EU CAPITAL MARKETS: COMPETITIVENESS AND ATTRACTIVENESS

CARLOS SAN BASILIO

Chair – Spanish Securities and Exchange Commission (CNMV)

Europe's capital markets: the time for ambition is now

Europe is entering a defining phase in its history. The Letta and Draghi reports delivered a clear message: if the European Union is to regain its strategic position and strengthen its global competitiveness, it must mobilise unprecedented investment. Achieving greater strategic autonomy in defence, digitalisation and sustainability will require resources far beyond public budgets. Private capital must therefore become a central pillar of Europe's transformation.

This is where capital markets should play a decisive role. Yet they can only do so if Europe finally addresses one of its longest-standing weaknesses: the absence of a truly integrated capital market. Despite decades of progress, Europe's financial landscape remains fragmented, limiting its ability to channel savings into productive investment and preventing European companies from reaching the scale needed to compete globally.

The Savings and Investments Union and the Market Integration and Supervision Package offer a historic opportunity to change this reality. Their initial design is ambitious and reflects a spirit of integration reminiscent of the Union's founding years. However, their success will depend entirely on whether that ambition survives the ongoing negotiations and is preserved in the final package.

Four priorities should guide the reform.

The first is integration. Europe must move beyond partial harmonisation and remove the barriers that continue to divide national markets. Similar rules are no longer enough; common rules should be the objective. Genuine interoperability between market infrastructures, institutions and services must become the norm, enabling seamless cross-border activity. Europe needs pan-European financial infrastructures and institutions capable of competing with the world's largest players. Strategic autonomy requires financial scale.

The second priority is simplification. The regulatory reforms introduced after the 2008 financial crisis undoubtedly strengthened financial stability and investor protection. However, they also created increasing complexity and compliance costs that discourage companies from accessing public markets and investors from participating in them. Europe should eliminate requirements that generate costs without adding meaningful value. For instance, the Retail Investment Strategy should embrace a simple framework that genuinely encourages retail participation rather than creating additional barriers. Likewise, the Omnibus sustainability initiatives should prioritise simplifying reporting obligations instead of merely reducing their scope.

The third priority is supervision. Strengthening ESMA's role is a positive step, particularly in relation to cross-border activities and systemic risks. However, the new supervisory model must remain coherent. Responsibilities between ESMA and national competent authorities should be clearly allocated, avoiding duplication that could reduce efficiency. Stronger European supervision should deliver better coordination, not more bureaucracy.

Finally, Europe must place innovation at the centre of its capital markets agenda. Distributed ledger technology, tokenisation and artificial intelligence are reshaping financial markets at unprecedented speed. Europe cannot afford to fall behind. A coordinated, agile and ambitious regulatory response is essential if European markets are to remain globally competitive. The proposed expansion of the DLT Pilot Regime is a welcome step. At the same time, technological innovation must be accompanied by an equally ambitious reinforcement of operational resilience. New technologies create extraordinary opportunities but also introduce new cyber, operational and systemic risks that demand robust safeguards.

Throughout this transformation, regulated markets will remain indispensable. They are the main gateway through which retail investors access investment opportunities, provide efficient price formation, promote transparency and high standards of governance, strengthen financial stability and support economic growth. Europe should reinforce its regulated markets because they enable companies to scale up, attract international capital and compete globally.

Private markets are an essential complement to public markets, financing companies throughout their growth cycle. But treating them as substitutes would be a strategic mistake. Long-term competitiveness and financial stability require strong, transparent and liquid regulated markets capable of efficiently mobilising capital.

If Europe is prepared to be bold, it will build one of the strongest foundations for its future.

Europe now has a unique opportunity. The negotiations taking place will determine whether today's political momentum becomes one of the European Union's most transformative projects in decades. Preserving the ambition of the original proposals is not simply desirable, it is essential. If Europe is prepared to be bold, it will build not only a genuine single market for capital but also one of the strongest foundations for its future competitiveness, resilience and strategic autonomy.

ODILE RENAUD-BASSO

President – European Bank for Reconstruction and Development (EBRD)

SIU and MISP: What would success look like for CEE markets?

European leaders and market participants have long cited the need for deeper, more integrated and more competitive capital markets. I, too, have advocated for a more consolidated and liquid capital market framework that considers the domestic nuances of the 27 European Union (EU) Member States. The EU's structural and cultural characteristics require that we not just emulate the North American capital market framework, but adopt a bespoke approach.

The Draghi Report, coupled with the growing imperative to boost Europe's competitiveness and respond to mounting geopolitical challenges, has injected fresh momentum into capital market reform. The economic cost of fragmentation is substantial: in 2024 alone, it was estimated that EU gross domestic product (GDP) fell **€7.8–8 trillion short because of it**. This renewed focus has given rise to the most significant capital market initiatives in this area in recent years: the Savings and Investment Union (SIU) and the Market Integration and Supervision Package (MISP).

The challenges these initiatives are trying to address are clear. EU capital markets are small and siloed: EU equity market capitalisation is roughly 73 per cent of GDP, compared with 130 per cent in the UK and 270 per cent in the US. Market infrastructure is dispersed: there are 314 trading venues, 14 central counterparties and 32 central securities depositories. Cross-border settlement costs in Europe (at €0.53) far exceed US benchmarks (€0.25). This means less liquidity, higher financing costs and weaker price discovery. The asset management sector is under-scaled with limited cross-border distribution (funds are active in only two Member States, on average), leading to reduced economies of scale and smaller capital pools for EU companies. By addressing these issues, the MISP can support a more integrated market, advancing competitiveness and supervisory consistency.

However, it is important that all regions benefit. It is imperative that the SIU and the MISP support the development, deepening and integration of capital markets in less developed regions such as central and eastern Europe (CEE). The EU is still a patchwork of unevenly developed markets, even among smaller Member States: equity market capitalisation stands at 1.5 per cent of GDP in Slovakia versus 30 per cent in Croatia. We need to consider regional idiosyncrasies, distinct local retail mindsets, domestic investor bases and smaller corporate issuer sizes.

Integration must be complemented by a continued focus on capital market development fundamentals.

The SIU's objectives (integration, supervisory centralisation, increased cross-border competition and incentives for consolidation) therefore carry both risks and opportunities for CEE. Smaller markets could benefit greatly if the MISP improves their connectivity to global capital pools. Yet, deeper integration could also weaken local market ecosystems and leave small and medium-sized enterprises underserved. That is why integration must be complemented by a continued focus on capital market development fundamentals: broadening investor bases, developing regional products and deepening domestic capital markets.

Market integration alone will not deliver deep and resilient capital markets, however. Governments must support the underlying ecosystem by expanding the pool of investable assets, including through state-owned enterprise listings. They could also set up, if appropriate, national investment funds (like Romania's Fondul Proprietate) to boost liquidity, establish market credibility and prepare for future capital raising. Equally important is broadening local investor participation, including by providing limited and targeted fiscal support, where appropriate, through pension systems or individual savings account reforms, as successfully tested in several EU countries.

Together with international partners, Member States could look to develop regional capital market products. For example, the EBRD supported the pan-Baltic covered bond framework, aligning legal regimes in Estonia, Latvia and Lithuania and enabling banks to issue covered bonds using collateral pools from all three nations. Such efforts drive investor familiarity and confidence in new asset classes. The EBRD is also backing an initiative to further integrate the capital market infrastructure of eight states in central and south-eastern Europe, with lasting benefits for economies, businesses and households.

These efforts will advance convergence and contribute to stronger economic growth, more equitable wealth distribution, and greater resilience to economic shocks in CEE and the EU. The ensuing increase in the innovation and dynamism of European businesses should also bolster the EU's Strategic Autonomy agenda at this critical juncture.

JIMMY KVARNSTRÖM

Executive Director of Markets – Swedish Financial Supervisory Authority (Finansinspektionen)

Building better markets — Europe should scale what works

As a lawyer, I may be primed to overrate what regulation can achieve. Yet my experience across market infrastructure, surveillance, banking and supervision — in a market that has grown remarkably over my career — has taught me that regulation alone cannot drive the market development Europe needs. Trust, investor participation, active issuers and credible institutions matter just as much. The next phase of the Savings and Investments Union should therefore strengthen these foundations.

Capital markets differ across Europe. A few have deep public equity markets with active retail participation; others rely more on bank financing. These differences reflect decades of institutional development and investor behaviour, and should anchor the debate.

The Nordic markets are increasingly cited in this debate. They can serve as a reference but not be exported in full. Policy is more easily copied than the conditions that make it work. Sweden has over 900 listed companies — among the largest in the EU by capitalisation and the largest by number of listings. Over the past decade Stockholm has been among Europe's most active IPO venues by number of listings and, recently, by capital raised.

A first indicator is growth markets. Since 2014, nearly 80% of new Swedish listings have been on multilateral trading facilities. As firms scale, growth markets offer a route to the main market. Almost half of Swedish main-market listings between 2013 and 2025 were companies uplisting from MTFs. Investor protection challenges are real, but public equity markets serve more than the largest issuers.

A second indicator is investor participation. The investment savings account, from 2012, made equity investing simple and tax transparent. Around seven in ten Swedes hold private fund savings; including pension savings, virtually all are fund savers with equity market exposure. Broad participation supports liquidity, market awareness and political attention.

A third indicator is active ownership. The Swedish model combines strong shareholder rights with active institutional ownership and self-regulation in governance and takeovers. While self-regulation requires legitimacy and oversight, it can deliver predictable, timely handling of key market processes. Speed can matter as much as getting the answer precisely right — companies and investors can handle risk, but not prolonged uncertainty, which erodes trust in the institutions themselves.

> **The objective is better supervision, with centralisation where it adds value.**

To make EU capital markets more attractive, policy should start from how markets function — why firms list, why investors participate, and why some markets better connect savings with investment. The SIU should combine EU-level action with Member State responsibility. Harmonised EU rules have built a common regulatory foundation but have not by themselves converged market outcomes. Key drivers — investor culture, pension systems, ownership traditions — change over generations, not legislative cycles. EU policy can remove barriers, improve consistency and support scale but cannot by itself create the investment culture, issuer base or participation that deeper markets require.

More integration is valuable where it lowers barriers to cross-border investment, improves access to comparable data, supports common infrastructure and cuts costs. As markets grow more interconnected, the need for supervisory convergence grows too. But effective supervision and enforcement still depend on proximity, speed, local knowledge and national expertise. The objective is better supervision, with centralisation where it adds value and clear, proportional responsibilities between EU and national authorities. The EMIR supervisory colleges show how European coordination can be combined with distributed expertise close to the market.

Digitalisation and AI are themselves tools for coordination between authorities and for integration. Many practical barriers — to cross-border activity and convergent supervision alike — lie in inconsistent data, reporting and post-trade processes, and missing channels for knowledge exchange. Common data standards, machine-readable reporting, interoperable infrastructure and supervisory benchmarking can reduce friction for firms and give supervisors stronger analytical capabilities.

The direction follows from experience. Proportionate rules gave smaller firms access to public markets; simple, tax-transparent savings vehicles brought households in. Competitiveness, investor protection and resilience are not competing objectives. A market without integrity attracts no long-term capital; an overburdened one, no issuers; a fragmented one, no scale.

Europe does not need one single capital market model. It needs a framework that removes real barriers, strengthens the centre where scale adds value, and preserves the trusted institutions and practices that make markets work. Success should be measured not by how uniform Europe's markets become but by whether they become deeper, more trusted and better at turning European savings into growth.

BARBARA ANTONIDES
Manager Public and International Affairs – Dutch Authority for the Financial Markets (AFM)

Europe has the savings, now it needs the market

Europe may be the only place in the world where capital regularly goes on holiday abroad or remains at home sitting at the bank (pun intended).

Every year, European households, pension funds and insurers generate vast amounts of savings. Yet much of that capital ends up financing growth outside Europe. The problem is not that Europe lacks money. The problem is that Europe struggles to connect its savings with its investment needs. The ageing population increases the urge to create an attractive capital markets. This is precisely why the Savings and Investment Union (SIU) matters.

The challenge is substantial. Europe needs to invest an estimated €750-800 billion per year to finance the green transition, digitalisation, defence and innovation (Draghi). Simultaneously, Europe remains a net exporter of capital. Dutch pension funds alone invest roughly three times more in US listed companies than in European ones: approximately €293 billion versus €97 billion (Dutch Central Bank).

From the perspective of an investor, this is understandable. Over the past five years, US equities have outperformed European equities. But from an EU perspective, it raises an important question. If there are sufficient savings, why does so much capital seek opportunities elsewhere?

The answer is not a shortage of capital, but of scale, integration and investment opportunities.

Europe's capital market still operates largely as a collection of national markets. This fragmentation affects companies in their growth. Young firms often struggle to find venture capital. Scaling companies face fragmented markets. Successful firms frequently look outside Europe for funding or listings. Around 30% of European unicorns moved abroad, most of them to the United States (ECB).

Market structure plays an important role. The European Union has roughly 295 trading venues, 14 central counterparties (CCPs) and 32 central securities depositories (CSDs). The United States only has 2 CCPs and 1 CSD. A consequence: the average trading volume per listed company is much higher in the US than in Europe. That is not a detail: scale is an important condition for liquidity. Liquidity is a condition for capital. Where scale is lacking, capital is missing, because of the market.

The consequences go beyond financial markets. Around 70% of the difference in GDP per capita between the European Union and the United States can be explained by weaker productivity growth in Europe (Draghi). At the same time, Europe's workforce is ageing and expected to shrink. Future prosperity will increasingly depend on innovation and productivity gains. Both require investment and efficient capital allocation.

The answer is not a shortage of capital, but of scale, integration and investment opportunities.

The good news is that there is significant untapped potential. EU households save around €1.4 trillion every year, substantially more than households in the United States. Yet a relatively large share of these savings remains in bank deposits rather than being invested in capital markets. ECB analysis suggests that if European households held a similar share of their wealth in deposits as US households, around €8 trillion could potentially be redirected towards long-term investments over time.

This is often presented as a cultural issue, with Europeans supposedly being more risk-averse than Americans. The reality is likely more complex. European investors frequently face higher investment costs, fragmented markets and complicated products. If we want more citizens to invest for the long term, investing must become simpler, more transparent and more affordable. Investor protection remains essential. Trust is not a barrier to market development; it is one of its foundations.

The SIU can help address these challenges in three ways:

First, Europe should continue building an integrated market infrastructure. One rulebook, a consolidated tape and further post-trade integration could improve efficiency.

Second, supervisory arrangements should better reflect the cross-border nature of today's markets. Market activity is increasingly European, while supervision remains largely national. Centralisation at ESMA and greater supervisory convergence would reduce costs and strengthen confidence in European capital markets.

Third, Europe should focus on mobilising more long-term risk capital. Well-functioning pension systems, auto-enrollment, broader retail participation and simple investment products (at a low cost!) can all help channel savings towards productive investment. The Spanish led Finance Europe-pilot & the Italian PIR-model show that it is possible. European initiatives are needed to tackle challenges of scale and the fragmentation of capital.

Europe already has the savings it needs. The challenge is to create a capital market that can deploy those savings efficiently to finance European innovation, growth and resilience. The diagnosis is increasingly clear and widely shared. Without a crisis we need some (brave) political will to ensure we will break trough Draghi's called "slow agony".

GUYLAINE VANDOOREN

Head of EU Government Relations and Policy Affairs – Optiver

Competitive European capital markets need diverse liquidity provision

Why Europe needs a healthy and diverse ecosystem of liquidity providers.

The EU is rightly focused on channeling savings toward productive investment. But for savings to become investment, the markets that connect them must be liquid. Investors buy and sell with confidence when they know another participant is ready to take the other side of the trade at a fair price.

That liquidity depends on firms willing to commit capital continuously across a range of execution mechanisms. Many liquidity providers are independent investment firms that trade exclusively with their own capital. These specialised market makers use their pricing and risk management expertise, together with their balance sheet capacity, to quote buy and sell prices across financial instruments throughout the trading day, in both normal and volatile market conditions, helping European markets continue to function efficiently.

Diversity is valuable for healthy liquidity provision

The policy discussion on competitiveness tends to equate global strength with size, consolidation and large champions. In liquidity provision, the logic is different. More firms competing to make markets means better price discovery, tighter spreads, greater resilience when volatility spikes, which in turn encourages more successful launches of new products by European exchanges. Diverse business models and market views will strengthen the European Union's chances of developing deep and liquid markets.

What happens when market makers step back, when diversity decreases, is measurable. In a 2024 study *"Markets Without Market Makers"*, FIA EPTA examined a May 2023 partial outage on a major European exchange, which led to liquidity providers being absent for a significant part of the trading day. During this event, available liquidity at the best bid and offer fell to less than two-thirds of the historical norm, and the best-bid-offer spread was on average 13.54%, wider than usual against the 30-day moving average. Investors paid more because fewer firms were competing to quote.

Where risks differ, regulation needs to be targeted

Over recent years, this diversity is less vibrant. Some EU liquidity providers have moved their parent entities out of the EU, while others have stopped providing liquidity on EU markets. This rarely makes headlines, as the firms are often unfamiliar names to the public. However, and crucially for the EU competitiveness, similar trends are not observed in other comparable jurisdictions.

> **The regime fails to encourage the much-needed diversity of liquidity providers on EU markets.**

This stems in large part from the Investment Firms Regulation and Directive, applicable since 2021. Whilst it was meant to cater for a diverse set of liquidity providers, in practice, the regime still lacks proportionality for smaller firms and has disadvantaged EU-headquartered firms against non-EU peers, including through extraterritorial reach. One of its central mechanisms also acts as a deterrent to liquidity provision on EU markets: once an investment firm crosses a balance-sheet threshold fixed in Level 1, it is pulled into the full EU banking framework, with no assessment of whether the risks taken by the firm have changed.

The regime fails to encourage the much-needed diversity of liquidity providers on EU markets, despite the European Systemic Risk Board recently noting the value of such 'beneficial diversification of financial intermediation'. The ESRB outlined an important principle which should be at the heart of the EU regime for investment firms: *"the same activity does not necessarily generate the same risk across different entities. The risk depends on how that activity is combined with other activities in a given business model and on the associated funding structures, leverage and liquidity profile."*

Lessons for regulatory simplification

The Commission is planning a review of this regime in early 2027. A targeted recalibration that matches oversight to the risks taken, should encourage diversity of participants without weakening prudential discipline. If EU rules better recognise the distinct function and risk profile of firms that commit their own capital to keep markets liquid, this will help with the broader goals of the Savings and Investment Union.

There are also lessons to be learnt beyond this regime. As the EU focuses on regulatory simplification, we should define simplification qualitatively, not as a purely quantitative exercise. The experience with IFR/D raises questions relevant for other parts of the financial services policy debate: is it ever good practice to set a quantitative thresholds into Level 1 regulation, which ends up capping a firm's development, without a dynamic mechanism to let it evolve? Is it ever good regulatory practice to apply EU law extraterritorially in wholesale capital markets purely because of an EU headquarter? Avoiding unintended consequences of policies requires drawing broader lessons for the sector from individual experiences.