 75% of experts surveyed now recognise this shift. The world no longer faces individual crises but a state of polycrisis — a network of mutually reinforcing and amplifying risks. The Middle East conflict illustrates this vividly: within days of its onset, maritime traffic through the Strait of Hormuz fell by over 95%, triggering a domino effect across industries. Brent

crude exceeded \$120 per barrel, with some experts calling it the greatest global energy security challenge in history. Two secondary cascades were highlighted. A fertiliser shock — with prices rising by up to 50% in a week due to natural gas dependency — threatens crop planting across the northern hemisphere and food security in Western and African economies, prompting UN concerns. A digital cascade saw data centres in the UAE and Bahrain struck twice in one month, causing banking outages, forcing cloud workload migrations, creating data residency compliance challenges and fuelling a surge in cyber incidents. The industry representative concluded that large companies can no longer treat these exposures in isolation: integrated risk management frameworks — combining AI, geospatial intelligence, cyber solutions and human expertise — are now indispensable to mirror the full complexity of the risk landscape.

1.3 Ultra-processed food, extreme heat: the emerging risks that will make tomorrow's headlines and must inform today's decisions

Another industry representative offered a longer-horizon perspective, defining emerging risks as those arising from today's reality whose timing and magnitude of impact remain uncertain — appearing in the news today but set to make headlines within months or years. Two examples were presented. The first concerns ultra-processed food (UPF): growing evidence links UPF consumption to type 2 diabetes, depression and cardiovascular disease, with implications for insurers' health and legal liability portfolios given the potential for future litigation against food companies. The second is extreme heat: 2024 was the hottest year on record; 76 heat waves were recorded in 90 countries between mid-2023 and mid-2024; and over six billion people experienced at least 31 days of extreme heat. This risk affects property portfolios through wildfire, specialty books through infrastructure damage, and life and health portfolios through increased morbidity and mortality.

The industry representative emphasised that these insights must be embedded in business stress-testing. A regulator added that long-term health risks — driven by ageing populations, rising mental health pressures and climate impacts on food systems — equally demand attention, and that addressing the full web of interconnected risks will require entirely new analytical strategies.

2. Supervisory monitoring and risk management frameworks: critical upgrades in an increasingly volatile world

2.1 Sovereign debt sensitivity and balance sheet volatility: real-time monitoring and shorter supervisory horizons as the response

A supervisor described the challenges facing countries with high public debt sensitivity, using Italy as the central case. Geopolitical tensions, persistent inflationary pressure and abrupt market repricings transmit rapidly to insurers' balance sheets. Marginal movements in sovereign spreads generate significant valuation volatility, affecting Solvency II ratios and capital positions. IVASS analysis consistently identifies sovereign spread movements as the dominant transmission channel, in line with EIOPA's most recent Financial Stability Report. These dynamics require supervisors to intervene on materially shorter time horizons than in the past. IVASS has introduced a high-frequency monitoring framework tracking unrealised losses on sovereign securities in near real time, complemented by intensified follow-up during periods of market turbulence to mitigate procyclical reactions. Structural risk areas — concentration risk, interest rate risk and duration management — are monitored in parallel. Italian insurers have strengthened asset-liability management: their duration gap of approximately two years is the shortest in Europe, reducing interest rate mismatches and dampening the transmission of volatility to solvency ratios. The supervisor concluded that in high-debt environments, macrofinancial risks shape day-to-day supervisory priorities.

2.2 From ORSA and liquidity stress tests to an early warning monitor: macroprudential tools evolving to identify vulnerabilities earlier

A regulator described how the NAIC has progressively strengthened its macroprudential toolkit since the 2008–09 financial crisis. The Solvency Modernization Initiative (SMI) produced framework rules centred on annual confidential filings covering corporate governance, risk management and own risk and solvency assessment (ORSA), which have become core components of the NAIC's toolkit. In 2017, the Macroprudential Initiative (MPI) was launched to identify enhancements across four areas: liquidity risk, capital stress testing, recovery and resolution, and counterparty exposure and concentration. This led to improved product category reporting in life annual statements, enabling regulators to identify companies with higher-liquidity-risk product types. A formal Liquidity Stress Testing (LST) framework for large life insurers, finalised in 2021, captures the market-wide impacts of aggregate asset sales under stress and is conducted annually. The regulator noted that in 2026 the NAIC will deepen its capabilities as a data aggregator, analytical provider and early warning monitor, supporting proactive oversight, risk identification, peer review and policy insight. This reflects a broader ambition to move from reactive to anticipatory supervision, with data infrastructure as the central enabling tool.

2.3 Covid as a case study: indirect impacts missed and the imperative for interdisciplinary thinking

An industry representative drew on the Covid-19 pandemic as a case study in how multi-factor crises can defy established risk models. Whilst the insurance sector demonstrated resilience, with no major systemic failures, the crisis exposed significant gaps. Before the pandemic, their insurance group had identified pandemic risk as material but focused scenario work on direct mortality and healthcare impacts, overlooking the profound social transformation a major pandemic would trigger. The operational consequences, financial market effects and risk

of business interruption were inadequately covered by underwriting frameworks. External consultants presented letter-shaped recovery scenarios but failed to identify the inflationary dynamics inherent in the shutdown-and-reopen cycle, driven by pent-up consumer demand — a failure of analytical framing as much as forecasting. The industry representative concluded that the fundamental requirement is strong interdisciplinary collaboration, drawing together professionals from different backgrounds to trace the full chain of consequences — direct and indirect — of any given risk. As with the litigation potential from ultra-processed food flagged by another industry representative, indirect effects can ultimately prove as consequential as the impacts initially modelled.

3. Complex investments, new technologies and market solutions: addressing regulatory gaps and the limits of traditional models

3.1 International coordination and harmonised standards are required to address cross-border asset-intensive reinsurance and possible regulatory arbitrage risks

A regulator identified two interconnected structural shifts in the life insurance sector: growing allocations to less liquid or harder-to-value alternative assets, and the increasing use of cross-border asset-intensive reinsurance. Whilst globally modest, these trends are concentrated in specific jurisdictions and reflect legitimate drivers, including the need to fund long-term liabilities and in some cases broaden insurers' asset access. However, they also carry a risk of exploiting jurisdictional differences to access more lenient reserve or capital requirements. Unlike group-level supervision, cross-border reinsurance arrangements do not automatically give rise to a supervisory college, making bilateral recognition agreements indispensable. The IAIS MMoU supports information exchange, whilst the Insurance Capital Standard (ICS) and Insurance Core Principles (ICPs 14 and 17) reduce jurisdictional inconsistencies. Enhanced disclosure of reinsurance arrangements and underlying assets is equally critical. Another regulator added that the NAIC's RBC Model Governance Task Force is conducting a gap analysis to address inconsistencies in how alternative assets, private equity structures and illiquid vehicles are captured, aiming to design a repeatable review process as new risk factors become reliably quantifiable.

3.2 Satellite imagery and forward-looking modelling: a gamechanger for wildfire and climate risk

An industry representative highlighted two structural challenges in managing emerging risks: the scarcity of historical data for new risk types, and the inadequacy of historical data alone for climate risks evolving faster than the record. Wildfire risk illustrates both. Following EIOPA's recently published white paper on satellite observation, A representative of the industry described satellite imagery as a genuine gamechanger for risk modelling. In real time, satellite data enables insurers to assess vegetation density, temperature and topography, supporting accurate exposure

scoring. The technology also generates direct client benefits: AXA DCP uses it to identify vegetation near insured buildings that should be cleared preventively. Once a fire ignites, satellite analysis can model potential propagation over 24, 48 and 72 hours to guide prevention efforts. During the 2025 Los Angeles wildfires, satellite observations enabled remote identification of destroyed buildings — critical information when on-ground access was restricted. The representative of the industry concluded that these technologies are transforming both risk modelling and the value insurers deliver through prevention and real-time crisis support, marking a shift from reactive indemnification towards proactive risk partnership with clients.

3.3 Shared datasets, harmonised methodologies and ILS markets: building collective responses when traditional approaches fall short

A supervisor stressed that climate and cyber risks both pose fundamental challenges to traditional supervisory tools and identified three priorities. First, promoting shared datasets, common taxonomies and harmonised incident definitions: cross-jurisdictional comparability is essential if reliable models are to be built and systemic patterns

identified. Second, harmonising supervisory expectations — consistent governance standards, transparency around assumptions and unified approaches to scenario design and testing frequency. Third, developing forward-looking tools: high-resolution geospatial data and multi-hazard climate stress tests capturing tail dependencies; systemic cyber scenarios exploring ICT concentration risk and cross-sector contagion; and macroprudential indicators reflecting the growing interconnection between insurers and critical ICT providers. An industry representative added a market perspective: climate-related uncertainty has made reinsurance capacity more cautious, as shown by significant hail episodes in 2022 and 2025. Insurers such as Groupama have turned to the insurance-linked security (ILS) market, which has shown appetite for specific risk transfers. The industry representative noted that alternative risk transfer mechanisms offer essential additional routes for managing uncertainty, which is sometimes overestimated by market participants.

Sessions

IV

DIGITAL TRANSFORMATION AND DIGITAL ASSET INNOVATION

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Digital Finance: is the EU moving fast enough?

1. State of play of digitalisation in the European financial sector

An industry speaker considered that, although the EU has demonstrated strong regulatory leadership in digital finance through initiatives such as MiCA - establishing a pragmatic, cross-border framework for digital assets suited to a rapidly evolving environment - these rules have not yet translated into significant market adoption, scalable products and infrastructure, or tangible economic outcomes. In the current highly competitive global market context, the key objective is now to ensure an effective and consistent implementation of the regulatory framework, including through the rapid issuance of guidance, in order to make digital asset rules operational in practice and support experimentation.

In addition, digital finance innovations such as tokenised money, tokenised collateral and blockchain-based settlement infrastructures are likely to become an integral part of mainstream financial markets within a relatively short timeframe, rather than remaining separate segments. These developments should therefore be integrated into the broader financial system under appropriate regulation and supervision, in a way that is both safe and commercially viable.

A regulator noted that, while assessing whether the EU is moving "fast enough" is inherently subjective, it is clear that the EU is not advancing as quickly as other major regions in the digitalisation of its financial sector. The EU has made significant progress, notably through the establishment of a strong regulatory framework, which plays a key role in building investor trust and supporting innovation. There are also numerous projects emerging from EU fintechs and the use of regulatory sandboxes across Member States. However, sufficient scale and speed of adoption have not yet been achieved. This reflects both persistent market fragmentation in the EU and broader structural challenges, including comparatively less developed venture capital ecosystems and capital markets.

The US has not yet reached full scale in digital finance but is progressing more rapidly than the EU. It benefits from deeper capital markets, stronger financing capacity, leading infrastructure and technology providers, particularly in cloud and AI, and a supportive political environment, all of which may contribute to faster scaling, even though its regulatory framework remains incomplete. At the same time, uncertainties remain regarding the ability of US providers to expand internationally at scale in the absence of a consistent regulatory framework at the global level. Asia presents a different model, characterised by stronger public sector support, more integrated financial and technological ecosystems, and a more "digital-first" approach across

the population, particularly among younger generations. This contributes to faster adoption compared to both the EU and the US.

An official emphasised that traditional financial institutions and systems in most EU Member States are already highly digitalised, meaning that the technological and market foundations for further innovation are largely in place. The key challenge now lies in achieving sufficient scale. This requires greater market integration and standardisation, building on ongoing European initiatives such as the digital finance package, PSD3 and the Payment Services Regulation. Beyond digitalising existing financial activities, there is also a need to develop new types of financial services that fully leverage new technological capabilities, such as digital assets and programmability.

2. Adapting the EU regulatory and supervisory framework to digital finance

2.1 Simplification and coherence of the EU regulatory framework

An industry speaker stressed that regulatory simplification is essential for Europe to move to a leading position in terms of digital innovation. A recent report indicates that around 42% of technology budgets in Europe are allocated to compliance and that more than 80% of firms have experienced rising compliance costs in recent years, driven inter alia by overlapping regulatory frameworks including DORA, NIS2, GDPR and national rules. This complexity creates uncertainty, particularly for smaller firms, and can slow down the adoption of technologies such as cloud and AI. Simplification and resilience are not contradictory but complementary objectives, and clearer implementation guidance is needed.

An official agreed on the need to simplify rules at EU level. On-going omnibus initiatives are welcome, but they should focus more on the root causes of complexity rather than its symptoms. The main issue in the EU digital finance framework is not the volume of regulation, but insufficient coordination between financial rules and horizontal digital legislation related to AI, data protection and cyber risk. These overlapping requirements create complexity and legal uncertainty, further compounded by the involvement of multiple competent authorities at both EU and national levels, potentially with differing supervisory expectations.

In theory, these frameworks are meant to be complementary, as digital regulations are typically product or activity based, whereas many financial

regulations are entity based. In practice, however, this distinction is not clear cut. For example, a mobile banking application subject to CRA is also an integral component of a bank's IT infrastructure, bringing it within the scope of DORA and NIS2 and leading to potential duplication and inconsistencies, notably in areas such as incident reporting. Similar overlaps arise between requirements on ICT third-party risk under DORA and supply chain security under NIS2, as well as in the treatment of AI systems used for credit scoring, which fall under both the AI Act and the Consumer Credit Directive.

This challenge can be addressed in two ways, the official suggested. The first, and potentially the most straightforward, would be for EU institutions to more explicitly take into account interactions across regulatory frameworks when drafting rules *ex ante*, and to reinforce supervisory convergence efforts *ex post*. The second would be to exempt financial institutions from overlapping obligations based on the *lex specialis* principle (i.e. giving precedence to sector-specific financial rules over horizontal legislation where they impose equivalent requirements). While the digital omnibus introduces some simplification tools, such as a single entry point to streamline cyber-related reporting across frameworks, it does not sufficiently address these structural regulatory issues, which should become a priority for EU policymakers.

2.2 Enabling scaling, innovation and competitiveness

An industry speaker emphasised that fostering safe digital innovation requires ensuring that it takes place within the EU rather than in offshore jurisdictions, from where unregulated firms may offer services into the European market, and allowing digital activities and infrastructure to scale domestically. This implies making regulatory compliance commercially viable and ensuring that firms operating under EU frameworks are not placed at a competitive disadvantage.

Progress in enabling firms to build, experiment and scale digital finance solutions within Europe remains too slow, particularly in areas such as tokenisation. While the Market Integration and Supervision Package (MISP) proposes improvements to the DLT pilot regime, these may take several years to be fully implemented on the ground, risking the EU being outpaced by competitors. Maintaining innovation within the EU also requires providing sufficient certainty and the right incentives for global players to commit capital and talent to Europe. Overall, a more dynamic approach is needed, not by loosening standards, but by combining legal clarity, faster implementation, regulatory flexibility and openness to experimentation, to enable Europe to remain competitive and lead in the next phase of digital finance innovation.

An official observed that the EU regulatory framework will inherently struggle to remain fully fit for purpose, as technological developments consistently outpace legislative processes. This explains the recurring need for reviews and simplification initiatives such as omnibus packages. While the digital omnibus is a positive step, in simplifying and clarifying existing rules, faster legislative processes are needed for the most urgent initiatives, notably the MISP, which aims to deepen capital markets

in Europe and support digital innovation in these markets. Other key priorities at EU level include the development of pan-European payment solutions, where the digital euro could play a catalytic role, and the enhancement of the DLT pilot regime to support the development of tokenisation and the associated digital infrastructure in Europe.

A second industry speaker considered that the current EU regulatory approach to digital finance, which often begins with rule-making before use cases and experimentation are sufficiently developed, may limit innovation, particularly in emerging areas such as AI where benefits and risks are not yet fully understood. Rather than systematically introducing detailed legislation upfront, greater reliance on guidance and more flexible approaches could support adoption more effectively. It is also important to ensure that regulation does not require excessive resources to implement and monitor, as this may divert capacity away from innovation and undermine the competitiveness of the EU market.

Regular reviews are also needed to adjust existing frameworks where necessary, as technologies evolve. While the simplification efforts of the digital omnibus are welcome, they do not ensure that the framework remains fit for purpose. In the case of the AI Act, the application of requirements for high-risk systems has been delayed, due in particular to outstanding technical standards and the need for further clarification, but this has not been accompanied by a broader reassessment of the rules.

2.3 Operationalising regulatory sandboxes

An official noted that regulatory sandboxes, which provide an environment for fintechs to test innovative ideas, are an effective tool to foster innovation. However, their implementation in the EU has been constrained by the highly harmonised nature of financial regulation, which limits Member States' ability to grant derogations from existing EU rules and reduces the effectiveness of these frameworks. As a result, innovation hubs and sandboxes established by national competent authorities (NCAs) have so far produced limited outcomes beyond improving dialogue and cooperation between regulators and innovative firms. As recognised in the Council conclusions of 2020, further operationalising sandboxes would require EU-level experimental clauses, providing NCAs with a legal basis to allow controlled derogations and case-by-case flexibility to test innovative technologies.

Another official concurred that, for domestic sandboxes to be effective, they need to allow derogations from EU rules, as financial legislation is increasingly harmonised at EU level. This would require introducing the concept of an EU regulatory sandbox or enabling national authorities to grant targeted derogations from EU legislation. Experience with national sandboxes to date shows that their main value lies less in regulatory flexibility than in fostering structured dialogue between supervisors and market participants, improving understanding of technological developments and market trends, and supporting a cultural shift towards innovation within supervisory authorities. More broadly,

this suggests a different approach to rule-making at EU level, relying less on prescriptive ex ante regulation and more on iterative test and learn approaches.

An industry speaker suggested that sandboxes should place greater emphasis on accelerating the transition from supervised experimentation to the scaling of commercially viable digital solutions, with clearer pathways from pilot to full authorisation, faster delivery of interpretative guidance, and greater ability to test use cases in live but controlled environments.

2.4 Adapting supervision to digital markets

A regulator emphasised the need to rebalance efforts between regulatory work and supervisory guidance in light of the rapid evolution of financial markets driven by digitalisation. Supervisory tools and processes also need updating to be fit-for-purpose. Supervisors in the EU currently have less flexibility than their counterparts in other jurisdictions to provide timely guidance and adapt rules to market developments. This issue is being considered in the context of the MISP, notably through efforts to strengthen supervisory flexibility and convergence. Digital markets also require digital supervision, including systems and expertise to monitor technologies such as DLT and AI, which may require significant investment in supervisory capabilities. Given budgetary constraints, this represents a major challenge that will need to be carefully anticipated and managed to ensure that the supervisory architecture remains effective.

An official noted that strengthening supervisory cooperation is essential to ensure a consistent interpretation of rules across jurisdictions and avoid operational barriers for firms operating across the EU. This requires further supervisory convergence rather than full centralisation.

3. Drivers and enablers of digital finance

Panellists highlighted a number of operational drivers that may support the development of digital finance, as well as the importance of ensuring an adequate financing of innovation.

3.1 Operational drivers of digitalisation

An industry speaker observed that, while the EU financial sector is making tangible progress in its digitalisation, competitiveness remains a concern, as already highlighted in the Draghi and Letta reports, and significant untapped potential persists, particularly in the adoption of cloud technologies. Legacy systems and outdated data infrastructures continue to limit the ability of firms to adopt and scale modern technologies.

Cloud services have strong potential to support digital innovation and enhance the global competitiveness of financial institutions. Currently, less than 15% of IT expenditure is allocated to cloud services in the EU, with most workloads still remaining on premises. Cloud adoption should therefore be further encouraged, as it is no longer an optional service, but an integral component

of firms' business strategies and a key driver of competitiveness and growth.

The industry speaker also highlighted the significant digital skills gap in the financial sector and the need for greater investment in skills development. A majority of firms (56%, according to a recent survey) report shortages in digital skills, while only a minority (25%) have strong AI capabilities enabling confident deployment.

A regulator identified additional enablers to support the development of digital finance, including advancing open finance and facilitating the adoption of distributed ledger technology (DLT) within market infrastructures. This requires continued progress on the proposals under the MISP, including the review of the DLT pilot regime and adjustments to CSDR and the Settlement Finality Directive to ensure greater technological neutrality.

3.2 Access to adequate financing

A regulator noted that a key enabler for accelerating the digitalisation of the EU financial sector is the development of a stronger venture capital environment and deeper capital markets to finance digital projects. The Savings and Investments Union initiative should contribute to this objective by reducing fragmentation and enabling capital markets to scale further. Lessons can also be drawn from Asian jurisdictions such as Singapore and Hong Kong in terms of public sector support.

Wrap up

The Chair summarised that, based on the discussion, progress in digital finance in the EU is significant but remains insufficient in terms of speed and scale. Europe should ensure that the development of digital finance increasingly takes place domestically, while remaining open to external investment and innovation. This requires regulation to strike the right balance between enabling innovation and addressing associated risks, while recognising that markets evolve faster than regulatory frameworks, which therefore need to be continuously adapted. In this context, greater use of regulations rather than directives could improve consistency and reduce implementation delays. In addition, reviews must also ensure that frameworks remain fit for purpose, support competitiveness and enable effective supervision, beyond the ongoing simplification efforts.

The discussion also indicated broad agreement that the EU has established a generally sound regulatory framework for digital finance, although further fine-tuning is required. Comments also emphasised the importance of effective implementation of the rules. Greater coherence is also needed between financial regulation, digital frameworks, such as the AI Act, DORA and EU and national data frameworks to avoid inconsistencies and interpretative challenges, supported by enhanced cooperation between European and national authorities. Strengthening supervisory capabilities and digital tools was also identified as a priority, reflected notably in the proposal to assign supervision of crypto-asset service providers (CASPs) to ESMA under the MISP.

Digital Omnibus Package: will it boost innovation?

1. Impact of the Digital Omnibus Package

The panellists generally welcomed the Digital Omnibus Package, notably its cross-cutting approach to addressing key technological issues such as data, cybersecurity and innovation, while highlighting some issues remaining to be addressed.

1.1 Objectives and expected benefits

An official described the Digital Omnibus Package as a significant and necessary development in response to the current layering and overlap of EU digital regulation, including frameworks such as GDPR, the AI Act and DORA. Expectations are high, as overlapping obligations currently create administrative burdens, duplicative reporting, legal uncertainty and contribute to significant regulatory friction for firms. The package aims to address these challenges notably by simplifying incident reporting, clarifying rules on data use and improving regulatory coherence across frameworks. Two main benefits are expected: a reduction in administrative burden and compliance costs, and improved scalability of digital finance across the EU through greater regulatory coherence. This could help make the EU single market more effective in practice rather than only in principle.

An industry speaker welcomed the Digital Omnibus Package and the planned Digital Fitness Check as important signals of intent to reduce the regulatory burden in the financial sector and expressed support for the momentum behind these initiatives, which could lead over time to meaningful simplification. Financial regulators in Europe have historically been early in addressing the implications of digitalisation, resulting in a substantial body of sector-specific regulation that is also overlaid with horizontal frameworks. This has led to increasing duplication, with financial firms required to manage the same risks under multiple regulatory regimes for the same objective. The aim of the package is not deregulation, but the removal of unnecessary overlaps between frameworks.

More broadly, the industry speaker welcomed the recognition that aspects of the current AI regulatory framework may act as a drag on competitiveness, as well as the EBA's work in mapping interactions between the AI Act and financial regulation. In this context, it was noted that the Commission should consider the EBA's recommendations, in particular regarding the alleviation of overlapping obligations.

A regulator highlighted that the Digital Omnibus Package can facilitate implementation of the digital framework, citing in particular the consolidation of regulation under the Data Act and the introduction of a

single entry point for cyber reporting as concrete examples of simplification. An official added that the Digital Omnibus Package is aligned with the EU's broader competitiveness objectives.

1.2 Shortcomings and limitations

An official stressed that many financial firms are concerned that simplification may remain largely theoretical, as it is not yet clear how the proposals will be implemented in practice, particularly given existing regulatory fragmentation. Effective coordination between EU institutions and careful implementation will therefore be critical to ensure that simplification translates into tangible operational improvements. Persistent fragmentation may indeed undermine the effectiveness of simplification efforts and external investors' confidence in the functioning of the EU single market.

An industry speaker agreed that simplification must be effective in practice and emphasised that this requires a shift in regulatory mindset towards greater focus on competitiveness and sovereignty.

Another industry speaker considered that, at this stage, the package primarily reflects a direction of travel rather than delivering a meaningful reduction of regulatory burden. A clear example of duplication is the interaction between DORA, which has only recently been implemented, and the forthcoming Cyber Resilience Act, which introduces additional reporting, supervisory oversight and compliance processes without a significant improvement in risk management outcomes. Although the Cyber Resilience Act includes provisions for sector-specific exemptions where equivalent sectoral requirements already exist, these have not been applied to financial services despite evident overlap. The industry speaker also suggested that EU policymakers could explore the use of generative AI to simplify the existing regulatory rulebook, as a way to reduce complexity and support innovation more effectively.

The Chair noted that DORA already acts as *lex specialis vis-à-vis* NIS2 (i.e. as a sector-specific framework taking precedence over more general NIS2 requirements) and that DORA and the Cyber Resilience Act are intended to address different objectives, focusing respectively on the resilience of financial entities and on product-related risks. The industry speaker pointed out that extending the Cyber Resilience Act, which is product-based, to financial services would introduce unnecessary complexity and duplication. In the event of a technology incident affecting a financial product, firms could face both entity-level reporting under DORA and additional product-level obligations under the Cyber Resilience Act. This would create artificial and burdensome requirements without improving risk management

outcomes, as the same underlying ICT risks are already addressed under DORA at entity level. To avoid such duplication, the financial sector should be excluded from the Cyber Resilience Act.

2. Simplification measures proposed beyond the Omnibus Package

2.1 Consolidation and integration of financial data

A regulator emphasised that achieving genuine simplification will require a more consolidated approach to financial data in the EU, pointing to the current fragmentation of reporting requirements, with firms often required to submit similar information several times in different formats. A harmonised EU financial data framework should be developed, including a single EU reporting data dictionary providing harmonised data structures and definitions, and a centralised reporting system at EU level for all reporting by the financial industry. This could be supported by advanced analytical tools, potentially using AI, to enable regulators across the EU to access and analyse relevant data. Such a unified system would significantly reduce the burden on both industry and regulators, generate economies of scale, and contribute to greater supervisory convergence through the use of a common reporting system.

An industry speaker noted that DLT could support improved data sharing and reporting among regulators and the industry. Developing a European financial data space is also needed, potentially leveraging initiatives such as Gaia-X.

An official stated that concerning cybersecurity reporting, existing national frameworks should be preserved, and that any single point of entry for cyber incident reporting should serve as a coordination and transmission mechanism, facilitating compliance across the EU, rather than becoming the sole reporting channel, particularly for smaller firms. Such mechanisms should remain proportionate and avoid introducing additional layers of complexity.

2.2 Reviewing the EU supervisory architecture

An industry speaker observed that reducing fragmentation in the oversight and implementation of AI regulation in particular remains a key priority, and suggested that a more centralised point of contact for the supervision of general-purpose AI models could facilitate cross-border activity within the Single Market, compared to the current system of multiple national interlocutors.

A regulator, while supporting the regulatory simplification measures of the Digital Omnibus Package, questioned the assumption underlying the Market Integration and Supervision Package (MISP) measures that centralising supervision at EU level, for example in respect of crypto-asset service providers (CASPs), would lead to simplification and greater market integration. In practice, fragmentation would persist, as most CASPs hold multiple licences and would continue to be

supervised at national level under frameworks such as PSD, MiFID and AML/CFT. Achieving meaningful simplification at the supervisory level would require a more fundamental reconsideration of the overall supervisory architecture in Europe, rather than isolated measures. The involvement of multiple sectoral authorities, including under frameworks such as DORA, illustrates the limitations of the current system and points to the need for more integrated supervisory approaches.

3. Improving the EU digital regulatory framework and rule-making approach

Several panellists considered that the simplification efforts of the Package should provide an opportunity to reflect more fundamentally on the improvement of the EU rule-making process.

3.1 Enhancing regulatory agility and addressing implementation challenges

An industry speaker observed that regulatory processes are inherently slower than technological developments, creating a structural risk that regulation lags behind innovation, particularly in fast-moving areas such as AI. AI capabilities have evolved rapidly over the past three to four years, with autonomous agents now able to drive workflows and even entire teams, while traditional regulatory timelines struggle to keep pace. A recent survey indicates that, despite increasing adoption, with around half of EU firms now using AI, up from 33% two years ago, only 22% are using advanced AI, a figure that has remained broadly unchanged over the same period. This reflects significant regulatory uncertainty, with compliance costs rising and absorbing a substantial share of technology budgets (up to 42%), and 42% of firms citing legal uncertainty as the main barrier to adopting advanced AI, with smaller firms particularly affected due to more limited resources.

Further efforts are therefore needed to simplify regulatory compliance, in particular by reducing uncertainty around implementation requirements. One possible solution would be to link regulatory obligations more closely to clear implementation standards, rather than introducing regulation before guidance is available.

Another industry speaker observed that, while separating regulation from implementation standards can be questioned, as it may create uncertainty about the practical means of compliance, it allows standards to be updated faster as markets evolve, thereby enabling regulation to remain sufficiently agile over time. The main challenge lies in the time required for European regulation to be implemented across Member States, which calls for faster regulatory processes and stronger coordination. The European Union Agency for Cybersecurity (ENISA) can for example play a key role in improving coordination and accelerating implementation in the area of cybersecurity.

An official considered that regulatory design should better take into account practical implementation challenges, including the level of technical knowledge required to apply certain rules. Strengthening the dialogue between regulators and industry is therefore essential, particularly in areas where technologies remain evolving and expertise is still developing, in order to ensure that regulatory requirements are both workable and well-informed. Proportionality is also essential, particularly for smaller firms with limited compliance capacity.

3.2 A more principles-based and interoperable approach to regulation

An official considered that the simplification efforts of the Digital Omnibus Package provide an opportunity to reflect more fundamentally on the direction and coherence of future digital regulation in Europe and advocated for a stronger focus on principles-based regulation. New legislation should not be systematically introduced for each emerging technology, as existing regulatory and supervisory frameworks already address many of the associated risks. Instead, regulation should be grounded in clear and stable principles that can be applied across technologies, thereby avoiding the continuous layering of rules and supporting greater interoperability of requirements.

The Chair questioned how to ensure that a shift towards principles-based regulation does not result in a form of light-touch regulation that may fail to adequately address risks. The official emphasised that a principles-based approach should rely on clearly defined and commonly understood principles, such as responsible business conduct, drawing on OECD concepts. This implies that both regulators and market participants share responsibility for ensuring that these principles are consistently applied in practice. Rather than requiring new and detailed rules for each emerging technology, such an approach would provide a stable and workable legal framework, allowing regulators to avoid intervening in areas already covered by existing rules or where it is premature to do so, while ensuring that firms act responsibly and in line with broader societal objectives.

An industry speaker also supported a principle-based approach to regulation, suggesting that prescriptive rules should only be introduced where there is clear evidence that specific requirements are necessary. Interoperability, allowing different regulatory frameworks to be better aligned and more compatible, was also highlighted as a priority in order to avoid conflicts between requirements and enable firms to develop products consistently across European jurisdictions.

3.3 Developing a more forward-looking regulatory approach

An industry speaker highlighted that technological developments are expected to significantly affect both how financial institutions operate and how supervision is conducted. In this context, regulatory approaches should not only address current risks but also take into account how these technologies may transform

financial activities, value chains and market structures over time.

However, current regulatory approaches tend to focus primarily on existing use cases and associated risks, rather than anticipating these longer-term structural changes. While AI systems are widely adopted, their maturity remains uneven and continues to evolve, reinforcing the need for regulatory frameworks that can adapt over time. This also applies to areas such as cybersecurity and tokenisation. In the case of tokenisation, the slower evolution of market structures in Europe, where developments tend to build on existing frameworks, unlike in the US and parts of Asia, which are moving more rapidly towards new models, may partly explain the more limited forward-looking perspective in regulatory approaches.

While short-term action is necessary to manage risks and protect customers, a more forward-looking approach is required to avoid regulatory frameworks becoming quickly outdated. Regulation should therefore address immediate challenges while anticipating longer-term structural changes. In addition, existing regulatory frameworks remain largely designed around large incumbent institutions, which may limit their suitability for emerging actors and new market configurations.

4. Competitiveness and scaling of innovative firms in the EU

An industry speaker considered that beyond regulatory simplification, retaining innovation in Europe should be a central objective of the Digital Omnibus Package. Europe should offer more favourable conditions for scaling innovative digital firms, including faster access to capital and a simpler regulatory environment, as is the case in the US. While many European companies are innovating, particularly in AI, 38% are considering leaving Europe to scale, rising to 51% among the highest-growth firms, according to a recent survey.

An official agreed that limited access to capital represents a more significant structural constraint for European businesses than regulatory complexity, which can have both positive and negative effects. While Europe has strong capabilities, further efforts are needed to ensure that innovative firms, particularly SMEs, have adequate access to capital market financing and that Europe can better attract investment. In this context, advancing the Savings and Investments Union is essential.

Another industry speaker added that further efforts are needed to support SMEs, which face disproportionate compliance constraints compared to larger institutions, limiting their ability to scale and focus on business development. Addressing this competitiveness challenge requires stronger collaboration between regulators, industry and technology providers, drawing on past experiences such as the PACTE law in France prior to MiCA. More effective and operational sandboxes are also needed to support real experimentation.

A second official also highlighted the importance of ensuring that the EU single market functions effectively in practice, enabling innovative firms, particularly SMEs, to scale rapidly across Member States under consistent conditions before expanding globally.

Wrap up

The Chair noted that the Digital Omnibus Package sits at the intersection of two central themes in the current financial services debate: simplification and innovation. Technological developments are both a source of opportunity and complexity, requiring an appropriate balance in regulation between enabling innovation and managing risks. Public authorities in Europe are actively supporting this innovation journey through regulatory and supervisory approaches, including the use of sandboxes and engagement with industry.

Regulation is often seen as a source of complexity, but a distinction must be made between 'good' complexity,

which reflects risk-based regulation, and 'bad' complexity, which unnecessarily constrains firms' operations. The key challenge is to ensure that regulatory frameworks remain effective while minimising unnecessary friction, particularly in a context where technological developments are evolving rapidly. While simplifying regulation is beneficial, a light touch approach should be avoided, as regulation remains necessary to ensure that risks are not externalised to society.

The discussion highlighted a number of key priorities, including the importance of cooperation between authorities and industry, close engagement with market developments, the need for greater integration of regulatory data, and the case for more structural changes in regulatory and supervisory frameworks. It also pointed to the need to ensure that future initiatives, including forthcoming legislation such as the Cyber Resilience Act, fully reflect the objective of simplification for the financial sector.

Scaling AI in the EU financial sector

1. AI deployment prospects and opportunities in the financial sector

1.1 State of play and future prospects

An industry speaker stated that the AI landscape has changed fundamentally in recent months with the release of more advanced models and agentic tools, significantly increasing the expected impact of AI on financial services in both the near and longer term. AI is no longer limited to incremental efficiency gains in operational functions but is beginning to reshape core activities and decision-making, including at senior management level. While adoption remains uneven across firms and subsectors, early adopters are likely to capture the greatest benefits, not only through cost savings but also through product innovation, making AI a key driver of competitiveness at both EU and global levels. The competitive race is no longer primarily about model capability, but about how effectively firms can organise around available models and agentic tools to redesign tasks and workflows.

A regulator also shared a positive perspective on the potential of AI. While an FCA survey of wholesale firms conducted in November 2024 still showed a relatively cautious adoption of AI due in particular to explainability and accountability concerns limiting more direct front-office use, the landscape has significantly changed since then. Back in November 2024, around 75% of firms were using AI, mainly for internal optimisation, cybersecurity and fraud detection, with adoption concentrated in back- and middle-office functions, and many firms were expecting AI to reach customer-facing and compliance functions within three years. It is likely that since then usage has significantly widened with enhanced model capabilities, coding capacities and the development of agentic models.

The regulator further emphasised that customer demand is likely to become an important driver of AI adoption. As users gain access to more advanced tools, their ability to process information and act on it may increase significantly, potentially challenging traditional regulatory approaches that disclosure should be focused on key information. Agentic tools could also facilitate low-friction switching between providers, with potential implications for existing business models.

A second industry speaker agreed that actual usage may already be more extensive than suggested by survey data and is likely to increase rapidly in the near term. While firms are at different stages of adoption, AI use has been expanding steadily over the past decade and is now accelerating. The financial sector is particularly well suited to AI given its data-rich, process-driven and highly regulated nature. Survey data indicates adoption rising from around 40% of global firms in 2024 to 54% in 2025, with further growth expected. Although most current use remains

concentrated in back- and middle-office functions, it is gradually extending to front-office activities.

A third industry speaker considered that AI is already transforming financial services and generating tangible value for both firms and customers by improving productivity, customer experience, financial literacy and inclusion and is therefore becoming an increasingly important driver of competitiveness in the financial sector.

1.2 Key AI use cases in financial services

An industry representative illustrated the opportunities offered by AI through a range of use cases implemented in their firm, an online brokerage platform, where AI has been deployed across the organisation over the past three years. These applications are already delivering tangible benefits, including higher productivity, greater scalability, enhanced compliance in certain functions, improved customer experience and broader access to financial markets. This supports the platform's objective of opening global markets to a wider range of investors, with AI acting as a key enabler.

On the customer side, an AI-powered bot is used to handle around 75% of client queries end-to-end on a 24/7 basis, enabling faster response times, improved satisfaction and efficiency gains. These benefits, however, depend on strong controls, continuous monitoring and human oversight to mitigate risks such as inaccuracies, bias, discrimination and hallucinations. An AI tool is also used to provide investment-related insights, helping users better understand financial concepts, portfolio risks, market developments and analyst views. While not providing investment advice, it aims to empower users with reliable information within a controlled environment, overseen by financial professionals, and offer a more robust alternative to general-purpose AI tools currently available to the general public.

AI is also widely applied to internal operations in their firm. It is already used to generate around 50% of code, improving productivity and accelerating product development capability, with appropriate safeguards in place for cyber and digital operational resilience under DORA and for code reliability. AI also supports compliance functions, allowing for example to review marketing content against regulatory requirements across multiple jurisdictions. This allows a large proportion of materials to be approved rapidly based on predefined internal rules, with accuracy levels exceeding manual review, thereby enhancing both efficiency and scalability.

Another industry speaker added that AI also enables the creation of genuinely new data and information products, rather than simply accelerating existing processes, by integrating and analysing large volumes of unstructured data, such as news and corporate filings, to generate more advanced and timely analytics

than traditional statistical approaches. It also offers significant benefits for end users, with agentic AI tools able to distil complex information into tailored outputs that are easier to understand and use, as well as for regulators, by supporting more agile and effective regulatory approaches.

2. Challenges and risks

The panellists identified three main categories of risks and challenges associated with the use of AI in the financial sector: those related to technology itself, in particular underlying models; the amplification of market-wide and systemic risks; and firm-level challenges, including implementation, economic viability and operational constraints.

2.1 Technology and model-related risks

An official highlighted a range of model- and data-related risks associated with AI, including limited explainability, black-box behaviour, hallucinations, data-quality issues, as well as heightened cybersecurity risks and manipulation risks such as data poisoning and prompt injection (manipulation of training data and of AI system inputs).

A regulator also emphasised risks inherent to the technology itself, which, while not specific to financial services, are particularly relevant in this sector. These include lack of explainability, bias, discrimination, privacy concerns and questions of accountability regarding responsibility for AI-driven decisions. Mitigating measures may include maintaining human involvement in decision-making and ensuring transparency when interacting with AI systems. However, it is uncertain whether firms can always adequately understand, justify, govern and audit AI-driven outcomes.

An industry speaker acknowledged the reality of AI-related risks including accountability and adoption risks and the higher exposure to cyber-risks, but argued that such assessments are often affected by an inherent status quo bias. AI should be compared not with an idealised human decision-maker, but with actual human performance, particularly in repetitive tasks where human judgement may be inconsistent or unreliable, and where AI can deliver more consistent and higher-quality outcomes. This perspective is important when defining acceptable risk levels and designing appropriate control frameworks.

The industry speaker also challenged the assumption that a "human in the loop" necessarily improves outcomes, particularly for routine activities. In practice, humans may struggle to effectively oversee AI systems, as they are less likely to detect infrequent errors. Independent AI-based checks on AI systems can in fact provide higher-quality control while significantly improving productivity.

2.2 Market-wide and systemic risks

A regulator noted that AI may amplify existing financial stability risks, such as herding risks if firms rely on

similar models, or interconnectedness and contagion effects. Concentration and third-party dependency risks along with competition concerns, particularly in the context of vendor lock-in must also be considered.

An official identified third-party dependence as the most significant current risk associated with AI, especially in the present geopolitical context. The high concentration of providers, largely located in the US, combined with the risk of trade restrictions, creates structural vulnerabilities, especially where vendor lock-in limits the ability to switch providers quickly. This may require targeted regulatory responses with adjustments to the existing EU framework. One question is whether AI providers should be considered critical third-party providers under DORA, given their growing systemic importance.

An industry speaker added that, at the macro level, a key emerging issue is the financial system's growing exposure to AI as an asset class. The rapid expansion of investment in AI infrastructure, reflected in large financing commitments and new funding structures linked to computing capacity, appears disproportionate to the current revenues of AI firms. This may create vulnerabilities in the way financial markets are financing and valuing the development of AI technologies, beyond those associated with their use.

2.3 Firm-level operational and business challenges

A regulator noted that a third category of risks relates to the use of AI for specific financial services and activities. For example, when AI is used to support investment advice or portfolio management, distinct challenges may arise at different stages, including onboarding or investment strategy selection.

An industry speaker highlighted that, beyond technical vulnerabilities, a key challenge at firm level is that AI does not yet consistently deliver the expected returns. While AI projects are highly capital intensive, revenue gains remain modest and productivity improvements are generally limited. There are also high abandonment rates at around 50% in AI projects in the financial sector. Although firms face strong competitive pressure to invest, AI initiatives are still quite experimental and uncertain. In addition, legacy technology and regulatory barriers are slowing adoption. Recent improvements in model capabilities are, however, expected to significantly accelerate deployment in the coming years and make AI projects more attractive. With the development of generative AI, applications are moving beyond supporting specific tasks and datasets such as AML, fraud detection or data processing, towards broader support functions and, ultimately, core business activities.

3. The EU regulatory approach to AI

3.1 The need to balance innovation and risk mitigation

An industry speaker stated that, while the risks of AI are real and must be properly managed, regulators should

also take into account the risk of firms not adopting AI. There will be a growing divide in competitiveness between jurisdictions that enable rapid AI adoption and those that lag behind. Regulation should therefore support, rather than hinder, innovation in this area provided it is implemented in a responsible manner. While the EU approach is strong in identifying and mitigating risks, it remains uncertain whether it will be applied in a way that also enables scaling. An excessive focus on risk avoidance may slow adoption and undermine competitiveness, even though AI diffusion cannot in practice be halted, as it is already spreading rapidly across the market.

This does not call into question the need for a risk-based approach, but rather how it is applied. A risk-based framework can support both control and innovation if it is implemented proportionately. The speaker illustrated this with their firm's approach, which classifies AI use cases according to their level of risk and applies governance, controls and monitoring proportionately. This allows low-risk applications to be deployed quickly, while applying stronger oversight where risks are higher. In this perspective, managing risks and enabling AI deployment are not contradictory, but can be pursued simultaneously. A further aspect to consider is that regulatory uncertainty is a major barrier to innovation. Firms need clarity and confidence that innovation is encouraged, pointing to the need for a better balance in the European framework between a supportive regulatory approach and effective risk management, with clear expectations on accountability.

An official broadly agreed with the need for a balanced regulatory approach supporting the responsible development and deployment of AI, while mitigating the related risks. Europe has a strong know how in developing regulatory responses, sometimes ahead of effective market development, which may come at the expense of competitiveness. By contrast, the US and China tend to favour a more liberal approach aimed at removing barriers to AI adoption. At the same time, there is a risk in underestimating AI-related risks in the pursuit of competitiveness. Neither extreme is optimal, and greater international coordination will be necessary to strike the right balance between innovation and risk management. More broadly, strengthening Europe's position in AI will require not only appropriate regulation, but also a broader strategy to enhance its attractiveness as a location for the development and deployment of AI in financial services.

A second industry speaker highlighted the critical importance of scale, both in terms of data and market infrastructure beyond regulation. Europe risks falling behind if it does not develop sufficiently integrated data ecosystems. Ultimately, while technological progress is inevitable, competitiveness will depend on the ability of jurisdictions to combine effective governance, scalable data infrastructures and a clear strategic framework defining what is permissible and where innovation can take place.

A regulator added that AI adoption is likely to continue irrespective of regulatory constraints, as it is driven not only by regulated firms but also by unregulated actors

and customer demand. In this context, limiting AI use within the regulated sector would not necessarily reduce risks, but could instead shift activity outside the regulatory perimeter.

A third industry speaker considered that AI should be treated a general-purpose technology. While the risks are real, firms should have sufficient flexibility to determine how best to deploy it. This approach is likely to generate greater long-term productivity gains than highly prescriptive regulation focused on each step of the process.

3.2 Strengthening governance in an evolving digital ecosystem

An industry speaker argued that AI should be considered as the latest stage of a broader sequence of technological transformations in financial services, following in particular a decade of cloud migration that has laid the foundation for current AI developments. These earlier developments have already created new forms of dependencies and governance needs, reflected in frameworks such as DORA, which introduced contractual and operational requirements across financial and ICT supply chains and led to the identification of critical third-party providers. AI should therefore not be viewed in isolation, but as part of this evolving digital system, enhancing existing infrastructure with advanced analytical and decision-making capabilities.

The EU starts from a relatively strong position, with a robust regulatory framework - including GDPR, DORA and a wide range of conduct and operational rules - that provides a solid basis for scaling AI in a controlled environment. However, as AI interacts with new digital developments such as tokenisation and decentralised finance, the digitalised financial system is likely to become more complex and potentially riskier, requiring strengthened governance across multiple technological layers. At firm level, integrating AI also creates significant operational challenges. Firms must restructure fragmented data architectures, often organised around products or P&Ls, and invest in data standardisation and metadata to ensure interoperability and effective use of data across systems.

4. Policy approaches in the UK and Israel

4.1 The UK's policy approach to AI

A regulator explained that the UK approach to AI regulation is to rely on existing requirements as far as possible and to avoid introducing AI-specific rules unless clearly justified. At this stage, no such justification has been identified, and the current outcome-based, technologically neutral regulatory framework - covering areas such as market conduct, consumer protection, operational resilience and accountability - is considered broadly fit for purpose. These requirements apply regardless of the technology used, although their application may be challenged in some areas by AI. Accountability is potentially one such area.

Responsibility remains with individuals under the UK's senior managers regime, but this approach may be tested where AI systems behave in ways that differ from their intended design. While accountability would still rest with the responsible individual, how this framework will apply in practice in the case of AI systems remains an open question for both regulators and firms.

AI can also support regulatory objectives, including improved consumer outcomes and market integrity, if appropriately harnessed. Achieving this requires close engagement with firms through sandboxes and testing environments, as well as ensuring that relevant data is accessible so that firms and users can effectively leverage AI rather than allowing advantages to become concentrated among a limited number of players. In this context, the FCA is actively engaging with firms leading AI projects through sandboxes, data-sharing initiatives and live testing with firms, which are already revealing significant innovation across the sector.

4.2 Israel's policy approach to AI

A regulator noted that AI adoption in Israel remains relatively cautious. To accompany its development, a joint interagency task force was established in late 2022, bringing together financial regulators and policymakers to develop a coordinated approach to AI in financial services. The work focused on analysing key technological challenges, such as explainability, bias and governance, as well as risks arising from specific financial use cases, with the aim of developing pragmatic measures that both enable safe and responsible adoption and provide firms with clarity on risks and appropriate safeguards.

Like the UK, Israel follows a technologically neutral approach, integrating AI into existing financial regulation rather than adopting a horizontal framework such as the EU AI Act. A risk-based approach is also applied, but with greater flexibility than in the EU: the initial classification of AI use cases is largely left to firms, based on materiality for both clients and the institution, while regulators retain the ability to intervene where necessary.

This risk-based approach can be illustrated by the treatment of explainability, where a distinction is made between general explainability (understanding how a

system operates) and specific explainability (being able to justify a particular outcome). While the former is generally expected, the latter may not always be feasible, particularly for more advanced AI systems. In such cases, the requirement for explainability should depend on legal obligations and the level of risk involved. Where full explanation of individual outcomes is not possible, alternative safeguards, such as enhanced monitoring or human oversight, can be applied. This approach allows regulators to balance the need for user protection with the practical limitations of AI systems, without unnecessarily restricting their use.

Wrap up

The Chair noted the rapid adoption of AI in the financial sector, contributing to enhance efficiencies and also the products and services offered to clients. New trends including the spread of generative AI and more recently the deployment of AI agents and the emergence of more powerful models are likely to provide significant opportunities in the financial sector. In assessing these opportunities, the comparison between AI and human performance should be based on actual rather than ideal human behaviour. There is however an inherent difficulty of predicting technological developments in such a rapidly evolving area.

The risks and vulnerabilities associated with the development of AI also need considering, in particular issues such as control and explainability in the use of AI systems and notably agentic systems, as well as the growing dependence of financial firms on a limited number of digital service providers, which raises concerns around concentration risk and vendor lock-in. The discussion also emphasised that regulatory requirements are not in themselves a barrier to AI adoption, but that the way in which they are applied, particularly in terms of proportionality, is a determining factor.

Stablecoins: what strategic choices for Europe?

1. Defining Europe's strategic vision for stablecoins within tokenised finance

The Chair introduced the panel, observing that stablecoins are increasingly attracting the attention of market participants, supervisors and policymakers.

1.1 A strategic vision for full financial market tokenisation

A public representative discussed the potential role of stablecoins within a broader strategy of tokenising traditional financial instruments and processes on the blockchain. It is important not to focus too much on what other jurisdictions are doing. The EU has a completely different set of constraints from the US. The EU's strategic objective should be far more ambitious: the full tokenisation of financial markets. This necessarily involves bringing both the securities and cash sides of any financial transaction on-chain.

The task is daunting. The legal underpinning must be prepared; DG FISMA is beginning this process by proposing legislation. Ultimately, it is for the market to determine whether the benefits outweigh the transition costs and to decide which markets should go fully on-chain. Policymakers must give the markets the opportunity to make these choices.

1.2 Ensuring an efficient and resilient tokenised financial ecosystem

A public representative stated that the markets should have access to a broad range of settlement assets. A wholesale central bank digital currency (CBDC) is critical for certain types of transactions. Other options include tokenised deposits and different forms of stablecoins. In a multilayered system, the market should be able to determine which settlement asset is best suited to each layer or use case. However, if stablecoins are to perform the role of a key settlement asset in a tokenised financial world, the Markets in Crypto-Assets Regulation (MiCA) will not suffice. The EU will need to consider the issue of access to central bank liquidity.

International interoperability must be maintained. Solutions in different jurisdictions do not have to be identical, but they must be compatible with each other. Within the EU, this strategy could be the ultimate solution to financial fragmentation. Stablecoins are part of the solution, but they should not be the only alternative offered to markets.

Building on this strategic vision, the discussion then turned to Europe's capacity to translate these ambitions into concrete economic and technological development.

2. Building European capacity: growth, innovation and strategic autonomy

2.1 Strengthening Europe's strategic autonomy through competitive stablecoin development

An industry representative suggested that, to maintain strategic autonomy, Europe needs to embrace change while also generating technical neutrality. Currently, it is too early to define the potential risks of stablecoins and excessive focus on risks at this stage may hinder innovation. While the digital euro is one part of the solution for Europe, it is not related to the capabilities of stablecoins with regard to smart money, global transfer and value. The digital euro should be recognised as a distinct objective within a broader combination of efforts.

Since the introduction of MiCA, the number of stablecoins in Europe has not increased significantly. It is counterproductive to make it more difficult for global stablecoins to operate in Europe while failing to create the conditions for European stablecoins to succeed both domestically and internationally. Europe's loss of sovereignty over the past decade has been driven less by a lack of European coordination than by global competitive pressures. With technology and AI increasingly dominated by US players, and continued reliance on US providers in payments, the development of globally relevant European solutions has become critical. Digital sovereignty ultimately depends not only on public initiatives but on the ability of European firms to compete globally.

2.2 Driving growth and sovereignty through stablecoins and blockchain

An industry representative explained that stablecoins and blockchain technology are important for Europe because they address the issues highlighted in the Draghi report, namely productivity and sovereignty. Over the last 20 years, productivity gains generated by tech companies have been more integrated in the US than in Europe. Over the next 20 years, blockchain will be the major technological revolution in the financial industry, and stablecoins will be key for payments and settlements. In order to generate future growth, this technology needs to be developed not only in the crypto industry, but also in traditional finance, including banks and market institutions.

The second requirement is strategic autonomy. If tomorrow's GAFA are not European, Europe will face the same problem in the blockchain space as it currently does in the payments industry with the Visa-Mastercard duopoly. Euro-denominated stablecoins are needed, as are stablecoins issued by European companies, including banks and issuers.

Financial institutions must shift from a risk-based to an opportunity-based approach. Collectively, Europe needs to develop a strategic roadmap that highlights the importance of developing blockchain technology in the financial and payments industries. Stablecoins are one element of this new approach. Europe already benefits from a strong regulatory framework, particularly in terms of anti-money laundering (AML) and risk mitigation. MiCA-regulated stablecoins are significantly safer than earlier market developments and are increasingly setting an international standard. The priority should now shift towards fostering business development in Europe, with the public sector supporting financial institutions.

2.3 Structuring a future monetary system based on tokenised money

An industry representative stated that three types of assets are likely to coexist in the future payments and monetary landscape. Wholesale CBDCs will be used for wholesale and interbank payments, as banks are unlikely to settle transactions using riskier assets. Stablecoins are well suited to most other existing use cases of commercial bank money. While there is still a role for tokenised deposits, so far they have primarily served to modernise banks' internal infrastructure. Stablecoins are expected to play an important role across a wide range of use cases. Although they are currently used predominantly for crypto trading, in future they could support applications such as corporate payments, intra-group liquidity management, cash management, retail and cross-border payments, as well as the settlement of smaller financial transactions. Tokenised deposits may continue to play a role in more specific use cases alongside stablecoins.

An industry representative agreed that sovereignty is the main aim of all these initiatives. It is crucial not to fall behind in terms of technology and to address the challenges that are currently being tackled with the digital euro. While it is important to consider technological possibilities, MiCA is already a robust framework. It should be enhanced and promoted on the global stage as a regulatory framework that can work in other jurisdictions. Europe needs to find a collective approach to stablecoins that takes into account competitiveness and avoids over-regulation.

The Chair noted that industry representatives share the concerns about sovereignty and strategic autonomy that are often discussed among policymakers, but their response is to proactively compete in this space rather than to adopt a defensive approach.

2.4 Overcoming legacy constraints to unlock innovation in digital finance

An official suggested that, rather than embracing digitalised money and crypto assets, Europe should focus on innovation and efficiency. A two-tier monetary system is preferable to modern monetary theory in which politicians decide the level of inflation.

Europe risks failing to understand quickly enough the opportunities and disruption that digital forms of money could create. Europe is a prisoner of the legacy it has

created through the successful establishment of an efficient banking system in which central banks play a key role. The US lagged behind in this respect, which might explain why Europe is now slower to adapt.

In order to foster innovation, it is crucial to focus on opportunities. The better the understanding of the technology, the better the understanding of the risks will be. Good regulations are already in place; what is needed is an understanding of how everything functions. It is important to allow the ecosystem to develop the full range of available tools. Central bank money is needed for settlements. Stablecoins must be allowed to develop. It is important not to be too controlling. This is crucial for financial sovereignty, the capital markets union and the euro's international role.

Against this backdrop, panellists emphasised the importance of designing an appropriate regulatory and policy framework.

3. Designing a balanced regulatory and policy framework

3.1 A facilitative and adaptive UK approach to stablecoin regulation

A Central Bank official stated that the stablecoin market has changed markedly. Major jurisdictions are close to deciding on their regulatory approach, and the market is responding to this. Policymakers need to think carefully when using their powers. Whether they act defensively or more supportively, their actions will shape the industry. In the US, new onshore dollar stablecoins are being issued in anticipation of forthcoming regulations. It is important that policymakers recognise that they cannot predict exactly how the market will develop.

3.1.1 Building a 'Multi-Moneyverse' with interoperable forms of money

A Central Bank official outlined the UK's more facilitative approach. The UK's national payments vision is to develop a system that can handle the full range of future payment use cases. The goal is to create a 'multi-moneyverse', where various forms of money can coexist and be freely exchanged. This requires supporting infrastructure and a policy framework to ensure interoperability while maintaining financial stability. Systemic stablecoins should operate on an equal footing with other regulated forms of money.

The UK's proposed regulatory regime has a number of characteristics, including the requirement that the cash-backing asset is held at the central bank as a liquidity buffer, ensuring that issuers have sufficient cash to meet redemptions without monetising non-cash-backing assets. Allowing systemic stablecoin issuers to bank directly at the Central Bank, rather than at commercial banks, puts systemic stablecoins on the same level as commercial banks in the monetary hierarchy. In the wholesale sector, while the markets are best served by risk-free settlement assets, the UK is also looking to determine how on-chain central bank money can be made available.

3.1.2 Ensuring financial stability while supporting innovation

A Central Bank official highlighted both the importance of developing robust infrastructure and learning through experimentation, as well as the need to strengthen regulatory standards to support the emergence of next-generation stablecoins.

The Bank of England is collaborating with industry partners that are developing new digital payment systems that can integrate with the RT2 settlement infrastructure. This means that, in future, stablecoins regulated to higher standards can play an important role in the system alongside tokenised commercial bank money. While some evidence suggests which types of stablecoin are the preferred cross-border option, there are many other use cases. Providing options safely gives the market the opportunity to solve problems and gives customers and individuals the chance to make choices.

This approach also entails risks. To better understand these risks, the Bank of England is using its Digital Securities Sandbox to conduct live tokenised transactions. This experimental approach enables policymakers to evaluate the practical functioning of these instruments, including the requirement for both legs of a transaction to be on-chain. This reflects a broader effort to learn through experimentation and to calibrate regulation based on real-world evidence.

The first priority should be financial stability, followed by innovation. It is important to strike the right balance, setting standards that are comparable to those in existing regimes and applying them to new technology. Not only do dollar-denominated stablecoins have a use case, but many markets in the EU and the UK are also anchored in different currencies.

While there are risks if 'know your customer' (KYC) processes are not included in regulation, technological advances have enabled the development of tools that allow for greater traceability. Any standards applied to regulated stablecoins must be a prerequisite for their operation within European economies.

Embracing stablecoins cannot mean turning a blind eye to regulation. Currently, MiCA and some state regulation in the US are exceptions, but this will change by the end of the year. Second-generation, regulated stablecoins will offer significant advantages in terms of the value of programmable money and online shopping, as well as eliminating late payments for SMEs. While these functions can be achieved through tokenised deposits, it is crucial that they are carried out safely.

3.2 Prioritising financial stability in the regulation of stablecoins

An official expressed the view that, given the circumstances in which MiCA was discussed and adopted, achieving a balance between managing risks and exploiting opportunities was not possible, as stablecoins did not fall under any of the existing sectoral rules. The market for stablecoins was since then dollar-dominated, raising concerns relating to monetary sovereignty. Furthermore, stablecoins are intended to serve as a means of payment and a settlement asset, offering the

promise of stability. This promise raises concerns relating to monetary policy. Finally, in the event of a stablecoin run, stablecoins could potentially act as a risk transmission channel between the on-chain and off-chain worlds, raising concerns relating to financial stability. Priority had to be given to managing these risks.

Post-MiCA discourse has shown that the main safeguard for stablecoins retaining a subsidiary role in the two-tier monetary structure is non-access to settlement against central bank money. However, if the prohibition of interest is merely a regulatory legacy of the Electronic Money Directive, it could potentially be reconsidered to enhance the competitiveness of EU-issued stablecoins.

Supporting the two-tier system does not imply inferior functionality or usefulness. Euro-denominated stablecoins represent euro-denominated assets, collateral and reserves, thereby strengthening the euro. They are settlement assets that fulfil a role within a specific context.

3.3 Balancing innovation, financial stability and strategic autonomy in tokenised finance

A Central Bank official emphasised the importance of finding a balance between risk-based and opportunity-based approaches to stablecoins. It is important to put the emergence of stablecoins into perspective. The objective should be to preserve the foundations of Europe's payment system, ensuring that the deployment of tokenised finance delivers its expected efficiency benefits without introducing additional sources of instability or posing a risk to strategic autonomy. These adverse consequences could materialise if the diffusion of stablecoins as a settlement asset leads to the dollarisation and 'stablecoinisation' of a significant part of Europe's payment system.

So far, the deployment of tokenisation has largely been dominated by the development of US dollar stablecoins in the hands of non-EU players. However, alternatives are emerging in the form of stablecoins in euros supplied by EU-based financial service providers. More traditional and safer settlement assets are also emerging in tokenised form. The payment and settlement asset pillar of tokenisation should be developed on the solid foundations of the current two-tier monetary system. This requires secure, efficient, pan-European public and private settlement and payment solutions to ensure complementarity and substitutability between public and private money.

3.4 Supporting a European public-private strategy for tokenised money

A Central Bank official explained that all relevant European players must be mobilised to achieve three complementary objectives. First, central bank money services offered by the Eurosystem must be adapted to the digitalisation of payments and tokenised finance in both wholesale and retail spaces. Secondly, it is necessary to support the development of tokenised private money issued by European financial institutions. The third objective is to design an adequate regulatory framework and to oversee its implementation.

While the digital euro plays an important role, it is just one part of the contribution of the central bank

community. The Banque de France has established a strategic group to bring together the French ecosystem and to facilitate the development of tokenisation and associated payment solutions. This also supports the initiatives developed by European financial institutions, such as the European Payments Initiative (EPI).

MiCA represents a key asset for Europe, but it must continue to evolve in response to developments in tokenisation and to mitigate risks of regulatory arbitrage. In this context, it is important to maintain technology-neutral regulation and to ensure diversity in payment solutions. While euro-denominated stablecoins are part of the solution, they should coexist with other forms of tokenised money in a hierarchy of settlement assets where central bank money remains the safest option. Replicating the existing two-tier monetary system in a tokenised environment is essential in balancing innovation and financial stability.

An industry representative noted that the digital euro alone cannot address the challenges ahead. Continued collaboration between the public and private sectors is needed as tokenisation evolves. While MiCA represents a strong foundation, it should be further enhanced with a better understanding of emerging risks.

3.5 A technology-neutral and market-led approach to stablecoins

3.5.1 Questioning the economic impact and business case of stablecoins

An official observed that the creation of stablecoins will not generate new demand for US treasuries because the total amount of money in circulation will remain the same. It is not the regulator's role to determine whether there is a business case for stablecoins. Stablecoins are financial instruments with financial characteristics. These risks are generally considered manageable. The right approach is to deal with financial risks in the same way, regardless of the medium. Supporting or incentivising one sector over another would be unwise, given that technologically superior solutions have failed to take off in the past. Stablecoins have some convenient use cases, such as providing companies with better ways to manage cross-border liquidity. In other areas, stablecoins resemble riskier money market funds, as users have no entitlement to the reserves.

3.5.2 Managing financial and AML risks without distorting market outcomes

An official noted that the US may not have sufficiently addressed the risk of money laundering and terrorist financing associated with stablecoins. Terrorist organisations increasingly favour crypto assets for fundraising purposes. Unless this risk is properly addressed, granting access to central bank liquidity could have serious unintended consequences.

The concept of strategic autonomy is difficult to grasp. It is unclear whether the digital euro is related to stablecoins or if they are competing for the same use cases. Ultimately, however, this is not for policymakers to decide: their role is to provide a regulatory environment in which risks can be managed, leaving everything else to the private sector.

Conclusion: Balancing Regulation, Innovation and Sovereignty in Europe's Stablecoin Landscape

The Chair observed that opinions remain divided regarding the risks associated with stablecoins, particularly in relation to money laundering and illicit financing. While some consider that stablecoins could significantly increase such risks, others argue that, if properly regulated and designed, they could instead enhance traceability and improve monitoring capabilities. At this stage, much remains to be learnt about how these instruments will function in practice.

He concluded by noting that all panellists share concerns regarding sovereignty and strategic autonomy, although they assign different weights to the roles of regulation and market competition. While some view MiCA, or its future evolution, as the primary tool to safeguard Europe's position, others emphasise the need to foster competitiveness and innovation. These approaches should not be seen as mutually exclusive, but rather as complementary.

There was broad agreement that stablecoins will not operate in isolation, but will coexist with other forms of money, including tokenised deposits and central bank money, particularly in wholesale contexts.

The discussion also highlighted differences in regulatory approaches across jurisdictions. European authorities tend to focus on accommodating the development of stablecoins within a robust regulatory framework, whereas the United States appears more inclined to actively promote their expansion. This distinction reflects a difference in emphasis rather than a strict divergence.

Drawing on past financial developments, the Chair cautioned that complexity and diversification do not always reduce risk, recalling that in previous market episodes, such as structured finance products, the expected benefits of diversification were sometimes offset by a lack of transparency and understanding.

As this understanding evolves, the regulatory framework will need to adapt. MiCA is already up for review next year. Although MiCA has only been in application for just over a year, it was conceived almost four years ago, and much has happened in that time. This is reflected in parts of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, which builds on MiCA and, in some cases, goes even further.

Finally, he highlighted a key risk that policymakers should not overlook: the risk of acting too late. By focusing excessively on potential downsides, authorities may fail to act in time and inadvertently create new dependencies rather than reducing them. This "risk of being late" should therefore be considered alongside more traditional financial stability risks.

Cryptoassets: market trends and first MiCA lessons

1. Lessons learned from the implementation of MiCA

1.1 Market impact of MiCA

An industry speaker emphasised that, from an industry perspective, the overall assessment of the Markets in Crypto-Assets Regulation (MiCA) after nearly one year of implementation is positive. The framework provides a clear and structured pathway to authorisation and enables firms to scale across the EU through passporting, supporting the development of a functioning and increasingly mature cryptoasset ecosystem.

Several elements demonstrate the effectiveness of MiCA in practice. First, the growing number of authorised cryptoasset service providers (CASPs) in the EU, currently exceeding 100, reflects a healthy level of market participation. A number of e-money token issuers (EMT: stablecoins referencing a single currency) are also active. Second, the absence of major crypto-related incidents in recent years in Europe suggests that improved regulation and transparency may have contributed to greater market stability. Third, the industry has matured with firms operating in a more transparent and structured manner and engaging more closely with national competent authorities (NCAs), marking a significant shift compared to the situation prior to MiCA.

A regulator noted that to date, 29 EMTs have been issued in the EU by 18 entities under the MiCA framework, while no asset-referenced tokens (ARTs: stablecoins referencing a basket of assets or multiple currencies) have yet emerged. Stablecoins not compliant with MiCA are no longer permitted to be offered within the EU under the new regulatory framework.

A second industry speaker explained that traditional banks also are increasingly active in the cryptoasset market. As an asset servicer for institutional clients, their firm aims to enable these clients to access the crypto ecosystem through digital asset custody solutions and the tokenisation of financial instruments, with MiCA regulation acting as a prerequisite for entering the market. Early engagement with the regulatory process enabled the firm to secure authorisation within a few months and gain a first-mover advantage as one of the first asset servicers authorised under MiCA.

1.2 Benefits and opportunities from MiCA

An industry speaker emphasized that the primary benefit of MiCA lies in the legal certainty it provides, which is a prerequisite for traditional financial institutions entering the market. The passporting mechanism is also a major advantage, enabling firms to operate across the EU without navigating multiple national regimes. The framework for EMTs also

represents a key benefit, as it provides a clear regulatory basis for stablecoin-related activities.

A regulator stated that MiCA has established a harmonised framework for prudential, governance and transparency requirements, aimed at strengthening safeguards and enhancing confidence in the cryptoasset market, notably in relation to stablecoins. As implementation progresses, it enables authorised entities to operate across Member States under a single framework, significantly simplifying cross-border activity and contributing to reduced fragmentation and stronger investor protection and market integrity.

An official stated that MiCA represents a significant milestone in establishing a regulatory framework for cryptoassets in the EU, marking a clear transition from an unregulated environment to a structured and supervised ecosystem. Regulatory harmonisation and passporting act as key enablers of market development, allowing firms to scale their activities across the EU while supporting innovation and consumer protection, with the legal certainty provided by the framework further facilitating the expansion of activities by both new entrants and existing financial institutions.

The official also stressed that MiCA should be seen as a first step rather than a final framework. Given the rapid pace of technological and market developments, continuous monitoring will be required to assess its implementation, the evolution of the market and interactions with other jurisdictions where regulatory approaches are still emerging. The perception sometimes put forward that Europe is lagging behind globally in the digital asset space is not accurate, as the EU benefits from a strong legal foundation under MiCA that positions it as a leader in this area.

A second industry speaker added that the EU is the first jurisdiction to have implemented with MiCA a comprehensive regulatory framework covering the crypto ecosystem at scale. By providing legal certainty and enabling passporting across the single market, MiCA has already encouraged firms to seek EU licences and supported increased participation by institutional players.

1.3 Remaining regulatory challenges and areas for clarification

An industry speaker identified several challenges encountered by CASPs during implementation. A key issue related to the transitional regimes, which expired at different times and under different conditions across Member States, creating legal uncertainty for cross-border firms operating under multiple regulatory situations across the EU. As this provision was set at Level 1, no adjustment was possible. This legal uncertainty translated directly into business uncertainty, affecting firms' ability to plan operations and serve clients across jurisdictions. While the issue has now largely been

resolved, it should be considered an important lesson for future regulatory design.

A second industry speaker also pointed to a number of regulatory and operational challenges. The authorisation process remains significantly longer in practice than the timelines set out in the regulation, often due to delays in the availability of secondary legislation and supervisory guidance. In addition, overlaps between MiCA and existing frameworks, particularly the Payment Services Directive 2 (PSD2), continue to create uncertainty regarding the delineation and articulation of regulatory regimes. A further question concerns the significant discrepancy between the number of CASPs authorised under MiCA (around 175) and the more than 3,000 Virtual Asset Service Providers (VASPs) previously registered under national regimes. While this partly reflects duplication across jurisdictions prior to MiCA and the transition to a more demanding regulatory framework, the gap remains difficult to fully explain and warrants further analysis.

A third industry speaker considered that the MiCA framework remains relatively prescriptive and operationally burdensome, with implementation still uneven across Member States. While MiCA provides the EU with a first-mover advantage in terms of regulatory clarity and a holistic framework for the crypto ecosystem, this does not automatically translate into global competitiveness. Key risks include regulatory arbitrage, the relocation of innovative activities outside the EU and competitive asymmetries with less constrained jurisdictions. At the same time, MiCA offers the EU the opportunity to position itself as a global hub for regulated, institutional crypto activities. A key strategic question remains whether MiCA will be able to establish itself as a global standard or remain a regional framework potentially subject to regulatory arbitrage.

1.4 Supervisory challenges in the implementation of MiCA

A regulator emphasised that several supervisory challenges remain in the implementation of MiCA. Effective cross-border cooperation within the EU is essential to address potential gaps, particularly given the novelty of the framework and the risk of residual fragmentation. Transitional arrangements for CASP licensing and reporting continue to limit the availability of comprehensive supervisory data, and full visibility will only be achieved once the relevant authorisation and reporting frameworks are fully operational across the EU. Ensuring such supervisory visibility is a priority for EBA, ESMA and the NCAs. A further issue is the need to address increasingly complex business models, such as multi-issuance structures and other cross-border arrangements involving third countries, which require enhanced supervisory convergence and close cooperation among authorities. Despite the existence of a harmonised EU framework, these models create operational and supervisory challenges that require continuous coordination at EU level and, where relevant, with third-country authorities.

In this context, the regulator noted that EBA plays a central role in promoting supervisory convergence through dialogue, knowledge sharing and peer reviews and has a mandate to directly supervise significant EMTs and ARTs, including oversight of liquidity and own funds

requirements, recovery and redemption arrangements, and remuneration policies. EBA and ESMA also cooperate in monitoring market developments, aligning supervisory practices and addressing overlaps between MiCA and other regulatory frameworks such as PSD2. Developments in EU supervisory arrangements in other areas, such as the establishment of AMLA with a direct supervisory role, illustrate a possible direction of travel. Ongoing monitoring, consumer protection initiatives, such as warnings to users, and continuous knowledge development across regulators, supervisors and market participants, are also essential in a rapidly evolving environment where new risks and business models continue to emerge.

An industry speaker also highlighted the supervisory challenges associated with implementing a fully harmonised framework across 27 NCAs with differing levels of experience and resources, particularly given the legacy of more discretionary regimes such as MiFID. While MiCA aims to eliminate national discretion, initial inconsistencies emerged in supervisory practices. Significant efforts have since been made to address these through ESMA's work on supervisory convergence, contributing to a more transparent and consistent application of the framework.

2. Regulatory approaches at the global level

2.1 The need for enhanced international cooperation

An industry speaker stated that regulatory approaches to cryptoassets remain fragmented at the global level, with no clear convergence emerging yet between the EU, the US and the UK, highlighting the need for stronger international coordination in this inherently cross-border market.

An official emphasised the global and cross-border nature of cryptoasset markets, which must be supported both through passporting within the EU and active international engagement, while ensuring appropriate safeguards. Global cooperation is essential to avoid regulatory fragmentation and ensure that differing frameworks do not create barriers to market development, while maintaining a level playing field for firms operating across jurisdictions.

Another official noted that, despite differing regulatory approaches, the core policy challenges are broadly consistent across jurisdictions: enabling innovation while ensuring consumer protection and financial stability. Given the inherently borderless nature of cryptoassets, international cooperation is therefore essential. In this regard, the UK is actively engaged in European, international and transatlantic fora. Avoiding divergence in regulatory standards is key to preventing fragmentation and regulatory arbitrage. At the same time, stronger supervisory cooperation, particularly on interoperability and reciprocity, is needed to reduce frictions without lowering standards. International institutions also have an important role to play in shaping the future of these markets, building on the work of the FSB and IOSCO on stablecoins and digital assets. Strengthening multilateral frameworks to promote consistency and support national

regulatory efforts should therefore be a key priority, including in the context of the G20 agenda.

2.2 The UK approach to cryptoasset regulation

An official explained that the UK has progressed more slowly than some other jurisdictions, including the EU, in bringing forward cryptoasset legislation, reflecting a deliberate sequencing approach. The UK has recently moved from a phase of assessment to implementation, with detailed legislation introduced at the end of 2025 to establish a regulatory framework for cryptoassets, including stablecoins, which is expected to come into force in October 2027. This builds on earlier legislation adopted in 2023, which brought cryptoassets within the existing financial regulatory perimeter and granted powers to the Treasury to develop a detailed regime, as well as to the Bank of England to regulate systemic stablecoins. This approach aims to balance consumer protection with maintaining the UK's attractiveness as a destination for innovation and investment in the cryptoasset sector.

The official emphasised that the UK approach differs from MiCA in its design, as it integrates cryptoassets into existing financial regulation rather than establishing a standalone framework. The regime defines qualifying cryptoassets and introduces regulated activities such as dealing, custody and the operation of trading platforms, requiring firms to be authorised by the Financial Conduct Authority. Stablecoin issuance is regulated only when conducted in the UK, while overseas issued stablecoins may still be traded domestically but are treated as unbacked cryptoassets such as Bitcoin.

An industry speaker stressed that the UK approach is pragmatic, with a strong emphasis on consultation, iterative development and regulatory sandboxes, combined with a focus on stablecoins and targeted rules governing the marketing of cryptoassets to consumers.

2.3 The US approach to cryptoasset regulation

An industry speaker observed that the US, as the largest crypto market, is characterised by high levels of innovation and liquidity but also by a fragmented regulatory structure split between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). The US policy approach is evolving towards a more structured framework through initiatives such as the GENIUS Act (focusing on stablecoins and including reserve backing, redemption rights and their role as a payment instrument) and the proposed Clarity Act (aimed at clarifying the classification of cryptoassets and the respective roles of SEC and CFTC), the latter remains under discussion. The US approach therefore remains incomplete with a significant degree of legal uncertainty persisting.

An official emphasised that the US GENIUS Act represents a significant step through its focus on stablecoins as a potential foundation for tokenized payments and the inclusion of reciprocity provisions with other jurisdictions. The proposed Clarity Act is another important proposal, raising questions regarding the treatment of yield- and reward-generating crypto products (such as staking or lending), including whether these should fall within the scope of securities regulation and how yield on stablecoins should be addressed.

3. Future market trends and policy implications

3.1 Structural trends in the cryptoasset market

An industry speaker emphasised that the cryptoasset market is moving from a phase of experimentation towards deeper integration with the financial system driven by several structural trends. First, the institutionalisation of the market is accelerating, with major asset managers, banks and custodians entering the space and offering crypto and tokenised asset related services such as crypto investment, tokenization capabilities, on-chain settlement and custody. This shift is driving greater use of regulated platforms and vehicles, with MiCA providing the legal certainty required for institutional participation and scaling. Second, stablecoins are gaining traction as a key segment of the cryptoasset market, increasingly used for cross-border payments and benefiting from rising adoption, with market capitalisation exceeding USD 100 billion and growing transaction volumes. Third, market structures are evolving towards greater vertical integration, with major CASPs combining activities such as trading, custody, issuance and prime brokerage. While this creates efficiencies, it also introduces concentration and dependency risks reminiscent of certain pre-financial crisis market structures, and therefore requires careful monitoring.

A second industry speaker agreed that the cryptoasset market is increasingly converging with the traditional financial system and should now be considered a maturing market. While still smaller in scale, it is growing rapidly, with over 600 million individuals globally having exposure to cryptoassets, whereas only half that amount have invested in shares and traditional financial instruments experience limited growth.

A third industry speaker highlighted the evolving positioning of CASPs within the broader financial system. While initially operating at the fringe as largely unregulated entities, they are now increasingly integrated into the regulated ecosystem under frameworks such as MiCA, MiFID and PSD, and are competing more directly with traditional financial institutions.

An official concurred that stablecoins are already demonstrating concrete use cases, particularly in payments, and that their adoption is likely to continue alongside the broader acceleration of electronic payments observed since the pandemic. Looking ahead, financial ecosystems are expected to combine private forms of money, such as stablecoins and tokenised deposits, with public solutions, including the digital euro and wholesale central bank digital currencies, alongside traditional forms of money. Regulators should approach these developments with openness to ensure that innovation is not constrained and that the benefits of different forms of money can be fully realised. Future regulatory developments should build on MiCA, which provides a strong foundation and legal clarity, while remaining adaptable to ongoing technological changes, such as the potential role of artificial intelligence in shaping future developments in the sector.

The official added that cryptoassets and related technologies can also contribute to broader EU priorities,

including the Savings and Investments Union, notably by supporting deeper capital market integration, improving access to financing and enhancing the competitiveness of EU financial markets.

Another official similarly emphasised the growing interaction between stablecoins and payment systems, agreeing that future payment ecosystems are likely to incorporate multiple forms of money. In this context, the UK similarly to the EU, is assessing how stablecoin regulation should interact with existing payment legislation.

3.2 The prospects of DLT, tokenization and stablecoins in the financial infrastructure

An industry speaker emphasised that distributed ledger technology (DLT) has significant potential to transform financial infrastructure by enabling institutions to move away from siloed systems towards shared, decentralised infrastructures supporting multiple asset classes and more efficient transaction processing. Tokenisation also acts as a key bridge between cryptoassets and traditional finance, with expanding use cases including tokenised deposits, repos and equities. In the US, tokenised repo markets are already developing, with significant volumes of intraday settlement, and are expected to expand further. The possibility to leverage common technological infrastructures across cryptoassets and tokenised financial instruments is a further benefit.

A second industry speaker noted that stablecoins are increasingly acting as a core component of financial infrastructure, serving as a key settlement asset in on-chain markets and playing a growing role in cross-border payments, which raises new regulatory considerations.

An official agreed that the use of DLT is likely to play a transformative role in the financial system, particularly by improving the efficiency of securities settlement, while requiring careful management of associated risks.

3.3 Key policy questions and future regulatory and supervisory priorities

An industry speaker emphasised that a significant share of activity remains outside the regulated perimeter, notably in decentralised finance (DeFi), where substantial volumes of assets are managed on a cross-border basis without traditional intermediaries, as well as in staking and lending activities that are not fully captured by MiCA. This may lead to regulatory arbitrage, pushing certain activities outside the regulatory perimeter. A further challenge is to strengthen cross-border supervision and improve coordination, as the market becomes increasingly global, decentralised and more institutionalised.

A second industry speaker agreed that addressing activities that fall outside its current scope of MiCA, such as DeFi, is a key challenge going forward, as well as clarifying how MiCA will interact with other regulatory frameworks. Tokenisation is also a central area of future development where regulatory approaches differ across jurisdictions. In Europe, tokenisation is typically approached through the lens of the underlying asset, whereas in some other jurisdictions the focus is on the underlying technology, with tokenised activities treated within crypto-specific regulatory frameworks. This raises the question of whether regulatory approaches should converge or whether

different models can coexist at the international level, provided that consumer protection and market integrity are maintained.

The industry speaker further raised the question of whether primary issuance of financial instruments directly on distributed ledgers will develop, and how this would coexist with assets such as equities continuing to be issued through traditional market infrastructures and subsequently tokenised. This evolution raises important operational and regulatory questions regarding how such new forms of issuance and market structures should be addressed in future legislation.

A regulator highlighted the broader question of how to strike the right balance between innovation and regulation, and which should come first. Innovation should be allowed to develop while the regulatory framework continues to mature, rather than being constrained prematurely, particularly as not all emerging use cases ultimately prove viable or attractive to consumers. The regulator also emphasised the importance of continuous knowledge sharing and education among regulators, supervisors and industry participants, noting that effective supervision depends on the quality of information and understanding available and should not remain tied to legacy practices that may no longer be adapted to evolving market structures.

An official underlined the importance of maintaining strong support for innovation at EU level, ensuring that regulatory frameworks facilitate the development of new products and services where there is demand.

Wrap up

The Chair concluded that the discussion highlighted both the progress achieved through MiCA and the importance of the international dimension in the crypto space, noting broad agreement on the value of MiCA and the need for continued adaptation. The discussion confirmed that MiCA represents a structural shift for the EU cryptoasset market, providing greater legal certainty, reducing fragmentation and supporting cross-border activity through passporting, while also raising implementation challenges requiring further guidance and supervisory convergence. Looking ahead, the increasing integration of cryptoassets with traditional financial services will require continued calibration of the regulatory and supervisory framework.

Scaling tokenisation in the EU

1. State of play and trends in the European tokenisation market

1.1 Current state of development

The Chair emphasised that tokenisation has moved beyond early experimentation, following more than a decade of DLT development largely confined to proofs of concept and niche applications disconnected from core financial infrastructures. Tokenisation is now accelerating across the financial system, with growing domestic and cross-border use cases in payments, securities settlement and collateral management. This development is driven by the greater technological maturity of DLT platforms, demand for efficiency, instantaneity and programmability, as well as the increasing involvement of regulated financial institutions.

An official noted that tokenisation in EU capital markets has progressed in recent years from experimentation to production and multiple issuances, particularly in corporate bond issuance, with increasing involvement from traditional financial institutions and market infrastructures. While progress is tangible and tokenisation is moving towards production-grade services, the broader ecosystem remains at an early stage of development with limited scale and fragmentation.

An industry speaker considered that tokenisation is increasingly becoming a core part of the market infrastructure, with widespread engagement from leading exchanges, CSDs and asset managers. Second, while current on-chain assets remain relatively limited - estimated at around \$15–20 billion and concentrated in areas such as private credit and money market funds - the market is expected to expand rapidly towards mainstream assets including equities and bonds.

Another industry speaker underlined that concrete examples of tokenised assets are already emerging. For instance, tokenised tracker certificates referencing US equities and ETFs, issued under a European prospectus and passportable across the EU already exist, allowing investors to gain fractional exposure to underlying assets, benefit from faster settlement, extended trading hours and access to standardised disclosures, while enabling greater flexibility in how assets can be held, custodied, transferred and used for additional financial activities, including as collateral for other trades.

1.2 Future trends and growth prospects

An industry speaker stated that tokenisation represents a fundamental shift in the financial system and predicted that a substantial share of global financial assets (between \$100 and \$400 trillion) could become tokenised over the coming 15 to 20 years. The transition towards tokenised assets is inevitable, driven by

technological advantages and evolving investor behaviour, notably the younger generation who started investing with cryptoassets.

An official suggested that the broader adoption of tokenisation could accelerate in 2026 or 2027, supported by four main factors: (i) increasing stakeholder engagement and investment in tokenised assets with a strengthening of trust in both the technology and its benefits; (ii) supportive EU regulatory frameworks including MiCA and the reviewed DLT pilot regime, which will address the current limitations (including its temporary nature and issuance caps); (iii) initiatives led by the Eurosystem to ensure the eligibility of certain DLT-based assets as collateral in Eurosystem operations (from April 2026 marketable assets issued in CSDs and using DLT-based technology will be accepted as eligible collateral in Eurosystem credit operations and there is ongoing work to extend eligibility to other assets issued and set up on DLT networks); and (iv) the availability of tokenised central bank money for wholesale DLT-based transactions supported by programmes such as Pontes and Appia. Exploratory work launched by the Eurosystem with market participants in 2024 showed strong demand for central bank money in a tokenised environment, seen as essential for scaling tokenisation, leading the Governing Council to launch a roadmap for its implementation. Together with collateral initiatives, these developments signal strong public sector support for tokenisation while ensuring a balance between innovation, safety and financial stability.

A second industry speaker also stressed the need for Europe to consider developments in decentralised finance (DeFi), noting that emerging initiatives in the United States particularly by the SEC could enable new forms of decentralised trading, including the trading of tokenised equities outside broker dealer networks, which Europe should take into account to remain competitive.

2. Benefits and market impact of tokenisation

2.1 Efficiency gains and process optimisation

An industry speaker emphasised that tokenisation represents a major opportunity to transform financial markets, going beyond earlier waves of digitalisation that mainly enhanced existing processes. By enabling features such as programmable transactions, shared ledgers and self-custody, it can reshape the underlying market architecture and the way participants interact, simplifying clearing, settlement and reconciliation processes while reducing reliance on intermediaries. This transformation can enhance the efficiency and global competitiveness of EU financial market infrastructures, notably through faster settlement,

lower operational costs, continuous (24/7) market access and greater transparency enabled by on-chain visibility of collateral and post-trade operations. Over time, this could lead to the emergence of new infrastructures operating alongside, and potentially gradually absorbing, existing ones.

A second industry speaker agreed that the expansion of tokenisation is an opportunity to reimagine EU capital markets. It can deliver substantial efficiency gains for market participants by enabling trading, clearing and settlement on a single ledger with on-chain settlement assets, supporting delivery-versus-payment (DVP) and atomic settlement. This reduces the need for intermediaries and back-office processes, generating significant cost savings, estimated at €15–20 billion annually.

A third industry speaker added that tokenisation can potentially bring significant operational improvements through the reduction in transfer times from one brokerage portfolio to another, which can be handled in minutes compared to several days in traditional systems.

A regulator underlined that these benefits are maximised when securities are issued natively on-chain, allowing for more comprehensive efficiency gains. By reducing the need for reconciliation across multiple ledgers - currently a source of delays, costs and operational risks - DLT can significantly improve efficiency and reduce errors. A shared ledger can also support true DVP, mitigating settlement and liquidity risks associated with existing processes, including delays in fund flows. While such frictions are less pronounced in Europe, they remain relevant in other markets, particularly in the United States, for example in the context of retirement products, highlighting the broader inefficiencies that tokenisation can help address. Tokenisation could also support the development of more tailored and scalable financial products for consumers.

2.2 Broader access to capital markets at the EU and global level

An industry speaker noted that beyond efficiency, tokenisation can broaden access to capital markets and enhance product distribution by lowering barriers for retail investors and facilitating cross-border participation.

An official highlighted that, while uncertainty remains regarding the future evolution of tokenisation, it has the potential to further develop capital markets in the EU. It can simplify access to capital market financing, supporting the mobilisation of part of the large amounts of retail savings held in bank deposits and contribute to deeper EU capital markets. In Lithuania, for example, shallow capital markets and the relatively high concentration of the banking sector, which remains the main source of funding for SMEs, limit access to finance. Tokenisation could help address these constraints by facilitating the issuance of securities by smaller firms and broadening investor access to corporate securities. In addition, it could support geopolitical priorities by enabling broader investor participation in defence-related financial instruments, such as defence bonds,

while enhancing liquidity and potentially reducing costs for such instruments.

A second industry speaker underlined that tokenisation can attract younger investors to capital markets, who increasingly expect digital-native services, continuous market access and the ability to move and exchange assets instantly across platforms. It can also broaden retail access to asset classes that are currently difficult to reach, such as bonds, real estate and private markets, thereby improving overall capital allocation. Tokenisation can also facilitate cross-border investment and support the emergence of a more global marketplace, creating an opportunity for Europe to attract international investors through greater accessibility and continuous trading, particularly in a context where developments in the US supported by the SEC suggest a rapid shift towards tokenised capital markets.

A third industry speaker noted that fractionalisation enabled by tokenisation can further expand investor access and increase the share of adult population participating in capital markets, which remains low at the global level (around 25%). Tokenisation can also broaden the range of financial instruments and functionalities available to retail investors, such as asset swapping or borrowing against holdings, which have traditionally been limited to wealthier clients, while supporting the development of more tailored and scalable financial products. This is particularly relevant in a context where financial wealth is growing faster than labour income, reinforcing the need to widen participation in capital markets. From an issuer perspective, tokenisation can also provide access to a broader global investor base and support more direct and efficient capital raising through digital issuance processes, including token-based fundraising models such as ICOs.

3. Risks and implementation challenges

An official identified fragmentation and the lack of interoperability across DLT platforms as the most significant obstacles to the uptake of tokenisation, noting that assets issued on separate platforms may not be easily transferable, thereby limiting its potential benefits. Cyber-risks and scalability challenges were also highlighted, although these are common to the adoption of all new technologies and are expected to be mitigated over time. In the absence of common standards ensuring interoperability and the transferability of assets across ledgers, tokenisation could replicate the inefficiencies of existing systems, rather than resolve them. The Appia project led by the Eurosystem aims to address these challenges, supporting the development of a more integrated and innovative ecosystem.

A regulator cautioned that risks are particularly acute during the transition phase, when existing mechanisms of trust may no longer fully apply and new processes are not yet fully operational. Increased speed and automation can also remove existing safeguards, creating potential

for new errors and systemic issues. Past episodes of failures in automated trading systems or flawed models, which led to large unintended transactions and rapid losses, highlight the importance of rigorous testing and safeguards when new processes are introduced that can amplify risks. Strong model and contract risk management are essential, highlighting the inherent trade-off between accelerating innovation and maintaining the controls needed to ensure market integrity.

An industry representative emphasised that while tokenisation offers significant potential to transform and democratise access to capital markets and the underlying technology is quite mature, fragmentation remains one of the most critical risks, as shown by multiple experiments conducted with central and commercial banks. The assumption that a single dominant infrastructure or ledger will emerge to impose de facto industry-wide standards is not realistic, and instead multiple platforms are likely to coexist.

4. Settlement assets and monetary policy implications

The Chair stated that while the emergence of new tokenised settlement assets such as stablecoins and tokenised deposits can support the development of tokenisation, their implications for the current monetary system need to be further assessed. The Eurosystem perspective is that tokenised settlement assets should develop in a way that preserves and embeds the existing two-tier monetary system for settlement processes, where central and commercial bank money play complementary roles, rather than creating parallel arrangements that would bypass this framework and risk fragmenting the monetary system.

An official agreed that the development of tokenisation should preserve the two-tier monetary system, with central bank money remaining the key anchor for financial stability, as established following the 2008 global financial crisis through the PFMI principles. In this perspective, the Eurosystem has launched two key initiatives: Pontes, expected to be deployed at scale in September 2026 will enable the use of tokenised central bank money for wholesale settlement by connecting TARGET services with DLT platforms, and Appia, which aims to support the longer term development of a more integrated ecosystem in which different types of tokenised assets and settlement instruments can coexist. These initiatives illustrate the Eurosystem's objective of supporting innovation while preserving financial stability. Allowing a diversity of settlement assets, including private instruments such as tokenised deposits can be beneficial, provided they can scale and remain transferable. Stablecoins can also be useful for specific use cases, although challenges related to scalability and price stability still need to be addressed.

An industry speaker stressed that tokenisation requires on-chain settlement assets to enable DVP and atomic settlement, and cautioned against delaying progress while awaiting CBDC deployment, given that tokenisation is already advancing rapidly. In this context, the future

monetary system is likely to be a "money multiverse" combining a variety of public and private digital settlement assets. Well-regulated stablecoins under MiCA should play a complementary role alongside wholesale CBDC in such a diversified settlement ecosystem. Stablecoins are particularly well suited to global and cross-border transactions, provided their design ensures trust, price stability and the singleness of money, meaning that they can reliably maintain a stable value and be exchanged at par with other forms of money.

The industry speaker also pointed to recent developments in the US, where stablecoins are already operating at scale, settling large transaction volumes and are increasingly recognised for use in financial transactions, including as collateral under proposed frameworks such as the GENIUS Act, with haircuts expected to decline from 2% to approximately 50bp as the underlying risk of stablecoins is reassessed. Europe should take these developments into account to remain competitive by recognising MiCA-regulated stablecoins as legitimate settlement assets, without distinction between bank-issued and electronic money institution-issued stablecoins.

5. Policy and operational priorities for scaling tokenisation

5.1 Standardisation and interoperability

An industry representative stated that the key policy priority regarding tokenisation should be achieving interoperability, not only at the technical level but also at the business level, ensuring that financial instruments can be transferred across platforms and work consistently to avoid confusion and inefficiencies.

The industry representative also highlighted the importance of industry standardisation to ensure both interoperability between digital assets (i.e. that a bond can function in a similar way irrespective of the underlying platform) and smooth coexistence between traditional and DLT-based infrastructures during a likely prolonged transition phase between these two types of platforms. There is also the need to ensure smooth, secure and reliable data transitions between fully digital and traditional processes. The current stage of development represents a timely opportunity to establish such standards before fragmentation becomes entrenched.

5.2 Review of the DLT pilot regime and sandboxes

An industry speaker stated that adjustments to the regulatory framework are needed to support the uptake of tokenisation, including making the DLT pilot regime permanent, allowing broader participation, including by crypto-asset service providers (CASPs) and increasing thresholds to make the regime more flexible.

An official agreed that the DLT pilot regime presents important limitations, as it is both restrictive for larger players and complex for smaller ones to use, notably due to constraints related to asset eligibility and volume caps. These limitations hinder scalability and limit the

ability of European firms to expand their products internationally, particularly in the US. The framework needs to evolve to support a broader deployment of tokenisation, while maintaining appropriate safeguards to ensure financial stability. At the same time, it should remain competitive and aligned with broader EU strategic objectives, including strengthening the international role of the euro.

A regulator highlighted the role of regulatory sandboxes in supporting safe innovation in the UK, noting that they provide controlled environments, either through real transactions under specific limitations and regulatory permissions or through simulated testing, where firms can develop tokenisation-related products before public release. These frameworks have seen strong uptake, with products subject to extensive testing, including stress scenarios such as fraud attempts. This approach enables regulators to balance innovation and risk management by allowing experimentation under supervision, while broader regulatory approaches to tokenisation are still being finalised.

Wrap up

The Chair concluded that the discussion highlighted strong consensus on the potential benefits of tokenisation, notably in terms of efficiency gains and expanded access to capital markets for both investors and issuers. Tokenisation appears to be approaching an inflection point, supported by increasing market engagement, regulatory developments and public sector initiatives, particularly those led by the Eurosystem, which could significantly accelerate its deployment. The expected efficiency gains of tokenisation for market participants and public authorities must, however, be weighed against associated costs and risks. Important risks and challenges remain, particularly fragmentation across DLT platforms, which requires coordinated efforts and standardisation at both European and international levels.

The importance of preserving the two-tier monetary system was also highlighted, alongside recognition of the potential role of private settlement assets such as well-regulated stablecoins. Overall, tokenisation represents a significant evolution of the financial system, with its full impact still unfolding and requiring continued adaptation of regulatory frameworks.

Sessions

V

DIGITAL EURO AND PAYMENT SYSTEM EVOLUTIONS

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Digital euro: addressing outstanding design and implementation challenges

1. Reaching the last mile of legislation to deliver Europe's payments sovereignty

1.1 A breakthrough at the European Parliament after 1,500 amendments

A policy Maker reported that a breakthrough has occurred this week in the European Parliament's negotiations on the digital euro: after weeks of discussions and over 1,500 amendments, a scaled-back version now seems entirely off the table. Developments at the Parliament suggest the legislative process can be closed by the end of 2026, following the Parliament's position foreseen for May. The Council's negotiating mandate, agreed in December, largely follows the Commission proposal and sends a strong signal that member states stand by the digital euro. A Central Bank representative recalled that the political commitment was re-emphasised at the recent Euro Summit, where member states were asked to accelerate the next steps; the Council position helps enhance the EU's strategic autonomy, economic security and resilience. Frequent meetings continue at the Parliament and ECON, with a vote expected before the end of May. A representative of the Industry noted that the digital euro is not yet fully defined – with around 1,500 amendments still to be landed – and warned that the suggested 5- to 10-year implementation horizon is an extremely long time in payments: ten years ago Apple Pay was just being introduced, and five years ago ChatGPT did not yet exist for the public.

1.2 Public money in Europe as a response to excessive external dependencies

A policy Maker explained that, in today's uncertain global climate, the digital euro has become a must to ensure Europe's sovereignty, autonomy and resilience: a simple US decision affecting the international card schemes could send shockwaves across the EU, as happened in Russia before. The Commission set out its vision in the 2023 Retail Payments Strategy, and progress has been made through the IPR, PSD3 and PSR; it is now time to reach the last mile and to be ambitious. Europe cannot afford to depend excessively on external actors for something as basic as the daily payments its citizens make. The vital ingredient ahead will be collaboration with industry, users, merchants, consumers and businesses: the digital euro is more than a financial sector project – it is a project for society, and the goal of a sovereign EU payments market is within reach. An Official added that it is vital to ensure that European citizens can access public money issued and governed in Europe, an issue of stability and resilience. The digital euro would offer a pan-European

payment solution anchored to central bank money. The recent Parliament discussion makes clear that focusing solely on offline payments would not build resilience – on the contrary, it would hamper Europe in this respect. Both online and offline functionality are needed.

1.3 Cypriot and Irish presidencies ready to navigate the trilogue within 2026

A Central Bank representative stated that the Cypriot presidency stands ready to engage with the European Parliament as soon as possible, given the urgency of the project; the forthcoming Irish presidency is well prepared to take the baton and expertly navigate the trilogue, with a view to a conclusion within 2026. An Official confirmed that both presidencies stand ready to engage constructively once a negotiating mandate is in place, and that recent positive developments on the online/offline aspects are encouraging. If the negotiations fall to the Irish presidency, which begins on 1 July, it will be well prepared to take them forward, working towards a balanced trilogue outcome through effective collaboration between the Council, the Parliament, member states and industry, aiming for agreement by the end of 2026. A Central Bank representative concluded by noting that it is encouraging to see convergence on the key issues. Although the legislative process is still ongoing, the precise factors that must be addressed are increasingly clear: the time to act is now – the digital euro should not arrive in ten years' time. With further clarity on design and timeline, and through the reuse of standards, implementation can be both efficient and complementary, ensuring that investments are made as much as possible as one-offs benefiting both the pan-European schemes and the digital euro.

2. Getting the design right to make the digital euro a success for all stakeholders

2.1 Complementing, not replacing, Europe's successful payment systems

A policy Maker stressed that interoperability is a key priority and that the ECB is reusing existing standards as far as possible to develop open EU standards for POS and e-commerce. Any European private solution provider will be able to use these standards, and domestic schemes will be able to co-brand with the digital euro. The digital euro must complement, not replace, private sector solutions, and will coexist with European champions such as Wero and EuroPA: the digital payments pie is growing every day, and everyone can get a slice of it. A representative of the industry

argued that the first key design question is the balance between complementation and coexistence: Europe already has innovative pan-European systems, and the digital euro must complement rather than harm them. The BVR strongly advocated for a resilient tokenised approach working both offline and online and will continue to propose steps to reduce complexity and mitigate financial risks. An Official added that the Council emphasises that the digital euro must coexist with existing solutions, serving as a public anchor rather than displacing private providers. A representative of the industry noted that, at full rollout, 100% of European consumers will have a payment solution and over 90% will be able to pay with a sovereign retail solution; common standards will allow merchants and acquirers to avoid duplicate investments.

2.2 A funding model and level playing field that strengthens, not weakens, European banks and PSPs

A policy Maker highlighted that PSPs distributing the digital euro will be compensated and able to innovate on the platform to increase revenues: the future of payments is 'payments with value', and a 'universe of opportunities' lies ahead. A Central Bank representative noted that the Council reaffirms legal tender status, the obligation on banks to distribute basic services, and fee caps to protect merchants. The Council position also makes it harder for non-European big tech to gain an edge; sets fee caps initially at the level of average debit card fees, providing ample PSP revenues; and removes the obligation on PSPs to support the Eurosystem app, which will instead be a backup. A representative of the industry emphasised that the legislative framework is decisive: there is no silver bullet, and an 'overloaded' approach risks unintended consequences. Legislation must uphold the separation of roles between central banks and commercial banks. The funding model is crucial: European banks cannot be left to absorb the costs while non-European platforms reap the benefits. An Official added that the compensation approach must provide predictability and a clear pathway to a cost-based model. A representative of the industry stressed that there must be a true level playing field: Europe – not the US or Asia – must win, without losing traction in agentic AI, agentic commerce and crypto.

2.3 Convenience, security and inclusion to make the digital euro attractive for citizens

An Expert observed that Europe is at a historical moment in the development of the digital euro, with developments in the European Parliament reflecting consumer expectations. A BEUC survey across 10 eurozone countries showed that consumers prioritise security and reliability, but also call for ease of use, very low or no fees, refunds in cases of fraud or scams, strong privacy protection and universal acceptance. Offline functionality represents added value, and the success of the digital euro will depend on its actual use: it must be convenient and secure. Cash is strongly supported but in decline, which makes it even more important to provide a public alternative replicating the characteristics of cash that consumers still appreciate. The initiative must also be inclusive: rapid digitalisation has already led to financial exclusion among vulnerable

parts of society, and the digital euro is an opportunity to design something inclusive from the outset. The project is for citizens and for European sovereignty in a volatile geopolitical environment. One key concrete issue is holding limits: financial stability must be preserved, but consumers must also be able to use the digital euro in a practical way – if limits are too low, people will not find it useful. The threshold should be set at a reasonable level, and the ECB should set it. The design must rest on factual evidence: the digital euro can be integrated into the online payment solutions being developed, reducing upfront investment costs.

3. From pilot to rollout: leveraging Europe's existing assets to act now

3.1 The autumn 2027 pilot as the first real-world experience of a CBDC

A Central Bank representative explained that the Bank of Lithuania is eagerly anticipating the digital euro pilot, which will be the first real-world experience of a central bank digital currency (CBDC) – a significant milestone for the financial system. The pilot, scheduled for autumn 2027, will test four use cases: P2P online payments; P2P offline payments via NFC; P2B NFC payments at soft POS terminals; and online payments for e-commerce and mobile commerce. P2B offline POS use cases are not included, despite being particularly relevant for resilience – especially in the Baltic region – because of complexity and delivery risks. The call for expressions of interest from PSPs is ongoing, with applications due by 14 May. The pilot will validate the digital euro's functionalities within a controlled environment, using a 'beta digital euro' without legal tender status, in everyday situations such as paying in a cafeteria. Each NCB must decide its own level of involvement, depending on the readiness of the domestic market. The Bank of Lithuania aims to enable testing of all envisaged use cases, having engaged early with PSPs and merchants in 2025; it stands ready to commit the necessary resources, both to test how a CBDC operates in practice and – more importantly – to draw lessons that will inform the rollout. Participation is a demanding task given the volume of documentation to process within a short timeframe, but this is to be expected given the urgency of the project.

3.2 Reusing existing European standards to avoid duplicate integrations and costs

A representative of the industry explained that European payment processors such as SIBS can play an important role by building the technology PSPs need to connect to the platform, enable payment terminals and e-commerce checkouts. Wherever possible, the digital euro should reuse existing European standards, avoiding duplicate integrations and certification processes that would increase costs and slow adoption. Without proper safeguards, it could end up being distributed primarily through non-European wallet ecosystems, defeating Europe's strategic autonomy objective. Experience shows that regulatory initiatives

have led to disinvestment in local card schemes, and overly prescriptive implementation requirements could divert PSP resources from scaling private solutions. A representative of the industry added that making the technical choices is a huge task, with a risk of focusing on internal topics rather than on digital and payment trends. The balance of power between actors should not be underestimated; many banks consider that opening the door to all actors may be dangerous and should be addressed through technical decisions. The reuse of standards, protocols and scheme rules will deliver significant agility benefits for PSPs, and the competition between public and private schemes should be carefully managed through cooperation beyond acceptance networks. The technical choices made over the coming months will be decisive for the digital euro's agility within the existing ecosystem.

3.3 Interoperability with European champions to drive adoption while time is short

A representative of the industry noted that European payments are at the forefront of innovation and security, with one of the most developed instant payment networks and homegrown champions enjoying broad consumer trust. SIBS launched MB WAY several years ago, and most of the Portuguese population now pays with it daily. Twenty other EU countries have similar solutions, and the European Payments Alliance

(EuroPA) has moved from concept to reality at remarkable speed, now reaching over 60 million users: MB WAY users in Portugal can already send money seamlessly to Spain and Italy, with Poland, the Nordics, Greece and others to follow; engagement with EPI is also ongoing. Another representative of the industry added that creating sovereign means of payment at local and European level is positive and will involve collaboration with initiatives such as Wero and EuroPA – consumers will ultimately determine the pace of adoption. A representative of the industry indicated that the DSGVO has been deeply engaged in the project, with around ten people working permanently on it and an investment in the tens of millions. The time to strengthen European sovereignty in retail payments is now: initiatives such as EPI, Bancomat, MB WAY, Bancontact and Vipps Pay are already collaborating, empowering over 150 million European consumers and 100,000 merchants.

A staggered for the digital euro implementation may create room for the private sector to continue its focused work on creating a market of independent home-grown European Payment Solutions. Such solutions would find Europe wide acceptance and creating consumer choice for payments

Policy priorities for the payment single market

1. Strategic autonomy requires more than harmonisation: addressing Europe's dependence on the non-European layers of the payment ecosystem

1.1 SEPA's account-to-account rails are sound, but the EU remains exposed to both economic and geopolitical vulnerabilities through reliance on non-European providers

An official opened by noting that payments have risen high on Europe's agenda: PSD reforms, SEPA Instant, Interchange and MiCA represent real progress, but the payment landscape remains fragmented along national borders and is being reshaped by geopolitical developments. The core policy questions — how to balance innovation, fair competition and strategic interests, and how public and private stakeholders can best work together — set the scene for the debate. Another official then framed the structural challenge: SEPA has created a harmonised environment for euro payments, but strategic autonomy requires more than harmonisation — it demands control over the whole payment ecosystem. Key points of consumer and merchant interaction remain heavily dependent on non-European providers, exposing the EU to vulnerabilities shaped by political or legal decisions taken outside its borders. The issue is compounded by value capture: even where European infrastructure exists, much of the economic value — data, consumer interfaces, commercial models — is captured by non-EU platforms. The priority is not to fix SEPA itself, but to close the gap between Europe's role in core infrastructure and its limited influence over the strategic layers that sit above it.

1.2 Strategic autonomy as a spectrum: a diverse, innovative and vibrant European ecosystem is already emerging through domestic schemes, Wero and EuroPA

An industry representative pushed back against binary framings of strategic autonomy, arguing it should be understood as a spectrum — a degree of independence protecting Europeans from economic coercion — rather than an all-or-nothing proposition. The European landscape is already more diverse, innovative and vibrant than the prevailing narrative suggests: in Germany and France, domestic schemes are the strongest players, making international networks challengers rather than dominants. Wero counts approximately 50 million users; EuroPA has a similar initial rollout with potential to reach 100 million after expansion; and a memorandum of understanding to create an interoperability hub between the two is already in place. For perspective, Europe's dependency in payments is structurally less acute than in

semiconductors — where 90% of cutting-edge chips are manufactured in Taiwan — or in artificial intelligence. An official reinforced this: strengthening Europe's own payment capabilities is not merely a market ambition but a strategic priority. The importance of resilience, autonomy and inclusiveness — in both economic and social terms — has never been more evident than in the current geopolitical environment.

1.3 Digital euro and wholesale CBDC (Pontes/Appia): public anchors for integration rather than fragmentation and European strategic autonomy

A Central Banker set out the role of public infrastructure as the central bank's response to fragmentation. The digital euro is not a competitive threat to private payment schemes; it is the retail anchor — a digital form of euro cash, available to all households and businesses, online and offline, including with offline functionality that ensures payments remain possible even during infrastructure disruptions. At the wholesale level, Pontes will provide central bank settlement in a DLT environment from Q3 2025, and Appia will build a European tokenised financial ecosystem with central banks at its core — a platform on which private-sector innovation can flourish. These initiatives anchor European payment infrastructures in public money governed by European institutions, preventing incompatible and non-interoperable systems from taking hold. An official added that the digital euro must not remain a limited pilot — it must be widely available and actively used. An industry representative noted that productive public-private dialogue requires transparent impact analysis: the gap between the private-sector estimate of approximately €182 million impact on major banks and the ECB's €152 million is not that large and welcomed shared analytical basis as a precondition for structural discussion.

2. Interoperability and consistent open standards as the conditions for pan-European scale and competitiveness

2.1 EuroPA-EPI: a promising path to around 130 million users, but effective scale requires technology-neutral, solution-neutral regulation and a level playing field

An official summarised the emerging consensus: a sovereign European payments ecosystem requires a diverse landscape of complementary payment methods, a mixture of private and public infrastructure, and the involvement of partners well beyond payment service providers alone. An industry representative identified EuroPA-EPI — combining the experience of Bizum and Wero — as the most concrete interoperability response,

targeting around 130 million users once fully joined up, with P2P expected shortly and e-commerce and point-of-sale coverage to follow. Three conditions are essential: regulation must be technology-neutral and solution-neutral, allowing market and public solutions to coexist without tilting the playing field. An official pointed to the DLT review, DORA, MiCA, instant payments and Financial Data Access (FiDA) as solid regulatory foundations for scale, interoperability and trust. An industry representative added that large-scale retailers and marketplaces can serve as a powerful testing engine: Amazon is already sharing merchant and consumer insights with digital euro prototypes and offering interoperability recommendations to local payment methods ahead of their cooperation agreements.

2.2 Europe does not need 27 sets of scheme rules: consistent open standards to end cross-border friction and enable competitive alternatives to cards

An industry representative gave the most concrete account of fragmentation as a daily operational reality. Cards remain the only payment method delivering a truly seamless, pan-European experience at scale. Around two in ten cross-border transactions still fail for purely technical reasons — authentication flows, timeouts, latency — each one a lost sale and a barrier for the more than 280,000 SMEs selling on Amazon across Europe. For competitive alternatives to emerge, European payment solutions must cover the same use cases as cards: recurring payments, frictionless journeys and reliable cross-border acceptance. Local payment methods accepted across the EU today bring different refund timelines, dispute processes, settlement speeds and technical specifications — fragmentation that prevents consistent customer experiences. Europe does not need 27 sets of scheme rules; it needs consistent, open standards that work everywhere. An official noted that the market itself remains fragmented along national borders. Another industry representative added that existing standards should be reused, duplication avoided, and access to key device functionalities — NFC and secure elements — revised to ensure genuine openness to all players. Harmonisation is the precondition for competitiveness.

2.3 Flexible and forward-looking regulatory frameworks — from DORA and MiCA to the DLT review — to enable innovation while managing emerging risks

An official argued that innovation cannot be left to chance, but the public sector's role is to enable the market, not to replace it. Regulatory frameworks must be flexible, forward-looking and neutral, capable of adapting to technological evolution while remaining alert to new risks. DORA, the DLT pilot regime and MiCA show that Europe has understood this balance: they support experimentation while safeguarding financial stability and consumer protection. But regulation cannot be a 'set it and forget it' exercise — frameworks must be continuously reviewed and refined. An industry representative highlighted the distinctive contribution of banks: deep client relationships, proven AML expertise, and a collaborative posture with regulators; CaixaBank's participation in Pontes and Agora illustrates the private sector's active role in building the tokenised financial infrastructure of the future. A Central Banker described the Eurosystem's approach: regulatory

sandboxes, DLT wholesale settlement tests in 2024, stakeholder engagement on digital euro design in 2025, and a recently published discussion paper on DLT and tokenisation — all aimed at making the Eurosystem an enabler of innovation while developing the standard-setting and infrastructure on which private-sector innovation can thrive.

3. Trust as the foundation of every well-functioning European payment ecosystem: inclusion, security and resilience

3.1 Financial inclusion demands trust, access and usability: digital payments will not succeed because they are mandated but because they are designed for everyone

An official emphasised that achieving genuine financial inclusion is a long and demanding process with no shortcuts: people adopt what they trust, understand and find genuinely useful — mandating digital payments without meeting those conditions will not work. Three requirements must be satisfied simultaneously. First, trust: digital payments must be secure, protect privacy and be underpinned by a robust regulatory framework. Second, access: payments must work for everyone in practice and not merely on paper, in all circumstances — online and offline alike; the digital euro's offline functionality directly addresses this requirement. Third, usability: solutions must be intuitive, interoperable and widely accepted; if they are not seamless, they will simply not be used. Digital payments will succeed not because they are mandated, but because policymakers design them to be genuinely trusted, accessible and useful for everyone, including the most vulnerable. An industry representative added that people generally like to buy things but do not like to pay — the payment experience must therefore be as smooth and friendly as possible, and banks have accumulated significant expertise in making this happen.

3.2 Fraud prevention requires collaboration across actors: outcome-based authentication, data-sharing and risk-based approaches over prescriptive rules

An industry representative asserted that there is no commerce without payments, and no customer trust without payment trust. Amazon's approach rests on four pillars: robust proactive controls, customer protection and education, cross-industry collaboration, and holding bad actors accountable. In 2024, it invested over \$1 billion in fraud prevention, taking down over 55,000 phishing websites and more than 12,000 fraudulent phone numbers. The increased harmonisation brought by the new Payment Services Regulation — particularly the framework for cross-border cooperation and fraud data-sharing — is strongly welcomed: different actors (merchants, PSPs, banks, telecom operators) hold complementary information, and combining those signals in a privacy-preserving way dramatically improves prevention. On authentication, a more outcome-based approach to SCA would be preferable to prescriptive technical requirements:

success rates currently vary from 60% to over 90% across the EU, reflecting implementation differences rather than inherent security trade-offs. A risk-based framework — where low-risk transactions proceed with minimal friction — is the right direction. Another industry representative reinforced that banks bring a critical asset to this effort: long and proven experience in anti-money laundering and fraud prevention, which could otherwise serve as a backdoor to criminal activity.

3.3 Cybersecurity and decentralised infrastructure as a shared public-private responsibility: the payments network is only as secure as its weakest link

A Central Banker underlined that operational resilience requires cooperation between the public and private sectors: diversity in payment rails, offline capabilities and cash as a contingency are all essential layers. An industry representative gave the operational perspective: Mastercard processed over 180 billion transactions across

200 countries last year, backed by multilayered business continuity contingencies. Cyber risks are by definition transnational — cybercriminals do not respect national borders — and protecting networks requires a global view; the interdependence between domestic, regional and global markets is critical. Structural adaptation is under way: Mastercard has committed €250 million to shift from a centralised to a decentralised processing infrastructure model in Europe, adding data centres to create more resilience and fewer single points of failure — a clear signal that the private sector is deeply aware of its responsibility. An official concluded the session by acknowledging the panel's unanimous finding: the foundation of every well-functioning European payment ecosystem is trust — something all participants, from central bankers to commercial banks, payment schemes, large merchants and regulators, are working towards from their respective roles.

Retail payment innovation

1. Strengthening Europe's strategic autonomy in payments: from geopolitical vulnerability to sovereign infrastructure

1.1 Payment sovereignty has become a matter of economic security

A Central Banker framed the central question as whether Europe can build a retail payments ecosystem that is coherent, innovative and inclusive, combining convenience and speed with security, choice, resilience and inclusion. EU rules on instant payments are making real-time euro credit transfers a standard capability across the single market, PSD3 and the PSR are strengthening consumer protection and harmonising open banking, and the digital euro is moving into a new phase, while private initiatives such as Wero and EuroPA advance in parallel. AI-enabled agentic payments are beginning to emerge, adding further urgency to the strategic debate.

Another Central Banker argued that payment sovereignty has become a matter of economic security and, in the Baltic context, national security. Latvia and its neighbours have long been exposed to financial and cyber pressure from Russia, and their highly digitalised economies are particularly sensitive to disruptions and sanctions-related spillovers. The strategic question is whether Europe wants the resilience of commerce, banking and consumer payments to depend on infrastructures governed outside the EU, or whether it should build and govern more of that infrastructure itself. Stablecoins compound the challenge: most are USD-denominated, and Europe still lacks a globally scaled euro-denominated stablecoin ecosystem. The response must combine stronger European payment rails, technical innovation, public-private cooperation and reinforced cybersecurity.

1.2 A public alternative that can connect merchants as well as banks

A Central Banker made the most explicit case for a public payment infrastructure. Europe must complement the existing instant payment rail with a public alternative that can connect merchants as well as banks. The digital euro could provide exactly that: a public rail, free of processing and scheme fees, that would widen merchant acceptance, help European providers compete with global players, and provide a stronger base for innovation. Use by end users would remain voluntary, but the legislative process must move quickly so that the infrastructure — including offline functionality — can be built. Another Central Banker reinforced this view, pointing to tokenised finance as an additional avenue and calling for public-private cooperation to support the project. A Regulator noted that the EBA fully supports the digital euro and sees no immediate consumer

protection concerns, while flagging that public awareness remains low and that financial education will matter considerably.

1.3 Backup arrangements only work if people use them in normal times

A Central Banker illustrated the cost of inadequate resilience with the recent Iberian outage, in which some consumers were unable to pay or withdraw cash. Backup arrangements only work if people use them in normal times, not only in crises; otherwise they fail precisely when most needed. Cash must therefore remain available as a fallback.

Another Central Banker placed this within the broader financial stability framework. Secure, efficient and resilient payment infrastructure is a backbone of financial stability. Because banks are the link between the payment ecosystem and the wider economy, preserving trust in both is essential. Any disruption can cascade rapidly through households, businesses, public confidence and the wider financial system. Denmark's high degree of digitalisation brings major efficiency gains but also new operational and cyber vulnerabilities. Central banks must therefore prioritise robust systems, strong cybersecurity and close public-private cooperation, while ensuring that the full diversity of payment methods — cash, cards, account-to-account solutions and potentially a digital euro — is actively used in everyday life, so that each can genuinely strengthen resilience when a crisis occurs.

2. Aligning public policy with private innovation: the right conditions for a coherent and scalable ecosystem

2.1 Complementary, not competing tracks

An official argued that the digital euro and private initiatives should be complementary, not competing tracks. Private solutions are already more advanced in some use cases, while the digital euro is still under development. In the point-of-sale space, success will depend on whether every participant in the value chain has the right incentives to support innovative account-to-account solutions. Two conditions are particularly critical: the remuneration model for financial institutions, and robust protections for merchants, especially smaller merchants. Unless these issues are resolved for both private solutions and the digital euro, neither will achieve the scale needed to make a lasting difference.

An Industry representative welcomed the digital euro as part of the European ecosystem while stressing that its long-term success will depend on whether it meets genuine customer and merchant needs and can be implemented sustainably. His main concern was mandatory participation: broad access does not require

mandating every provider, especially where some actors would face significant costs without an obvious use case. If participation were mandated, the incentives would need to be right and non-bank PSPs would need to compete on fair terms. He also stressed the importance of a multi-wallet model and smooth access to funding accounts.

2.2 Foster innovation and competition while creating a more level playing field

Another industry representative argued that Europe has succeeded in enabling payments innovation largely because regulation has built trust. Europe can be proud of having led on instant payments and on direct access for non-bank PSPs, both of which strengthen competition. Yet other regions are moving quickly: deregulatory trends and new licensing approaches in the United States could accelerate payments and stablecoin adoption. Europe risks becoming too prescriptive and not bold enough, especially on AML harmonisation.

A Regulator set out the regulatory programme. PSD3 and the PSR pursue three objectives: fostering innovation and competition by improving access for non-bank PSPs; strengthening security through payee verification, stronger monitoring and clearer liability rules; and deepening EU harmonisation for a more level playing field. The EBA is preparing around 32 regulatory products, alongside the EU cross-sector anti-fraud platform whose core phase will come in 2027.

An industry representative further identified AML and onboarding as a strategic bottleneck: if non-bank PSPs continue to face de-risking and Europe does not apply a risk-based AML approach, innovation will be constrained before it reaches consumers. He called for greater legal certainty, smoother remote onboarding and better access to central bank settlement infrastructure. A Central Banker added that banks should see payments as a core service: digital payments lower costs and increase self-service, making continued investment in secure, modern payment services central to competitiveness.

2.3 Inherence is often interpreted too narrowly

Another industry representative argued that innovation in payments must start with concrete consumer needs and work within market realities and regulatory expectations. Contactless payments exemplify a once-novel innovation that has become effortless for users, even though it depends on complex layers of security, speed and reliability behind the scenes. Tokenisation is a typical behind-the-scenes innovation — barely noticed by consumers but essential to security and resilience, including in a world where AI is reshaping risks. Innovation is not only about growth but also about adaptation and endurance in unstable conditions — war, outages, environmental shocks. Visa is therefore working on resilience as well as convenience, including on how Strong Customer Authentication should operate in offline environments with deferred authorisation.

An industry representative identified the treatment of inherence under SCA as the most impactful area for improvement. Inherence is often interpreted too narrowly as physical biometrics such as fingerprints or facial recognition. Broadening the definition to include

behavioural biometrics would allow PSPs to use richer passive and continuous authentication signals, reducing fraud without adding friction. Supervisors and regulators should allow sufficient flexibility for behavioural biometrics within SCA.

3. Turning fraud prevention into a European competitive advantage in an AI-driven environment

3.1 AI is both part of the problem and part of the solution

An Industry representative described AI as simultaneously the most serious threat vector and the most powerful defence tool. Sophisticated impersonation and deepfakes mean consumers exposed to AI-generated scam advertisements are far more likely to fall victim to fraud. The industry must move from reactive to proactive AI use, identifying scams before the consumer is even contacted. Frictionless payment journeys should not come at the expense of consumer awareness: users need clearer signals about what a legitimate payment journey looks like. E-ID is a useful building block for reducing anonymity and strengthening trusted interactions.

A Central Banker noted that AI is unavoidable and that the AI Act provides the risk-based framework for its use in Europe. In payments, AI can support fraud detection and decision-making, becoming a tool for resilience as well as innovation. The key issue is explainability: PSPs will remain responsible for being able to explain how AI contributes to decisions. Central Banker added that PSPs and card schemes must look beyond payment behaviour and focus on how customers log in and navigate, since that behavioural layer is much harder for fraudsters to imitate. Digital fingerprinting is a promising tool; mismatches should trigger blocking, supported by a strong legal basis.

3.2 Fraud often starts outside the financial sector before ending inside it

An industry representative argued that fraud prevention must focus on prevention, not only on compensating victims. That requires better information-sharing within financial services and cooperation across the whole fraud chain — including social media platforms, marketplaces and telecom operators — because fraud often starts outside the financial sector before ending inside it. Europe must monitor whether new cooperation mechanisms deliver results and act quickly if they do not.

An official identified three main risk areas: fraudsters posing as authorised providers; impersonation of banks and public authorities; and social engineering more broadly. Better cybersecurity is needed in financial and large non-financial companies alike, as stolen data enables highly targeted attacks. Cooperation must go beyond information-sharing and lead to action — such as blocking the SMS messages or phone calls through which scams reach consumers. Victims need effective relief, but without removing the duty of care from users and companies.

3.3 Europe needs both strong protection and a high-quality service experience

A Central Banker described the current situation as a fraud pandemic. Even mature e-identity systems can be misused when fraudsters manipulate users into authorising transactions. eIDAS and future identity wallets may make it harder to determine whether an authentication was genuinely performed by the user. A growing share of fraud is formally strongly authenticated because the victim has been manipulated into approving the transaction: information must be shared faster, fraudulent actors expelled more quickly from the system, and liability cannot automatically be shifted onto the customer. Anti-fraud measures should not simply degrade the service for

legitimate users — Europe needs both strong protection and a high-quality service experience.

An industry representative reinforced the point: if fraudsters are using AI, the payments industry needs to use AI better. A Central Banker concluded by identifying four central imperatives: aligning public policy with private innovation; treating strategic autonomy as a practical necessity rather than an abstract ambition; strengthening consumer protection and fraud prevention in an always-on environment; and reconciling convenience with inclusion, resilience and trust as AI becomes ever more prominent.

Cross-border payments

1. The G20 roadmap: significant momentum but end-user benefits still falling short — redesigning KPIs and deepening public-private collaboration are the way forward

1.1 Measurable progress on RTGS, fast payment systems and ISO 20022, but only 35% of retail payments credited within one hour: the delivery gap is real

An official noted that the G20 roadmap aims to make payments faster, cheaper, more transparent and more inclusive by 2027. Real gains have been achieved: RTGS operating hours have been expanded, access to payment systems is opening to non-banks, and wholesale payment rates are meeting several targets. Yet results remain uneven — particularly in retail payments, remittances and emerging markets — where costs remain high and transparency insufficient.

A Regulator confirmed the roadmap's momentum, evidenced by the recent FSB Cross-Border Payments Summit in London. A CPMI survey of more than 80 central banks showed concrete progress: interoperability is being embedded in RTGS systems, around a dozen already operate 24/7, more than 90 fast payment systems are in operation, and the CPMI's updated ISO 20022 harmonisation report is advancing standardisation. Yet only 35% of retail payments are credited within one hour — well short of the 75% target. A representative from a global infrastructure confirmed the gap: while 75% of payments traverse inter-bank infrastructure in under 10 minutes, no country is meeting G20 targets over a sustained period. The bottleneck lies not in the inter-bank infrastructure but in the last mile.

1.2 KPIs are proving difficult to meet: clearer linkages between policy actions and genuine user-centred outcomes are essential to ensure that the same failures are not repeated

A Regulator, as an FSB plenary member acknowledged that while the FSB's October 2025 report confirms substantial co-policy work is complete, tangible improvements for users remain elusive and meeting each KPI by 2027 will be challenging. Understanding why KPIs are falling short is essential to avoiding repeated failures. KPI design must be fundamentally rethought: linkages between policy actions and expected outcomes need to be far more explicit — even a rough estimate of ISO 20022's contribution to measurable KPI improvement would enable more evidence-based discussions. KPIs must genuinely reflect user needs: some prioritise speed; others value lower cost. A diversity of payment options is therefore valuable in itself. T. Miyoshi stressed that public-private dialogue

must deepen at an earlier stage, including in the design of KPIs, given the costs and burdens many actions impose on the private sector. The FSB's recent efforts to strengthen private sector engagement are welcome.

1.3 Beyond 2027: jurisdictional and regional action plans, a granular user-focused approach and complementary innovation strategies are key to delivering real benefits to users

A Regulator identified two priorities for the next phase: encouraging public authorities to develop jurisdictional and regional action plans to drive domestic and regional implementation; and promoting private sector action and closer public-private collaboration, with industry playing a decisive role. T. Lammer added that innovative payment rails require significant lead time and careful risk management; more immediate gains from leveraging existing systems must not be overlooked. Both approaches should complement rather than compete.

A Regulator added that the post-2027 framework should shift from uniform international implementation towards granular, user-focused objectives and tailored solutions. Per-country or regional workplans are likely to be the most effective vehicle for ensuring that improvements genuinely reach end users, rather than remaining abstract policy achievements.

2. Persistent frictions keep the last mile long and costly — coordinated action from regulators, market infrastructure and institutions is required

2.1 80% of end-to-end payment time lies beyond the cross-border infrastructure: structural frictions and market behaviours, from RTGS operating hours to risk-averse over-screening, must be tackled

A Central Banker illustrated the problem: even between highly integrated European economies, cross-currency retail payments remain slow and inefficient. The TIPS cross-currency service — operated by central banks and covering the euro, Swedish krona and Danish krone — is designed to close this gap. Its success will depend on private sector uptake, regulatory alignment and user-facing solutions.

A representative from a global infrastructure anatomised last-mile frictions. The end-to-end cross-border journey comprises three portions — the first mile, the inter-bank mile and the last mile — with the last mile accounting for 80% of total journey time. Structural and behavioural frictions both apply: outdated batch-processing practices, RTGS operating

hours that leave liquidity locked overnight, and bank over-screening beyond regulatory requirements are the main culprits. ISO 20022 could eliminate many of these, but adoption remains insufficient. Swift is developing a new retail payments framework in partnership with more than 50 banks. The rules will ensure upfront transparency on payment costs, guaranteed full value delivery, end-to-end visibility and a commitment to instant settlement where available.

A Regulator added that risk-based STP, supported by J-FSA guidance issued in July 2025, is a key lever. However, user preferences vary: some clients value detailed bank engagement throughout the payment process, and both senders and recipients must be taken into account.

2.2 AML/CFT and speed are mutually reinforcing, not competing: harmonised rules, improved data standards and embedded controls can deliver both security and efficiency

A Central Banker argued that sustainable cross-border payments must also be transparent and secure. Four elements are needed: harmonisation of rules to reduce duplication; improvement of data standards to enable both speed and traceability; embedding AML and CFT controls directly into payment infrastructure; and strengthening supervisory coordination at national and supranational levels. The revised FATF standards confirm that speed and security are mutually reinforcing.

Two developments illustrate this. The revision of FATF recommendation 16 now extends to fintechs and crypto asset service providers, standardising identifying information on both parties and reducing friction while strengthening traceability. The new European AML/CFT package — comprising the AML regulation, the sixth AML directive, the AMLA regulation and the recast fund transfer regulation — moves towards a single rulebook with centralised supervision, reducing fragmentation historically responsible for cost and delay, and providing for direct supervision of high-risk entities.

2.3 More than \$2 trillion in daily FX exchanges unprotected from settlement risk and smaller institutions facing structural barriers: extending PVP protection and inclusive access to cross-currency services are essential

A representative from a global infrastructure drew attention to the wholesale dimension. In a market where \$9.5 trillion is exchanged daily, PVP — which synchronises the settlement of both currency legs — is the de facto risk mitigation standard, recognised in roadmap building block 9. Yet, according to 2022 BIS data, more than \$2 trillion in daily FX transactions still lack risk mitigation. Emerging market currencies are the primary driver: onboarding them is complex, involving multiple stakeholders and legal, regulatory, operational and technical considerations, compounded by geopolitical fragmentation. The CPMI's PIE taskforce is mapping existing risk and PVP solutions available.

A Central Banker highlighted that TIPS also addresses the structural disadvantages of smaller banks and PSPs. Under current correspondent banking, such

institutions face high costs and weak bargaining power. Under TIPS, settlement takes place in central bank money on a shared platform, allowing smaller institutions to use domestic currency liquidity at the central bank rather than pre-funded nostro accounts, enabling them to offer cross-currency instant payments without correspondent networks and preserving competition in the European market.

3. Tokenisation holds transformative potential for last-mile frictions — integration into the mainstream financial system is the essential condition for success

3.1 Tokenised infrastructure can reduce settlement friction, unlock trapped liquidity and enable programmable compliance: but only if integrated into the mainstream at scale

An industry representative argued that last-mile friction resides not only in moving money but in fragmented compliance checks, pre-funding requirements, operating hour mismatches and real-time communication failures. Tokenised infrastructure addresses these by enabling value transfer, compliance and reconciliation to occur on the same infrastructure layer simultaneously. Three benefits stand out: settlement friction is reduced, as tokenised payments settle in near-real time on a shared, synchronised ledger; transparency and predictability are enhanced through clearer status tracking and immediate settlement confirmation; and capital efficiency improves, as tokenised forms of money reduce the need for pre-funded accounts across jurisdictions. Programmable compliance — automated, consistent and auditable — further strengthens controls. These benefits materialise only if tokenised rails are integrated into the mainstream at scale; fragmented ecosystems with separate rules and conventions would simply add new layers to an already balkanised global financial system.

3.2 Ensuring interoperability between tokenised and non-tokenised forms of money requires addressing three distinct layers: legal equivalence, institutional governance and technical standards

A representative from a global infrastructure identified three interoperability layers: the legal layer, establishing equivalence between tokenised and non-tokenised claims and preserving the singleness of money; the institutional layer, covering governance, risk management, liability and resilience; and the technical layer — where Swift plays a central role — ensuring today's messaging standards dovetail into the APIs and smart contracts of the future through a protocol-agnostic approach. Swift's vision is a multi-currency, business model-agnostic environment on multiple rails, with commercial bank money migrating to shared ledgers holding tokenised forms of central bank money.

A Central Banker stressed the need for a managed transition to avoid replicating today's walled gardens at greater scale. Key enablers include legal and regulatory clarity, settlement in central bank money and accountable governance. Beyond SEPA — where payments are already fit for purpose — real stablecoin use cases lie in global cross-border transactions and inflation hedges. The distinction between bank-issued and non-bank-issued stablecoins matters: the former preserves the credit creation channel as on-balance sheet liabilities; the latter carry different systemic implications at scale. Tokenised deposits — backed by traditional liabilities on distributed ledgers — offer a promising pathway preserving the two-tier monetary system and its protections.

3.3 Four conditions to avoid a parallel ecosystem: regulatory alignment, interoperability between forms of money, identity and compliance infrastructure, and institutional usability

An industry representative made clear that crypto-based infrastructure already exists and is used globally. The policy question is whether it will be integrated into the regulated financial framework or left to deepen fragmentation. Four conditions must be met: regulatory

alignment — operating within the same objectives of consumer protection, financial crime controls and market integrity; interoperability between forms of money, requiring common messaging standards and legal certainty on settlement finality; identity and compliance infrastructure connecting to trusted digital identities, reusable KYC models and clear wallet standards; and institutional usability, enabling banks, PSPs, corporates and market infrastructure to integrate the technology without overhauling their operating models.

A representative from a global infrastructure added the wholesale perspective. CBDCs remain the safest settlement asset but their global availability is uncertain, with the US and Europe taking markedly different approaches. Stablecoins — predominantly US dollar-pegged, with a \$300 billion market capitalisation against a \$9.5 trillion daily FX market — are currently limited to a niche wholesale role, with unresolved issues around liquidity optimisation and currency mix. For emerging market currencies unable to access traditional rails, tokenisation may nonetheless offer genuinely transformative solutions.

Sessions

VI

RISK PREVENTION AND MITIGATION

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AML challenges raised by AI, crypto and digital technologies

1. An industrialised, borderless threat calls for a return to fundamentals and system-wide supervision

1.1 The industrialisation of money laundering: regulating new tools by going back to basics

A supervisor opened by noting that money launderers' exploitation of AI, crypto and instant payments has accelerated beyond what traditional frameworks can track. A supervisor confirmed that laundering is industrialising, with the pandemic as the turning point: fraud now represents 40% of FIU's suspicious activity reports (SARs), against 20% five years ago, with at least 10% involving AI-enabled impersonation; mule accounts feature in 80% of the account numbers cited in SARs; and crypto, once negligible, now appears in 20%. He argued the right response is, counterintuitively, to go back to fundamentals — analysing new instruments by reference to existing frameworks — citing MiCA and the Transfer of Funds Regulation as good examples and stressing the importance of timeliness. An industry representative confirmed that AI is an operational reality at Revolut, where deepfake-related verification attempts rose 180% in 2025, exposing the fragility of static onboarding; AI deployed defensively has multiplied the productivity of FinCrime agents tenfold, but human judgement remains essential. A supervisor observed that, as soon as one vulnerability is closed, another emerges. A supervisor added that synthetic identities and round-the-clock automated transaction chains often delay detection past the point of intervention.

1.2 Borderless reach and compressed timelines: from case-by-case to system-wide supervision of interfaces

An industry representative noted that crypto assets, often originating in high-risk jurisdictions, add layers of complexity that challenge the follow-the-money approach: although the illicit share of overall market capitalisation remains low, the complexity of these flows has risen sharply. MiCA has provided welcome legal certainty, and AMLA's single-window supervisory approach will help close gaps for legitimate crypto-asset service providers, with traceability and international cooperation as priorities. A supervisor recalled that money laundering itself is not new, but the reach afforded by billions of mobile devices is — illustrated by a recent supervisory case involving people in their eighties used as mules through a crypto-asset provider, showing that criminals exploit technology both directly and indirectly through unwitting individuals. A supervisor observed that crypto compresses distance, space and jurisdiction, and that the payment chain has been transformed: fraud proceeds move through crypto ATMs into fiat, via instant

payments back into crypto, then out again. The supervisory response must concentrate on interfaces — between crypto and fiat, between humans and AI, and between frameworks and jurisdictions — and abandon the case-by-case, follow-the-money approach in favour of a holistic, network-level view.

1.3 State actors and professionalised theft: predicting AML risk through threat-vector intelligence

An industry representative explained that Fireblocks brings a different angle: as a custodial-technology provider for regulated custodians inside and outside the EU, its work focuses on preventing thefts rather than tracing them, by identifying vulnerabilities in wallet infrastructure that perpetrators exploit. Recent analytics show a 600%-plus surge in the value received by sanctioned digital-asset wallets — described as the next stage of maturity in AML risk for digital assets. The largest single-event thefts, ranging from USD 1 billion to USD 3 billion, can be traced to state actors — most notably the DPRK — exploiting long-standing vulnerabilities. She called for closer collaboration between the AML community and threat-vector specialists, sharing intelligence on emerging attack typologies including man-in-the-middle attacks, attacks on API endpoints by AI agents, and the exploitation of blind signing — where a sender believes they are transferring assets to a known counterparty but is in fact sending them to a third party. Categorising criminal exploits enables better prediction of which actors are likely to steal funds and what their first laundering moves will be. With the timeline between exploit and laundering both vastly professionalised and dramatically compressed, the supervisory window is narrowing; detecting actors and their preferred patterns allows earlier prediction of AML risk.

2. Fragmented supervision and operational gaps demand coordination, scaling up and hybrid skills

2.1 Closing the regulatory-arbitrage gap through borderless coordination and the single AML rulebook

A supervisor framed the second part around whether existing frameworks are equipped for the pace of financial crime. A supervisor warned that launderers exploit regulatory arbitrage and uneven implementation across jurisdictions — illustrated by ATMs, once bank-operated but now widely deployed by crypto-asset providers — and conceded that supervisors are not yet sufficiently equipped. He saw immediate scope for stepping up coordination between AMLA, EIOPA, ESMA, NCAs and

international counterparts, requiring goodwill rather than new investment. AI systems gravitate to weaker-enforcement jurisdictions and exploit below-threshold transactions; supervisors should avoid duplicative data requests on firms. A supervisor suggested that the best coordination is the kind that does not need to take place: digital criminality is borderless, supervisors must follow, and placing major European CASPs under AMLA's direct supervision would deliver clear added value. He challenged the view that criminals are always ahead — banks often lead innovation, and regulators, as referees, can adapt the rules. An industry representative noted that, although European AML standards rank among the highest globally, divergent national approaches and predictable processes — paper-based proof of address, randomised on-threshold monitoring, varying cash-ID limits — are exploited by criminals; the single AML rulebook and AMLA will harmonise enforcement.

2.2 Operational lag and fragmentation: scaling up shared analytics and SupTech investment

A supervisor noted that, while the regulatory direction is right and continues to improve, operational capabilities have not yet caught up with AI-enabled, real-time, cross-border laundering: significant work has been done on the operational side, less on the legal-regulatory side. Smart solutions and the new AMLA platform should support collective scaling-up. Crypto's blockchain traceability is well understood, but the full picture only emerges at European level — fragmentation is the priority, with shared analytical capabilities central. He concluded that the regulatory framework is where progress lags most, and that sharing technology and the expertise to use it will be decisive. An industry representative illustrated industry scaling: Revolut operates fluidly across 27 countries on a single platform, allowing cross-border patterns to be identified more readily. It onboards one million customers every 17 days, serves 70 million globally — 50 million in Europe — and dedicates over a third of its 13,000-strong workforce to AML, with a central investigation unit for complex cross-border cases. With cross-border electronic payments and embedded finance accelerating, human review alone is no longer enough: real-time AML controls must be implemented, supported by pre-calibrated, behavioural-analytics-based risk models, in a layered architecture combining strong ex ante prevention with strong ex post intelligence.

2.3 AI manipulation of humans and systems: human-in-the-loop oversight backed by hybrid skills

A supervisor argued that human-in-the-loop oversight must evolve in both public and private sectors to make full use of AI tools: AML expertise alone will not suffice. Individuals and organisations alike must develop hybrid skills, and supervisors should collaborate and learn from one another on the job to keep pace with criminal innovation. An industry representative welcomed the prospect of stronger European coordination and information sharing, offering Fireblocks' role as an analyst of attack typologies and threat vectors as one input. She drew particular attention to the use of AI to manipulate humans — already illustrated by other panellists — and to a newer dimension: the use of AI to manipulate the system itself. As AI agents become

increasingly autonomous, attackers may interfere with them by manipulating prompts or training data, giving rise to system-to-system vulnerabilities in addition to the AI-to-human-to-system vulnerabilities seen until now. As supervisors coordinate, learn and adapt their skills, they should make systematic use of system reviews with supervised entities and embrace automation as a means of countering the automated vulnerabilities that an increasingly AI-based financial system will produce.

3. AML effectiveness, efficiency and customer trust are not a trade-off, provided controls become targeted, embedded and explainable

3.1 Fewer blunt controls, more targeted ones: rebuilding trust through explainability

A supervisor summarised that, despite the alarming pace of criminal evolution, innovative tools and the dedication of the industry will help combat illegal activity, with public-private cooperation key. He framed the third part around reconciling AML effectiveness with the customer experience, given how directly trust feeds back into the effectiveness of preventive measures. A supervisor argued that the framework needs fewer blunt controls and more targeted ones: customers blocked or off boarded because of fragmented information or de-risking lose confidence in the system, while the criminal networks that sometimes exploit those very customers remain active. He highlighted three considerations. First, cooperation between supervisors, FIUs and obliged entities must be intensified, with the AML regulation's information-sharing provision used in good faith and without indiscriminate data dissemination. Second, sharing analytics and technology requires a clear explainability threshold — AI is now widely used, but if the basis for high-impact decisions such as blocking or off-boarding cannot be clearly articulated, the legitimacy of the system will be called into question, making well-trained humans-in-the-loop indispensable.

3.2 Embedded automation and event-based KYC: adapting to an AI-driven economy without becoming a black box

A supervisor, continuing his three considerations, concluded that KYC should evolve into a dynamic, event-based verification process; any use of behavioural analytics in this area must be clearly explainable and justifiable to both supervisors and the public, in order to safeguard trust. An industry representative suggested that, in the face of increasing complexity and speed, compliance must become embedded and automated. Whitelists and blacklists can control where assets may or may not be sent; transactions can be screened in real time as they are sent; wallet infrastructures can be integrated with AML tools and scanning techniques so that compliance checks happen seamlessly. This is, in practice, the only way for financial institutions to adapt to a faster, more complex and more AI-driven economy. At the same time, automated and embedded compliance

must not appear to supervisors as an inscrutable 'black box'. Echoing supervisor's earlier point, she noted that the only way to win is to play the game where it is being played — and the game is moving towards automated processes. Supervisors and industry must therefore work together to build supervisory confidence around automation rather than discourage it; this is the philosophy underpinning Fireblocks' platform.

3.3 Effective AML with an eye on efficiency: skilled people, standardisation and a culture of cooperation

A supervisor underlined that effective AML supervision rests on human capital — experts in big-data analytics, not least within AMLA itself — and on standardised corporate-sector data, since non-comparable data is exploited by criminals. AML controls must also protect the AML system against cyber-attacks. An industry representative emphasised there is no trade-off between proper AML compliance and an optimal customer experience: customers expect both speed and safety.

Banks must cut false positives, avoid unnecessary de-risking and collect only proportionate data. The industry needs greater legal certainty on cross-border data processing and sharing — privacy should not shield criminals — while GDPR uncertainty hampers the sharing of suspicious-transaction information; cultural and reputational barriers must also be addressed. A supervisor stressed that effectiveness must be matched by efficiency: a thematic review of ten domestic largest banks identified hundreds of millions of euros of direct AML costs. Just as supervisors should be technology-neutral, innovators must themselves be neutral or friendly to compliance. A supervisor closed by noting that deepfakes, mule accounts and crypto-related complexity are now routine — but public-private cooperation, standardisation, industrialised preventive systems and a refusal to tolerate regulatory arbitrage offer grounds for optimism, with the investment already committed showing commitment goes beyond rhetoric.

Cyber and digital operational resilience

1. First lessons from the implementation of DORA

1.1 Overall added value of DORA

An official emphasised that one of DORA's main added values lies in its broad incident reporting and operational risk management approach, which improves the detection of operational and ICT disruptions within financial institutions beyond cyber incidents alone. Given that 38% of major incidents reported by banks relate to IT change, and as banks modernise ICT infrastructure and adopt new technologies, stronger processes and controls are needed to reduce unplanned network downtime. Cyber resilience stress tests have also helped bank management teams better understand cyber risks and strengthen governance structures, although improving board-level cyber expertise remains an ongoing process. DORA requirements have also helped codify supervisory practices that the ECB had already developed over many years, as operational and cyber resilience had long been a key supervisory priority.

Another official considered that DORA provides a solid framework that supervisors can build on in an uncertain geopolitical environment where operational resilience will remain a major risk driver. Although Latvia already had national rules on ICT risk and business continuity before DORA, the regulation represents a further step in risk mitigation by introducing a more structured market-wide approach. Larger institutions already have relatively mature governance and risk management frameworks, but DORA's main impact is on non-bank institutions and less mature firms, for which it has introduced a more targeted approach to risk management. The Latvian supervisor has invested significant effort in helping firms establish adequate risk management, incident reporting and third-party provider frameworks, moving beyond contractual arrangements towards clearer accountability across management layers.

An industry speaker stated that DORA, together with NIS2, helps establish appropriate resilience standards across the financial sector in a context where geopolitical tensions and the digitalisation of processes are significantly expanding the threat landscape. DORA has already improved incident reporting and governance and is proving useful, although market players remain on a learning curve. Its decisive test will come when the industry faces a major incident and the robustness of the framework can be assessed in practice.

1.2 Developing a resilience mindset throughout financial institutions

An official stressed that DORA should not be approached as a tick-the-box exercise, as the focus must remain on the broader objective of strengthening cyber and operational resilience. Compliance with the regulation is necessary, but not sufficient on its own to ensure resilience.

An industry speaker agreed that resilience must not become a purely tick-the-box exercise. DORA is a useful framework that can help reinforce resilience as a mindset. A risk-based approach to the application of DORA is important to ensure that all players adopt the right mindset and that the framework can adapt to evolving risks within different environments.

A public representative concurred that ensuring resilience requires the development of an appropriate mindset across all layers of financial institutions and management, rather than a purely compliance-driven approach. Resilience has become a key priority in discussions at the European political level. Another major priority shaping current discussions is the need to strengthen Europe's competitiveness, notably through regulatory simplification. The Digital Omnibus Package supports this objective, and streamlining reporting requirements including regarding cyber-risk is welcome because financial institutions often report the same cyber incidents to several authorities in slightly different formats, creating duplication without necessarily improving security. However, simplification should not lead to deregulation or lower standards, particularly in the current geopolitical environment and given existing resilience challenges. While some regulatory burdens may require simplification, resilience standards should not be weakened.

1.3 The role of threat lead penetration testing (TLPT)

An official noted that TLPT was previously conducted on a voluntary basis, but has now become mandatory under DORA every three years for certain banks. These tests are expected to provide important lessons on how banks can strengthen their resilience strategies. Around 80 banking groups have already been notified of the requirement to conduct tests, and the ECB has published guidance on TLPT implementation.

Another official explained that Denmark's public-private partnership on operational resilience, established in 2016 includes threat intelligence-based ethical red-teaming (TIBER) tests conducted voluntarily by financial institutions since 2019. The introduction of mandatory TLPT under DORA is therefore a welcome development. The use of ethical hackers in live production environments provides insights that traditional testing cannot deliver. One of the main objectives of TIBER testing is learning, which makes participation important. The findings and experience generated by these tests help senior management better understand what is at stake and what actions are needed to improve cyber-resilience. These tests have contributed to improving cyber resilience at technical, organisational and strategic levels across the financial sector. Based on this experience, extending TLPT to other critical sectors could also be beneficial.

An industry speaker stressed that TLPT exercises are not only about identifying and preventing vulnerabilities, but

also about developing the right mindset and the capacity to react and recover effectively. Operational resilience therefore requires frequent drills including senior management and should go beyond a purely theoretical or compliance-oriented exercise.

2. Progress in CTPP oversight and potential dependency risks

2.1 Implementation of CTPP oversight

An industry speaker observed that DORA had moved from policy debate to operational reality. The designation as Critical Third Party Players (CTPP) recognises the systemic importance of the services provided by these providers, while also representing a significant shift by bringing them for the first time under direct and continuous ICT risk oversight by the European Supervisory Authorities (ESAs). This new oversight approach is an opportunity to strengthen trust and transparency across the financial services ecosystem. Their firm, a major cloud service provider, had anticipated its designation as a CTPP and prepared for DORA over several years, making the transition more evolutionary than revolutionary. Cybersecurity and resilience were already embedded across its infrastructure, from subsea cables and chips to data centres, applications and customer platforms, supported by extensive audits conducted before DORA entered into force. Their firm also ensured that its control framework was aligned with both the spirit and the letter of DORA and supported customers in implementation, including by the early roll out DORA contractual terms in 2024.

The industry speaker added that engagement with the oversight team has been constructive and supported by clear guidance. While the implementation of the DORA oversight framework for CTPPs remains at an early stage, initial experience has been positive. The priority for 2026 is to build a collaborative relationship with the joint examination team and help supervisors develop a strong understanding of hyperscale technology, infrastructure, operations and control frameworks. Three conditions are important for effective CTPP oversight: an outcome-based approach focused on resilience outcomes rather than prescribing specific measures or methodologies; proportionality, given the differences among providers and financial institutions in terms of operational models, technologies used and risk environments; and consistency between European and national levels to ensure harmonised interpretation and application of the framework.

Another industry speaker noted that third-party risk remains challenging to manage and may require greater standardisation to help providers implement requirements more effectively.

2.2 Potential dependency and sovereignty risks

An official observed that dependence on non-EU third-party service providers emerged clearly as a risk during the implementation of DORA and the mapping of critical providers. Many of these dependencies are outside the EU, which raises additional resilience concerns in a context of

heightened geopolitical tensions and increasing cyber and hybrid threats. In an increasingly digitalised society, cyber and operational resilience should be treated as a national security issue. The mapping, testing and structured approach required by DORA provides a clearer understanding of the actions needed to strengthen resilience across these different dependencies. Authorities and firms must ensure that the current digital infrastructure can continue functioning, even in crisis scenarios. In this respect, DORA provides a useful toolkit for raising awareness of risks and planning future action.

A public representative suggested that Europe should develop European alternatives to existing non-EU digital infrastructures and services in order to reduce dependencies. Resilience planning requires considering a broad range of scenarios, including the possibility of the United States becoming a less reliable partner and using systems supplied by US providers as part of sanctions or retaliatory measures. In some extreme scenarios, Europe's dependence on US technology infrastructure and services could become a major vulnerability. European alternatives should therefore be developed across all levels of the technology stack to ensure that Europe remains resilient across different geopolitical scenarios. This requires investment in European infrastructure, supported by appropriate regulation, European-level initiatives and political leadership.

An industry speaker stressed that hardware dependencies should also be part of discussions on resilience and strategic autonomy, as many hardware manufacturers are located outside Europe, creating an additional area of dependency.

Another industry speaker responded that their firm, as a major US technology provider, is committed to delivering best-in-class secure and resilient technology, while supporting European rules and sovereignty objectives. Both the technology itself and the way it is delivered are important. Their firm has worked on sovereignty issues for several years and developed technological responses structured around three pillars. The first concerns data sovereignty, allowing customers to control both data location and access, including through encryption keys stored outside the firm's infrastructure. The second concerns operational sovereignty, through arrangements enabling cloud operations to be handled by local partners within trusted European jurisdictions. The third concerns software sovereignty and portability, notably through open technologies supporting credible exit strategies, including the possibility to move services to another provider or back on-premises.

3. Evolving risk landscape and regulatory and supervisory implications

3.1 Evolution of cyber and digital operational risks in an increasingly digitalised society

An official stressed that the risk landscape has become more complex due to digitalisation and heightened

geopolitical tensions, some of which have already materialised. Although the financial sector has not yet experienced a major cyber-attack, the level of attacks has increased. Hybrid threats, including physical damage and broken cables, must also be taken seriously. Banks need to maintain ICT continuity, establish response plans in case of disruptions and integrate such scenarios into their resilience planning.

The official added that disinformation and social media dynamics are becoming increasingly relevant for financial stability and should therefore also be considered as part of operational resilience, even if these issues are not directly linked to DORA. Information flows through social media may affect the banking sector notably through misinformation campaigns. Banks therefore need communication plans and clear strategies in place, including to determine whether intervention is necessary. Supervisors are already discussing these issues with banks.

Another official agreed that supervisors and the financial industry need to monitor social media developments carefully, referring to the example of the Silicon Valley Bank run in the US, which was amplified by social media. Lessons should be drawn from this example in Europe, notably regarding liquidity management and the possibility that social media dynamics could trigger broader operational risks.

An industry speaker also noted that geopolitical tensions are a major concern for the banking sector, because the expanding threat landscape is intersecting with increasingly digitalised processes.

3.2 Sector-wide resilience and supervisory implications

An official explained that contingency planning work conducted in Denmark over recent years has been driven by a significantly deteriorated threat landscape requiring preparation for plausible extreme scenarios. While DORA strengthens resilience at individual institution level, it does not by itself guarantee continuity of critical financial services at the sector level. There is therefore a need to assess the financial infrastructure as a whole in order to identify single points of failure and determine how critical services can be maintained if a key infrastructure or institution is no longer functioning. This represents a significant undertaking and has required extensive cooperation across the industry including banks, other financial institutions and financial market infrastructures.

The official added that the recommendations resulting from the Danish contingency planning exercise, published in December 2025, highlighted the need for additional safety nets to ensure continuity of critical functions under extreme scenarios, with measures differing to some extent across market participants. The implementation of the measures required will be coordinated by the public authorities through dialogue with the relevant market participants. Further work may also be needed, including coordinated scenario exercises across the financial sector. Given the interdependencies involved, closer cooperation with sectors such as telecommunications and energy may also become necessary, together with more targeted requirements for

services that are most critical for the financial sector.

Another official raised a broader institutional question regarding the growing number of actors involved in cyber oversight and supervision, including national competent authorities, the ESAs, national cyber authorities and ENISA. This multiplicity of actors could create inefficiencies in supervision, as previously observed in prudential and AML supervision. AML supervision could not be ensured effectively at the national level and had to be centralised, while earlier, prudential supervision had taken a similar path. A question therefore is whether cyber supervision may eventually also require an EU level centralised structure in the future.

4. AI implications for cyber and digital operational resilience

Referring to a study on AI adoption in financial services, the Chair noted that most AI applications currently being tested by financial institutions remain focused on internal operations and processes rather than customer-facing use cases, while the use of third-party providers to develop and deploy AI solutions is increasing.

An industry speaker emphasised that AI is playing an increasingly important role in the cyber threat landscape with malicious actors using AI extensively. A recent report showed that 44% of initial incidents result from the exploitation of third-party software vulnerabilities, increasingly automated through AI tools used to scan and exploit vulnerabilities. Attack timelines are also shrinking significantly, with attacks that previously took weeks to prepare now being executed within days. Financial institutions therefore need to use AI to address AI-related risks through agentic security operations combining detection, response and remediation, as speed has become a critical factor in cybersecurity.

In this context, the industry speaker explained that their firm is using advanced AI agents for detection, response and threat intelligence across billions of events, as this scale can only be managed effectively through AI-enabled systems. A "shared fate" model is used that goes beyond traditional shared responsibility approaches, aligning the provider's incentives and operational responsibility more closely with customer outcomes. The approach aims to combine resilience and security with customer control over data and critical operations, while ensuring operational portability through multi-cloud arrangements and credible exit strategies. This includes secure-by-default product configurations, guidance to customers on secure deployment and extensive sharing of insights and best practices through European and global industry channels such as FS-ISAC (Financial Services Information Sharing and Analysis Center). In some cases, direct technical and legal actions are also taken against cybercriminal activities, illustrated by the disruption of a large proxy network used by criminals to hide behind residential internet connections to conduct cyber attacks.

Another industry speaker observed that while AI brings important benefits in terms of efficiency and customer

experience, it also creates potential operational and security risks that must be actively managed. Their enterprise has established a dedicated competence centre for AI security and risks. Agentic AI is a particular challenge, as organisations may soon operate large numbers of autonomous agents whose activities need to be properly monitored and controlled. This requires inventories of deployed agents together with monitoring capabilities able to detect suspicious behaviour.

An official agreed that AI can support risk monitoring and mitigation, while noting that attackers are also increasingly using AI themselves. Institutions therefore need to assess AI from both defensive and offensive perspectives.

Wrap up

The Chair noted broad support throughout the discussion for DORA. DORA should be viewed as an operational framework rather than a tick-the-box exercise, supporting larger institutions already dealing with these issues while also providing a framework for smaller players and non-bank financial institutions to strengthen their cyber and operational resilience approaches. Public-private cooperation and mutual learning are important elements

for strengthening operational resilience, notably through the exchange of concrete measures and experiences developed across countries at infrastructure and financial services level, including contingency planning and operational resilience initiatives. Given the common challenges faced across jurisdictions, greater attention should be paid to lessons learned and practices developed in other countries.

Beyond the ongoing implementation of the DORA CTPP oversight regime, the discussion also highlighted the importance of addressing third-party dependencies related to third-country providers notably of cloud services and AI. Questions around sovereignty have evolved significantly over time, shifting from questions regarding the physical location of critical registries and data towards broader issues surrounding the location and control of cloud infrastructure, data sovereignty and control over data access. Misinformation and social media dynamics are also important issues to consider, including their possible effects on financial sector performance and bank runs, alongside broader questions regarding the organisation of cyber supervision, which would require a broader political debate.

Private assets and NBFIs: opportunities and challenges

The session focused on the evolving role of non-bank financial institutions (NBFIs) and private credit in financial intermediation. Discussions explored their contribution to financing the real economy, associated financial stability risks, and the implications of increasing interconnectedness across the financial system. Particular attention was given to liquidity dynamics, market-based finance, and the role of supervisory frameworks.

1. Reframing financial intermediation: NBFIs, private credit and financial stability

This section sets the conceptual framework of the discussion, focusing on the evolving role of NBFIs and private credit, and their implications for financial stability.

1.1 Setting the scene: NBFIs, private credit and rising liquidity concerns

The Chair highlighted that the discussion would cover the broad topic of two areas of interest: the non-bank financial institution (NBFI) framework representing market-based finance, and private credit related to private markets. Newspapers have recently raised concerns about the need for an industry 'reset', particularly with regard to liquidity conditions and vulnerabilities. 10-year bond yields have reached their highest levels in years: the highest since 2011 in Germany, since 2007 or 2008 in the UK, and since 1996 in Japan.

1.2 Rethinking financial stability: the role of non-regulated finance and constructive failure

1.2.1 Scope and objective: NRFI and a redefinition of financial stability

An industry representative stated that 'NRFI' was a more appropriate term, where the 'R' stands for 'regulated', thus emphasising non-regulated financial intermediation rather than non banking intermediation. The concept of financial stability could be refined to focus more narrowly on stability within the regulated financial system. The aim should not be to eliminate all failures or losses, since encountering failures is essential for upholding market discipline, and ensuring that resolution and recovery frameworks function as intended.

1.2.2 Implications: interlinkages, expectations and system resilience

An industry representative explained that priority should be given to understanding the link between the regulated and non-regulated sectors, given that

comprehending the non-regulated field completely may be impractical. Managing public expectations is important, particularly in relation to the media's response to failures in non-regulated areas. Such events should not be viewed as lapses by supervisors or regulators; losses driven by market development could be advantageous if they do not disrupt the integrity of the financial system.

Failures could have positive consequences, strengthening system resilience and providing various funding sources that are essential for the growth of European and Japanese economies. The value of risk transfer channels and investment opportunities resulting from NRFIs and private assets is significant, as they are set to strengthen the regulated financial system.

1.3 Bank-centric systems and evolving roles in market-based finance

1.3.1 Structure and dynamics: the role of banks and NRFI interlinkages

A Central Bank official agreed with the concept of 'NRFI'. It is crucial to strike a balance between financial stability and growth and innovation. The primary implication should be on the interlinkages between regulated banking institutions and NRFIs, or NBFIs. Japan's financial system is bank centric, similar to systems in Italy and France, where banks play a pivotal role in financial intermediation. In Japan, an NBFI usually refers to institutional investors such as insurance companies. This differs from the broader international understanding, which includes non-regulated financial intermediation. Compared to the US, entities such as private credit or equity have a smaller presence in Japan.

Japan faces an aging and declining population, and prolonged low interest rates. Banks have taken on risks in order to boost profitability, champion growth industries and rejuvenate regional economies. Japanese banks offer long term loans and guidance to medium risk firms, in order to enhance growth prospects. Banks have been active in intermediation services to stimulate regional economies and hone their ability to evaluate business potential.

1.3.2 Outlook: collaboration, innovation and emerging risks

A Central Bank official stated that there is potential for greater collaboration between banks, private credit providers, private equity firms and investment funds. This could involve combining banks' credit assessment capabilities with the technological expertise and risk-taking capacity of investment funds to support investment growth, including in emerging sectors such as AI. The appetite for improving profitability through AI and quantitative technologies is at an all-time high. Start-ups in areas such as AI have significant financial

needs in Japan, with rising demand for funds. Investment funds already possess the necessary expertise. As interconnectivity between banks and NBFIs or NRFIs expands, greater attention must also be paid to the associated risks.

1.4 Financial stability in an interconnected system: risks and the role of private markets

A Central Bank official explained that their organisation takes a symmetric approach to financial stability, assessing whether the financial system can support the real economy in both good times and periods of stress. During the global financial crisis, under stress banks tended to adjust lending decisions based on the strength of their own balance sheets rather than those of borrowers. In an increasingly interconnected financial system where banks fund non-banks, which then lend to the real economy, it is essential to understand how these dynamics evolve.

Greater diversity and competition in the financial system are beneficial, as certain segments of the economy may not be well served by traditional bank lending for commercial or regulatory reasons. However, this also requires a better understanding of how the non-bank financial system, including private credit, behaves under stress and how risks materialise.

Research shows that private markets play a significant role in the UK economy, accounting for around 10% of corporate debt and 10% of employment, representing approximately two to three million jobs. This segment tends to be concentrated in riskier parts of the credit spectrum. Around 33% of corporate credit in the UK is considered riskier, compared with roughly 66% in private markets. This implies that these segments are likely to experience greater stress in adverse conditions.

2. Scaling up market-based finance: private credit, funding capacity and new investment channels

This section examines the growing role of market-based finance in addressing investment needs, with a particular focus on private credit as a source of long-term funding.

2.1 Resilient market-based finance: conditions, risks and the role of intermediaries

An industry representative noted that non-regulated financial institutions could be described as 'lightly-regulated financial institutions', as many funds in Europe are subject to regulatory frameworks, notably under the Alternative Investment Fund Managers Directive (AIFMD) II. There is a need to take a step back and assess how effectively market-based finance can provide long-term and medium-term funding to the real economy. Strong asset-liability management is a key condition for resilience, particularly ensuring appropriate duration matching between assets and liabilities.

Structures that are less prone to runs are vital; closed-end funds, with their relatively permanent pools of capital and moderate levels of leverage, are better suited to providing durable financing. If financing from lightly regulated institutions is to become a meaningful component of corporate funding in Europe, it must demonstrate sufficient resilience.

2.2 Private credit as a strategic source of long-term financing

2.2.1 Financing role: long-term capital, institutional investors and investment needs

An industry representative observed that credit in the economy is ultimately provided by either banks or investors. Strong asset-liability management is essential, regardless of the financing source. Short-term assets should be matched with short-term funding, while long-term assets should be matched with long-term capital. Private credit provides scalable, low-leverage, long-term capital that can complement bank financing. In Europe, private credit has the potential to play a key role in addressing significant investment needs across strategic sectors such as infrastructure, energy and defence. These sectors together represent an estimated funding requirement of €18 trillion.

Institutional investors such as insurers, pension funds and sovereign wealth funds hold approximately \$250 trillion in assets. These investors typically have long investment horizons and are therefore well suited to funding long-duration and structured assets. Insurers were cited as a strong example of effective asset-liability management, as they align long-term liabilities with long-term investments.

2.2.2 Market structures and implications: mobilisation of capital, innovation and financial stability

An industry representative stated that existing market structures already facilitate the mobilisation of private capital, notably securitisation, which can attract a broad global investor base with different risk and return profiles. The ongoing discussions in the EU around revitalising the securitisation markets are welcomed. He also referred to asset-backed financing structures, citing Apollo's £4.5 billion loan to EDF for the construction of a nuclear facility as an example of the scale at which private capital can be deployed. Beyond large-scale infrastructure, there is an increasing importance of private credit in supporting start-ups and scale-ups. More asset-heavy sectors such as fintech and green energy are more amenable to financing structures.

The quality of leverage is more important than its quantity. Bank lending to asset managers and private credit funds is typically senior and shorter term, and has historically performed better than many direct bank loans to corporate borrowers. Credit provided by investors can complement the banking system and contribute to meeting Europe's strategic investment needs in a way that supports financial stability.

The Chair acknowledged the topic of retail investment; there have been frequent questions about whether a situation exists where numerous investors wish to

withdraw, but find themselves prevented from doing so. 'Semi-liquid structures' is a key term in this context.

2.3 Expanding retail access to private assets: diversification, safeguards and market evolution

An industry representative observed that retail investment currently accounts for only a small proportion of the private credit market. This growth is primarily driven by the increasing need for diversification, particularly given the rising concentration and correlation in public markets. Around 96% of companies with an annual revenue exceeding \$100 million in the EU and the UK are privately held, highlighting the importance for investors of gaining exposure beyond publicly listed assets.

There are ongoing global initiatives aimed at expanding retail access to private assets, including interval funds in the United States, European long-term investment funds (ELTIFs) in the EU and long-term asset funds (LTAFs) in the UK. However, private assets are expected to remain a minority allocation within retail portfolios.

3. Managing risks in an interconnected system: liquidity, vulnerabilities and supervisory challenges

This section focuses on the risks associated with an increasingly interconnected financial system, including liquidity vulnerabilities, and discusses the supervisory tools and approaches needed to address them.

3.1 Financial stability in an interconnected system: risks and the role of private markets

3.1.1 Resilient market-based finance: conditions, risks and the role of intermediaries

An industry representative stated that a wide range of structures exists across private credit and structured finance markets, with varying degrees of leverage and risk characteristics. Banks play a critical role in this ecosystem by providing short-term liquidity and acting as key intermediaries. Their funding models, regulatory oversight and access to central bank liquidity make them well placed to support these channels. Some parts of the private credit market are likely to face challenges as part of the normal process of market discipline. Such episodes can reveal weaknesses in underwriting standards and enable investors to learn from past mistakes.

There are concerns regarding governance and oversight, particularly in relation to retail investor participation. The segment is better suited to institutional investors, given the importance of maintaining stable funding structures and effective asset-liability matching. Greater retail participation could introduce additional risks and undermine the resilience of these funding models, particularly if it weakens the alignment between asset duration and investor liquidity expectations.

3.1.2 Semi-liquid private credit: liquidity risks, market developments and structural vulnerabilities

An industry representative stated that business development companies (BDCs) and similar open-ended fund structures in Europe represent a small part of the total private credit market. While these structures offer the advantage of enabling continuous fundraising, they also introduce higher redemption risks. Concerns have emerged on overexposure to certain software assets with a high risk of obsolescence, with evidence of concentration in some perpetual BDCs and open-ended funds exposed to companies with a relatively low tangible net worth.

There is a growing preference among investors for liquidity, driven by geopolitical tensions, including the conflict in Iran. Unlike in the US, where open-ended funds are increasingly driven by retail investors, European open-ended funds remain predominantly oriented towards institutional investors, such as pension funds and insurance companies. These investors typically have longer investment horizons and greater stability.

The competitive landscape for semi-liquid funds in Europe is evolving, with efforts being made to mitigate liquidity risks. Failure to meet redemption requests beyond quarterly limits can generate headline risk for fund managers and affect their ability to raise capital in the future. Sustained high tender requests may also put pressure on credit profiles and raise concerns about the quality of the remaining assets in investment vehicles, particularly if the higher quality assets are sold first. Weaknesses are likely to emerge in some retail-oriented semi-liquid products. Maintaining strong asset-liability duration matching is critical to ensuring that these vehicles continue to serve as a source of sustainable long-term funding.

3.1.3 Stress conditions: liquidity management and lessons from semi-liquid structures

A Central Bank official noted that the system is still in a period of stress and cautioned against drawing premature conclusions before these dynamics have fully played out. Liquidity management mechanisms in parts of the market such as BDCs appear to have functioned broadly as intended. There has been no widespread evidence of forced asset sales or disorderly fund wind-downs, and tools such as redemption limits have been used effectively.

Consistent application of liquidity management tools is essential for maintaining investor confidence. Clear communication with investors is essential, particularly with regard to how these tools operate in times of stress. Valuation practices must evolve to ensure investors receive sufficiently frequent and reliable information on asset values. While certain mechanisms such as notice periods can give funds time to manage liquidity, they do not resolve underlying mismatches between assets and liabilities. Conversely, tools such as redemption limits may be more effective in managing liquidity pressures in semi-liquid structures.

Additional measures used during periods of stress, such as sponsor support or increased flexibility, may stabilise

funds in the short term but could misalign investor expectations if applied inconsistently. The priority is to understand how different market participants behave under stress, and how their interactions may either absorb or amplify shocks within an increasingly interconnected financial system.

3.2 Expanding retail participation in private assets and related safeguards

An industry representative noted that semi-liquid structures, including interval funds and private credit vehicles, are designed with safeguards aligned to the liquidity profile of the underlying assets. These include structured redemption mechanisms and limits that help ensure orderly liquidity management. Non-traded BDCs in the US typically offer quarterly liquidity of around 5% through tender programmes. These limits should be viewed as a protective feature rather than a constraint, as they help to align fund liabilities with the characteristics of the underlying assets.

Professional advice and portfolio-level management is important. Retail investors typically access these products through intermediaries who assess asset allocation and liquidity needs. Understanding the liquidity profile of investments is essential for investors. As retail access to private markets increases, more frequent, transparent and reliable valuation mechanisms will be required to ensure fair pricing when entering and exiting the market.

3.3 Interconnections and systemic implications across financial sectors

3.3.1 Bank-NBFI interconnections: transparency, discipline and the need for coordinated supervision

A Central Bank official observed that the connections between the banking sector and NBFIs are well-established and not necessarily problematic, as they can facilitate risk diversification. However, a lack of transparency can lead to mistrust and uncertainty in the market. Banks are heavily involved in private market credit via various channels, resulting in a symbiotic relationship between banks and NBFIs. Banks provide funding, leverage, structuring and risk management services, and can contribute discipline to these markets.

The objective should not be to extend bank style regulation to all market participants, but rather to understand how banks interact with these actors better and contain risks arising from private credit and broader NBFI activities. Given the growing complexity of financial markets and the presence of large actors operating across multiple segments, there is a need for stronger coordination between banking, insurance and capital market supervisors. Entity-based and activity-based approaches are needed to ensure that regulatory frameworks effectively capture risks wherever they arise, while remaining adaptable to financial innovation.

3.3.2 From regulation to systemic relevance: the evolving role of insurers in an interconnected financial system

A regulator observed that the term 'NBFI' encompasses a wide range of entities and has evolved from the earlier concept of 'shadow banking', which initially excluded

insurance. However, over time, the insurance sector has become an integral part of the discussion. The insurance sector is already heavily regulated. The upcoming Solvency II review will introduce additional liquidity risk provisions and enhanced supervisory powers within the EU. At the same time, there is a potential systemic relevance of insurers, particularly as financial interconnections increase. Given current exposures, disruptions in the banking sector could impact insurers more significantly than vice versa. The growing share of certain asset classes on insurers' balance sheets has raised concerns at an international level, including in discussions with UK counterparts.

3.4 Enhancing risk monitoring: stress testing, data and supervisory tools

3.4.1 System-wide stress testing: understanding behaviour, interconnections and systemic risk

A Central Bank official observed that there has been a shift towards more system-wide stress testing approaches in recent years. The focus of current efforts is increasingly on private markets. Their organisation is conducting a stress-testing exercise involving around 50 participants, with the aim of identifying the interconnections between private market actors, banks, insurers and the real economy. The exercise is intended to provide a clearer understanding of how stress scenarios may propagate across the financial system. A key objective of this work is to gain a better understanding of how participants behave under stress conditions.

Traditional top-down stress-testing frameworks usually depend on assumed behaviours, because they cannot observe how firms actually respond in real time. By engaging directly with market participants, the exercise aims to identify the sequence of actions firms would take in response to stress and how these decisions would interact across different institutions. Understanding these interactions is critical to assessing whether behaviours across the system help to absorb shocks or amplify them. This approach aims to improve the identification of systemic vulnerabilities and strengthen the financial system's resilience.

3.4.2 Addressing data gaps in NBFI exposures: cross-border risks and supervisory innovation

A Central Bank official identified Japan as a key market for major NBFI investment funds. The main issue is managing risks related to cross-border transactions. It is difficult to access reliable data on exposure to overseas investment funds; a SWES-type approach could be adopted, though there are limitations of that framework in jurisdictions without direct access to foreign funds.

The Bank of Japan and Japan FSA had recently conducted an 'NBFI fire drill' exercise. Many banks had been asked to report aggregated data on their exposures to NBFIs within three working days. This data had to be broken down by product and fund type. Participants had been required to explain their data collection and aggregation processes. The exercise aimed to evaluate the availability of relevant data and the operational capacity of banks to collect and process that information

in stressful situations. Improved information sharing among various stakeholders would more broadly enhance the analysis of macro-financial risks.

3.4.3 Supervisory priorities: stress testing, data, and cross-sector coordination in a changing risk environment

A regulator highlighted the European Commission's aim to encourage a shift in household savings towards investment, including through increased retail participation, to support financing in the EU economy. Top-down, cross-sectoral stress-testing approaches are vital, supported by clearly defined objectives, appropriate modelling frameworks and effective data sharing. However, stress testing alone cannot address regulatory gaps, and should be complemented by broader supervisory coordination.

Asset-intensive reinsurance is an emerging area of interest, particularly outside the EU. This involves the transfer of both market and biometric risks, and requires tailored stress-testing approaches due to the limitations of standard methodologies. Although exposures to such assets remain relatively limited within the EU, there has been a gradual increase.

The increasing interconnectedness of financial sectors requires closer cooperation between supervisors and better integration of banking and insurance expertise, to ensure that emerging risks are understood and addressed properly without constraining market development.

Sessions

VII

EU AND GLOBAL SUSTAINABILITY AGENDA

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Sustainable finance: what prospects in Europe?

Introduction

The Chair opened the session by recalling that, since 2018, the European Union has pursued an ambitious strategy to make sustainable finance a driver of the green transition through improved transparency, market incentives and climate-risk management. After rapid initial growth, momentum has slowed: green bond issuance has stabilised, and climate-related instruments remain at levels insufficient to meet the EU's climate targets. This slowdown reflects higher interest rates, economic uncertainty, the complexity of financing carbon-intensive transition projects and rising compliance costs linked to greenwashing concerns. The panel focused on the priorities the EU should pursue in order to improve the bankability of transition projects, strengthen public de-risking tools and simplify frameworks while preserving credibility and trust.

1. The development of sustainable finance in the EU

A representative of a national public authority described the EU's sustainable finance drive as a clear success now transitioning into a more complex phase. Between 2015 and 2021, green bond issuance scaled from almost nothing to around EUR 200 billion per year, driven by the Paris Agreement, the EU framework (Taxonomy Regulation, SFDR) and the EU's first-mover advantage, shifting sustainable finance from a niche to a mainstream segment in only six years.

Since 2021 the market has reached a plateau for three reasons: a higher-interest-rate environment making all investments - not only green ones - more selective; a shift away from the "low-hanging fruit" of renewables towards structurally more complex and riskier transition projects (steel, chemicals, buildings); and a more mature but also more complex framework, with a significant - and at times excessive - increase in data points. It remains unclear whether greater transparency is translating into higher capital flows, which is one reason why the national authorities welcomed the Commission's Omnibus Initiative. This is not stagnation but a normal transition from scaling up to delivering on transformation: the focus must now shift to usability and bankability, and the key question is how to make the framework work in practice and more user-friendly.

An expert agreed that the overall assessment is somewhat ambiguous: transparency requirements shed light on activities not previously labelled, and the long-term effects of that change need time to emerge.

Success cannot be judged solely on the flows labelled "sustainable" as real corporate behaviours have also changed through the interplay of environmental, economic and sustainable-finance policies. The framework should be given time to mature, because sustainable development is in the interest of Europe's economy and citizens - a matter of economic security, long-term development and resilience. Embedding sustainability in corporate decision-making is also in firms' own interest: first movers tend to perform better financially by identifying sustainability-related risks and opportunities earlier.

Given persistent data gaps and methodological challenges around ESG risks, simple forward-looking methods should be developed to address risks that are certain to materialise, and behavioural incentives can help overcome short-termism. The expert expressed disappointment with the final Omnibus package, which achieved simplification at the expense of a significant reduction in transparency. Her priorities for the EU agenda are to refine disclosures around what is essential and material; encourage voluntary adoption of disclosure requirements by companies outside the CSRD scope; move beyond transparency to price climate-related risks; improve risk assessments by iterating on transition plans and climate scenario methodologies; and let the framework mature while providing legal certainty and strong enforcement. In concrete terms, this means widening ESRS adoption, reforming asset-management transparency through the long-awaited SFDR review (a welcome development), mainstreaming transition plans in business planning, risk management and supervision, adjusting the capital framework so climate risks are properly priced in, and improving forward-looking tools such as scenario analysis and stress testing.

A representative of the financial sector emphasised the importance of the figures behind these trends. The EU remains in a transition phase with a 2050 carbon-neutrality target, and the German government's recent commitment to cutting emissions by 65% by 2030 compared with 1990 levels will require substantial investments. The UN's World Investment Report estimates that developing countries need USD 4-5 trillion annually for a 1.5 degrees C pathway. KPMG and the World Economic Forum find that emerging markets and developing countries - responsible for around 74% of global emissions - need annual private finance to rise from some USD 36 billion to USD 700 billion. Yet supply is declining: the UN report records a 16% drop in renewable-energy investments in 2024. Research from the Potsdam Institute confirms that climate change is accelerating. A failure to invest in the transition will heighten physical risks and sharply increase future mitigation and adaptation needs.

2. The cost of materialisation of physical risk and the insurance protection gap

Noting that the estimated cost of physical-risk materialisation has doubled over 20 years to around USD 200 billion globally, the Chair turned to the insurance supervisor.

An insurance supervisor explained that the bulk of last year's USD 200 billion in losses were uninsured. With damages rising in both frequency and magnitude and a widening insurance protection gap, concerns for the wider economy are growing. Joint work with the ECB shows that insurance coverage enables faster recovery and a smaller drop in GDP after natural catastrophes: closing the gap is a societal need, on which EIOPA has been working for many years through discussion papers and advice. Without action, affordability will deteriorate and some areas could become entirely uninsurable. This points to a potential role for wider use of public-private partnerships, as some risks can be better covered if both sectors play their role. Insurers can also incentivise clients to adopt mitigation measures through better pricing, and greater coverage translates into wider societal risk mitigation; government intervention should serve as a last resort. EIOPA measures the gap via a public dashboard, seeks to enhance insurers' capacity to mitigate NatCat risks through incentives for physical adaptation, and has studied why individuals fail to take up coverage or misperceive their exposure.

An expert concurred and stressed the systemic dimension: insurers' role extends beyond direct coverage to products such as credit-risk insurance. Understanding systemic effects across the whole financial system is essential, as chain reactions will eventually unfold once risks materialise.

A representative of a national public authority emphasised that views on the protection gap differ. From a German perspective, creating a public insurance scheme to cover flood damage would not be appropriate: mitigation matters, but prevention must be the priority, and insurance coverage should not dilute incentives to prevent disasters.

A representative of the financial sector argued that the protection gap is itself a market signal inviting economic agents to reconsider their decisions. An uninsurable property will struggle to obtain a mortgage, which in turn suggests the purchase may be unsound – the same logic applies to other transitions now facing the European economy.

3. The impact of the new political environment

Amid rising anti-Green-Deal sentiment and a divergent US stance, the Chair asked whether the current political climate might undermine green investment globally and within the EU.

A representative of a national public authority acknowledged a real shift in the political climate but

argued against reading it too negatively. The Paris Agreement still stands, and EU member states, other European countries and many other nations remain strongly committed to its objectives. From a corporate standpoint, three arguments support continued engagement: the economic logic is reinforced by energy-security and competitiveness concerns, so decarbonisation is no longer just climate policy; large EU firms have set long investment cycles that cannot easily be reversed; and institutional investor demand for long-term sustainable investments remains strong. The real risk is not a lack of ambition but a lack of usability and acceptance: the framework must remain workable, easily applicable and affordable in order to avoid any perception of overregulation.

The Chair recalled that these points echo earlier debates during the regulatory design phase, when it was already planned to revisit the arrangements during implementation.

An insurance supervisor confirmed that sustainability and climate risk remain integral priorities for EIOPA, EU policymakers and insurers. Attention to competitiveness, strategic autonomy and defence has grown, but this is not a strict dichotomy: solutions to the geopolitical challenges of the day must be intertwined with those to climate risk. The regulatory burden should be manageable and meaningful – past EU measures have sometimes lacked proportionality, but more recent initiatives enjoy broad support. Driven by data and evidence, EIOPA maintains its focus: sustainability risk is central to the sector's solvency and stability, and EIOPA is adapting the standard formula to recalibrate these risks. While views on public-private partnerships differ, there is broad agreement that prevention is pivotal; effective prevention requires public-private interplay to ease pressure on public finances, as seen recently in France, Spain and Italy.

4. Recommendations to foster sustainable finance

A representative of the financial sector emphasised that there are no substantive issues with the framework itself: new EU legislation is not needed from a sustainable-finance perspective, though regulatory simplification could usefully be revisited. Recent oil and gas price developments naturally reinforce incentives for renewable energy, and market forces will drive behavioural shifts without requiring framework changes. Mobilising private capital is crucial, particularly as public finance faces pressure from defence and other priorities: blended structures combining public and private money, potentially involving multilateral development banks, should be scaled up. Projects also need to be brought to market more transparently, as investors require better project-level information and market data to weigh incentives and risk-return profiles. The measures likely to make the biggest difference are greater use of innovative structures, better alignment with risk-return profiles, and better data.

The Chair noted that many market participants do not yet appear to integrate climate risks into asset valuations and invited the expert to respond.

An expert underlined that this challenge must be emphasised. Transparency helps, but the core mechanisms of financial markets - return on equity and short-term risk-return tools - struggle to capture the full spectrum of future risks because they are inherently short-term, whereas climate mitigation and adaptation unfold over decades. If proactive decisions are not taken today, the EU and the wider world are in effect choosing to lock in future consequences, and measures will remain insufficient unless this point is widely understood. Regulation is therefore crucial, as it aligns market incentives with what society recognises as an existential challenge. More and better data are needed, but the broad trajectory of the climate is already clear from science and must be acted upon.

A deeper issue is that the baseline models used for climate analysis often assume no climate change, treating change itself as a hypothetical scenario. That baseline is incorrect and needs fundamental reassessment. Modelling climate risk is not as straightforward as modelling credit or market risk and is further complicated by increasingly frequent "black swan" events. Addressing these issues is ultimately a political choice: today's decisions lock in future risks that

may materialise in one, five or ten years - or much sooner.

EU decision-makers' continued optimism and commitment to the Paris Agreement is welcome. The transition will bring business opportunities but also fewer quick wins: major economic transformations will force firms to change, scale down or transform, entire sectors will have to disappear, and people will bear the brunt. Tackling this collectively requires financial regulation, broader policy and social components. The EU should seize this moment to reassert itself internationally and avoid being drawn into a race to the bottom. It is easy to be pressured by the United States through the levers of tariffs, NATO and defence, but Europe must hold its own agenda - a decisive moment for European sovereignty. Companies and individuals alike will benefit and gain competitive advantage if Europe preserves legal certainty and provides a stable, business-friendly political environment rather than being repeatedly destabilised by external priorities.

SFDR review: timeline and priorities

1. Introduction

The Chair recalled that the SFDR, in force since March 2021, marked a significant milestone in the EU's sustainable finance journey, expanding sustainability-related offerings and visibility. However, persistent outflows are now being recorded from ESG funds, particularly Article 9 funds. The geopolitical context can partly explain the trend but the impact of legislation and its implementation cannot be underestimated.

The implementation of SFDR has been challenging, due to the absence of clarity on foundational concepts of the regulation, like that of a sustainable investment. The SFDR RTS added a layer of complexity, requiring highly detailed information resulting in interpretation challenges. The RTS also required very specific data driven disclosures while ESG data or reliable ESG data was lacking. In November 2025, the European Commission issued its SFDR 2.0 proposal, introducing new categories and associated minimum criteria – broadly supported during consultations – while maintaining certain flexibilities such as voluntary indicators and catch-all provisions.

2. In general, a positive assessment of the proposal

A supervisor welcomed the review given the widely acknowledged limitations of the original regime, and supported the Commission's balance between clarity on categories, simplicity and burden reduction, and flexibility to leave room for innovation. The recognition of a transition category, drawing partly on earlier ESMA anti-greenwashing guidelines, is a particular positive.

An industry representative noted that Articles 8 and 9 had been misused as product labels despite being designed for disclosure. The three categories, minimum criteria and common 70% threshold are a clear improvement, providing a stability backbone, more consistent vocabulary and names easier for clients to understand than article numbers.

An industry representative observed that investors see long-term value in supporting Europe's transition. Delivering the European Green Deal objectives – climate challenge, circularity, biodiversity, nature loss, and pollution and waste, through a just transition – in a way that strengthens the economy represents an important opportunity. The SFDR review must balance investors' flexibility to develop diverse strategies with the clarity and simplicity of disclosures needed throughout the investment chain. The move towards a more intentional categorisation regime, with clear requirements and thresholds, a shorter reporting framework and the removal of some entity-level disclosures, is very welcome.

Another industry representative welcomed the three categories, including the long-absent transition category, and the common approach combining minimum binding criteria, exclusions and common disclosure requirements.

An industry representative explained that, while SFDR does not apply directly to benchmark administrators, it must be reflected in product design so clients can meet their own requirements. The three-category framework reflects different levels of sustainability ambition and addresses the vague SFDR 1.0 definitions that retail investors had found hard to grasp.

A supervisor stressed that a key challenge for retail clients is identifying which products will actually deliver ESG value. Market practice led to a misunderstanding that Articles 8 and 9 guaranteed a minimum ESG standard, whereas SFDR was designed for disclosure. Explicit product categories are a positive move, but meaningful definitions are indispensable. A German retail client survey found 60–70% interested in ESG investing but overwhelmed and unable to decide. The new transition category carries significant economic potential, notably in transport and real estate, where credible transition strategies already exist.

3. Remaining difficulties and subsequent recommendations

An industry representative warned that SFDR 2.0 does not adequately address the French life insurance market, a significant part of European financial markets. The insurance sector represents more than €9.5 trillion in investments, 70% of which invested within the EU. Insurance-based investment products, especially multi-option life insurance products (MOPs), are not explicitly addressed, risking denying millions of customers clear and comparable information. Level 1 must therefore include provisions for insurance contracts, particularly euro-denominated ones. Sovereign bonds, 40% of euro-denominated funds, must also be captured, which is feasible as several providers can classify them. The ESG ambition of the industry is well established; the real issue is ensuring the entire European economy moves in the right direction, failing which market participants will seek alignment outside Europe. Phasing is key: the 1% coal, 10% oil and 50% gas thresholds and other exclusions must be adapted to the transition, reviewed regularly and implemented progressively without market disruption, especially for fund-based or indirectly managed portfolios. The 10% threshold in pre-contractual documentation will be very difficult to assess in practice, and the 70% threshold for the transition category must be carefully considered. IBIPs, MOPs and sovereign debt must be fully integrated into the framework.

Another industry representative argued that the transition category would be enhanced by recognising not only what

funds hold but also how investors steward capital, since the current static focus limits SFDR's ability to incentivise real-world outcomes. Stewardship – active, outcomes-focused engagement – strengthens transition plans through ongoing dialogue, scrutiny, challenge and oversight, building market confidence and channelling investment to the companies most capable of transitioning. Transparency throughout the investment chain creates a virtuous cycle. Transitions also require collaboration across policymakers, regulators, financial services, technology and R&D; information generated through stewardship reveals where the main obstacles lie. Embedding engagement and stewardship at the core of SFDR will drive the long-term transition of the European economy.

Another industry representative stressed the need for an appropriate balance between minimum criteria and sufficient flexibility, developed in light of market reality, to avoid empty or niche categories – especially the transition category, which must be properly defined so only companies with a true transition trajectory are included. Eligibility of sovereign bonds should be extended at least to the transition category; stewardship and engagement should also be recognised; and the methodology must always be transparent, particularly where private and real assets are included. On the 10% ratio, only categorised products should ideally be allowed to make ESG claims. Otherwise, non-categorised products making such claims should be subject to a strong disclaimer and confined to a clear, limited set of indicators detailed at level 2. The 10% ratio itself would be very difficult to demonstrate in practice.

The Chair noted that the European Supervisory Authorities (ESAs) are also proposing a disclaimer rather than the 10% ratio in their opinion on SFDR.

An industry representative stressed that flexibility, particularly for the passive industry, must go hand in hand with transparency on methodology. Investors need to implement strategies aligned with their objectives and use relevant KPIs, avoiding a one-size-fits-all approach. As the new categories will shape the ESG market, extensive testing of level 1 and level 2 criteria is essential; benchmark administrators, including LSEG, can contribute. Exclusions are a major challenge: the 1% thermal coal threshold significantly reduces the investable universe, and the exclusion of new fossil fuel projects, lignite and coal will be difficult to implement as the underlying data does not yet exist – a phased approach would be more realistic. Engagement cannot be a standalone condition.

A supervisor explained that regulation should set minimum requirements on the credibility of transition plans to prevent greenwashing, though approval of plans is not the supervisor's role. The basic category must demonstrate credible positive ESG features; a 'catch-all' with no minimum ambition would become a mere label and disappoint investors. Naming and claiming is critical in distribution, and greater clarity in level 1 or level 2 binding requirements will improve client understanding.

A supervisor fully supported the three categories, underlining that the transition category is crucial to support a complex, multi-year and resource-intensive process and must be clearly defined to ensure financing

flows. Vigilance is needed on two fronts: a shared understanding of each category at all levels to avoid the confusion that arose under the Article 8 catch-all in SFDR 1.0, on which ESMA stands ready to support the Commission; and alignment between product names and underlying categories, to build confidence and prevent unwarranted claims by non-categorised products.

The Commission representative confirmed that Council negotiations are proceeding well and that concerns on the transition category and scope will be addressed in the co-decision process. The proposal balances key parameters and criteria with the accommodation of diverse ESG strategies, in line with simplification and with helping investors make better sense of the ESG products available. Consultation, stakeholder outreach and the impact assessment confirmed that three EU-level categories, combined with sufficient flexibility to future-proof the regulation, offer the best way to reassure investors and support product comparability.

4. Simplification and burden reduction

The Chair recalled that simplification and burden reduction are key Commission objectives reflected in the proposal, with a revised scope, removal of entity-level principal adverse impact (PAI) disclosures, and specific provisions on the use of data and estimates in response to the ESG data challenge and related reforms, notably the CSRD.

An industry representative welcomed the reduced reporting burden, noting that at a French insurance company only 1,000 of 14 million eligible customers had viewed the two-page entity-level format on the app.

A supervisor added that simplification is always welcome, but the balance between costs and benefits must be considered. Providing meaningful information that makes decisions easier for retail investors is a real benefit, with some justifiable costs on providers. Overall, the Commission has produced a very promising proposal.

The Commission representative explained that the proposal retains the essential elements of the first iteration while adapting to post-Omnibus ESG data realities and removing excess burden. Removal of entity-level disclosures and financial advisors could take place as soon as the proposal is adopted. A review clause in the recently adopted ESG ratings regulation will allow the costs and transparency of ESG data providers to be examined. On the level playing field, the proposal builds on existing practices and widely available data to avoid burdening ESG products compared with non-ESG products. Removing financial advisors and portfolio managers – whose activities are distinct from product manufacturing – is a considerable burden reduction. Forthcoming adjustments to MiFID and IDD delegated acts will align insurance distribution with the new SFDR categories. While general-purpose sovereign debt is excluded from the 70% contribution threshold, such assets can count towards the 70% of the ESG basics category, ensuring adequate market coverage.

5. Conclusion: priorities for the next steps to build credibility and trust

The Chair invited panellists to share their SFDR 'wish list' for a fully functioning regime, noting that successive iterations of the current regime may have affected investor trust, while unclear level 1 and overly complex level 2 texts had not been conducive to supervisory convergence.

An industry representative emphasised that MOPs must be considered at level 1 and sovereign debt explicitly addressed.

A supervisor prioritised investor confidence – built through a framework responsive to investor needs and understanding – alongside clarity and consistency to ensure the framework operates effectively.

An industry representative called for pragmatism and true simplification; a frictionless transition between the current SFDR and its revised version, with full dialogue among stakeholders; and proper articulation with ESG preferences, as the criteria used today will disappear and alignment between the new SFDR categories and ESG preferences is essential to avoid confusion for end investors, for whom the framework must ultimately be clear, accessible and easy to understand.

An industry representative put flexibility first, followed by testing of criteria before full implementation, full transparency from financial market participants and data providers, and interoperability, notably with the UK regime.

An industry representative called for engagement to be incorporated within the transition category, so it becomes a true driver of change rather than merely a category for companies with the potential to transition, alongside simplicity and clarity of categorisation.

A supervisor suggested that SFDR will succeed if it enables investors to make informed decisions according to their preferences: the credibility of the categories is therefore key and they should not be too broad. Ultimately, investors retain responsibility for checking that products match their preferences, as regulation cannot cover every detail.

The Chair summarised that there is broad agreement on the direction of travel regarding SFDR 2.0. However, as usual, the difficulties lie in the details. SFDR 2.0 is a renewed opportunity – a second chance to get it right, and probably the last one for a long time. A robust regulatory framework fosters investor trust, and investor trust is pivotal to the success of any regulatory initiative

Sustainability risk

1. Sustainability is not a thing of the past: staying committed despite policy fragmentation and energy market shocks requires more dynamic and agile monitoring without backtracking on objectives

1.1 Energy security and energy affordability are now at the forefront of decarbonisation strategies, but shocks in the energy market make it difficult to predict the direction of the transition

A supervisor framed the panel's scope around rapidly evolving topics — climate, energy and sustainability — set against competitiveness pressures, policy divergence across countries and an accelerating energy transition in many nations.

An industry representative stressed that sustainability is not a thing of the past, but that energy security and energy affordability are now at the forefront of decarbonisation strategies — a reframing MUFG had long anticipated given Japan's energy import dependency. Energy shocks make the direction of the transition increasingly difficult to predict, and the reframing required may come at the expense of certainty. MUFG avoids black-and-white divestment in favour of sector-specific client engagement, planning for a plurality of scenarios that acknowledges the prolonged relevance of transitional fuels. The approach reconciles short-term fossil fuel support with longer-term decarbonisation objectives.

A supervisor highlighted the substantial overlap between energy security and the low-carbon transition in Asia and Europe, while underlining that transition risk encompasses far more than carbon — it includes everything that can go wrong if the transition moves too fast, too slowly, or takes a different course.

1.2 Geopolitical turmoil, growing climate backlash and inconsistent public policies make honouring long-term sustainability commitments increasingly difficult, while stakeholder trajectories are likely to shift

An industry representative observed that while long-term climate objectives remain broadly shared, differences in implementation pathways and policy priorities have produced a more heterogeneous global landscape. External process signals alone cannot suffice, financial institutions must exercise forward-looking judgment in assessing how transition and physical risks affect their portfolios, with risk ownership becoming correspondingly more important.

An industry representative identified three distinct challenges: first, honouring long-term sustainability commitments — some extending up to 25 years — is

increasingly difficult given geopolitical turmoil, the resulting loss of predictability and a growing climate backlash, particularly in the United States; second, stakeholder trajectories are shifting, making adherence to differentiated pathways harder; third, public policies can be inconsistent — on carbon pricing, for instance, or in the growing discrepancy between the omnibus package and supervisors who are simultaneously stepping up their expectations.

1.3 More granular and flexible steering with possible trade-offs is the appropriate response: mission-led institutions maintain their objectives while broadening the focus to the entire environmental pillar, including biodiversity

An industry representative argued that the appropriate response is not to backtrack on objectives but to adopt more dynamic and agile monitoring, with granular and flexible steering that allows for trade-offs as political directions evolve. Where certain targets are not met, this may reflect the legitimate prioritisation of energy security, defence or social spending — not incompatible with sustainability but potentially slowing the pace. La Banque Postale maintains its Paris Agreement alignment target for 2040 and its intermediate targets, while implementing more refined, adaptable monitoring. Beyond climate, biodiversity demands immediate attention across the entire environmental pillar of ESG; establishing relevant risk indicators is difficult, but that is precisely why it cannot be deferred.

A supervisor noted that transition plans may need adjustment given changing circumstances, while observing that European supervisors remain broadly comfortable with the existing framework and have a clear view of what actions to take.

2. Transition risk is not just about carbon: a broadening and interconnected risk landscape demands forward-looking judgment, geographic granularity and clear risk ownership at the institutional level

2.1 From a prudential perspective there is no divergence: banking supervision takes the world as it is, and all risks affecting financial soundness must be managed regardless of whether climate policy remains a political priority

A supervisor was unequivocal: from the ECB's banking supervision perspective, there is no divergence on prudential regulation. All risks affecting the financial soundness of banks must be measured, analysed and

managed — banking supervision takes the world as it is and does not determine non-prudential policy objectives. Those risks do not disappear because a jurisdiction downplays them; the past year's wildfires, windstorms and water scarcity demonstrate this clearly. International cooperation is essential since climate and nature risks transcend national borders. The Basel Committee's 2024 revised core principles and the NGFS's role in developing common frameworks provide an indispensable intellectual foundation.

A supervisor added that clear frameworks facilitate action, and that sharing supervisory observations is the most effective means of maintaining collective momentum and avoiding fragmentation.

2.2 Physical risks, biodiversity and geopolitical exposure are fully interconnected with transition risk — transition and physical risks crystallise differently across portfolios and must be managed jointly through nuanced, sector-specific and geographically granular scenarios

A supervisor clarified that physical and transition risks are fully interconnected and receive equal supervisory attention. Biodiversity is widely misunderstood — it extends well beyond species loss and could significantly affect the EU economy, with internal ECB studies under way. Geopolitical risk adds a further dimension, as recent energy security pressures illustrate. The priority is for supervisors to address these realities as they are and to share practices across jurisdictions.

An industry representative confirmed that for MUFG, managing both transition and physical risks jointly is not new — it is embedded in the institution's DNA given its global footprint. Rather than rebalancing, the focus is on managing both risk types within specific sectors and geographies, given the numerous interlinkages. Physical risks are now materialising in Europe as they have long been present in Japan. Biodiversity scenarios extend to 2100 for physical risk. More nuanced, sector-specific approaches replace uniform scenarios; transition and physical risks crystallise differently across portfolios, and both remain at the forefront.

A supervisor observed that the discussion has become nuanced rather than an either/or proposition, with the requirement for greater granularity varying across sectors and time horizons.

2.3 Transition execution risk is a meaningful forward-looking challenge: ensuring investments required for the transition continue to be bankable, and remaining resilient across a range of possible outcomes rather than assuming a single transition path, demands a different way of thinking

An industry representative stressed that increasing policy divergence — across carbon pricing, industrial policy and regulatory expectations — is reshaping client behaviour and requiring institutions to reassess portfolio composition under greater uncertainty. The appropriate response is to remain resilient across a range of possible outcomes, treating climate as an amplifier of existing risk rather than a separate layer. Sound risk management and clear risk ownership remain essential; more usable

reference points, potentially through the NGFS, are needed to ensure international consistency.

An industry representative introduced transition execution risk as a key forward-looking challenge: ensuring that investments required for the transition remain bankable is becoming increasingly difficult, particularly in the energy sector. Reaching long-term goals may require accepting more risk than is comfortable — a different way of thinking in which mitigation must be weighed against other essential factors. Executing on initial ambitions is a genuine challenge for Europe and for the global transition, especially in Asia.

A supervisor endorsed 'transition execution risk' as neatly capturing the point that transition risk extends well beyond carbon.

3. Current practices remain far below expectations: bridging the gap between ambition and action requires better data quality, a battery of supervisory tools and stronger international cooperation

3.1 An inflation of data volume with little relevance for risk management: a better balance between coverage and quality, an industry-wide approach to SME data collection and greater convergence on Pillar 3 proxies are urgently needed

A supervisor moved the discussion from analysis to action, noting that stress testing, while useful, should not become the sole focus — it is a means to an end and does not replace broader strategic decision-making.

An industry representative identified a fundamental tension between data coverage and quality. The inflation of data in recent years — driven by a tendency to replicate financial reporting — has yielded output largely irrelevant to risk management: the European taxonomy alone requires thousands of cells, few of which matter for this purpose. The omnibus directive has compounded this: banks are still expected to collect data from counterparties no longer obligated to produce it. Three remedies were proposed: using the SFDR revision to strengthen the framework for ESG data providers; an industry-wide initiative to collect SME data in a standardised and proportionate manner; and convergence on Pillar 3 ESG proxies, leveraging the EBA consultation to produce more comparable models.

3.2 The ECB's updated good practices guide, a battery of supervisory tools and emerging cooperation between banking and insurance supervisors aim to reduce implementation gaps and share experiences across jurisdictions

A supervisor expressed the ambition that the ECB's forthcoming updated good practices guide — reflecting six years of supervisory experience — will serve as a genuine facilitating resource. Nature and climate risks are growing faster than expected, and portfolio-level

granularity is now essential, yet is relatively new for the banking sector. Water scarcity illustrates the interconnected effects, affecting agriculture, nuclear plants and AI data centres alike. The ECB is developing a battery of tools to achieve a more comprehensive view of risks affecting financial soundness. International cooperation is more crucial than ever, given the absence of historical data for this category of risk.

An industry representative raised the question of financial conglomerates mixing banking and insurance activities, noting the link between sustainability and insurability and the potential for complementarity in enhancing data quality and risk management.

A supervisor confirmed that climate risk affects all financial sectors equally. The ECB-EIOPA paper on potential public-private schemes represents early but important coordinated thinking; integrated entities may face specific questions even where their portfolios differ.

3.3 A gradual, risk-based and internationally consistent approach, with NGFS and JFSA sectoral guidance as common reference points, should strengthen financial stability rather than complicate it

An industry representative highlighted the role of the NGFS and TCFD frameworks in building the analytical basis for climate-related work. Where quantitative

metrics are unavailable, qualitative information can bridge gaps, and institutions should be allowed to identify exposures while methodologies develop. A gradual and proportionate approach is appropriate: as data improves, supervisory expectations can evolve on a more solid basis. A risk-based, internationally consistent and operationally credible approach is essential to ensure improved comparability of climate risks and to strengthen financial stability rather than complicate it. Japan's FSA has operationalised this through sectoral guidance providing a common reference for banks and borrowers to design transition plans towards 2030, 2050 and net-zero targets, tailored to each sector's specific carbon positioning.

A supervisor concluded that commitment remains high, reinforced by the overlap between today's pressing challenges and the transition agenda. The discussion is maturing — more granular, specific and detail-oriented. Data is the essential foundation, but action cannot wait for full availability. The interdependencies between climate and nature, short and long-term horizons, and the respective roles of policies, supervisors and institutions make the landscape more challenging to navigate; but a clear analytical framework exists, and progress is both possible and imperative.

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Exchange of views on international coordination

Toshiyuki Miyoshi - Vice Minister for International Affairs, Japan FSA, and Co-Chair, IAIS

Jean-Paul Servais - Chairman, FSMA, Belgium, & Chair, IOSCO

Mark Uyeda - Commissioner, US Securities and Exchange Commission (SEC)

David Wright - President, EUROFI

David Wright

Good afternoon, everybody. Welcome to our next session. It is a very distinguished one because I have three outstanding people with me to discuss the exchange of views on international coordination today.

First of all is Jean-Paul Servais. We have just been discussing that we have known each other and been friends for over 25 years. He is still the chairman of the FSMA of Belgium and has been for over 20 years. He is the chair of the board of IOSCO and chairs IOSCO's European regional committee. He is the OECD corporate governance committee Chair and is a member of the board of supervisors of the European Securities and Markets Authority (ESMA). He is somebody who has just immense experience of all regulatory and supervisory issues in Europe for two decades or more.

Secondly, I would like to particularly welcome Toshi Miyoshi, who is the vice minister for international affairs at the FSA of Japan, and co-chair of the IAIS. He was appointed as vice minister on 22 July 2025. He also represents the FSA at the Financial Stability Board (FSB) in IOSCO, and chairs, as I said, the IAIS. When I was reading your CV, Toshi, I realised I am full of jealousy because not only do you have a BA in law from the University of Tokyo, but you managed to do something I did not do, which was get an MPhil in politics from the University of Oxford, which was my university, so congratulations on that, and a very warm welcome. We are deeply appreciative because of the time lag.

The third outstanding person here is a commissioner of the US SEC, Mark Uyeda. He has been on the staff of the

SEC since 2006, senior advisor to former chairman Jay Clayton and senior advisor to acting chairman Michael Piwowar. He has been in various parts of the SEC. He has served on the Senate Committee on Banking, Housing and Urban Affairs, and many other functions as well. He has a degree in business administration from the great Georgetown University, and a law degree with honours from Duke University. He is the first Asian Pacific American to serve as a commissioner at the SEC.

To all of you, a really warm welcome. We have half an hour, and we have two sets of questions. First, what is the state of international cooperation in financial services in your respective domains today? Are we seeing fragmentation with all the geopolitical tensions, or are things more or less moving along as normal? Second, what are the priorities in your respective domains looking forward? Toshi, why do you not start? Tell us how you see the current state of international cooperation in the different areas, and particularly maybe as chair of the IAIS. Thank you.

Toshiyuki Miyoshi

Thank you very much, David, for your introduction. I am very honoured to be present here, even though it is only in a virtual format. Thank you for having me. I am chair of the executive committee of the IAIS. Risks are emerging on various fronts. Digitalisation is one, and the structural shift in the life insurance sector is another, which I will talk about later. As far as supervisory cooperation in the insurance sector is concerned, international supervisory cooperation is quite robust.

As we agreed on the insurance capital standard (ICS) for internationally active insurance groups (IAIGs) in

December 2024, our priority has shifted to the consistent implementation of the ICS and other insurance core principles across jurisdictions. That pivot is reflected in our five-year strategic plan. We see continued strong collaboration across three dimensions.

First is on cooperation and convergence based on the established foundations, such as the insurance core principles (ICPs) and the ICS for IAIGs. We also have in place a holistic framework for assessing systemic risk implications of the insurance sector. Given these foundations, and in addition to them, we have a multilateral memorandum of understanding (MMOU) in place, which enables supervisors to exchange information across borders.

With these tools, we are now advancing on analysing and responding to emerging risks and trends in the global insurance sector. For example, the annual global monitoring exercise provides a forward looking approach that has led us to the early detection of several sector themes, including artificial intelligence (AI), structural shifts in the life insurance sector, climate change, and geoeconomic fragmentation. These outcomes are reported publicly in the form of our global insurance market report and shared with the FSB.

Collaboration with other policymakers and standard-setting bodies is more important than ever, particularly with respect to the issue of natural catastrophe (NatCat) protection gaps. The IAIS takes the lead in ensuring that the topic remains firmly on the international policy agenda, such as at the G20 or the G7. Last year, we provided a joint input paper with the World Bank to the G20, outlining key steps for supervisors to take and the practical actions to be taken. I will stop here. Thank you very much.

David Wright

Thank you very much, Toshi. That was very interesting and encouraging. Mark, can you keep us in a good frame of mind here? Are you seeing good cooperation being extended in the securities area?

Mark Uyeda

I think we have, David. The challenge that the United States has always had, especially when we deal with our counterparts around the world, is that we have domestic fragmentation within the United States. For instance, in the capital markets, not only do you have my agency, the SEC, but you have the Commodity Futures Trading Commission. Then we have multiple banking regulators, whether it is the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National

Credit Union Administration, the Board of Governors or the Federal Reserve.

Regardless of who is the president, it has always been a challenge dealing with US regulators, but what I am pleased to say is that we have done, under our current secretary of the treasury, Scott Bessent, a terrific job of coordinating all of our policy responses. One of the things that we at the SEC are doing is working very closely, for instance, with vice chair Miki Bowman at the Federal Reserve on multilateral engagement at the FSB, so there is a consistent voice across financial regulation by the US.

In our particular space, the capital markets, one of the things that we have done is to work for enforcement and supervisory cooperation. One of the tools that IOSCO has is the MMOU, and then we have an enhanced version of that as well. We find it one of the most important tools that we have to coordinate across the globe, since a lot of activity spans multiple countries and continents.

On policy matters, it is also very important that we continue to engage with our counterparts, on both a bilateral and a multilateral basis. One of the things that we did in the United States was to provide additional transparency in the trading activities of corporate directors and officers. We previously carved out foreign companies that were listed in the United States, but our Congress changed the law to now require all companies in the US to provide this information.

One of the things that we did is we used our ability to exempt a lot of jurisdictions, including the entire European Economic Area (EEA) and Switzerland, because we found that their corporate disclosure regime for insiders was comparable to the United States, and so we did that to a number of other countries around the world, including Chile and South Korea. It is very important that we continue engagement on both fronts – the policymaking and the enforcement side.

David Wright

Thank you very much, Mark. These are encouraging, big issues here to work together on. Jean-Paul, you are right at the heart of global coordination at IOSCO. Are you seeing business as usual or is it getting a little bit more difficult?

Jean-Paul Servais

Thanks for your question, David.

I do not have to say to a former and outstanding secretary general of IOSCO that IOSCO is the global standard-setter for financial markets. We act as a bridge

builder by providing global solutions to global challenges to financial markets, so I am pleased to be here for this discussion.

This means that our role is to be helpful to all of our 131 members, including the Japan FSA and the US SEC, with their distinguished representatives that you rightfully invited to the Eurofi conference. In the other direction, the FSA and the US SEC are very important in order to help us for the quality of our workstreams, so it is a win-win approach.

Over the past 2 decades, the financial sector has gone through fundamental shifts. One of these fundamental shifts is the internationalisation of the financial sector in areas such as crypto assets, DeFi, AI, corporate disclosure, and the rise of NBFIs including private finance.

These developments present opportunities and risks that are relevant to our objectives and that are inherently cross-border. The role of IOSCO is, therefore, to bring our members to the table to build a collective view on these challenges, with an open mind to seek consensus. We aim to ensure that financial innovations are met with proportionate and high-quality responses, and flexibility in their use in member jurisdictions.

We do not have any political legitimacy, but the best way to avoid fragmentation is to do what we are doing at IOSCO – high-level, principle-based, and non-binding, and then up to jurisdictions to use that if they think that it can be useful. It means, in other words, David, that all resources are dedicated to deliver progress on a balanced mix of objectives composed of vulnerability assessments, policy development in the general interest and, of course, promotion of the implementation of standards. Amongst others, this is accompanied by a capacity-building programme that is available to our members from both developed and from growth and emerging markets.

Let me highlight four areas of focus that bring value to our members.

First, as already stressed by Mark, we enable international cooperation between market supervisors in their enforcement actions. As you know, our Multilateral Memorandum of Understanding (MMOU) is working better than ever before. Last year, we enabled over 6,000 exchanges of information amongst our members. 20 years ago, we started, as you know David, with 50 requests for information per year. It demonstrates that it works.

Second, we develop policies. To give you some examples, we recently published recommendations and policy tools for the regulation of crypto and digital assets,

influencers, neobrokers, pre-hedging, liquidity management, anti-dilution tools of collective investment schemes, and many more. We are also working on AI, in particular looking at how firms are using it, setting own governance rules and disclosing their use of AI.

The third aspect is on market monitoring and vulnerabilities assessment. We are also keeping a close eye on market developments around tokenisation and private finance. We are doing that via our Financial Stability Engagement Group (FSEG), through which we liaise with the FSB.

As an example, the very first international report on private funds was published in 2023, by IOSCO. To some extent, that is the foundational work that the International Monetary Fund (IMF) and now the FSB are building on. One of the key aspects relates to the valuation of collective investment schemes. We are, therefore, finalising the review of our longstanding valuation principles. The revisions are meant to reflect the growing importance of funds holding less liquid and illiquid assets, including private assets, as well as increased retained investments in such funds. We aim to publish a final report this year, in 2026.

Finally, on the implementation of our standards. We are supporting our members like never before through monitoring and assessment exercises, peer learning and dedicated capacity-building and training. We trained more than 3,700 colleagues from our members.

To conclude, I will say that, from my perspective, IOSCO is quite successful in providing multilateral solutions to the benefit of all our members.

David Wright

Thank you very much, Jean-Paul, and to all of you. It is encouraging to feel that the level of coordination, despite all that is going on in the world, is still very positive and forthcoming. Toshi, take us now into the future and give us one or two thoughts, briefly, on what your priorities are looking forward over the next years.

Toshiyuki Miyoshi

Thank you, David. In the current environment of rapid changes in the digitalisation themes and the rising emerging risks, being alert to the risks and trends is critical for insurance supervisors. One area that we are paying particular attention to is the monitoring of structural shifts in the life insurance sector, as I said earlier, because it is driven by increasing allocation to alternative assets and the rising adoption of asset-incentive reinsurance agreements. While these

developments may present opportunities such as diversification, higher potential returns and better risk-pooling, they also could pose insurance risks such as risk concentration, leading to financial instability because of concentration, and possible regulatory arbitrage.

Building on the issues paper that the IAIS published in November last year, the association plans to enhance data collection and explore in-depth systemic risk analysis of the impact of these kinds of phenomena. We also review our supervisory material to ensure that they remain relevant and effective in addressing emerging risks and challenges posed by these structural shifts.

Second is consistent implementation of our standards and principles. Particular emphasis is placed on assessing implementation of our framework for the supervision of IAIGs following the adoption of the insurance capital standards in 2024, starting with self-assessment, which will be followed by in-depth and jurisdictional assessment by the IAIS, perhaps from 2027.

Third, we will continue to support our members in enhancing supervisory practices, particularly with regard to addressing the NatCat protection gaps, by collaborating with the World Bank to develop practical tools for supervisors. Adopting digital innovation continues to be a key priority. We have significantly increased our focus on operational resilience in that respect due to rising cyber risks, accelerated digital innovation, and increasing reliance on third parties. Not only in the insurance sector, but there is a general understanding among supervisors about the need to ensure that supervised firms prioritise robust operational resilience practices. This is, of course, important in the context of current geopolitical tensions and geoeconomic fragmentation.

Finally, as Jean-Paul mentioned in the context of IOSCO, IAIS has a broad-based membership, and one of the important priorities for IAIS is to help members, particularly from emerging markets and developing economies in terms of enhancing their capacity for them to address emerging risks from the insurance sector. I will stop here. Thank you.

David Wright

Thank you so much, Toshi. Mark, from the perspective of the SEC, what are the priorities that you see going forward, briefly, if you can?

Mark Uyeda

An important priority is regulatory modernisation, both here in the US domestically, but also at the global level.

It is hard to believe, but the global financial crisis started 18 years ago. We had a lot of new rules and standards that were put in place in very short order in the years after, and so it is now appropriate for us to take a look and determine whether or not they are achieving the outcomes that we had hoped for, what the unanticipated effects are and, more importantly, where there are potentially highly costly and burdensome regulations that, it turns out, are not providing the level of benefits and protection that we had anticipated. We are very supportive of what the FSB is doing under Fed vice chair Miki Bowman. This is also a priority for the US during this year while we have the presidency of the G20. Those are things that we are looking for.

What we will also be doing domestically is thinking about how to make the capital markets more attractive for companies to go public. We have about half the number of companies that are public than we did 30 years ago, and then also on crypto and digital assets. That is going to be a very important part of our agenda over the next year or two.

David Wright

Thank you so much, Mark. I am sure that your priorities will affect global priorities as well. Jean Paul, we have five minutes, and no more. Tell us how you look forward. You mentioned some of the issues. AI comes to mind, as do 24-hour trading and tokenisation. Those are among your priorities going forward, as well as developing the MMOU.

Jean-Paul Servais

Let me try to give a summary of all our priorities that have just been published on the IOSCO website. First, it is important to keep in mind that it is a shared responsibility to find solutions where they can be found at the respective levels. It was already stressed by Toshi as Chair of the IAIS, but also the link with the FSB and the modernisation agenda that was raised by Mark.

Yes, multilateralism is being tested, but the cohesive spirit that characterises IOSCO is unabated. This mutual sentiment of trust is what enables us to press ahead. The market events in past years and more recently have not shaken financial stability, and they have not shaken market trust. Precisely our role as securities regulators is to ensure that investors have smooth access to markets, with fair access to information, and that markets operate resiliently and with integrity, while mitigating systemic risk.

At the same time, the financial system itself is transforming. This comes with new and complex

challenges. There is a role for IOSCO to keep monitoring ongoing trends, particularly those arising from technological breakthroughs like tokenisation, AI or quantum computing. All these trends underscore the importance of openness and innovation. These trends underscore the importance of modernising our regulatory frameworks to ensure adequacy with the new realities of the markets. These trends also underscore the importance of focusing our energy and resources where they are most useful to our members.

One of the key elements is that markets need to thrive stability. We must remember that financial stability remains the essential precondition and collective good that markets need to tap into these opportunities and contribute to economic growth.

Beyond policy, we have also launched an internal SupTech forum to support our members with the use of technology for supervising purposes, to learn from each other and to keep enhancing our respective supervisory capabilities with the help of technology.

We are also educating investors about AI with a TechSprint initiative. Yes, AI offers extraordinary opportunities to foster financial inclusion and investor understanding, and to improve the quality of services for investors. But AI also introduces new vulnerabilities like sophisticated fraud, deepfakes and misinformation that can erode confidence and harm consumers. The objective at the end of the day is to identify how we can help retail investors identify and avoid AI-enabled fraud and scams. That is what we are trying to achieve together, working hand in hand with Toshi, Mark and many more at IOSCO.

David Wright

Thank you all very much. I am conscious that we need more time to discuss these issues, and we will try to arrange that for our next meeting, in Dublin. We hope you will all be with us. It has been a very interesting discussion, with very interesting forward pointers, and it is very encouraging that, in spite of everything, we are managing to work together as much as possible and, indeed, work with emerging market countries as much as possible. I thank you all. I am going to have to log off right away; otherwise, I shall be in serious trouble. More important is that Toshi can get some rest in Tokyo. Thank you all very much, and I look forward to seeing you all in Dublin, if not before. Thank you.



Conversation with David Schwimmer

David Schwimmer - Chief Executive Officer, London Stock Exchange Group (LSEG)

David Wright - President, EUROFI

David Wright

Good afternoon again, everybody. I have the pleasure now of having a conversation with David Schwimmer, who is chief executive officer and a member of the board of LSEG. He has been with LSEG since August 2018. He spent 20 years before that at Goldman Sachs, including being chief of staff to Lloyd Blankfein, who was president at the time. He has had a very distinguished career, originally from Yale University, a law degree, then international affairs from Harvard University, and the Fletcher School of Law and Diplomacy. It does not get any better than that.

David, you have been with us before, and I want to underline how much we appreciate the possibility to talk to you and also LSEG's continued support for Eurofi. It is a great pity that we could not see you in Nicosia. Hopefully, it will be in Dublin. To start, let me ask you, if I may, how you see the attractiveness today of the capital markets in the European Union and the UK. There is a lot of activity going on. We have a market integration package in Europe, and all sorts of other things. Are you positive about the direction of change? Are you seeing some good signs?

David Schwimmer

David, first of all, thank you for having me. It is great to be able to join you, even if it is virtually. I have to say that the fact that competitiveness is at the top of Europe's agenda is a critical factor and really important. It cannot be overstated. Of course, we have to have the appropriate delivery and execution on that competitiveness agenda, but it is good to see, in the

EU Council meeting last Thursday, the EU leaders' declaration confirming the strong commitment for the EU to deepen and integrate a single market, with the aim of finalising the market integration and supervision package (MISP) negotiations by year end.

Again, these are positive signals. There does seem to be a sense of urgency, and we will see how the delivery goes. Switzerland is getting closer to the EU. The UK and the EU seem to be working more cooperatively these days. This is crucial to providing European businesses, including those in strategic sectors, with the equity and the market support that they need to innovate, to expand and to create jobs. I am very supportive of it.

One critical aspect that I will say I am hopeful but not quite yet optimistic about is the need to really mobilise pension funds and the pool in them. This is such an important area. Just to put some numbers around this, the pool of assets in UK pension funds is the third largest in the world, after the US and Japan. UK pension funds 30 years ago invested over 50% of their allocation to UK equities. Today, it is more like 4%. That is a fundamental challenge in terms of providing capital to the market. There are similar issues in the European Union. Having a stronger domestic pension allocation of capital and really creating that kind of strength in the funding of the capital markets is one very important element of this. Again, the drive for competitiveness is really important. Let us see how we go in terms of actual delivery.

David Wright

If we drill down a little bit, David, looking at the language and proposals around improving listing

and clearing data, and all of that, do you see positive signals? Europe and the UK have had trouble with declining listings. Do you see this ecosystem with venture capital now scaling up and becoming much more a series of words you hear far more about than I have, anyway, over 25 years? Drill down a bit and tell us what you think are the key elements here.

David Schwimmer

We are making progress, but there is more to go. The listing reforms, both in the UK and in the EU, are helpful. There are innovative market structures in these different jurisdictions. You talked about bringing in venture capital or providing more support earlier in the stage of access to the markets. Maybe I will just touch on one example that we have been working on for a few years, which is the private securities market in the UK.

What that does is allow private companies to access the public market infrastructure of the LSE and to engage in an offering on the LSE, and then go back to being a private company. It really breaks down this brightline structure between public market and private market. That is a very innovative and important change, given how much more capital is staying with private companies. This is something that we have been working on for a few years, and we had the first offering literally yesterday. When I look at that, that does give me a sense of optimism that there are creative, thoughtful and innovative structures being used, taking advantage of the openness to reform, whether it is here in the UK or in the EU, but, again, there is more to do.

David Wright

We have seen a big surge in private equity. Would you judge that as a good thing overall? In the US, that is particularly true, but, globally speaking, non-bank financial institutions cover more than 50% of the financial markets, so there are big structural changes going on here. Is that something that you are concerned about, or do you think that these are market forces and we have to work with them?

David Schwimmer

There are market forces at work, but that have also been influenced by, I will say, certain government actions. You touched on private equity. Private equity has grown enormously over the last couple of decades, in part because of the availability of, I will say, somewhat inaccurately, free money. Monetary policy has really significantly accelerated and enabled the growth of the private equity sector.

We are seeing the private equity world struggle a little bit now and go through a bit of a correction. Because of the nature of the private equity model, that correction will take years to work through. Where we will get to as we move more towards an equilibrium is a larger private equity sector than we would have had 20 years ago, but also a more balanced dynamic, where you have private equity working with public markets as well.

Technology is changing things here as well, because, when you think about things like digitalisation and tokenisation, you can create, through the technological and market structure shifts, a different kind of trading environment, where it becomes less about capital structure, less about public versus private, and more about liquid versus illiquid. That is a pretty interesting shift in the paradigm. What I was talking about a moment ago with respect to our private securities market is a part of that, but digitalisation also can play a big part in that going forward.

David Wright

Just on the EU and the market integration package's approach to improving competition on infrastructure and on supervisory convergence, those are two of the big planks of European reform and of this market integration package. How do you see those things? You are supervised quite well by the European Securities and Markets Authority (ESMA). Are you happy with the way the commission has proposed changes here?

David Schwimmer

MISP is a key proposal for us at LSEG. This is something where, for years, we have been pointing out the inefficiencies of the current EU supervisory structure and how much of a drag it can be on competitiveness for the markets generally. Again, to the main theme of the discussion here, Europe needs fewer barriers to compete globally. If we can have truly centralised supervision, that is very helpful. We are supportive of the MISP proposals for that, and that can be increasingly beneficial.

Just to put some examples around this, LSEG runs several entities in the EU that are supervised by ESMA. If the MISP is successful, ESMA will be supervising more LSEG entities. We have two central counterparties (CCPs). We have two multilateral trading facilities (MTFs). We have a regulatory reporting provider, an index provider and we will have an environmental, social and governance (ESG) ratings provider. In terms of the notion of having a single supervisor that we can interact with and that can coordinate across all of those different areas, we are very supportive of that.

To the extent that we can have more transparency and more predictability around supervisory processes, that will help investors in terms of allocating capital more efficiently. Ultimately, that will, we believe, strengthen the EU's market attractiveness.

David Wright

Just looking forward, from a technology point of view, as you said, there is a great deal going on – artificial intelligence (AI), tokenisation and 24-hour trading. Yours has become a data-driven company. The largest part of your turnover is now in data sales and so forth. Where is all this going? There are an awful lot of moving variables. Give us your forward thinking here.

David Schwimmer

I will put this into the EU context as well. Let me touch on a few different aspects of this. First of all, just with respect to cloud, this is an important issue that we and others have been navigating in the EU in the context of competitiveness. It is very reasonable for countries to want to have control over, I will say, cloud sovereignty. Given the pre-eminence of US cloud providers, that can be a challenge.

The issue that we see in the EU is nation-specific requirements from local member states around cloud, and we view that as very challenging. To the extent that the EU can have more of a coherent, integrated framework in terms of dealing with cloud requirements and strategic autonomy with respect to cloud providers, and if we could get away from this regulatory fragmentation around cloud usage, that would be very helpful.

Another critical topic, of course, is AI. There is no doubt that AI is transforming markets. In terms of the way that we approach this, our strategy is built on three pillars. We think about trusted data. In other words, as you mentioned, we are a very significant data provider to the markets now. It is mission-critical that our data can be trusted in these AI distribution channels, whether they are models or agents or others. We are enabling our products with AI, so we are transforming a lot of our workflow with AI functionality. We are also, of course, using AI in our own operations and capabilities, and driving significant speed and efficiency there.

As we are using this – and this applies across the industry – it is very important to make our data usable and have AI embedded in our product, but we have to adhere to what we and others refer to as responsible AI principles. Some of these have been inspired by the Organisation for Economic Co-operation and

Development (OECD), and we strongly support those initiatives, as well as initiatives like data free flow with trust. That is an opportunity, but it is important to get the risk management, and the resilience associated with that, right.

You have opened a bit of a box here in terms of technological changes in innovation. One other area that I should just touch on relates to tokenisation. This is a topic that we could spend a lot more time on. We will see a shift to more 24/7 – or maybe 24/5 – trading with tokenised assets. I do not expect to see a wholesale shift from traditional market infrastructure over to digital. There are some technological reasons why that is unlikely to happen, but I do expect to see more of a hybrid trading model.

A lot of the demand that we are seeing for 24-hour trading at this point is driven by the retail community that has grown up on crypto, and there will be demand from that for more access to equities, but the challenge is that the distributed ledger technology (DLT) does not scale fully for equity markets, and the latency requirements of the equity markets cannot be met by DLT at this point. However, there are still a lot of innovations and opportunities within those constraints. You will also see it in other asset classes and in other parts of the trade lifecycle – for example, in post trade clearing or settlement.

David Wright

David, it has been a pleasure, as usual, to talk to you. We could go on for hours. I hope we will have the opportunity in Dublin in the middle of September, when we will definitely meet physically, to talk again. We wish you every success, and we thank you and LSEG again for your continuous support of Eurofi. Thank you so much.

David Schwimmer

David, thank you very much. As you said, we are very supportive of Eurofi and what you are doing, and it is very helpful for the health of the market, so thank you.

David Wright

Great. Bye for now.



Conversation with Mark Jopling

Mark Jopling - Head of Global Financial Services, EMEA & APJ, Amazon Web Services (AWS)

David Wright - President, EUROFI

David Wright

For our fourth distinguished guest this afternoon, I have with me Mark Jopling, head of global financial services, EMEA & APJ, for AWS. This is a conversation I always look forward to, Mark, because I learn more from you than almost anywhere else. You have been with AWS since January 2020, where you are the director for global financial services for those areas I mentioned. You were formerly CIO for customer and colleague technology at Lloyds. You have an engineering background, with a PhD and an MBA from the University of Warwick.

Mark, we always have a lot to talk about, but let us start by looking at, if I may, your impressions of how the EU financial sector is adopting all these new digital technologies – the cloud, and artificial intelligence (AI), maybe a bit later. How are we doing in Europe compared to elsewhere? Are we behind?

Mark Jopling

Thank you, David. Thank you for that introduction and thank you again for the opportunity to speak with you today and have this exchange of views. The European digital finance framework is trying to strike a balance between fostering innovation and ensuring resilience and security. Those things go hand in hand. They are not a trade-off. From our perspective at AWS, simplification, resilience, working through regulatory frictions and addressing them leads to a stronger, more dynamic and more resilient financial ecosystem.

In terms of adoption, European adoption is growing. I am going to give you some very recent statistics, if I

may, to highlight that point, because, as you say, AI is becoming the driver of innovation and a driver for the use of cloud technology.

We have now published our third annual report, called Unlocking Europe's AI potential. This gives some statistics as to how that adoption is, indeed, growing. Most of the signals are very positive – 54% of European businesses have adopted AI, and that is up from 33% two years ago, so we can see that the rate of adoption is growing.

Typically speaking, to drive value from AI, organisations, be they public-sector organisations or enterprises, choose to modernise some of their legacy infrastructure to the cloud as a way of accessing more AI technologies and driving more value from AI. When looking at adoption one area where there might be opportunity is the number of organisations that are using AI for advanced use cases that are fundamentally transforming those organisations, that is not growing as much. Within those numbers, we see 22% of businesses using AI in what we would call advanced use cases, and that has only moved up one or two points from last year.

Although the overall adoption has jumped by 21 points, from 33% to 54%, we are seeing, as is documented elsewhere, this focus now on the adoption of some of the cultural and regulatory barriers, as well as the technology. Organisations are understanding and experimenting with the technology, but the current challenge is, 'We have done the experiments. We have learned from those experiments. How do we scale the use of AI in cloud technologies?' I would say that that is the challenge for 2026.

David Wright

Is there a skills shortage in Europe? Do we lack the right type of people to go to the more sophisticated and what you call advanced AI?

Mark Jopling

It is a very good question. There is a skills shortage. It is not specific to Europe. In our most recent report, which is a deep piece of analysis with Strand Partners that covers a broader range of industries across Europe, that 39% of businesses citing a skills gap has gone up to 44%. Although organisations are investing in the skills gap – and organisations like AWS are supporting that and investing to help organisations improve their cloud and AI skills – the rate of change is such that the skills gap is currently getting wider.

I would say again that, in terms of an amber warning flag, one of the pieces of data that came out of the report was that up to 40% of start-ups would consider relocating because of skills gaps. The value proposition of AWS and others is that our services are available in our regions globally. The standard set of services that we build – cloud services, and AI services on top – are available whether you consume those services in our European regions or our regions in other parts of the world.

David Wright

Would you say – and we were talking about this – that regulatory complexity in Europe is emerging as a barrier to the take-up of these technologies? You have some interesting statistics here.

Mark Jopling

The headline for us is that regulatory simplification and resilience and innovation are not a trade off. I noted in the previous session, as I was tuning in to Commissioner Dombrovskis, he talked about this concept of 'regulatory cleaning', to eliminate outdated provisions, overlaps, inconsistencies and redundancies. That is not a phrase I had heard before, but I identify with his intent, which is that we want regulations to be simplified, both in terms of how they are constructed and in terms of how they are then deployed consistently across the region.

We have talked about the Digital Operational Resilience Act (DORA) in previous EUROFI. We were very active in the consultation process, and now DORA is real for ourselves and for the industry. We are working on how to make sure that regulatory

approaches across different countries and regimes is consistent. We try to help our customers understand what regulation means for them and how they meet both their regulatory and their internal risk requirements. We have a team of experts who advise our customers on those matters.

For sure, regulatory complexity is a barrier. One of the statistics that you are referring to and that we have picked up is that approximately 40% of IT budgets are spent on compliance. Uncertainty around compliance and the sheer cost of compliance can result in fewer funds being available for next-generation AI technologies and other forms of innovation.

In summary, we at AWS advise and work very hard with our customers to help them meet regulation and work with regulators to help to simplify regulation, but I would repeat that we very clearly believe that regulatory simplification, security and resilience are not trade-offs. They are all aligned in producing a stronger, more dynamic, more resilient financial ecosystem, and that itself will then support this wider community of fostering innovation and Europe's financial services being a hub of innovation. Of course, if financial services are innovative, they tend to be providing innovative services to fund innovation in other industries as well. Of course, access to capital and technology are both important for the industries which financial services organisations themselves are supporting in the wider economy.

David Wright

I think DORA needs some extra work. Does it need some more implementation and guidance? Are there other ambiguities in interpretation? Is that something that you are concerned about?

Mark Jopling

There are inconsistencies in interpretation – that is true – and that can happen at the country level. It can happen within the different organisations' interpretation. As I say, we provide expertise to organisations to help with those challenges. Through forums like Eurofi, we have a regular dialogue with regulators.

In conclusion, I would say that there is always a range of digital and data frameworks. There has to be. When you look at the AI Act and the encouraging signals around the digital omnibus package, and this idea of an AI continent, then there is an intent to move the current EU frameworks towards widespread AI deployment in financial services. The EU AI Act

is a good example of something which establishes important risk-based principles. It was relatively early compared to peers around the world. It was providing clarity when organisations were seeking it, so that was helpful.

The ongoing simplification efforts through the AI omnibus and other initiatives are welcomed by us, and we want to help translate them into reality for business and, ultimately, as I said, enable businesses to accelerate their deployment of modern technologies and, within that, cloud technologies, and generate value from AI and other forms of innovation for the benefit of Europe and its citizens.

David Wright

Mark, if we can finish on two points, I heard you quote, when we were talking earlier, some really huge potential possibilities for Europe. If AI is included more in firms, the potential for growth is trillions of euros. For that to happen, what risks should we be really concerned about? What is going to stop this growth? What worries you?

Mark Jopling

We have touched on them, but, to summarise, in terms of regulatory fragmentation and complexity, we have discussed simplifying regulation and working to reduce complexity and, ultimately, reduce costs and uncertainty. We have talked about the skills gap. Despite a lot of investment in the supply of digital skills, and particularly workforce readiness around AI, the opportunity and the rate of change from AI is such that the skills gap has got wider. That is despite the investment in the digital skills gap.

There is a question mark around access to funding. As I said, ultimately, to accelerate experimentation and create more start-ups or more expansion of existing organisations, funding pathways are important. These are, ultimately, factors for competitiveness for Europe. There are, clearly, strong foundations and steps in the right direction, but, as I said, it is a globally competitive market. The AWS services are available globally. As I said earlier, we have found that founders are willing to relocate their organisation if they need access to the things we have already talked about – a less complex regulatory environment, more skills that are not available, or funding. Four out of 10 founders have said they would be willing to relocate to close one of those gaps.

There are huge opportunities, again, AI would unlock €191 billion of gross value added (GVA) per year for Europe. Many studies project very large benefits from the

wide-scale deployment of artificial intelligence, and our research is another credible addition to that body of work.

David Wright

Mark, thank you. We could go on for a long time, because I am learning every time you speak. Your very positive take on Europe is very interesting. Things are moving forward, although not perfectly. The potential is massive, and we just have to get certain things right – get the incentives right, and get the regulation clear and applied. Thank you again for being with us. Thank you for supporting Eurofi. It is greatly appreciated. We would be delighted if you would give us an update in Dublin at our next meeting in September. We hope to see you there.

Mark Jopling

You will, David. Thank you, as always. To conclude, AWS has invested tens of billions of dollars in our European business. We are excited about the opportunity ahead of us, and we will work with you and with regulators in order to accelerate the delivery of the opportunity. Yes, indeed, see you in Dublin.

David Wright

Thank you so much.

Mark Jopling

Thank you very much.



Conversation with Olivier B elorgey

Olivier B elorgey - Deputy Chief Executive Officer and Chief Financial Officer, Cr dit Agricole

David Wright - President, EUROFI

David Wright

Olivier B elorgey is the deputy chief executive officer and chief financial officer of Cr dit Agricole Corporate and Investment Bank. He has had a very distinguished career. He began with Cr dit Lyonnais in 1991 and moved to Cr dit Agricole around 2000 or 2001. He became head of management control at Cr dit Agricole and held a number of senior managerial positions. He was appointed head of the financial management department before becoming the chief financial officer of Cr dit Agricole CIB in 2017. He took over the supervision of procurement in 2020 and was appointed deputy chief executive officer of Cr dit Agricole in 2021.

He has a very interesting background, coming from the  cole Polytechnique and holding a postgraduate degree in – I am afraid I do not know what this is – condensed matter physics and a doctorate in sciences. You are bringing some scientific rigour to us this evening, Olivier. We welcome that, we welcome you, and we thank you for Cr dit Agricole’s support for Eurofi over many, many years, which is greatly appreciated. The first question I am going to ask you is this. What do you consider the key priorities are for Europe to restore its competitiveness and to drive private investment that is so evidently needed in many sectors of the economy?

Olivier B elorgey

Hello, everyone. Thank you, David, for this short presentation. To be honest, I have forgotten everything about condensed matter. To try to answer your question, I think that we can affirm today that the European banking

system is very healthy. It is written and disclosed in many European Central Bank (ECB) statements. When you look at the European Banking Authority (EBA) stress test, even the most adverse one, the European banking system demonstrates that it is very resilient as the Common Equity Tier 1 (CET1) ratio does not on average go below 12%, even in the worst case. We start from a very healthy situation. To be fair, I think that it is also the case in the US, for example, and the big US banks and the vast majority of US banks also very easily pass the stress tests imposed by the Fed. Today, in both jurisdictions, we are starting from a very healthy situation.

In terms of competitiveness, the question mark and the potential problem for me comes from what is ahead of us going forward. The timing of this conference is perfect, because the US has very recently released its intention and ambition and how it will transpose Basel III endgame, which will lead to a stabilisation or even a slight decrease in capital requirements starting from today, while in Europe, starting from today, the path ahead of us is an increase of capital requirement. The implementation of the input floor for the loss given default (LGD) on some assets, still means an increase in capital requirements of 10% to 15%.

In terms of a joke, let us have in mind that it is also possible to die in a very healthy position. In terms of competitiveness, we should also have in mind that over the last 10 years the gap in terms of return on equity between US banks and European banks is around 4%. It is perhaps a little bit lower today, but over the last 10 years, there is about a 4% gap in terms of productivity of capital. With the total amount of capital at the European

system level, which is around  1.2 trillion, 4% means  500 billion net profit per year. Over 10 years, that is around  500 billion of net profit that has not been generated in the banking system. If you make a very rough assumption of a payout ratio of 50%, that is  250 billion of capital that is not there today to be able to refinance the European economy.

Part of the reason why the European economy, not just the banking system, is lagging behind the US overall is the lack of capacity to finance the European economy. We also have other constraints in Europe. It is not a secret that we have a lot of barriers to cross-border consolidation, on behalf of national strategic concerns that I do not deny at all. At the same time, it seems that policymakers are less concerned about European banks losing market share on their domestic market versus American banks year after year.

In terms of a broad reflection, my question is this. It seems that we favour today local optimum in terms of sovereignty in finance, but is the sum of the local optimum in every country the optimum for the overall European banking industry and European economy? We talk a lot about sovereignty today, sovereignty in defence, sovereignty in digitalisation, sovereignty in energy, sovereignty in agriculture. We do not speak enough about sovereignty in finance. Sovereignty in finance is absolutely key for me if we want to be capable and have the capacity to finance sovereignty on other sectors. That is why we should also think about this barrier on cross-border consolidation.

David Wright

What would your priorities be, Olivier? Say you were the commissioner now and you listened to this. What do you think are the key measures to take?

Olivier B elorgey

We know that at European level we have implemented Basel III endgame, not only at the most consolidated level but also at every local level. I am sorry to be so blunt and say this, but the power of the host regulators is very important today and creates a lot of additional buffers, or needs for additional buffers. I am not a utopian. I try to be optimistic, but I am not a utopian. Removing and coming back to a regulation only at the top consolidated level is probably not reachable, but potentially for banks that are directly supervised by the ECB, meaning around 112 banks, we could think about releasing some constraints at the host level.

I will take an example. Instead of complying with 100% liquidity coverage ratio (LCR) in each of our subsidiaries,

we could potentially comply with 90% of the LCR if you are supervised directly by the ECB, and if the consolidated level is compatible with the regulation. Having to have buffers to comply in each of our entities above 100% requires you to manage at least a 110% or 120% target for each entity, which creates buffers that are not useful at the consolidated level. That is one example, to be honest.

David Wright

Would you favour a mandate being given to European banking regulators to have a competitiveness and growth objective?

Olivier B elorgey

Of course. I think that many people talk about it today. We totally welcome the request for comment from the European Commission in this regard. We will answer at different levels, the Cr dit Agricole level, French Banking Federation level, European Banking Federation level, but of course we will answer that request for comment in due time. It is essential, and we should not miss this opportunity to effectively enhance the competitiveness of the European banking sector. We must not forget the complexity that we have produced in our regulation. For us, complexity means higher burden in terms of reporting and of administrative costs. It is perhaps less common, but it also means higher refinancing costs.

I will give you an example, as a global systemically important bank (G SIB), of when you have to explain the difference to an investor. As a G SIB we are subject to total loss-absorbing capacity (TLAC) regulation, which is specific to G SIBs. Also, as a G SIB we are also subject to enhanced supervision on top of some key and specific regulation, which I totally accept. When you have to explain to investors that on top of TLAC you also have to comply with the minimum requirement for own funds and eligible liabilities (MREL), the subordinated MREL, which changes from year to year, sometimes being more binding than the TLAC and sometimes less, you spend almost all of the meeting explaining that complexity. At the end of the meeting, the investor might have understood it. The next day he might have not, and the only thing he will keep in mind is that Europe is very complex. He will then ask for a higher spread for Europe because he does not understand everything.

Complexity is something that costs us a lot in terms of expenses and refinancing costs. Another example is about the multiple layers of systemic buffers. We have the G-SIB buffer. We have the other systemic buffers. We have the systemic risk buffer, which is a European specificity. Once again, when I meet with investors, even I

have to look at my briefing notes before because I do not remember exactly what it means. It is a nightmare.

David Wright

A big effort is needed to make the rulebook clearer and simpler from your perspective, and I think many banks share that. I know you have some very interesting ideas on digitalisation, tokenisation and stablecoins. From your perspective and from the European perspective, what are the key issues here for you?

Olivier Bélorgey

Thank you for the question, David. Digitalisation has been at the heart of the client journey for years, especially but not only for retail. That being said, through blockchain technology, tokenised finance creates a new ecosystem that offers large perspectives and opens the door to 24/7 potential financial services. That is why it is absolutely key for the European financial industry to invest in this technology in order to keep pace with innovation. In this regard, first of all it is effectively essential to develop a stablecoin in euro as a stake, once again, of European sovereignty.

This is in the hands of the private sector, and the Markets in Crypto-Assets Regulation (MiCA) is a good framework to be able to develop that. We are all still thinking about how it can work because we are all learning while walking, but a stablecoin could potentially offer the possibility of a new rail for payments. It can offer the possibility to have instant settlement for tokenised assets and tokenised funds. A lot of monetary funds are tokenised today, so that is why it is very important to invest in it. Today, 99% of stablecoins are dollar-denominated, and 95% are used for crypto speculation. We are convinced that it will develop for other use cases that are more embedded in the real economy. That is why it is important to European sovereignty to develop a euro stablecoin.

That being said, I think that we have to be very conscious that stablecoins are also a threat for commercial banks. If our clients switch their sight deposit from our balance sheet to stablecoin because they want to do real-time settlement it will jeopardise the stability of our sight deposit. This stability is essential. In fact, one of the major social roles of a bank in the economic system is to transform contractual, overnight sight deposits into medium and long term loans to the economy, betting on something which is absolutely demonstrated – the statistical stability of this sight deposit. If you lower the stability, if you decrease the amount of our sight deposit on our balance sheet, it will jeopardise our capacity to finance the European economy.

That is why it is also a potential threat. That is why at the commercial bank level we also try to develop what we call tokenised deposits, so a tokenised form of deposit on our balance sheet. Once again, we would propose 24-hour operation eventually. It will not be operational tomorrow, but the idea is to be able to offer our clients, through this tokenised deposit, a way to have an uninterrupted financial service 24 hours a day, seven days a week. That is what we are trying to build today. I think that stablecoins could also be a threat for central banks if instant payments develop outside of central banks. That is why it is also key for us to avoid remuneration on stablecoin, and also to continue to think about regulation of this new ecosystem.

David Wright

Olivier, your comments are most interesting. We will have to close now because of a very tight timetable. Please come and participate in Dublin. Our next meeting will be in Dublin, and I hope we can continue this conversation to talk about other things like payments. We did not quite get there, but I know you have a lot of interesting views about that. Thank you so much. I think everybody has learned a lot. Thank you again for Crédit Agricole's support of Europe, and we look forward to seeing you physically in Dublin. Thank you so much.

Olivier Bélorgey

My pleasure. Thank you very much, David.

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Makis Keravnos

Minister of Finance of the Republic of Cyprus

Opening remarks

Due to unprecedented circumstances, the Minister is regrettably unable to join us this morning, and it is my honour to deliver his remarks on his behalf. He wishes to convey his deep appreciation to EUROFI, its leadership, and all participants for sustaining this high-level dialogue at a crucial moment for Europe's financial future. The Minister reaffirms Cyprus's strong commitment to advancing our shared agenda—enhancing Europe's competitiveness, strengthening financial integration, and ensuring that our policies deliver real benefits for households, businesses, and society. Even in his absence, the spirit of partnership and constructive engagement that defines our Presidency remains fully intact. So.....

Ladies and Gentlemen,

Distinguished Ministers, Governors,
European and international
colleagues,

Dear friends,

It is a great pleasure to welcome you to the EUROFI High Level Seminar 2026, organised under the auspices of the Cyprus Presidency of the Council of the European Union.

Although we had originally looked forward to hosting you in Nicosia, circumstances have required us to move today's opening session online. I would like to thank all of you for your flexibility and continued engagement, which reflects the strong commitment

of this community to open and substantive dialogue, regardless of format.

I would also like to warmly thank Eurofi, its Chair David Wright, and the entire Eurofi team for their longstanding contribution to constructive and evidence based exchanges between policymakers, supervisors and the financial sector. At a moment requiring the swift and profound transformation of Europe's economy and financial system, the contribution of this forum remains more relevant than ever.

Europe today finds itself at a moment of choice.

We face weak productivity growth, high levels of public and private debt, and an increasingly competitive global environment for capital, innovation and talent on the one hand, which also produces increasing geopolitical challenges, on the other hand. At the same time, Europe must finance major collective priorities: defence and security, energy resilience, technological sovereignty and the digital and green transition.

These challenges cannot be met by short term stabilisation initiatives alone. They require structural solutions that strengthen Europe's capacity to raise capital, invest it in productive investments within Europe, innovate and, ultimately, grow, while preserving financial stability and social cohesion.

One paradox lies at the heart of our discussions.

Europe is not short of savings, yet

it continues to struggle to mobilise those savings effectively for investments. A significant share of household wealth remains in low yield deposits or is invested outside the Union, while European firms, particularly SMEs and innovative companies, face constraints in accessing long term, riskcapital. This disconnect weakens our competitiveness and limits our ability to respond to strategic challenges.

This is why the Savings and Investments Union is a central priority of the Cyprus Presidency. It is not technical exercise. It is the implementation of the decision for a strategic economic reform, aimed at reconnecting European savings with European investment needs through deeper, more integrated and more efficient capital markets.

Allow me to briefly situate our discussions in a broader geopolitical environment.

Ongoing instability in the Middle East continues to affect energy markets, trade routes, investor confidence and regional security, with implications that extend well beyond the region itself. In such a context, economic resilience and financial stability are not abstract concepts—they are essential components of Europe's strategic autonomy.

Cyprus, located at the crossroads of Europe, the Middle East and North Africa, is directly exposed to these dynamics. Our experience reinforces a simple lesson: fragmentation is costly and weakening, while

integration enhances resilience and strengthens. A stronger, more integrated European financial system is better equipped to absorb external shocks and support sustainable growth in an uncertain world.

Against this backdrop, the Cyprus Presidency has placed particular emphasis on three priorities.

First, competitiveness. Europe must become a more attractive place to invest and scale up. This requires reducing fragmentation, simplifying regulation where possible, promoting and accelerating innovation and ensuring that our financial framework supports risk taking, without compromising financial stability.

Second, resilience. With fiscal space constrained in many Member States, deeper private sector risk sharing through capital markets is essential. Well functioning capital markets and non-bank financial intermediaries can complement banks, identify and manage risks, raise capital while lowering the cost of capital and strengthen shock absorption.

Third, trust. Progress requires trust among Member States and confidence among citizens and investors. Delivering tangible results, on capital markets integration, supervisory convergence and simplification, will be key to rebuilding that trust.

The agenda of this seminar is therefore exactly right.

Over the coming sessions, you will address how to relaunch

investment in a context of over indebtedness, how banks and capital markets can work better together, how to reduce fragmentation and create European scale, and how innovation in finance can support growth while safeguarding stability.

The Cyprus Presidency firmly believes in pragmatic and phased solutions. In areas such as the Savings and Investments Union and the broader financial market agenda, the real choice is not between ambition and stability, but between integration that strengthens Europe and fragmentation that weakens it.

Europe's future prosperity will not be secured by public budgets or monetary policy alone. It will depend on our collective ability to mobilise private savings, channel capital into productive investments, and build truly European financial markets that serve citizens and the real economy.

I am confident that the discussions over the coming days, whether online or in person, will help turn urgency into agreement.

I wish you fruitful exchanges, constructive debates, and I thank you for joining us today.

Thank you.



Christodoulos Patsalides

Governor, Central Bank of Cyprus

Keynote speech

Esteemed guests, ladies and gentlemen, colleagues, and friends,

I am delighted to participate once again in the Eurofi High Level Seminar. I am speaking to you from the general vicinity of the Venetian walls of Nicosia. These walls were raised in the 16th century to defend the island from invaders and to protect civil life and commerce against hostile forces beyond Cyprus' shores. These walls were not symbols of division; they were structures of protection, resilience, and strategic foresight.

Today, Europe, as the rest of the world, is facing unprecedented turbulence. The threats we confront no longer arrive on wooden hulls, but through shifting global currents and fragmentation, competitive pressures, technologies shaped outside our borders and, unfortunately, armed conflicts. It is thus imperative to strengthen the safeguards that protect our economic life — not with stone bastions, but with digital foundations; not with walls that divide, but with systems that secure; not with fortresses of the past, but with architectures and infrastructures of trust for the future. We must renew and deepen the European project, shaping it into an even more resilient, autonomous, united and forward-looking union that delivers for all its citizens.

Colleagues,

At Eurofi, I am addressing people who already understand the strategic importance of a digital euro; knowledgeable experts involved in technical and political

discussions; and as we meet today, the picture is still evolving. Whereas the Council of the European Union has agreed its general approach since last December, the European Parliament is debating extensive compromise amendments, and the ECB continues the preparatory work with speed and determination.

What we can say with confidence is this: from idea to policy, and now to legislation in 2026 — the digital euro is on a well-defined trajectory to becoming a reality in 2029.

The Council has set out a clear direction. It sees the digital euro as complementary to cash, available both online and offline, and designed to strengthen Europe's strategic autonomy and payments' resilience.

Parliament, meanwhile, has been navigating an enormous volume of amendments to the European Commission's proposal — more than 1,400 — reflecting a wide spectrum of positions on privacy, governance, legal tender, and distribution. Last November, the rapporteur, Mr. Fernando Navarrete, tabled his long-awaited draft report in the European Parliament's ECON Committee. The draft was cautious. It questioned online functionality. It proposed conditionality — a "market test" to determine whether an online digital euro should ever exist. It leaned heavily towards an offline only, token-based instrument. It reflected concerns about privacy, financial stability, and private sector displacement — concerns that deserve respect and engagement.

However, it appears that the

rapporteur is currently working on a new draft that removes his proposal that an online version should only be launched if European private sector alternatives fail. This is good news.

It is a fact though, that the debate in Parliament is still maturing. It is a fact that the Cypriot Presidency stands ready to launch the trilogues later this semester. And it is a fact that, once the co-legislators come together, convergence will come — swiftly and constructively. And I have no doubt that everyone here at Eurofi understands the importance of getting this right and with urgency.

Today I want to keep my message simple. So let me focus on only three themes that will shape the success of the project: trust, balance, and implementation.

A digital euro will only succeed if people trust it as much as they trust cash today. And trust here means two things: (i) privacy, and (ii) clarity.

Privacy has emerged as one of the most sensitive issues. The Council speaks of ensuring "a high degree of privacy" for digital euro transactions. Parliament goes further, particularly on the offline version, emphasising that it should function as closely as possible to cash — a form of payment that leaves no trace.

These are different expressions of the same concern: Europeans want to know that the digital euro is on their side.

Co-legislators will need to remember three things: (a) that the

ECB will track no one; (b) that the digital euro design will protect our privacy; (c) that personal data will be pseudonymised and stay personal. Co-legislators must decide what will be enshrined in the law and what will be set out in the ECB's scheme rulebook — but let's be clear about what people expect:

- to feel safe, not watched.
- to feel free, not monitored.
- to feel empowered, not constrained.

Clarity will also matter. Citizens are asking: "What is the digital euro for?"; "Will it replace cash?"; "Will my bank account be affected?"

The Council is clear that the digital euro will complement, not replace, cash.

Parliament seems broadly aligned, but with stronger attention around legal tender and acceptance obligations. Mandatory acceptance matters. Without it, there is no inclusion, no resilience, no sovereignty. Exemptions must stay exceptional — otherwise legal tender loses meaning. And let's be pragmatic: if a merchant already accepts digital payments, they can also accept the digital euro — the infrastructure is there, the cost is minimal, and the obligation is proportionate.

This leads us to the second theme: balance.

Designing the digital euro is not simply a technological challenge. It is an economic balancing act.

Both the Council and Parliament agree that the digital euro must be distributed through private intermediaries: banks, payment institutions, electronic money institutions, and other service providers.

And that is important. Europe is not trying to bypass the market. It is trying to strengthen it by ensuring that central bank money can function in the digital sphere.

But co-legislators will have to grapple with the question: What does "intermediation" really mean in practice?

- Does it mean protecting banks from deposit flight?
- Does it mean ensuring space for private innovation?
- Does it mean safeguarding the relationship between citizens and their payment providers?

In truth, it means all of the above. And it means doing so in a way that maintains the fundamentality of financial stability and monetary policy transmission. It keeps banks strong, keeps innovation alive, and keeps citizens firmly in control of their money.

In all these debates, a simple principle stands out: we need a digital euro that strengthens Europe's payments ecosystem, not one that fragments it. In fact, it is envisaged as a platform for innovation and growth; exploiting existing standards and infrastructures for efficiency and cost minimisation, combined with being technology neutral.

The trilogues will need to find a balance that is firm but flexible; strong enough to protect the public interest, but agile enough to allow innovation.

The final theme is implementation. And here we are talking about sequencing, testing and governance. The Council sets out a structured path: establish the legal framework, empower the ECB, safeguard financial stability, and ensure both the online and offline versions are ready from day one. Parliament, by contrast, is leaning toward a more explicit set of pre conditions — calling for robust pre issuance testing, cyber resilience checks, liability allocation, and a phased or conditional roll out.

These questions stem from a reasonable concern: before we ask 350 million Europeans to use a new form of money, we must test it thoroughly and get the 'mechanics' right. The trilogue question, then, is straightforward: which implementation details belong in primary legislation, and which belong in secondary acts or the ECB's scheme rulebook? The art will be in deciding where to draw that line, while ensuring legal certainty and flexibility in responding to evolving market and technological developments.

Ladies and gentlemen,

The euro remains the world's second most important currency; but stability is not destiny. A stronger euro tomorrow needs stronger markets, stronger infrastructure, cross-border payment links, and a digital euro today. And I hasten to add that,

in due course, the digital euro will reinforce the importance of Europe in the international arena. The exploration of new technologies in payment and settlement, in which the Eurosystem is at the forefront, will bring opportunities to establish further the credibility of the euro as a currency of choice for trade, settlement and store of value. The digital euro will not chase reserve status abroad; it will build trust at home; and a stronger euro at home becomes a stronger euro in the world.

That's why we cannot slow down. Not now. Not when others are moving. I am confident that co-legislators will accelerate the legislative debate and keep 2029 on track — not as a hope, but as a commitment. Because every delay weakens us. And every step forward strengthens Europe.

Here in Nicosia, the symbolism is impossible to ignore.

- Cyprus knows what it means to negotiate under pressure.
- Cyprus knows what it means to preserve unity, even when the landscape is divided.

And so, perhaps from no other capital is the message clearer: 'Europe must design its digital currency with purpose — knowing that our monetary union is only as strong as the trust we build together.'

As we move into the trilogues, we must keep the conversation open and the details proportionate:

- We have seen that Parliament's early concerns on privacy and

stability are being answered: through cash-like offline design and a fully intermediated model.

- We have seen that the Commission's approach for 'both online and offline modalities' is emerging as the practical path to universal use from day one.
- We have seen the ECB respond to Parliament's request for modelling from 500 up to 3.000 euros per user, and Mr Cipollone's message to ECON Committee was unambiguous: holding limits are being calibrated with scientific precision, grounded in usability, monetary policy, and financial stability. The calibration mechanism is technocratic, and it will continue to be transparent.
- And on banks' investment costs, the ECB's own analysis shows that once synergies and cost-sharing are accounted for, the burden aligns with past pan-European payment projects — far from the costs of individual banks stand-alone investments some had feared.

While the democratic debate will continue to deep dive into issues that are highly technical, it ultimately returns to something profoundly human: the need for digital public money that is safe, simple, and trusted.

This is the era of unprecedented digital innovation and change. The future will be shaped by those who design its rules. The lesson

for today is clear; we must lead, not be led. Cyprus offers an ancient example of this mindset. In the 4th century BC, Evagoras, King of Salamis asserted political and economic authority by issuing his own coinage, an act that symbolized authority, confidence and participation in the wider Hellenic region defining his own terms. The lesson endures: those who mint their own course in history define their future.,

Ladies and gentlemen, let me close with an important message:

Today, as global conditions remain volatile and our Union is once again tested, it is essential that we sustain this momentum. Strengthening the foundations of our economic and financial architecture is more important than ever.

In this context, I firmly believe that Europe's digital transition, and in particular the work on the Digital Euro, can become a key pillar of our resilience and strategic autonomy reinforcing confidence in our common currency in an increasingly digital world.

Thank you.



Valdis Dombrovskis

Commissioner for Economy and Productivity;
Implementation and Simplification,
European Commission

Remarks

Good afternoon, ladies and gentlemen.

Thank you for the invitation to join you.

Eurofi remains a crucial forum to exchange on the financial and economic developments that are shaping our world today.

The fact that we are meeting virtually today is another reminder of the changing and challenging world we are living in.

I am grateful to the Eurofi team for ensuring that today's conference is still taking place as planned.

Europe will continue to stand in full solidarity with Cyprus during this difficult period.

The ongoing conflict in the Middle East clearly poses serious risks for the global economy.

As an energy importer, Europe is particularly affected.

Of course, the impact will depend on the duration, scope and intensity of the conflict.

In any case, it further underlines the urgency of acting decisively to improve our resilience.

We must move now to safeguard our long-term prosperity.

The broad challenges that the European economy has to overcome are not new.

Productivity and growth have been lower than they should be for some two decades already.

What has changed is the broader context.

Technological change is

accelerating.

Trade policy uncertainty remains high.

Dependencies are being exploited.

And Russia continues its brutal war of aggression against Ukraine.

The urgency of addressing economic and security challenges has therefore increased sharply.

A larger and more productive European economy is needed to enhance our economic resilience.

Only a resilient European economy can absorb the shocks and seize the opportunities of this new era.

It requires action across all fronts at both European and national levels.

The European Commission is determined to play its part.

We are deepening our Single Market and strengthening our trade network.

Our ambitious simplification agenda is another important element of enhancing Europe's competitiveness.

We know the European economy needs less red tape and more growth.

That is why the European Commission has been delivering on a simplification agenda that is unprecedented in both scale and ambition.

In December, the Economic and Financial Affairs Council called for ambitious simplification packages targeting the EU's financial services regulation.

The recommendations from the ECB's High Level Task Force on Simplification and the European Banking Federation's "Simply Competitive" report represent important contributions to these discussions.

We will take these inputs and others into account when presenting our next steps in this area.

More broadly, we will follow up the European Council's conclusions from last week where leaders call on us to put forward further omnibus and other simplification initiatives.

We will also continue to screen and stress test the EU acquis to eliminate outdated provisions, overlaps, inconsistencies and redundancies.

To that effect, we will set out an action plan for "regulatory cleaning", as part of our upcoming Communication on better regulation and enforcement later this spring.

But that's not all.

We must also leverage one of our greatest economic assets.

The euro has become a beacon of stability and a symbol of European unity.

It is used by over 358 million people across 21 EU countries.

The benefits of the euro - price stability, lower transaction costs, and deeper economic integration - have reinforced the EU as the world's most integrated economic area.

A greater international role for

the euro can be an important cornerstone of preparing the European economy to thrive in a more challenging world.

It can act to limit our vulnerabilities and enhance our economic and financial stability and security.

At the same time, it can boost the EU's competitiveness.

It could, for instance, help lower borrowing costs and shield EU importers and exporters from exchange rate fluctuations.

The European Commission presented a comprehensive set of possible actions to enhance the euro's global role earlier this year.

This demands a multifaceted strategy.

There is no silver bullet.

The global appeal of the euro in the world will first and foremost be determined by the strength and resilience of the European economy.

That means we must double down on efforts to drive the EU's competitiveness agenda forward and deepen our Single Market.

It also means implementing the Savings and Investments Union, diversifying our trade network, and enhancing our defensive capabilities.

These are the fundamentals that we need to get right.

If we succeed, we can create a positive feedback loop wherein our economy can strengthen the international role of the euro and a stronger international role for the euro can strengthen our economy.

Global geopolitical developments also underline the need to make the EU's retail payment systems more autonomous.

We are continually adapting to a less stable and more challenging geopolitical environment where dependencies are becoming vulnerabilities.

This is evident, for example, in our determined push to derisk, diversify and strengthen our trade network.

But we must also limit our exposure in other domains.

For this, we have a project whose time has well and truly come: the digital euro.

No area is more critical than our financial and payments infrastructure.

It is the circulatory system of the European economy.

Today, our payments landscape is highly dominated by non-European providers.

Almost two-thirds of card-based transactions in the euro area are carried out by non-European companies.

Thirteen euro area countries rely entirely on international card schemes for card transactions.

The annual transaction volume represents trillions of euro.

So, we are highly dependent on foreign-owned companies.

Our dependency can create vulnerabilities, especially in the current volatile context.

The EU must act to ensure its

citizens and businesses have access to a resilient payment infrastructure.

When it comes to services of such critical strategic importance, we simply must have a European alternative.

The digital euro is part of the solution.

It is a European public good that is fundamental to strengthening our digital and monetary sovereignty.

It is a key pillar of reinforcing the EU's overall strategic autonomy.

The digital euro is also crucial to spur competition and innovation.

It is not intended to compete with, or replace, private payment solutions.

It will provide a complementary solution.

Its open access standards will be made available to the private sector.

This will enable them to build innovative payment solutions on top of the digital euro.

It will also facilitate something that's all too often missing when we speak about European innovation: scale and network effect.

It will enable private payment providers to expand their services seamlessly across national borders within the EU.

In doing so, it will foster innovation and competition in the retail payments market that will benefit consumers, merchants and payment service providers alike.

So, the digital euro is not just an insurance policy against the dangers of dependency.

It provides the foundation for innovative European alternatives that can push every actor in the payments ecosystem to raise its game.

Finally, it responds to how our citizens are actually using their currency.

More and more Europeans are choosing to pay digitally.

The share of cash payments in the euro area between 2019 and 2024 dropped from 72% to 52% at the point of sale.

Yet, we lack a genuine European digital means of payment to fill the space left behind by this decline in the use of cash.

So, our currency must also adapt to keep up.

Of course, we are not seeking to replace cash.

Euro coins and banknotes are not going anywhere.

In fact, we are going to protect and preserve their role.

Our Single Currency Package will ensure individuals and businesses can continue to access and pay with euro banknotes and coins across the euro area.

But we do need a system to complement physical cash with its digital equivalent.

We must ensure that public money satisfies the evolving needs of Europeans.

The digital euro also responds to the value our citizens attach to maintaining their privacy.

It will provide cash-like privacy in the digital world for offline payments and a high degree of privacy for online payments.

It strikes the right balance between citizens' legitimate request for privacy in payments and the need to counter money laundering, terrorist financing and fraud risks.

Payment service providers, merchants and consumers need clarity and predictability to plan for the issuance of digital euro.

One important feature for the digital euro to succeed – and for its legal tender status to be effective – is that its online and offline features are implemented from the beginning.

The next step in the process is for the European Parliament must now reach a consensus on its position on the proposal.

Time is of the essence.

As leaders reminded us last week in their Euro Summit statement, we need to complete the legislative process and facilitate the necessary preparations for the introduction of the digital euro as quickly as possible.

Ladies and gentlemen, to conclude,

The challenges before us are significant, but so too is Europe's capacity to respond with unity, determination and vision.

I am convinced that by taking the steps we know we need to take today, we can build the resilience

needed to navigate an increasingly uncertain world.

These steps are essential to not only safeguarding our economic sovereignty, but also to lay the foundations for innovation and growth in the years to come.

If we act decisively, Europe will not merely adapt to change, it will help shape it.

Thank you.



Maria Luís Albuquerque

Commissioner for Financial Services and the Savings and Investments Union, European Commission

Speech

Good afternoon, ladies and gentlemen.

Firstly, I would like to thank the Eurofi team for making this conference possible under such challenging circumstances. We are clearly not operating in a business-as-usual environment, and I commend the whole team for adapting with such agility and determination.

Today, I would like to speak about our efforts to strengthen Europe's competitiveness through a more effective financing ecosystem. To do so, it is important to first set the scene and to understand the geopolitical context driving our decisions.

In many ways, the fact that I am addressing you virtually rather than in person already signals the shifts we are witnessing.

Ladies and gentlemen, Europe has too often been a reactive global power. The task before us now is to become more proactive, and to prepare for a new normal. That is the context in which I would like to frame my remarks today.

Over the past six months, since we last met in this forum, the Savings and Investments Union has advanced significantly.

We describe the SIU as a connector of savings and productive investments – and in that time, the Commission has actively engaged with all stakeholders to develop both sides of this equation.

On one side, we are working to turn citizens from mere

observers of the economic forces at play to active participants in it. This means better financial skills for Europeans, and more opportunities for them to invest their savings in productive assets.

We have put forward the first European financial literacy strategy aiming to equip citizens with the confidence to manage their money, save and invest – and to move beyond low-yield bank deposits as the default option for their savings.

And just a few days ago, we had the first meeting of the Financial Literacy Ambassadors, a concrete step in turning this strategy into action.

This brings us to the next step: ensuring that citizens not only understand the opportunities available to them but are also able to act on them in practice.

In September last year we recommended that all Member States introduce Savings and Investment Accounts to give citizens simple and accessible entry points into capital markets.

In November we complemented this with proposals to expand access to supplementary pension schemes.

Together, these are practical and effective ways to support the participation of citizens in capital markets, strengthening their financial resilience and improving long-term returns.

The second part of the SIU equation is to ensure that we have the capital to match the innovative

and entrepreneurial ambition of Europeans.

Public markets will remain central, and bringing more citizens into them will make a real difference.

But Europe already has significant financial firepower, and we must ensure it is deployed effectively.

If we are to achieve true scale, our institutional investors need the right incentives to lend to and invest in European companies and projects.

Our revision of the securitisation framework was a first step in that direction.

Since then, we have adopted further measures to foster more investments by pension funds, insurers and banks into companies, venture capital and infrastructure.

We believe that long-term investors in our economy need to have a clear path to deploy their capital at scale.

We have revised Solvency II to make it easier for insurers to invest in European businesses and strategic priorities.

In the same vein, the clarification of the prudent person principle and the proposed changes to the IORPS II Directive aim to facilitate pension funds' investment into equity and venture capital.

For both insurers and banks, we have also clarified that equity investments carried out under legislative programmes – where public support is combined with

private financing -, can benefit from more favourable prudential treatment, helping to crowd in private capital where Europe needs it most.

So, we have worked intensely to provide the incentives. We then started work to make sure that the system also provides the opportunities. We will be closely watching how these initiatives are implemented and taken forward by these institutional investors.

And this brings us to the circulation of Europe's capital markets - which, as you know, is still far from seamless.

In December, we put forward the Market Integration and Supervision Package. This package is not about incremental change or quick fixes - this is wholesale change. This package connects the two sides of our equation, and it has been designed to bring about true European scale.

It will create a genuine single rulebook to make passporting and cross-border activities a reality. This will include for example one single license to operate several local markets simultaneously - a new PEMO licence for trading venues.

It will create a truly connected market where trading venues, CSDs, and asset managers, all have access and contribute to deeper liquidity pools. Key market infrastructures need to be able to work more effectively together, and this package shows how we can achieve that.

The MISP fully embraces DLT-based innovation, supported by our revised DLT pilot regime and modernised post-trade legislation.

Importantly, this package also delivers more efficient and agile supervision. It enables single supervision through ESMA for our most significant cross-border infrastructures and crypto-asset service providers, while equipping supervisors with sharper tools to ensure convergence across the Union in all areas.

By reducing fragmentation and duplication, it creates scale, lowers costs and strengthens the

efficiency of our Single Market.

Ladies and gentlemen, since the beginning of this mandate, our focus has been clear: building a more agile Europe - one that can take strategic decisions, act faster, and that can truly compete.

That is the ambition behind our competitiveness agenda, with the Savings and Investments Union as a key driver.

But ambition alone is not enough. To deliver, we need rules that are clear, easy to use, and properly implemented.

From the outset, we have been turning this ambition into action.

We are taking a proactive look at existing rules to reduce unnecessary burdens on industry, while preserving their core objectives. Over the past year, we have delivered major simplification packages, from the omnibus on sustainability reporting, to the review of the Sustainable Finance Disclosure Regulation or the small mid-caps package.

But simplification must also translate into better outcomes for citizens. Pensions are a clear example, where complexity has too often discouraged both providers and savers.

This is why, last November, we adopted a package to simplify the Pan-European Personal Pension Product - the PEPP - making it easier for providers to offer these products across borders and for citizens to save with confidence.

Beyond this, simplification will be embedded across our broader agenda, from EuVECA and the Shareholders' Rights Directive, to measures supporting private company exits. And with the new "EU Inc." label, announced under the 28th Regime, we are creating a simpler way to do business across Europe.

Our simplification effort goes beyond Level 1 legislation. We have reviewed all pending Level 2 measures from the last mandate and are focusing only on what is truly essential. At the same time, we are working closely with the European Supervisory Authorities

to rationalise and reduce reporting requirements.

We will also make sure that the preparation of Level 2 measures for the recently agreed legislation, such as the Solvency II framework and the Insurance Recovery and Resolution Directive (IRRD) will embed simplification more broadly and give a true meaning to proportionality.

But it is important to note that the Commission can only do so much in the simplification journey. To really deliver on the ground, it must run through the entire legislative and supervisory process.

Too often, complexity has been added along the negotiation pathway - through exemptions, carve-outs, additional Level 2 mandates, and gold-plating at national level. The result is a system that is harder to navigate, risks entailing inconsistencies or diluting initial regulatory objectives and therefore often undermines our ability to compete.

Simplification is not about doing less - it is about doing better. And it is often the harder path. It requires discipline and a collective effort across the entire legislative and supervisory chain, as well as a clear commitment to avoid reintroducing national preferences that fragment our Single Market.

In my discussions with financial firms, innovators and businesses across Europe - North and South, East and West, across all market sizes - the message is consistent: they want a truly integrated market that allows them to grow, scale and compete globally.

Implementation is therefore critical, perhaps the most critical stage. Because in the end, what matters is what is applied in practice.

And we should be clear about what simplification means: for industry, it should mean one rule, interpreted and applied in the same way from Dublin to Madrid and from Helsinki to Nicosia, enabling one clear decision. It should not be more complicated than that.

Ladies and gentlemen, we are turning our rulebook upside down to distinguish what is essential from what is holding us back.

I have said this before, but it's worth repeating: incremental changes lead to incremental results. In the current geoeconomic and geopolitical context, that is no longer enough. If we want to achieve a fundamentally different result, we need to act in a fundamentally different way.

And simplification must not be confused with deregulation. It does not mean lowering standards or weakening prudential safeguards.

Financial stability and market integrity are not negotiable. They are the backbone of trust in our financial system. The progress we have made since the financial crisis – more transparent markets and stronger banks, – is a European success story. We will not reverse it.

The Savings and Investments Union strategy takes a broad view. It looks at the entire European financial ecosystem – capital markets, institutional and retail investors, banks and other intermediaries – with banks playing a relevant role, as the most significant providers of funding for companies.

Over recent months, my services have been engaging with many of you to ensure that we bring about a financing ecosystem in Europe that can truly move the needle to Europe's financing capacity. And this system must also be simple and easy to use.

The SIU has been designed to make full use of Europe's financing firepower. And this begs the question: "can our banks, alongside capital markets, drive Europe's competitiveness"?

European banks are resilient and profitable – there is no question about that.

Across the Union, they still provide around two-thirds of business financing. They are the first port of call for households and a vital pillar for SMEs.

But we need to go further. I would like to see banks opening up access to a wider range of financing options and playing a stronger role in directing savings towards Europe's strategic priorities.

I would also want to see banks operating seamlessly across Member States, in both wholesale and retail markets. And supporting a more relevant and efficient European capital market.

Making full use of the Single Market is how we strengthen Europe's competitiveness while continuing to safeguard the financial stability our system relies on.

As I'm sure you are aware, we are currently consulting stakeholders on these topics.

Our consultation reflects this ambition. It spans the full banking landscape and focuses on the key issues we need to address:

simplifying the rules that have become unduly complex, while safeguarding financial stability;

completing the Single Market for banking by removing barriers and enabling banks to operate as truly European institutions;

advancing the Banking Union by assessing targeted and practical solutions;

better reflecting the diversity of our banking sector, with a stronger focus on proportionality.

As requested by the European leaders at the last European Council, we will present our bank competitiveness report by the third quarter. It will identify the key blockages to competitiveness and set out a clear path forward to deliver meaningful change.

This exercise is not mostly about fixing unintended consequences of the current framework. We want to drive a positive forward-looking agenda, one capable of supporting a European banking sector fit for the future.

In the end, our success will depend on building a Europe that is easier to invest in and easier to scale in.

The question is no longer whether Europe has the capacity to compete – it does.

The question is whether we are ready to remove the barriers that hold it back.

This requires a collective effort – from policymakers, supervisors and industry – to deliver a system that works better for citizens and companies alike.

Because this goes beyond finance. It is about Europe's autonomy, its resilience, and its ability to defend its values and prosperity in a more uncertain world.

This is worth working for. It is worth fighting for.

And we must deliver it – together, for Europe.

Thank you.



Pierre Gramegna

Managing Director, European Stability Mechanism (ESM)

Savings and Investments Union: Powering Europe's innovation and resilience

In my remarks today, I will speak about the Savings and Investments Union, and how it can power Europe's innovation and resilience.

The events in the Middle East remind us how shockwaves travel in today's world. The disruption in that region has had immediate effects on global markets. As of this morning, the price of natural gas has increased by around 70% and the oil price by around 45% since the end of February.

This is affecting Europe, which remains dependent on energy imports, unlike the United States. The magnitude of the impact will depend on its duration. As the conflict continues and damages increase, the broader macroeconomic impact will only intensify.

The expectation that the crisis will have longer-lasting effects is being factored into market expectations and pricing.

The conflict has created a massive disruption to the global oil market, due to the near halt in shipping traffic through the Strait of Hormuz. Some of the damages caused by missile strikes, particularly to natural gas facilities, may take years to repair. So even if the war ends soon, damages to infrastructure remain, and it will take time to restore supply chains.

Europe cannot control these shocks. But we can build further resilience and can shape how well they are absorbed. It is crucial to strengthen the euro area economy while maintaining sound public

finances and reinforcing Europe's crisis preparedness. Public measures must therefore reinforce resilience rather than create new vulnerabilities, especially on the fiscal side.

This points to the fundamental question: How can Europe better position itself and develop tools to absorb future shocks?

One of the most powerful tools is Europe's own financial resources, provided that we mobilise and deploy them more effectively. Reducing our vulnerability to repeated energy-supply disruptions requires sustained investment in the green transition and energy security.

Europe also needs to invest in the other strategic objectives: competitiveness through innovation, digital capacity, and defence readiness. A well-functioning Savings and Investments Union (SIU) and our ability to scale up firms are key to making this happen.

I. Building on Europe's untapped strength

What are the building blocks of this strategic project that can boost Europe's long-term competitiveness, resilience and, ultimately, Europe's strategic autonomy?

SIU is not a single tool; it is the bridge and the engine that can turn unused potential into productive investment.

We often say Europe is a wealthy continent. Yet the scale is rarely appreciated: Households in the

EU now hold around €40 trillion in financial assets, but more than one third sits in low-yield bank deposits.

Meanwhile, the European economy will require substantial additional investment: between €800 billion and €1.2 trillion per year over the coming decade. This investment is needed to finance Europe's strategic priorities.

Here lies the paradox. Europe has the savings. Europe has the ideas. But they rarely meet. A functioning SIU is the bridge that would bring them together.

If we succeed in mobilising Europe's savings, the next question is: where should that capital flow? Innovation is the obvious priority. Europe continues to lag behind, and this is evident when we look at the numbers.

Kyriakos Pierrakakis, the President of the Eurogroup, recently highlighted two factors: R&D intensity in the EU is around 2.2% of GDP, compared with 3.4% in the US.

Venture capital investment is roughly 0.3% of GDP in Europe, compared to 0.7% in the US. Europe generates strong ideas, but it accounts for only 5% of global venture capital raised, compared to 52% in the United States.

I saw this contrast vividly during my recent roadshow on the US West Coast, where tech companies and venture capital funds live in symbiosis. This synergy is a powerful driver of innovation, and it offers lessons for Europe.

AI patents in the US account for a higher share of total patents than in Europe: around 8% versus 3% in recent years. And the US ecosystem is far more effective at scaling companies. According to recent data, the US has about 6 times more unicorns than Europe.

We don't have to start from scratch, however – we can build on successful examples in EU Member States. I'm referring to the Netherlands and the Nordic countries, which have taken important steps to deepen their own capital markets. Their experience shows that deeper capital markets foster innovation, increase productivity and enable firms to grow and compete globally.

This is based on well-functioning funded pension systems, stronger participation by retail investors, and, as a result, greater availability of risk capital for high-growth firms.

The task now is to scale these strengths across the Union. This means moving forward with initiatives both at EU level and at national level. Member states have a crucial role to play.

The Supplementary Pensions proposal by the European Commission is a very good compass in this regard. It combines recommendations to Member States to expand participation in supplementary pensions, with EU reforms to unleash pension fund investments in capital markets.

Such reforms are key to channelling more household

savings into capital markets and broaden retail participation. And we can do so in Europe's own way: by combining broad financial inclusion with strong social security and a robust banking sector that remains at the heart of our system.

And by emphasising the completion of the Banking Union, the SIU also recognises that a strong banking sector is an asset in building deeper and more resilient European capital markets.

In short, SIU is about enabling Europe's own financial ecosystem to operate at a scale that matches its ambitions. This vision is now being translated into concrete policy action.

The European Commission rolled out several proposals related to SIU in 2025. These include the Supplementary Pensions Package that I mentioned earlier and also a revised EU Securitisation Framework.

More recently, in December, the Commission published its flagship initiative, the Market Integration Package, which laid important groundwork for SIU. The Package has an ambitious timeline as the ECOFIN of this month wants to reach an agreement by June this year.

It will create a growth-enabling environment by achieving three goals: deepening market integration, increasing scale, and improving the efficiency of supervision.

The proposed measures will remove barriers, reduce complexity

and promote convergence, which will boost efficiency, and financial innovation.

The Market Integration Package includes changes to support the uptake of digitalisation in the financial sector, notably by the adoption of distributed ledger technology. Stronger market infrastructure, together with harmonised trade settlement rules are essential to ensure that innovations can scale across Europe.

All the above initiatives are crucial. But I would like to focus now on the boost that digitalisation can provide to SIU.

II. Digital innovation: a catalyst for achieving scale

The ECB is supporting these objectives by paving the way for a future digitalised financial ecosystem. The recently unveiled roadmap for the project Appia crystallises the vision of integrated, innovative and resilient tokenised wholesale financial markets in Europe.

This will enable banks and financial institutions to transact instantly, with tremendous benefits for the efficiency and competitiveness of the European payment system. Pilot projects using DLT have reduced securities settlement times from two days to under 10 seconds.

The potential is transformational: faster, safer and more efficient settlement can lower costs, reduce barriers to cross border investment, and help European markets operate at the scale

needed for a true Savings and Investments Union.

Digital innovation can also help to accelerate retail participation. Across Europe, retail participation in capital markets remains far too low. In 2024, only 17% of households held listed shares, compared with over 50% in the US.

By lowering costs, simplifying processes, and making secure digital investment tools widely accessible, digitalisation can remove many of the frictions that currently hold back retail participation.

This momentum is also visible in recent initiatives to remove longstanding barriers to scale.

Last week's proposal by the European Commission for the 28th regime - or "Europe Inc." represents a significant step forward, facilitating the set-up of companies thanks in part to digitalisation. It offers companies a single EU-wide rulebook, a 48-hour registration process for less than €100 and a simple digital interface.

By removing the "invisible tariff" of 27 different corporate law systems, it directly tackles one of the major obstacles to cross-border investment and scale-up.

The proposal may not be a perfect and complete solution, but it moves us decisively in the right direction. At this stage it is more important to act fast than seek perfection.

Conclusion

Ladies and gentlemen, let me

conclude with the big picture. In today's more confrontational world, competitiveness is one part of a broader challenge: building resilience.

Let me quote a figure:

Private cross-border risk sharing in the euro area absorbs about 20% of an asymmetric shock, while in the US, the figure is around 50%. This gap has real consequences:

Slower and more uneven recoveries, ...

Greater pressure on public finances, ...

And more persistent economic divergence across Member States.

A well-functioning Savings and Investments Union would narrow that gap. It would strengthen resilience by enabling markets to do what they are designed to do: To allocate capital efficiently and manage risk.

This would reduce reliance on national fiscal resources or crisis mechanisms such as the ESM, allowing Europe to respond more effectively to external shocks. In that sense, integration is resilience.

The Savings and Investments Union is the most important economic project for Europe today. It determines whether our savings finance our own growth, whether our firms can scale in Europe, and our economies can absorb shocks without relying excessively on public support.

Making the SIU a reality is a collective undertaking - one that calls for Member States, European

institutions, and the private sector to act with a common purpose.

None of us can deliver it alone. Yet all of us stand to gain from its success.

Deeper, more integrated capital markets are ultimately the smartest investment we can all make in Europe's future resilience.

The case for the SIU is clear – and speed is of the essence. The time to deliver is now.

Thank you.



Roland Lescure

Minister of the Economy, Finance and Industrial and Digital Sovereignty, France

Speech

Mr Chairman, dear David [WRIGHT],

Mr Secretary General, dear Didier [CAHEN],

Governors, ministers,

Ladies and gentlemen,

I would like to thank governor Patsalides for his introduction.

I am very pleased to speak with you today, even if it is virtual.

I deeply regret that you couldn't hold that meeting in person. As you know we take the security in Cyprus seriously and the French president was in Cyprus few weeks ago to reiterate his support to the country.

We are now facing a regional conflict that could lead to significant consequences, especially if it lasts longer. We are closely monitoring the economic impact of the energy crisis and working to mitigate it, in the Eurogroup, in ECOFIN, and in the G7.

At the same time, we should never let a crisis go to waste. We must accelerate the reduction of our dependencies, wherever they create vulnerabilities.

In the last decade, from the Covid-19 Crisis to today's energy challenges, the concept of European strategic autonomy has taken root across many of Europe's key industrial sectors. Emmanuel Macron my president has been saying it for ten years: this concept of strategic autonomy is now largely supported in Europe.

And finance has a key role to play.

Mario Draghi has estimated between €750 and €800 billion per year to support European competitiveness.

France is stepping up: €109 billion mobilised at the Paris AI Action Summit, €77 billion committed to our new nuclear programme, and defence spending rising to €68 billion per year by 2030.

But we must act at the European level to finance our companies at scale.

Finance is the lifeblood of European autonomy. It is the ultimate enabler.

And we are not short of resources: €35 trillion in savings across Europe, including €6.6 trillion in France alone.

The capital is there. What we need is a financial system that matches our ambitions: one that channels savings into productive investment, especially in our strategic sectors.

Yet financial market autonomy remains unfinished business. Non-European banks continue to gain market share. Today, U.S. banks represent nearly 55% of global banking market capitalisation, compared with around 20% for euro area banks. The real question is: how do we make our banks stronger.

We must think bigger, move faster, and act at scale to finance our companies.

Earlier this month, I co-signed a letter with five partner Member States calling on the Commission to accelerate work on the financial agenda.

I see two main priorities.

First, we must conclude negotiations on the Market Integration and Supervision Package.

The Commission's proposal is a major step towards deeper and more integrated capital markets. I would like to commend Commissioner Albuquerque and her team for this ambitious starting point.

We must preserve both the unity and the ambition of this package.

The diagnosis set out in the Draghi and Letta reports is now widely shared: our capital markets are too fragmented and not competitive enough. We should now follow the Noyer–Kukies recommendations and build a genuine Savings and Investment Union.

This is essential for competitiveness, for financial stability, and for investor protection.

It means a single and centralised supervisor for cross-border players, a true securitisation market, a proper 28th regulatory regime, and an efficient Finance Europe label.

Second, we must strengthen the competitiveness of our banking sector.

The Commission has committed in publishing a report in 2026 on the state of the banking system in the single market, including a full assessment of its competitiveness.

This report must lead to bold action on three fronts:

First, simplifying and streamlining regulation, to create a more proportionate and predictable framework.

Second, ensuring that European banks can compete on equal terms with their global peers. The ongoing discussions on market risk requirements will be an important first test.

And third, relaunching banking consolidation in Europe. A fragmented banking sector limits our ability to finance investment, to help companies scale up, and to reduce our dependence on non-European intermediaries.

We cannot leave our destiny in the hands of others.

We have the savings. We have the companies. We have the ambition.

I know I can count on your commitment to build Europe's financial autonomy.

I wish you a very successful forum and productive discussions.

Thank you.



Gabriel Makhlouf

Governor, Central Bank of Ireland

Bridge to the future: Mobilising Europe's savings in a fragmenting world

Good morning and thank you for the invitation to join you.

Let me begin by acknowledging the difficult backdrop to my remarks today. The sad fact that this event has been forced online underscores the realities of the changed world we are in. Προς τους φίλους μου στην Κύπρο, λυπάμαι που δεν είμαι μαζί σας και ελπίζω να μπορέσω να έρθω σύντομα κοντά σας.

We are living through a period where the global environment is shifting economically, politically and institutionally. These shifts reinforce the need for the values, systems and structures that we have relied upon, indeed built our economic model upon: multilateral, shared rules, collaboratively designed and based on mutual respect and trust. While we may not have sought out the shifts, we need to recognise that they represent a new reality and, as European policymakers, we should double-down on our commitment to openness, to the rule of law, to stable institutions and to our values.

My main message today is that mobilising Europe's savings requires us to ensure that our economy is productive and innovative and operates as a genuine Single Market, creating the prosperity that generates capital that supports the longer-term wellbeing of Europe's citizens. To put it another way, don't ask only what the Savings and Investments Union can do for you; ask what a genuinely barrier-

free Single Market can do for Europe's savings and investments.

In thinking about how we respond to this moment of economic and political shifts, I find it useful to consider the image of a bridge. A bridge connects by bringing places and peoples closer together, arguably the *raison d'être* of the European Union. In responding to our new, more fragmented, world, we need to think about the bridges that will help us to connect better. And the bridge I want to talk about today is bringing European economies closer together so that they and their financial systems are better connected to European citizens.

Europe today finds itself in a curious position: households and institutions collectively hold substantial savings. In the euro area alone, savings rates spiked during the pandemic and remain materially high at around 15 per cent, still in excess of pre-covid levels. This has meant that Europe's total stock of household deposits is now nearing €10 trillion¹.

Yet investment, particularly through European capital markets has not kept pace with this increase. While only one-fifth of euro area household wealth is held in financial assets, we know that households in other countries allocate a significantly larger share of their wealth to market-based instruments.

Echoing the paradox of thrift: while saving is prudent for individuals, when considered at the macro level they can dampen

demand and constrain growth if not channelled into investment.

Channelling a proportion of that stock and flow of savings into investment would go some way to helping the EU meet its investment needs, estimated at an additional €750-800 billion annually by 2030.

The savings and investment habits of Europeans reflect a range of considerations, some of them are structural, some are cultural, some align with economic incentives or risk appetites and others are about knowledge and understanding.

You will be relieved to hear that I won't address all of these today. But in considering how to mobilise savings to invest in European capital markets – or how to strengthen the bridge that brings savings and investments closer together – I want to start by focusing on a key fundamental, namely the economic growth that generates the savings that are needed by European capital markets.

Sustainable growth and deep and liquid markets enable capital to flow efficiently to investment. And with capital allocated productively, the economy can grow in a sustainable way.

The policy agenda to strengthen the bridge that we now call the Savings and Investments Union is welcome, needed and more important than ever.

A more fragmented world

That is because we are operating

in a global system that is becoming more fragmented.

Trade, technology and capital flows are increasingly shaped by geopolitical considerations. Supply chains are being reconfigured. Autonomy is becoming a policy objective across jurisdictions. Sometimes it can be strategic. And sometimes it can even be open. Either way, the rules-based system that has underpinned decades of economic integration is broken.

The resulting geoeconomic fragmentation, coupled with the pandemic and Russia's war on Ukraine and its people comprise a trifecta of serious shocks to the European economy. The war on Iran has turned that into a quadruple. And perhaps we are seeing an emerging environment resembling Joseph Nye's "Kindleberger Trap", a world in which global leadership and coordination weaken, and with them the stability of the economic system.

Whether or not you accept that scenario, the direction of travel is clear: we are moving toward a world where European economic strength matters more than ever.

For us in Europe, it presents both a challenge and an opportunity.

The challenge is that our growth performance is not as high as we would expect from an advanced economy of 450 million people accounting for over 14 per cent of global GDP. We are not achieving the potential of our underlying fundamentals.

The opportunity is that we have a set of institutional strengths that are highly valued – and increasingly highly valued – in a fragmented world: predictability, stability and a deep commitment to the rule of law. The question, therefore, is not whether Europe has the resources to succeed. It is whether we are deploying them effectively. Mario Draghi and Enrico Letta have addressed that question.

Mobilising European savings: getting the foundations right

Which brings me to the core issue I want to focus on today, how to build the bridge that helps to

ensure European capital works for Europeans. We know that Europe has abundant savings. And yet a significant proportion of those savings continues to be invested outside the European Union. Why is that?

Growth prospects

At its core, the answer is straightforward: capital will always seek out the greatest potential returns. If European savings are flowing abroad, it reflects the fact that investors, whether households or institutions, expect higher risk-adjusted returns elsewhere.

So, the question we should be asking is not simply how to redirect those flows, but why those returns are perceived to be higher outside Europe, and what we can do about it.

Fundamentally, it comes back to the performance of the real economy. If European growth remains relatively weak, it limits the effectiveness of any financial or regulatory reforms aimed at deepening and integrating our capital markets.

This is the central message that runs through the Draghi and Letta reports: productivity and growth are the fundamental drivers of economic success.

Of course, growth does not exist in isolation. It depends on a stable macroeconomic framework: sound monetary policy delivering price stability, prudent fiscal policy, and sustainable debt dynamics. These are not optional. They are the foundations upon which everything else is built.

But beyond these fundamentals, we should focus on the structural conditions that support growth. And here, I think we need to be clear: the Single Market remains our most powerful, and underutilised asset.

Thirty years after its creation, significant barriers remain, particularly in services. Removing those barriers would not only boost productivity directly; it would also enable a step change in the development of Europe's capital markets.

Market depth and liquidity

The fact is that European capital markets remain less deep and less liquid than their counterparts elsewhere. This is both a cause and a consequence of capital outflows.

Liquidity attracts liquidity. Large investors are reluctant to commit to markets where exit is uncertain. This keeps volumes low, which in turn keeps liquidity thin. Breaking this equilibrium requires scale.

It requires a critical mass of issuance, including the development of a European safe asset. European policy makers need to give serious consideration to whether now is the right time to pursue a European safe asset, one which could anchor institutional capital. In my view the answer is an unambiguous 'yes'. It would be a significant step forward, and an important counter to European savings and capital being drawn towards alternatives.

Our capital markets also require stronger retail participation, including – I suggest – through pension reform. And it requires continued efforts to reduce fragmentation within markets. I mention this not for the sake of the financial services industry but because of the benefits that participation in capital markets can bring to the real economy and to individual households.

The Savings and Investments Union has the potential to improve market functioning, simplify the regulatory framework, and support innovation. But we should also be clear about its limits.

Financial market reforms cannot substitute for real economy performance. Nor should debates about supervisory structures distract us from higher-priority objectives. Improving convergence in supervision matters but it is not the defining feature of a successful capital market.

What matters more are deep and liquid markets, supported by strong economic growth and a large supply of high-quality assets. These elements would improve the bridge between savings and productive investment

both for the individual European citizen and the European community as a whole.

The role of central banks and regulators

So where do central banks and regulators fit into this picture?

Our role is not to deliver productivity growth or remove barriers in the Single Market. But we are responsible for anchoring the conditions that make growth and investment possible.

First and foremost, that means delivering on our mandate of price stability despite the geoeconomic environment becoming increasingly more volatile.

Stable and predictable prices are essential for long-term investment decisions. Without them, uncertainty increases, risk premia rise, and capital allocation becomes less efficient.

Second, we have a responsibility for financial stability.

A stable financial system is a precondition for effective capital allocation. It protects consumers, supports confidence, reduces risk, and enables investment.

At the Central Bank of Ireland, our priorities reflect these realities. Our recently published Regulatory and Supervisory Outlook report emphasises the importance of resilience across institutions, markets and the system as a whole. It highlights the need to protect consumers and investors. And it recognises the growing importance of innovation and technological change.

We are also focused on ensuring that our regulatory framework is effective and efficient and have published a roadmap on how we intend to ensure we regulate and supervise well, supporting better outcomes and effective resilience.

Conclusion

Let me conclude. Europe does not lack savings, and it certainly does not lack potential. But we need to work collectively to enable the conditions – namely growth, market depth and scale – required to retain and deploy those savings within European capital markets.

In a more fragmented world, this matters more than ever. Because capital will increasingly flow to those economies that offer not only stability, but also opportunity.

The task before us is therefore clear:

- Strengthen our growth prospects
- Complete and deepen our Single Market
- Build more effective and integrated capital markets
- And maintain the macroeconomic and institutional stability that is Europe's hallmark

Oscar Wilde once put it well, "the truth is rarely pure and never simple". And the way forward is neither easy nor simple.

But, if we do these things, European savings will not need to be persuaded to stay. They will remain because the opportunities are here, because we have built the bridge – one of Robert Schuman's réalisations concrètes – to connect savings with productive investments.

And although building bridges isn't a straightforward task, we Europeans have a history of doing it well, from the Arkadiko Bridge in Greece and the Ponte Vecchio in Florence to the Viaduc de Millau in France and the Øresundbron between Denmark and Sweden and many others.

By harnessing our Single Market alongside our international openness, outlook and leadership and by building a Savings to Investments Bridge, we can ensure that Europe's economic future is not only secure but strong.

Thank you to Seán O'Sullivan, Cian O'Laoidhe, Caroline Mehigan and Vasileios Madouros for their input into these remarks.

1. <https://data.ecb.europa.eu/key-figures/money-credit-and-banking/bank-balance-sheets/deposits?tab=Households&indicator=Deposits%2C+total+--+stocks>



François Villeroy de Galhau

Governor, Banque de France

Little time left to wake up: Can we reconcile Europe with speed?

Ladies and Gentlemen,

This Eurofi is especially meaningful to me, as it will be my last as Governor of the Banque de France; after 18 meetings in which I have had the privilege to participate, thanks to David Wright and Didier Cahen. I will therefore take this opportunity to express my gratitude to Eurofi and perhaps express myself even more freely today. Like all of you, I deeply regret not being able to meet in person in Cyprus, birthplace of Zeno of Citium, the founder of Stoicism, comes a timely lesson: we need lucidity about what we cannot change, and determination regarding what we must change. The conflict in the Middle East, which I will not address directly this morning, is one reason more to act stronger and faster.

Let me be straightforward: we Europeans don't have much time left to wake up. The question is not the "What?": we Europeans already know what needs to be done (I). The real question is "How?", and even more so "How fast": why are we so slow in delivering? Can we reconcile Europe with speed? (II).

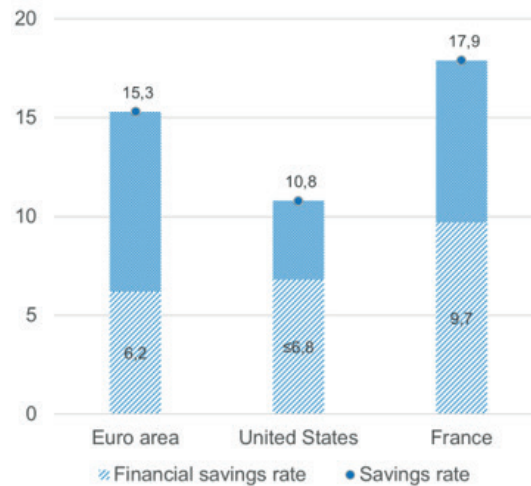
I. We Europeans know what needs to be done

1. A shared diagnosis: the Draghi-Letta consensus

Over the last 25 years, GDP per capita has increased by a cumulative 31% in the euro area, lower than the 47% in the United States. The main cause is our "Schumpeterian" innovation gap.¹ Yet Europe does not lack savings: the euro area household saving ratio stands at more than 15% of gross disposable income, against 11% in the United States.

EUROPE DOES NOT LACK SAVINGS, IT LACKS EQUITY

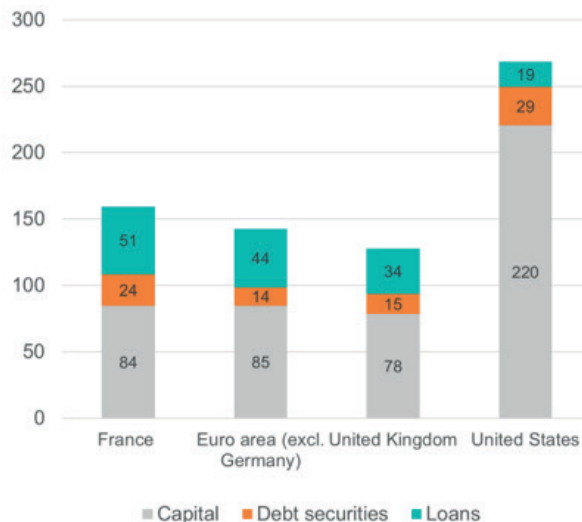
Savings rate and financial savings rate
(% of gross disposable income)



Sources: BEA, Eurostat

Note: Annual average for 2024. Percentage of household and NPISH gross disposable income.

Non financial corporations liabilities
(% of GDP, Q4 2024)



Sources: Banque de France, ECB, OECD, US Fed

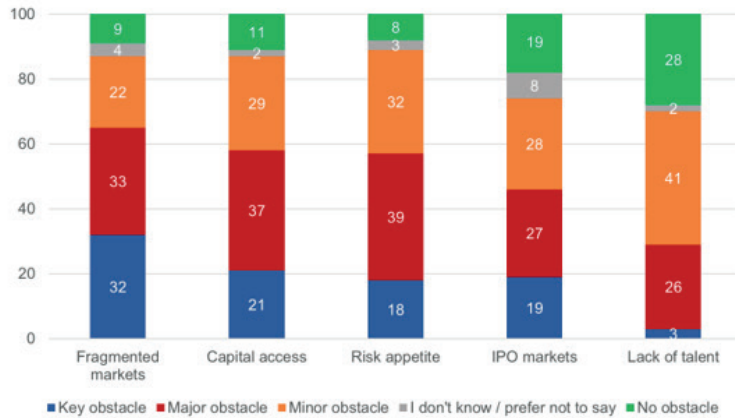
But it lacks equity capital, which is essential to finance breakthrough innovation and risk-taking. Equity financing of non-financial corporations amounts to only 85% of GDP in the euro area, compared with 220% in the United States. The diagnosis is all too well-known to European companies and investors: while they identify market fragmentation (32% of respondents in the annual European Investment Fund Equity Survey²) and access to capital (21%) as the key obstacle to scaling up EU firms, only 3% point to a lack of talent.

Furthermore, while total investment³ (as a share of GDP) in the euro area is almost the same as in the US, productive investment – without construction – is much lower (10.5% of GDP in the euro area compared with 14.3% in the US) and still more so in innovative investment.⁴

And let me sum up the cumulated 548 pages of the Letta⁵ and Draghi⁶ reports with three imperatives, three i's we all agree upon. First, integrate more the single market, notably with the creation of an optional 28th regime by 2028.⁷ Second, invest better: this is the Savings and Investments Union.⁸ Third, innovate faster, and, for that, dare and simplify.

CORPORATE'S EXPECTATIONS

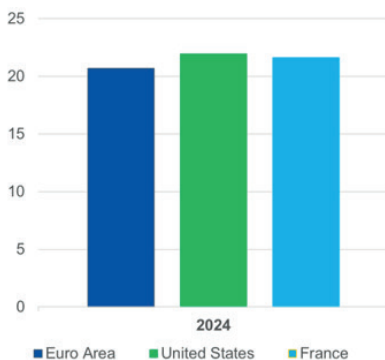
Obstacles to scaling-up EU firms
(% of responses)



Sources: EIB Investment Report 2025

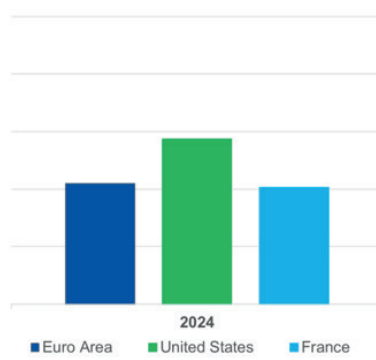
EUROPE DOES NOT LACK TOTAL INVESTMENT, IT LACKS PRODUCTIVE AND STILL MORE INNOVATIVE INVESTMENT

Total investment
(GFCF, volume, % of GDP)



Sources: OECD, GFCF by asset

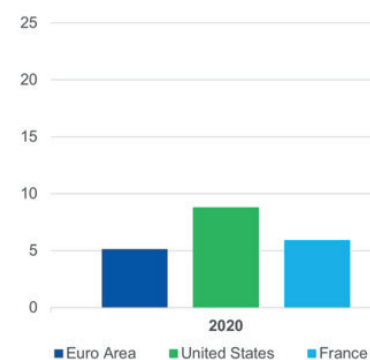
Productive investment
(volume, % of GDP)



Sources: OECD, GFCF by asset

Note: Productive investment is the total GFCF minus construction (Dwellings, other buildings and structures etc.)

Innovative investment
(volume, % of GDP)



Sources: EUKLEMS and INTANProd

Note: Innovative GFCF is computed as the sum of ICT, software and databases and R&D

2. Europe's awakening is slowly taking shape

Some progress has certainly been made over the past year: as of January 2026, 39% of the Draghi report recommendations were totally or partially implemented.⁹

And let me mention just three recent examples:

- In 2025 alone, the European Commission presented 10 Omnibus simplification packages,¹⁰ which could reduce recurrent administrative costs by EUR 11.9 billion.
- The Savings and Investments Union is not just a rebranding, but a more strategic way to unite banking and capital markets objectives – with first concrete proposals on centralized supervision, retail investment and insolvency law.¹¹
- Europe has also built on the successful precedent of common EU bond issuance, with the adoption of SAFE¹² in May 2025, which will provide up to EUR 150 billion in joint borrowing for defence investments.

II. Why are we too slow?

These are encouraging steps, and Europe is witnessing a new convergence around “strategic autonomy” or “economic sovereignty”, whatever you want to call it. Yet implementation remains too slow and too conventional – especially when compared with our competitors, be they the US or China. Many of our fellow citizens are raising this question of **speed**. Let me examine four possible candidates for explanation.

1. Strategic convergence but technical disagreements?

Our strategic convergence may still be superficial: what looks like a broad consensus masks many technical disagreements, when we go from the broad political agreement to the detailed administrative work. And in parallel, we are still struggling to embody the Letta and Draghi agenda into a few concrete and politically attractive projects. As Jacques Delors used to say: “you

do not fall in love with a Single Market” – and, let us be honest, nor do you fall in love with a Savings and Investments Union. But this is the means to deliver three concrete European priorities: AI, decarbonised energy – all the more so after the Iran war – and defence.

Moreover, our European culture and reflexes too often favour caution and incrementalism over breakthrough change¹³ – both in our investment habits and in our institutional choices. Europe fears the risks of action, whereas America fears the risks of inaction. But the success of Denmark, the Netherlands and Sweden show us that economic growth and social values can go hand in hand. And this is a “dare or die moment”. Crises can either make Europe – or unmake it, depending on our collective will to overcome them.

2. Our governance remains too cumbersome?

Europe has shown in the past that it can turn crises into progress. The global financial and sovereign debt crises led to major advances: from the European Stability Mechanism to the Banking Union, alongside decisive action by the Eurosystem. Europe has, even recently, shown its ability to act swiftly: after Russia's invasion of Ukraine in 2022, with sanctions packages adopted in real time, and several major support instruments for Ukraine decided on in quick succession,¹⁴ at a time when the additional US packages were delayed by congressional discussions. The EU has also moved faster than the US in our Markets in Crypto-Assets Regulation (MiCAR),¹⁵ two years before the GENIUS Act.

But today's geopolitical crisis has not yet triggered the same acceleration. Our governance remains too cumbersome. The challenge is not to choose between democratic legitimacy and speed, but to reconcile both. Too often, each European actor plays too much of an individual game, adding its own delays, when what we need is to step up our collective game.

In the economic field, unanimity fortunately remains the exception

rather than the rule, being still a real obstacle in taxation, hindering the SIU, or sanctions and key support instruments to Ukraine. But slowness is not only a matter of voting rules. It also depends on early and bold initiative by the Commission, how quickly the Council and the European Parliament align, and which legislative instrument is chosen. Let us not repeat the delays of the digital euro, where we will possibly need 35 months between the initial proposal of the Commission and the final vote of the European Parliament. Where a truly common framework is needed, regulations – which are directly applicable throughout the Union – can offer greater speed, clarity and unity. The regulation proposed by the Commission on the 28th regime,¹⁶ or “EU Inc.”, is a positive example. It is now for the European Parliament and the Council to match this ambition with the same sense of urgency.

This leads to a broader question: should our Europe move towards deeper integration? A general federal leap is clearly out of reach. But we may need, to borrow Mario Draghi's seminal speech in Louvain,¹⁷ a form of “pragmatic federalism” in some strategic areas, with stronger common instruments and decision-making powers following the Euro example – from defence to energy, technology and financial integration.

3. The relevant geographic scope?

This consideration leads us to our third candidate for slowness: the geographic scope. Too often, European unity means that all 27 Member States must move together, at the same pace. But this search for completeness can become a source of inertia. In some strategic areas, Europe should be able to rely on coalitions of willing Member States.

Some may question whether Europe can truly make differentiated integration work. After all, enhanced cooperation has been provided for since the Treaty of Amsterdam (1997), and it has almost never delivered in practice.

Yet the euro itself provides the clearest example. Over the past 27 years, Europe has established its monetary sovereignty through the euro – a major popular success, supported by 82% of European citizens.¹⁸ And it was built through gradual integration, starting at 11 in January 1999, with Bulgaria becoming the 21st member in 2026. But the euro teaches us a second valuable lesson: variable geometry only works when a policy is anchored in a single strong and specific institution, entrusted with democratic accountability on a clear mandate and sufficient independence to ensure efficiency – the ECB,¹⁹ together with the Eurosystem.

4. A mobilising deadline

Finally, we still miss a credible calendar. Our economic and financial sovereignty can only be achieved if it meets one key condition, an alignment of three stars: political goals, administrative work, and corporate business. As a famous saying attributed to Walt Disney goes, “The difference between a dream and a plan is a completion date.” This is even more necessary today as the American dream of many European businesses has weakened, amid the growing unpredictability of US policy. Europe must now offer a credible counterproject of its own.

To this end, I call for a *mobilising deadline*,²⁰ as Jacques Delors did in the past with 1 January 1993 for the single market, and 1 January 1999 for the single currency. The exact date can be discussed. But it should fall within the “Trump years”. Why not 2028 – 35 years after the Single Market? Or 1 January 2029 – 30 years after the euro?

May I conclude with one sentence I heard very often in the past year in this new global order – or disorder – from our non-European colleagues – be they from advanced or emerging economies: “You Europeans have a unique opportunity; don’t waste it.” So far, the jury is still out... but the window of opportunity is about to close. Let us stabilize the roadmap

along a practical matrix, like the one proposed by Enrico Letta in February.

But let us definitively change speed, combining three levers: a team-playing European governance, flexible geographies when needed, and one single mobilizing deadline.

Allow me a personal recollection, as a long-standing actor of the euro: sometimes, the line between success and failure comes down to very little. During the EMS crises of September 1992 and July 1993, and again during the euro crisis in the summer of 2012, it took – and it was enough – the cool heads and courage of a few men, from Jean-Claude Trichet and Hans Tietmeyer to Mario Draghi. Today, we stand before that same line between success and failure, and we bear that same responsibility before history.

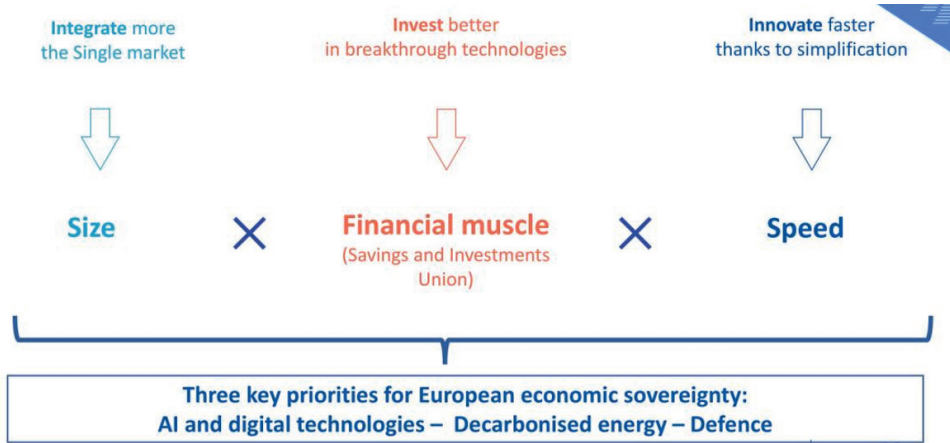
Thank you for your attention.

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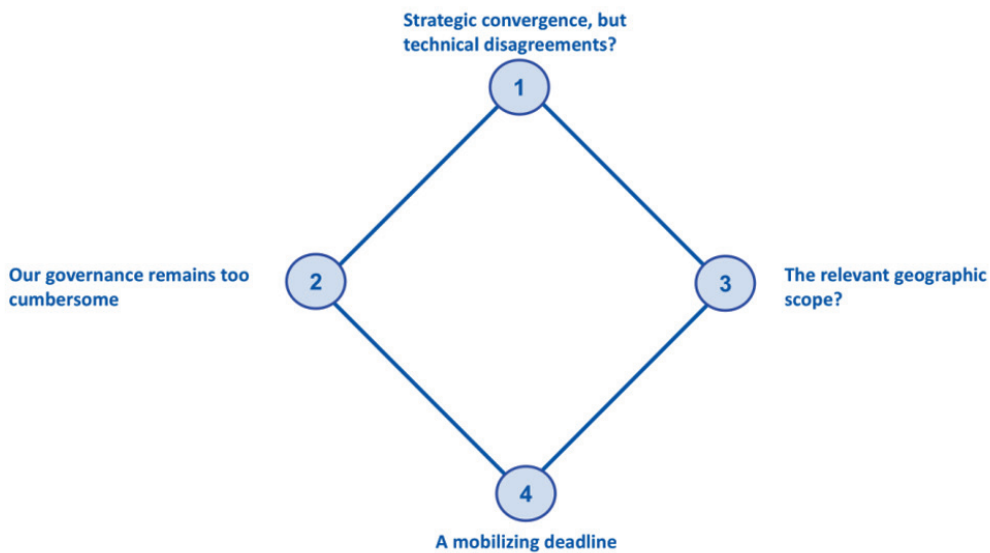
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THREE IMPERATIVES FOR BEEFING UP THE EUROPEAN ECONOMY



FOUR CANDIDATES TO EXPLAIN OUR SLOWNESS



A "LETTA MATRIX" FOR THE COMPLETION OF THE SINGLE MARKET





Markus Ferber

MEP, Economic and Monetary Affairs Committee,
European Parliament

Speech

David Wright

Good afternoon, everybody. Welcome to an afternoon session in which we have a number of speeches and exchanges of views. The first of them is with Markus Ferber, MEP and member of the Economic and Monetary Affairs Committee, and a very important one. He has been in the European Parliament since 1994.

Markus, I always have described you before as the doyen of financial services. You have been right at the heart of many of the big debates on financial services over many years. Right now, you are the coordinator of the EPP Group in the Economic and Monetary Affairs Committee. Very importantly, right now, you are the rapporteur for the master regulation of market integration and the supervisory package. I heard you talking about this a little bit earlier on. I am sure you will have some words about this now. It is a great pleasure to have you with us. You have been an enormous supporter of Eurofi and we greatly welcome and look forward to your remarks. The floor is yours, Markus.

Markus Ferber

Thank you very much, David. Good afternoon, ladies and gentlemen. Thanks for the invitation. We meet at a moment when Europe feels pressure from every direction at once. There is war on our continent. There is instability in our neighbourhood. There is strategic rivalry on a global scale. There is growing trade conflict across the Atlantic, only to describe a few of these issues.

Behind these immediate pressures, there is a deeper challenge. Europe's competitiveness has weakened, productivity growth has disappointed, investment is too low, and demography is moving against us.

That is the backdrop for any serious discussion about financial services today, because financial services policy is never just about financial services policy. It is about whether capital reaches productive firms. It is about whether companies can scale. It is about whether innovation happens in the European Union, and in the end, it is about whether Europe can still turn savings into strengths. That is the question in front of us.

Let us be clear. Europe has enormous assets. We have talents. We have industrial depth. We have household savings on a massive scale. The problem is not a lack of resources. The problem is rather that too much of Europe's strength is trapped in fragmentation, complexity, and weak incentives. The Commission's savings and investment union work is built on the Draghi diagnosis that Europe needs an additional €700-800 billion of investments per year by 2030, and that much of this cannot be financed with public money alone.

Public debt remains high. In the euro area, government debt stood at 88.5% of gross domestic product (GDP) at the end of the third quarter last year. In the European Union as a whole, it was 82.1%. That is way beyond the reference values in the stability and growth

pact, which is 60%, as all of you know. That point matters, because, for too long, the European reflex has been to reach first our public money – more programmes, more facilities, more common thoughts and more announcements – but Europe's challenge is structural, and structural problems require structural answers.

Take NextGenerationEU to illustrate the point. It was an extraordinary response to an extraordinary crisis. It helped, of course, in stabilising the situation. It supported investment. It bought time. It also taught us a lesson that large common spending alone does not automatically translate through into structural growth.

It turns out that the effect on euro area potential output has been smaller and later than first expected. The impact for 2024 was estimated at only 0.2%. That is very little for this large amount of money. At the same time, debt created under the programme will be repaid, as per the agreement, by 2058, and may constrain the union's ability to act going forward.

The lesson is clear. Public spending has its place, especially in crises. Public investment might have a role, especially where Europe needs common goods, but the main reservoir of capital for Europe's future is private capital. The main task of policy is to create the conditions in which private capital can move, invest, scale and compound inside Europe.

That brings me to the heart of the matter – the single market. If we are serious about competitiveness,

we have to become serious about the cost of non-integration. We often talk about the single market as one of Europe's great achievements – that is true – but we should also speak honestly about how incomplete it still is. The International Monetary Fund (IMF) has put striking numbers on this. The estimates of the remaining internal barriers inside the European Union are equivalent to tariffs of around 44% for goods, 110% for services, and 105% in the financial area.

Let that sink in. Europe is carrying an integration burden inside its own market that is vastly larger than the tariff headlines we discuss every day. This is a non-integration tax. It might be difficult to see at first glance, but make no mistake – it is paid by our companies, by our investors and, of course, in the end, by every citizen in the European Union.

This is why the right growth agenda for Europe is so obvious. We need productivity-driven growth. We need supply-side reforms. We need fewer barriers to entry. We need easier scaling across borders. We need capital and labour to move more freely. We need a real single market in services, in finance, in energy, in telecoms and in digital activities. I will stop here, although I could speak for hours.

This is a highly effective growth strategy, because it raises Europe's productive capacity. It improves the allocation of capital. It strengthens competition. It rewards efficient firms. It lifts long-term growth potential. It does so without

pretending that the next stimulus package will solve any structural problem.

This is also where the European semester, for example, comes in. The semester remains the right framework for coordinating structural reforms and economic priorities, but a framework alone does not create reform momentum. Reform works when there is national ownership. Reform works when governments treat recommendations as their own agenda, explain them politically at home, and implement them with persistence. A Brussels process can support reform. It can structure it. It can benchmark it. However, ownership is built in the national capitals. That is where country-specific recommendations turn into reform reality, and that is what we are lacking.

Now let me turn to the financial markets more specifically, as we are here with Eurofi. If Europe wants more investment, we need deeper and more integrated capital markets. That is no longer a niche discussion for specialists. It is a competitiveness question, and it also has become a strategic autonomy question. Here, too, the diagnosis is clear. The commission has been explicit that EU capital markets remain too fragmented, too small and too weak in scale.

In 2024, the market capitalisation of EU stock exchanges amounted to 73% of EU GDP. In the United States, the equivalent figure was 270%. The gap tells a story. It is a story about scale. It is a story about liquidity. It is a story about ambition. This is

why the market integration package matters. Its central purpose is the right one – remove barriers to cross-border investment activity and strengthen supervisory efficiency, so that private savings can be mobilised more effectively for growth. Here, I want to make a point very clearly. Market integration is more important and bigger than the supervisory architecture. We sometimes have discussions on all these important details, but we should always keep in mind the larger picture.

The supervisory debate matters, of course, but there are also more practical and more immediate gains on the table. It should be easier for trading venues to offer services across member states. It should become the norm that cross-border European is the standard and not the national silos. It should be possible for groups to operate under more coherent licensing structures. Broker access to multiple venues should be simpler. Cross-border central security depository services should be less cumbersome. Fund managers should face fewer frictions in passporting and distribution. More broadly, firms should encounter less regulatory and administrative friction when they try to do business across borders.

That is how a single market starts to feel like a single market. In other words, Europe does not need 27 national comfort zones sitting next to each other. Europe needs one market in which successful firms can grow naturally across borders. That also means looking honestly at the way that we treat firms inside

groups. The internal reallocation of expertise, functions, capital and liquidity across borders should become easier where prudence allows it. Cross-border business should feel normal in Europe, not exceptional. That is how scale emerges.

While we are on this subject, competition policy needs to play its part as well. If Europe wants stronger financial actors with the capacity to fund innovation and growth, we need a framework that understands scale in global markets. A fragmented Europe cannot outcompete continental-scale players elsewhere with a policy mindset designed for a smaller area.

There is also a banking angle here. The upcoming review of the competitiveness of the EU banking sector is a real opportunity. It is a moment to ask whether our supervisory and prudential framework supports competitiveness, innovation and growth with enough seriousness. It is a moment to ask whether proportionality has real life in the rulebook. It is a moment to ask whether small and non-internationally active institutions are carrying a burden designed for globally active groups. It is a moment to ask whether Europe has transposed Basel in a way that serves European interests, especially when other jurisdictions apply the framework more selectively and more pragmatically.

Let me also say a word about opportunities of new technologies. On distributed ledger technology

(DLT) and tokenisation, Europe moved early. The DLT pilot regime has applied since 2023. It gave us a first-mover advantage and showed that Europe understood the potential of tokenisation for efficiency in trading and post-trading activities. We also put in place an effective and clear framework for crypto assets more broadly with the Markets in Crypto-Assets (MiCA) Regulation, but leadership is never permanent. It has to be defended. The international environment is changing fast. In the United States, policymakers and the Securities and Exchange Commission (SEC) have shifted gear and created a new legislative framework and a completely new approach to enforcement that is very light-touch.

That tells us something important. The race is moving, others are accelerating, and we need to keep up, so Europe has to step up its game. We should move beyond being proud of having been early. We should focus on being better. That means more legal certainty, more proportionality and removing unnecessary obstacles to tokenisation. In essence, it means understanding that technological leadership in finance will belong to the jurisdiction that combines trust with usability. The review of the DLT pilot regime as part of the market integration package is a chance to set the track in the right way. We need to use it; otherwise others will do so.

Let me wrap things up. As I have outlined, the challenges that the EU is facing are manifold and could be

cause for alarm, but I want to end on a positive note. The good news is that the political mood is starting to shift. Europe's leaders have understood that the problem is real. Recent European Council language on the savings and investment union and competitiveness has been markedly more serious. The council has spoken about decisive steps, about urgency, about deeper markets, about mobilising private savings, and about moving quickly on the pending files. I never read such conclusions before. The Economic and Financial Affairs Council (ECOFIN) has also framed the market integration package as the centrepiece of the effort to deepen capital markets and boost competitiveness.

I will leave you with this thought. We understand the problems, we know the tools, and we are aware of the potential pitfalls. What matters now is execution. I am ready to deliver and I hope we will be able to do that with the council as well. Thank you very much.

David Wright

Thank you very much, Markus. We know you are going to have a big role in driving this forward, and the majority of us would fully agree with everything you have said. Thank you so much. We will see you in Dublin and, hopefully, with even better news to report. Thank you.

Markus Ferber

Yes, absolutely. Thank you.



Avgi Chrysostomou -Lapathiotis

Director, Financial Services Directorate &
Deputy Economic Director Public Debt Management Office,
Ministry of Finance, Cyprus

Speech

Ladies and Gentlemen,

Distinguished Ministers and
Governors,

Dear colleagues and friends,

It is a real pleasure to welcome you this evening to what was meant to be our Gala Dinner in Nicosia and which, even online, remains an important moment of reflection and connection.

While we may not be gathered around the same table, this occasion still brings together those who shape Europe's financial future. And that, in itself, matters. Because leadership in Europe today is not about form it is about substance, direction and follow through.

Let me begin by thanking EUROFI, its Chair David Wright, and the entire EUROFI team for their long standing contribution as Europe's established and fruitful forum for financial debate. EUROFI has consistently provided a space where difficult issues are addressed openly, where public and private perspectives meet, and where ideas are constructively challenged and tested against reality. In an economically and geopolitically uncertain environment, this role is more valuable than ever.

This year's discussions take place at a moment when Europe can no longer afford delays.

We face increasing geopolitical pressure, now also affecting energy supply—hence the driving force of the real economy—, technological transformation

challenges, climate risk, demographic ageing and fiscal constraints all at the same time. The conclusion is unavoidable: Europe must invest more, invest better, and invest faster.

And this leads me to a central message that has emerged repeatedly during this seminar:

Europe is not short of savings.

Europe needs to enhance the financial system's capability to connect those savings with productive, long term investments within Europe.

The majority of European capital remains parked in low yield instruments or invested outside the Union, while European businesses—particularly innovative firms and SMEs—struggle to access liquidity, in particular long-term and professionally managed, risk capital. This is not a marginal inefficiency. It is a structural weakness, and rectifying it is a strategic responsibility.

This is why the Savings and Investments Union is not just another policy initiative. It is a cornerstone of enhancing Europe's competitiveness, resilience and strategic autonomy—and a clear priority of the Cyprus Presidency.

Our message as Presidency is straightforward:

Europe does not need more diagnoses. It needs swift implementation.

It needs simpler rules, less administrative burden for incumbents and less market

fragmentation, hence less costs, more scale, and greater trust in reforms enhancing the competitiveness of European economy—for investors, for firms and for citizens.

From Cyprus's perspective, this agenda is both European and deeply practical.

As a small, but open economy, we know that fragmentation imposes additional costs, while integration creates synergies and economies of scale, hence reduction of costs and opening towards yield-bringing opportunities. We know that access to financing, to markets and to investments is decisive—not in theory, but in everyday economic reality.

But integration will not happen by itself. It requires political will, institutional cooperation, and a shared understanding that Europe's financial strength depends on collective solutions, not 27 parallel ones.

Trust lies at the heart of this effort.

Trust between Member States.

Trust between supervisors and markets.

And trust from the citizens site to the financial system.

That trust is earned through consistency, predictability and delivery. And this is precisely where forums like EUROFI play a critical role: by helping turn broad agreement into concrete progress.

This evening, I would also like to underline one fundamental point.

Beyond all frameworks and acronyms, financial policy serves people.

It serves households planning for the future.

It serves Entrepreneurs setting up, businesses and attracting financing to develop them.

It serves sound investment practices, investor protection and financial stability. And societies navigating profound transitions.

If financial policy fails to deliver tangible results for them, it fails in its purpose.

EUROFI matters because it keeps this perspective at the centre of the debate and because it challenges us, as policymakers, to match ambition with action.

Let me conclude on behalf of the Cyprus Presidency.

Although we regret not being able to welcome you physically to Nicosia, our commitment to advancing Europe's financial agenda is undiminished. We intend to use the Presidency period to push for progress, to build bridges, and to deliver where consensus exists.

In Cyprus, we say that hospitality is not a gesture—it is an obligation of the heart.

Even at a distance, that spirit of *filoxenia*—openness, respect and dialogue—guides how we engage with our European partners.

Cyprus has always been a meeting point: of Continents, of ideas and of people.

And it is in this spirit that we approach Europe's financial challenges today with confidence, with realism, and with a clear sense of responsibility.

I thank you for your engagement, your contributions and your willingness to move the discussion forward.

I wish you a very pleasant evening—wherever you are—and continued productive exchanges.

Thank you, and καλό σας βράδυ.



Axel Weber

President, Center for Financial Studies, Goethe University Frankfurt

Concluding remarks

David Wright

Good evening, everybody, and welcome to our concluding session in this first day of Eurofi Nicosia Digital. I have with me one of the most distinguished financiers of our generation, Axel Weber, a renowned economist and financial leader, and president of the Deutsche Bundesbank from 2004 to 2011, representing Germany all through the major institutions in the world. He then served as the chairman of UBS from 2012 to 2022, and he is currently the president of the Centre for Financial Studies at Goethe University in Frankfurt. He is the chair of the Trilateral Commission. We have just been talking about his work with fintechs with a number of new financial players, and he is going to use some of those new thoughts in his remarks. One of the great European leaders in finance, Axel, it is a real pleasure to have you with us. We are honoured. The floor is yours.

Axel Weber

Thank you, David, and let me congratulate you and Eurofi for moving so quickly from a real meeting to a virtual one. Having observed day one, it really worked well, so congratulations that you kept it all together. Really well done.

Thank you for having me, and, of course, like always, you have been too kind to me. One of the things that I found really interesting today is that there is a dilemma that comes up in all of the meetings. You saw it in the opening speech of the

finance minister from Cyprus, where he said Europe and the European economy need more investments, but also a smaller mountain of debt. That is a trade-off, and we have been talking about trade-offs throughout most of the day.

When you look at what was discussed on the payment and innovation part, these sessions were really very interesting, both on the retail and on the cross-border payment side. It really showed that payments is an area that has been getting faster, smarter and more digital. Interestingly, new players – in particular, fintechs – have been driving the technology edge of payments.

One thing that is interesting, which I observed in the work that I do with Visa on its advisory council, is that established players with global payment rails are working with a lot of these new financial companies by, basically, having them onboard on their payment rails. That is a win-win situation for both, if you just look at some of the examples like Circle and Coinbase, working with Visa on tokenising and moving tokens around the globe. This is something where incumbents and mature players can do a lot.

Policymakers are trying to keep up with innovation. That is pretty clear. We saw some people from the Bank for International Settlements (BIS) innovation hub and the European Central Bank (ECB). There are a lot of projects going on. The trade-off is that you have to keep up with innovation

without accidentally regulating it so that it has no future. This issue about sandbox approaches is really the right approach, but I do not see them being implemented everywhere.

When it comes to banking, we still talk – and I have probably done this for close to 20 years now – about moving forward on banking union. There is a deadlock. Not a lot has moved. Managing diversity across national banking systems is an important feature of Europe. It does not exist to the same degree anywhere else. Dealing with global differences in implementing Basel III came up in the last two panels. Again, that is an important issue. Having seen that around when I was at the Bundesbank and before the financial crisis, you could say – as a joke – that the European banking system is united in its diversity and divided over everything else.

We have not really moved forward on banking union, and I sometimes get the suspicion that some players enjoy being national champions and have a fear of becoming a European champion, because that is a more crowded and more competitive space, so retreating to a well-regulated and cosy domestic environment is, very often, preventing having to become competitive locally or globally. We never had that luxury when I was at UBS, because Switzerland is a small country, and a large bank out of a small country needed to be globally competitive. Banks need to move to a more competitive environment, and policymakers should push them

rather than trying to lure them into it.

Global coordination of regulation is another issue. I am pretty frustrated with the last round of negotiations. Whether you call it Basel III or Basel IV, it does not really matter. The pattern is the same. There is a discussion and an agreement on international coordinated regulation until some countries start doing their thing and become materially non-compliant with the rules they just agreed to in Basel. We have seen that with Basel II. We have seen it with Basel III now. It is an ongoing story. It is not a good story, and it really questions whether the direction of travel is any good at all.

What we see is, if we do not adopt common standards going forward, you get regulatory loopholes and risk a new financial crisis. The next financial crisis may be just around the corner, so I am very concerned about some of the direction of travel here that we heard about recently, in particular from some of the larger jurisdictions and in the area of non-bank financial intermediation.

When it comes to digital finance, I thought today we saw a pretty good set of discussions on artificial intelligence (AI) and crypto. For me, crypto is a misnomer. What really matters is stablecoins based on new technology. In digital finance, the question really is, 'Have we been moving fast enough?' As a fintech investor, I can tell you we have not moved fast enough. Regulators would probably tell you we have been moving faster than maybe is safe, but digital finance is something where we need to gear down and accelerate even more.

AI in finance has huge potential. It is a major efficiency drive. It will make banking completely different. I work with a couple of companies in that area. AI will have real productivity gains in other sectors, but, in banking, first and foremost, for now, it is a massive effectiveness boost, and banks will jump on that bandwagon. In crypto and tokenisation, there is lots of momentum and we heard today very good discussions on the

first lessons from the Markets in Crypto-Assets Regulation (MiCA).

All in all, in finance we are in a better place than we were when we met one or two years ago. We are not where we could be. I am a bit concerned about the discussion around the simplification of banking rules. The European phrase is that things have to become more competitive and less complex. A sarcastic way that I would portray it is that, while the US reduces regulatory requirements, Europe simplifies them. The US gets less capital required to run banks; European banks get fewer pages of regulation. That is not really, in my view, going to create a more competitive landscape in banking, and nor will it allow European banks to catch up with the dominant position that US banks have. So, while simplification is important and a necessary thing to do, it may not be sufficient. We may just really need to go back and examine how we can prevent a wide competitive gap become a permanent reality between US banks, which are also servicing European markets, and European banks, which get differently regulated in their home markets.

Across the day, what really stood out for me were three things that I fully endorse. Europe needs more investment and growth. I fully subscribe to that. Europe needs a system that is both stable and reliable in finance. Again, I agree with that. And, the future will be shaped by technology, AI and digital assets. I absolutely endorse that.

Let me make one remark on what Europe should do? I agree with everything that is in the Draghi report. I completely agree that we need a true capital markets union and a saving and investments union. We need pan-European exchanges and a pan-European financial and capital market infrastructure. We need to expand the institutional investor base – pension funds, etc. We need also to strengthen EU global banks and EU capital market champions.

The issue is that we have been trying that for more than 10 years and have not really moved

very far. For me, what is very important is that we should maybe try something new. If I look at the biggest problem that Europe has, we do not have a single European safe asset. There is some discussion about more permanently using a EU safe asset, say, by prolonging and extending the NextGenerationEU financing mechanism. From an ECB perspective, that is something that I understand it pushes, but, in my view, it is unlikely to happen anytime soon and at any reasonable scale. The same is true for building a multi-trillion-dollar Eurobond market or for building pan-European integrated equity or banking markets.

Maybe no longer shooting at such first best grande solutions, but looking at doing something that is a quick win, could be more interesting and rewarding. I would describe it as a synthetic approach to creating a European safe asset. For example, if you really supercharged tokenisation, you could put all of the European sovereign bonds into a synthetic Eurobond, which could be issued at scale, and make it internationally usable.

The second thing that we need to do is look at the strategic role of the euro and actively embrace an international role for the euro as a desirable feature of the euro, and thus move away from the language that the international role of the euro is whatever the market makes it. The market has not made the euro an international currency. The US dollar is four times more dominant in trade invoicing. Everyone uses the dollar because everyone uses the dollar. Unless Europe makes it a strategic objective to have the euro as an international currency, we will not get there.

Finally, waiting for European stock exchanges and European banks to merge is a process where you need patience. In my view, again a more pragmatic synthetic approach would be much better, because national champions will not become European champions that easily. While we do have national stock exchanges in every country, what we really need is a horizontal interoperability layer across

these stock exchanges. You do not have to force them to become pan-European, but you should force them to allow for market players to create a horizontal interoperability layer over and above these exchanges so that you can have centralised clearing and settlement within a pan-European infrastructure that is interoperable.

Of course, if you were to do that today, most of the companies that would do that will use decentralised finance technology. They will use smart contracts. They will use tokenisation. They will not build the new system based on the old infrastructure. The horizontal aggregation across European players will start with the new technology from the get-go. And it will be faster, cheaper and better for users.

In my view, we need to go back to the drawing board and really think about how we can accelerate Europe. I was very encouraged by the announcement of the E6 to put European stock exchanges under joint supervision by the European Securities and Markets Authority (ESMA). A next and even more important step would be to allow for that interoperability layer to happen, and to force exchanges to open their systems to companies that will provide this interoperability in clearing and settlement. That will fast-track us into a single European capital market that is not built on national players becoming European players, but, basically, European markets being facilitated by hooking up and interconnecting these national players. Over time, we will have a truly European layer evolve as a consequence.

We need to rethink the European journey. This is not about a different destination. It is about the need to take a diversion. If we want to be fast and catch up with the US in these difficult times, the only thing that will help us is to put the concept of first best on the back burner and make it the final choice in the end, and to now create something that is viable quickly. When you talk about the Draghi report, which is a great report, add a new user manual on how to get there fast. The things

that the report says are all great. What we need to do now is to really think about how we push that at speed and at scale, rather than waiting for organic developments to take place, because we know that we are in deadlock over so many things in many areas. I am trying to end on an optimistic note here. We know the destination, but with all the roadblocks we have to rethink how we get there fast rather than best. Let me end there.

David Wright

Thank you very much, Axel. There were some really interesting ideas here. Let us hope that we can debate some of them tomorrow. I am sure that they will percolate into our discussions. I thank you again on behalf of us all. That was extremely interesting. We are going to close down today. It has been a long day, from something like 9.00 to now, but very valuable. We thank you very much for your kind remarks about staging Eurofi.

We are closing off now. Axel, I hope you will be able to be with us tomorrow a little bit. Those were very interesting ideas about looking for second best, in a sense, technological, fintech-type solutions to drive progress. That is a fascinating idea. Thank you all very much, and we will see you tomorrow morning. I am just looking at my programme. The start is a very modest one at 8.30 in the morning, so see you then. Thank you again, Axel.

Axel Weber

Thank you, David.



Sir Jonathan Hill

Member of the House of Lords & Member, Financial Services Regulation Committee

Speech

David Wright

I present Lord Jonathan Hill, who is going to talk to us and give his views on where we are on financial issues in Europe and the UK and wider. You will all know him as the former European commissioner from 2014 to 2016. He is now, and has been, a member of the House of Lords for many years. He is a member of the Financial Services Regulatory Committee and has been on that committee since 2024. He has been working a lot with the UK and with the UK government on looking at scaling up and so forth in the UK listing. He has made a big report on that. He was Leader of the House of Lords from 2013 to 2014 and Chancellor of the Duchy of Lancaster, among many other functions.

Jonathan, it is very great to have you with us. We look forward to not only listening to you now but also inviting you to Dublin in our next event. Thank you again for being with us.

Jonathan Hill

David, thank you for that introduction. Good morning, everybody. The last time I was here at Eurofi, and it is very nice to be back, I was talking about the Capital Markets Union (CMU) before I was rudely interrupted by the UK referendum. Today, I want to talk about growth, risk and regulation. I am going to give you, for free, a practical suggestion that I believe would help the EU have a more mature and intelligent debate about risk and thus open up a bigger opportunity for growth.

Many of those taking part in this conference have spent years talking about financial stability risk. After 2008, we deliberately set about reducing risk in the financial system and in the banking sector in particular. There is no doubt that the politicians and the regulators succeeded in the goal they set themselves and ought to be congratulated for the job they did cleaning up after the great financial crash.

Today, 18 years on, we should surely ask ourselves whether the risks we face now are the same as the risks we faced then. Perhaps the greatest financial stability risk we face today is not too much lending and risk in our banking sector, but not enough. Is it not in fact the case that the greatest financial stability risk, and certainly the biggest political stability risk, we face today in Europe is a lack of growth?

We also have to recognise that the world has changed out of all recognition since the great financial crash. The trend towards convergence around one system of financial regulation has clearly gone into reverse. The ability of governments to keep on increasing borrowing to fund ever-increasing public spending is fast running out of road. The fragmentation of global trade is plain to see.

The trend of an apparently unstoppable rise of a rules-based order that the EU believed provided a competitive economic advantage, which it would seek to exploit through setting global regulatory standards, has come to a dead stop. The hard fact is that, as China and

the US have grown economically stronger, we in Europe have become relatively weaker. We are seeing all too brutally that countries that are economically weak are becoming increasingly irrelevant in today's world. Everywhere, the demand for more spending, not least on defence, is rising, but governments' freedom of manoeuvre to borrow is falling. Many governments, and certainly the one in my own country, are already up at record levels of debt and record levels of taxation. After massive amounts of public spending during Covid and the multi-billion Euro bailouts of the energy crisis triggered by the war in Ukraine, governments across Europe are pretty much maxed out on their ability to borrow more.

Where are they going to find the capital that we need to try to get the engine of growth fired up? In the longer term, unlocking the potential of Europe's capital markets obviously has to be part of the answer, but even if you are an optimist and believe we can do much better to develop a CMU or a Savings and Investments Union (SIU) in the future than we have managed over the last 12 years, the problem we face is today and now. The longer we do not have growth, the weaker economically and politically we become. Even if the geopolitical situation is sparking member states into wanting to make faster progress, the SIU was always intended as a long-term project. It was never a quick fix. The question remains what we can do today and now.

Those of us who want to see Europe thrive also have to be honest that

the competitive landscape we face in regulation has changed and is continuing to change very fast. The US is clearly moving towards full-blooded deregulation and in a much more pro-risk direction. Whenever I am there, I am struck not just by how fast they are moving, but how closely politicians and regulators seem to be aligned on the direction of travel. In the UK, we are – surprise, surprise – stuck somewhere in the middle between the US and the EU. Although we are not going as fast or as far as the US, we do talk about deregulation, and the government, which is a Labour government, has been calling on our regulators to take more risks.

In the EU, by contrast, the very word ‘deregulation’ seems to have been banned from polite society. Now, I am all in favour of simplifying rules and supervision, but we should not kid ourselves that it is the same as making sure that we have the right regulations in place to meet the economic challenges we face today. Take the obvious example of capital charges. Yes, you can simplify them, but if they are at a higher level than competitor jurisdictions or set at a level that ties up lots of capital that could otherwise be put to productive use, then they might be simple, but they could definitely be too high. We are not being honest with ourselves if we imagine that simplification and deregulation are in fact the same thing. I am not claiming here that setting the right level of capital charges is easy, or indeed that I know what the right level is, but I certainly argue that it would be better to have an honest and open discussion about it instead of self-censoring and pretending that a programme of simplification is enough to rise to the scale of challenges that we in Europe face.

If I may, just let me labour this point on capital and capital requirements for a moment. Most governments in western Europe cannot get into more debt or tax more. They cannot print more money. The capital markets are not going to ride to the rescue anytime soon. What does that leave? Bank capital. The banks claim that billions more euros could be put to work in the service of growth straight away. Is that not

a contention that we ought to test rather than saying that, in the EU, we do not talk about deregulation?

I promised you a practical suggestion. I offer this with some hesitation, since the last thing Europe needs is a Brit telling you how to do things. You had quite enough of that when we were in the EU. I think we have done one useful thing in recent years that I wanted to share with you, and that is the introduction of a secondary growth and competitiveness objective for our financial regulators and supervisors. What have been the main benefits of that? First, it is important to say that it is still a work in progress, and it is not a silver bullet. However, it has already led to an increase in accountability to ministers and to Parliament; a better informed, more mature discussion about risk; a more open regulatory and supervisory culture; more efficient processes with shorter timescales; greater attention being paid to our relative competitive position vis-à-vis other financial jurisdictions; some reductions in regulatory burden; and recognition by the regulators that their political masters want them to take more risk.

One of the most interesting things is what the regulators themselves are saying. Although they were initially resistant to the idea, as I know European regulators and supervisors are, they now say that it is helping them to do a better job as regulator and supervisor and to drive culture change through their organisations. They do not say that it has led to an increased risk to financial stability, which of course remains their primary objective. I am not arguing that the EU should automatically import the whole structure lock, stock and barrel, but I do think that the underlying principles are worth a look. These are clearer direction from elected politicians; more accountability to Parliament; and more reporting of performance through metrics, which are publicly available and refined over time. All of these are leading to a better informed and more balanced discussion about risk and regulation instead of the kind of polarised standoff between regulators and regulated that

became the norm in recent years.

The world is not standing still. The economic and political challenges Europe faces are not standing still. The way our competitors are regulating financial services is not standing still. If we want growth, the way we think about risk and regulation cannot stand still either. The challenge confronting Europe is urgent. Our response cannot be business as usual, so how we think about regulation cannot be business as usual either. Thank you.

David Wright

Thank you very much, Jonathan. Those were very pertinent and topical remarks that were very persuasively put. I know that the European banking industry is very keen on what you have been saying. Let us see if it permeates the regulatory and supervisory thinking in Europe, but it was very elegantly put. Thank you again. We look forward to part 2 in Dublin.

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