

VIEWS

THE EUROFI MAGAZINE

SEPTEMBER 2026

SIMON HARRIS

Tánaiste & Minister
for Finance of Ireland

A stronger financial
system for a
stronger Europe



GABRIEL
MAKHOULF

Finding the right balance:
stability, simplification and
strategic diversity



VERENA ROSS

As markets evolve,
so must supervision



JOHN BERRIGAN

A single market for banking
and advancing the Banking
Union - prerequisites of the
competitiveness agenda



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THE EUROFI VIEWS MAGAZINE

SEPTEMBER 2026

The Eurofi Views Magazine, published twice a year alongside the Eurofi events, presents insights from a wide range of public, private and civil society stakeholders.

The articles explore Europe's key macroeconomic challenges and their implications for the financial sector, examine key industry trends such as digitalisation and sustainable finance, and address financial stability risks. The magazine also provides in-depth analysis of key policy initiatives in all areas of finance - including the Savings and Investments Union, the Banking Union, digital finance and sustainable finance – and assesses their potential impact on the industry, its customers and the wider economy.

CONTENT

1. EUROPE'S ECONOMIC AND SECURITY CHALLENGES

Reviving productivity in the EU	26
Fragilities of highly indebted EU countries	32
Monetary policy amid resurgent inflation, weak growth and high debt	36
Financing innovation and scale ups in Europe	38
Defence financing in Europe	44
Fostering international regulatory cooperation	50

2. MISP AND SIU: IMPACTS AND NEXT STEPS

SIU progress and next steps	56
MISP: EU-Level supervision and simplification proposals	64
EU capital markets: competitiveness and attractiveness	72
Securities trading: trends and MISP impacts	78
Post-trade integration and market structure evolution	86
Digital innovation in post-trading	92
The future of asset management	100
Asset management and the MISP	10+
Retail participation: are the SIU proposals sufficient?	114
New retail investment models	122
Developing supplementary pensions	128
Reviving European securitisation	134

3. BANKING AND INSURANCE REGULATION

EU banking competitiveness	148
Breaking the Banking Union deadlock	154
Reducing cumulative complexity in EU banking regulation and supervision	161
Banking diversity and digitalization	172
Basel III divergence impacts	178
Simplifying the EU macroprudential framework	186

The role of insurance in the EU economy	190
Insurance in a polycrisis world	196

4. EU AND GLOBAL SUSTAINABILITY AGENDA

Sustainable finance: challenges in the global context	204
EU climate resilience framework	210
SFDR 2.0: making the new product timeline and priorities	216
Sustainability risk	221

5. DIGITAL TRANSFORMATION AND DIGITAL ASSET INNOVATION

Digital Finance: is the EU keeping pace?	231
Scaling AI in the EU financial sector	238
Agentic AI in financial services	248
Tokenisation use cases	256
Scaling tokenization to support SIU	262
Stablecoins: implications for the EU	270
Cryptoassets: potential framework evolutions	276

6. DIGITAL EURO AND PAYMENT SYSTEM EVOLUTIONS

Digital euro next steps	284
Retail payment innovation	290
The EU payment single market	294
Cross-border payments	298

7. RISK PREVENTION AND MITIGATION

Supervising AML in critical interfaces	306
Cyber resilience in the AI era	310
Private assets and NBFI: combining innovation and resilience	316

INTERVIEWS

SIMON HARRIS

Tánaiste & Minister for Finance of Ireland

A stronger financial system for a stronger Europe 12

GABRIEL MAKHLOUF

Governor – Central Bank of Ireland and Member of the Governing Council – ECB

Finding the right balance: stability, simplification and strategic diversity 14

VALDIS DOMBROVSKIS

Commissioner for Economy and Productivity; Implementation and Simplification
– European Commission

A more integrated Europe for higher productivity and investment 16

MARIA LUÍS ALBUQUERQUE

Commissioner for Financial Services and the Savings and Investments Union
– European Commission

A strong Savings and Investments Union for a stronger Europe 18

LUCY RIGBY

Economic Secretary to the Treasury – UK Government

Growth, Innovation and Partnership: the Future of UK Financial Services 22

JACQUES DE LAROSIÈRE

Honorary President – EUROFI

Restoring balance to French public finances..... 24

CLOTILDE L'ANGEVIN

Deputy General Manager – Crédit Agricole S.A.

Europe's banks are strong. Let them lend. 144

ANNA DUNN

EMEA CFO & UK CEO – JPMorgan Chase & Co.

European competitiveness: the who, what, why, and how 146

MARK JOPLING

Director for Global Financial Services for Europe, Middle East and Africa (EMEA) and Asia-Pacific and Japan (APJ) – Amazon Web Services

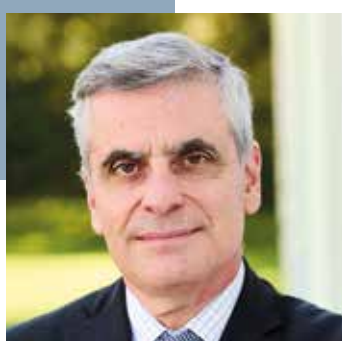
AWS empowers financial sector to scale in secure, resilient, innovative ways 230



DIDIER CAHEN



MARC TRUCHET

JEAN-MARIE
ANDRES

This September 2026 edition of the Eurofi Views Magazine explores Europe's main economic and financial challenges, key regulatory and supervisory developments in the financial sector at both European and global levels and major industry transformations related to digitalisation and sustainable finance.

A first key theme of the Magazine is the policy priorities for strengthening growth, productivity and investment in the EU in a context of high public debt levels and continued economic divergence across Member States. Particular attention is given to financing innovation and scale-ups, mobilising the financial sector to support investment needs, including in defence, and fostering international regulatory cooperation.

The Magazine also focuses on the implementation of the Savings and Investments Union (SIU) and the proposals of the Market Integration and Supervisory Package (MISP), assessing their potential to deepen and integrate EU capital markets and develop retail investor participation.

Another major theme is the evolution of banking and insurance regulation. Contributors examine the competitiveness and regulatory framework of the EU banking sector, including the future of the Banking Union and Basel III divergence. The Magazine also considers the role of insurance in the EU economy and the challenges facing the sector in an increasingly complex risk environment.

Digital transformation and innovation in digital assets and payments are also central to this edition. Contributors assess the scaling of AI and agentic AI in financial services, the development of tokenisation, the implications of stablecoins and possible evolutions of the cryptoasset framework. A dedicated section also covers the digital euro, retail and cross-border payment innovation, and further integration of the EU payments market.

The Magazine also examines the evolving EU and global sustainability agenda, including the prospects for sustainable finance, the EU climate resilience framework and SFDR 2.0.

Finally, contributors consider key risk prevention and resilience priorities for the financial sector, including AML supervision, cyber resilience in the AI era, and risks related to the development of private assets and non-bank financial intermediation.

In the following pages, you will find more than 260 contributions from public, private and civil society representatives on these topics, providing valuable insights into the key issues shaping the future of Europe's financial sector. We are grateful to all contributors for their insightful input and for sharing their perspectives.

In addition, the Eurofi Secretariat has published a Regulatory Update addressing key macro-economic issues for the EU and the prospects for the Banking Union. The Eurofi Macroeconomic and Monetary Scoreboards, which provide a detailed overview of Europe's macroeconomic environment and its potential impact on the financial services sector, have also been updated.



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Contact: contact@eurofi.net



DAVID WRIGHT

President, EUROFI

On behalf of the EUROFI team, a warm welcome to EUROFI, Dublin. This is our 44th gathering and the 2nd time we have the pleasure of being hosted in Ireland under the auspices of the Irish Presidency of the European Union. We are deeply grateful for their cooperation and support and we anticipate, as usual, a most hospitable traditional Irish welcome.

We often say, do we not, we are at a critical fork in the road; at the crossroads; at a pivotal, strategic moment in history etc? Well now it really does feel like this. It feels like the next 6 months or so will be crucial for the medium term economic and political prospects of the European Union. Crucial for European financial integration. Crucial for the European Union to stand on its own feet to enhance its strategic security and its economic and political independence in the increasingly hostile, major bloc world before us.

In this abandoned world order, some of our major historical allies can no longer be counted upon; traditional trading relationships built up over 80 years and supported by the Bretton Woods institutions have collapsed. The United States has resorted to overt protectionism and imposed random, hiked WTO illegal tariffs on all its trading partners. International law has become a chimera - there are no binding methods to resolve international disputes. Two major wars are at our doorstep and show no signs of ending.

It's now a world order of the survival of the fittest. It's a world of stand up and be counted or fade away. Sink or swim. And it is manifestly a period when the benefits of collective, holistic, timely European decision making to promote the European public interest has never been more important.

So the months ahead are vital for the European Union to make progress across all the main strategic areas - financial integration; defence; sustainability; energy; the digital and AI revolutions; infrastructure and settling the EU budget. Time is short. We must speed up and deliver a better future for European citizens. Or, worryingly, inevitably, political extremism will take over with incalculable consequences.

There are reasons for hope however. The dynamic Irish Presidency driving EU business forward; the vital delivery of the market integration and digital euro packages by the end-year deadlines agreed by the European Council and supported by the European Parliament; the unanimous views that the European Union must urgently improve its competitiveness, and trim, sensibly, excess rules; and create far better conditions and incentives for the €1.2 trillion of annual investment that Mario Draghi has estimated the EU needs to compete globally.

If we look at the financing of the EU one thing stands out. Today our banks finance 75% of corporate financing needs along with intermediating capital markets, providing mortgages etc. Without optimal bank financing, the EU economy will be severely constrained. The recent Commission banking competitiveness communication is a good start and makes a range of sensible prudentially sound, growth enhancing policy proposals, such as harmonisation of intragroup large exposure limits, greater consistency in the macroprudential regime and on treatment of capital and liquidity for cross-border banking groups to complete the Banking Union.

These now need to be actioned as a matter of top priority and delivered fast, no later than mid-2027. European banks today are well capitalised and there have been no systemic issues since the great financial crisis in 2008. They need to be able to compete *pari passu* with the major U.S. banks whom the Fed are assisting with lower capital requirements.

So a crucial period ahead. Seminal. Vital. A period for the EU to regain confidence and to realize its vast, untapped potential. A period that should aim to release European "go-getter" spirits so our small companies and entrepreneurs can thrive and grow in an integrated European single market of 450 million people. Financing their growth inside the EU with deep, liquid, vibrant, interconnected European capital markets, not outside. Herein lies the roots of our future prosperity.

I would like to close with a personal tribute to my good friend Sean Berrigan, Director General of FISMA, who will retire from the European Commission shortly. I have had the privilege and pleasure of working with him for many years. He is an outstanding European official — dedicated, a Trojan, thorough, forward looking, intellectually robust and the best economist I ever worked with in the European Commission. On behalf of us all we wish him every possible success in the next phase of his life. The EUROFI Hotel California principle of course applies to him!

As a very proud and grateful owner of an Irish passport may I end by wishing the Irish presidency every possible success at this crucial time for the European Union. And wish you all a pathbreaking and dynamic Dublin Eurofi, supporting the European Union all the way.



Q&A

SIMON HARRIS

Tánaiste & Minister for Finance of Ireland

A stronger financial system for a stronger Europe

What are the main economic and financial priorities of the Irish Presidency of the Council? At a time of widening economic, fiscal and competitiveness divergences across Member States, how can the Council build consensus around common priorities while preserving a level playing field?

We are at a particularly pivotal moment for Europe's economy where our values, way of life and our security are under increasing pressure. Against this backdrop of heightened geopolitical uncertainty, we will seek to deliver practical progress on key economic and financial priorities. Overall, strengthening European competitiveness while preserving the foundations of an open, rules-based social market economy is one of the three central pillars of the Irish Presidency, alongside security and values.

Earlier this year, the EU institutions, namely the European Council, the Parliament and the Commission, agreed the *One Europe, One Market Roadmap*. This roadmap is a set of collective commitments to deepen and modernise the Single Market by removing remaining barriers, boosting competitiveness, and creating the conditions for higher investment, innovation and productivity across the European Union. Delivering on these shared commitments is the guiding star of our Presidency.

With this ambition in mind, my top financial priority is advancing the Savings and Investments Union, including in particular securing political agreement on the Market Integration and Supervision Package. This Package aims to deepen and better integrate Europe's capital markets, making it easier for businesses to access finance and encouraging a more productive deployment of savings. Work is advancing and in July, the Council agreed to an ambitious but achievable timeline to secure agreement amongst the Member States by October. Another key aspect of the Savings and Investments Union agenda will be to conclude the negotiations with the Parliament on a revised securitisation framework. We have already made

progress here and a deal should enhance market efficiency, improve the allocation of savings, and support investment in the real economy.

The digital euro is another crucial file for Europe to deliver. There is a shared commitment across the EU institutions to put in place what will be a critical component of Europe's economic resilience.

Alongside these efforts to strengthen Europe's economic foundations, Ireland will work to facilitate progress on negotiations for the next Multiannual Financial Framework, ensuring that the EU budget is equipped to address emerging priorities while continuing to support the policies and regions that underpin economic convergence and cohesion across Europe.

What are the main obstacles preventing the Single Market from delivering its full productivity potential? What complementary EU policies are needed to strengthen European competitiveness and growth?

I think we should not lose sight of the fundamental progress that has been made over the last decade in building stronger, more efficient and better integrated financial markets in the European Union. Economic shocks over the past number of years – the Covid-19 pandemic, global supply chain disruptions, Russia's war on Ukraine and the impact of the Iran War on energy markets – have all shown Europe's economic resilience, while at the same time underlining the need to go further.

Mario Draghi's report on European competitiveness frame Europe's productivity challenge as primarily a fragmentation challenge. When we look at our achievements, we have done an effective job in removing barriers to trade in goods within the Single Market, but fragmentation remains across services, capital, energy, digital regulation and innovation ecosystems.

This is where we must focus our efforts and make concerted moves to put Europe on a path to reaching its full productive potential while ensuring that Europe remains open to trade and a global leader in terms of values and standards.

This is what is intended with the *One Europe, One Market Roadmap*, and for this reason we have ensured that the Roadmap's objectives are synonymous with the core priorities of the Irish Presidency. The Single Market remains the economic bedrock of Europe's economic prosperity and in a less predictable world, it remains a source of great economic potential.

I have already mentioned the Savings and Investments Union and its focus on removing barriers to capital and improving the functioning of the single market for capital. In terms of complementary policies, it is essential that we retain a focus on simplifying rules and reducing administrative burdens. We must also champion a strong trade policy agenda, support the energy transition and strengthen the EU's digital and AI capacity. Europe must remain focused on ensuring that our economy is ready to seize the opportunities from future growth. That is why the informal ECOFIN meeting, to be held in Dublin in September, will focus on precisely this point.

In summary, Europe has key strengths – innovation, talent and capital – but we must focus on better connecting and developing them. To do this we must build upon these strengths, focus upon the gains that can be achieved for all and enhancing our competitiveness and growth potential through delivering on our commitments.

How can Europe build a more integrated and competitive banking sector while preserving its resilience? What role can completing the Banking Union play in reducing fragmentation and supporting investment and growth?

Europe's ambitions for growth, innovation and strategic autonomy depend on a banking sector that is strong, competitive and deeply integrated. Banks play a vital role in transforming savings into productive investment, financing businesses and supporting households. As the EU seeks to boost competitiveness, accelerate the twin transitions and meet unprecedented investment needs, the ability of the banking sector to channel capital efficiently across the Single Market has never been more important.

Under Ireland's last EU Council Presidency in 2013, we secured agreement on the key rules necessary to ensure the resilience of our financial system as a direct and necessary response to the

financial crisis. Since then, Europe has undertaken a substantial programme of banking reform, creating one of the strongest and most resilient banking systems in the world. The importance of these reforms was demonstrated during the banking sector turbulence of 2023, when European banks proved capable of withstanding significant stress.

The challenge now is to build on that resilience by ensuring that Europe's banking sector can more effectively support real economic activity. This means creating the conditions for banks to deploy capital efficiently, channel financing towards productive investment and help deliver on Europe's strategic priorities. In an increasingly competitive global environment, Europe's capacity to innovate, modernise and grow will depend in no small measure on the ability of its financial system to support ambition with investment.

In July, the Commission published a report on the competitiveness of Europe's banking sector that rightly recognises that competitiveness and resilience are mutually reinforcing. A resilient financial system provides the stability and confidence needed to support investment, while a competitive banking sector is better positioned to finance growth and innovation.

Completing the Banking Union remains a critical step towards a more integrated and efficient European financial system. By reducing fragmentation and strengthening cross-border banking activity, it can help ensure that savings are channelled more effectively to productive investment opportunities across the Union. This, in turn, can improve access to finance for households and businesses, support economic growth and enhance the resilience of the European economy.



Q&A

GABRIEL MAKHLOUF

Governor – Central Bank of Ireland and
Member of the Governing Council – ECB

Finding the right balance: stability, simplification and strategic diversity

Which elements of the Commission's banking reform agenda do you think will deliver the greatest competitiveness gains for EU banks?

Our mission at the Central Bank of Ireland is to serve the public interest by maintaining monetary and financial stability, while ensuring that the financial system operates in the best interests of consumers and the wider economy.

So when I think of your question what I am focused on is not necessarily competitiveness gains for EU banks themselves, but rather ultimately how we can ensure that the European banking sector is helping make our economy more productive and is positioned to deliver long term sustainable economic growth for our citizens.

As such, any banking reform needs to seek to preserve resilience and financial stability, a precondition for stable growth. And then our efforts should be focused on how we can reduce fragmentation, increase integration and deliver simplification in a way that reinforces rather than undermines that objective, while ensuring regulation is not an undue burden, or unduly complex.

Completing the Banking Union, developing and deepening the Savings and Investments Union, and ensuring our regulatory framework is effective and efficient is central to those aims.

While we may come into this with different perspectives, we need to remain focused on the benefits of resilient and well-functioning markets and a strong and integrated European banking system will have, in particular for long run economic growth and living standards for all jurisdictions.

How can the cumulative impact of microprudential, macroprudential and resolution requirements in the EU be simplified while maintaining financial resilience? Who should be responsible for maintaining a holistic view of the overall prudential framework in the EU?

This is a key question and was part of the principles that underpinned the recommendations from the Governing Council's High-Level Task Force on Simplification.

We are not merely seeking to simplify the impact of these requirements but rather as with all policy-making we are trying to find the right balance. The balance between consistency and flexibility; between harmonisation and necessary national discretion; and between reducing complexity while maintaining risk-sensitivity.

Getting that balance right is essential to making sure we simplify the capital framework in a way that continues to deliver on its important objectives, which includes a safe and sound banking sector delivering its important function in both good times and bad.

And so, as we rightly seek to simplify the different instruments and elements of the capital stack, it is important we do so in a way that brings clarity and introduces common methodologies, but without constraining the different authorities from being able to respond to risks and deliver on their respective mandates.

As you point out, we also need to get the balance right not just in developing but also in implementing the framework. And for me that also rests on balancing coordination and cooperation with institutional independence. Which as I said, means ensuring the different authorities can do their jobs effectively, while recognising the clear merit in a taking holistic view, which could include a qualitative assessment of the adequacy and appropriateness of the overall level of capital requirements in the EU.

As an integrated central bank and regulator, we have good experience in taking such a holistic view. And from a European perspective, in line with the HLTF report, I believe enhancing the Macroprudential Forum is the best way to deliver such a holistic view, while respecting and maintaining necessary policy independence of the different authorities, be they national or European.

How should Europe balance the need to reduce dependencies on non-European providers in retail payments with the benefits that global schemes and platforms bring to consumers and merchants? What role is the digital euro expected to play in this respect?

This is a great question, and at the heart of what I think is Europe's challenge in terms of balancing openness with autonomy. As I have said before, Europe's strength has always been harnessing the strength of its own market while being open to others' and this is something we should not forget as we rightly seek to enhance our autonomy.

Resilience in the modern era is unlikely to be found through autarky but rather should be maintained through continuing to embrace both openness and strategic diversity.

And so I would say that our aim should be not to become more closed but to respond to fragmentation through efforts to diversify away any dependencies. This can be done through enhancing our autonomy, of course, including by developing our greatest asset – the single market – in goods, services and capital. But it can also be done, by becoming more open, not less. It's why I think we should focus on both strengthening Europe's economic infrastructure and also working with like-minded international partners to develop a new set of multilateral trading rules that deliver certainty and stability.

In terms of retail payments, balancing openness with strategic diversity, is precisely what I see as one of the roles of a digital euro. Aside from ensuring public money remains available in an increasingly digital world, the Digital Euro increases diversity and choice for our economy and our citizens. And in doing so it makes European payments both better for consumers and more resilient for our system.



Q&A

VALDIS DOMBROVSKIS

Commissioner for Economy and Productivity; Implementation and Simplification – European Commission

A more integrated Europe for higher productivity and investment

Europe's productivity problem is often discussed as a European challenge. To what extent is it also a national reform challenge? What reforms and investments are needed at Member State level to boost productivity, preserve fiscal sustainability and support economic convergence?

Enhancing Europe's competitiveness requires action across all fronts and on all levels. We must take steps to facilitate stronger growth at national and EU level at the same time.

The European Commission is advancing an ambitious competitiveness agenda through proposals that include cutting red tape, eliminating barriers in our Single Market, and strengthening our trade network.

But many of the policy areas critical to enhancing our competitiveness are a national competence. This means that the needed investments and reforms must also come from Member States.

The EU is playing an important role to clarify the objectives of common interest and coordinate policy action at the national level to maximise their aggregate impact across the European economy. To that end, the framework of economic surveillance of the EU has been re-focused with greater attention to competitiveness-related objectives. The European Semester provides tailored recommendations to each Member States on policy actions aligned with the EU's competitiveness agenda. This includes the promotion of policies to help channel savings towards productive investments, close the innovation gap, making the most of the single market, and promote skills and training.

The EU's new fiscal framework also places a greater emphasis on encouraging investments and reforms at the national level that help raise the growth potential and preserve the sustainability of public finances.

The sum of our collective efforts will build the more competitive Europe we urgently need.

How do persistent divergences in productivity, competitiveness and public finances affect trust, risk-sharing and the political feasibility of deeper European integration?

European citizens expect and deserve an EU that delivers. Trust in further European integration is derived from integration resulting in real, tangible benefits. The EU has been identified as a 'great convergence machine', to use the term coined by the World Bank. Indeed, convergence has always been at the core of our policies. Over the years, the Union has adopted a broad array of policies aiming to reduce divergences among Member States in productivity, competitiveness and public finances. Nowhere is that more evident than in my country, Latvia. In less than forty years, it has emerged from the grip of a failed Soviet system to develop into a thriving, open and liberal market economy.

The Commission is taking forward work to strengthen competitiveness and productivity, including through a deeper Single Market and a new Savings and Investments Union with integrated capital markets. These measures aim to mobilise savings for productive investment, support European companies to scale up and foster access to the Single Market. Going forward, it will be important to ensure continued upward convergence, strengthening the economic foundations for further integration. This is urgent given today's geopolitical environment. And there is clear public support, with the Eurobarometer showing that 90% of Europeans want a more united response to global challenges.

Looking ahead, we need to ensure that the European project keeps delivering real protections and opportunities for our citizens. That is what will make the case for further integration.

What are the main obstacles preventing the Single Market from delivering its full productivity potential? How can a deeper Single Market help European firms scale up and compete globally without disproportionately benefiting non-EU competitors?

The Single Market is a cornerstone of European integration and has been a major driver of productivity. It enhances economic efficiency through economies of scale, stronger competition and increased innovation.

The Single Market does not disproportionately benefit non-EU competitors. On the contrary, it is our safe haven in a context of global geoeconomic tensions, and a pre-requisite for EU firms to scale up to reach continental size and be able to compete at a global level. This said, where unfair competition threatens our Single Market, we do not hesitate to use the tools at our disposal, such as trade defence instruments.

Nonetheless, barriers to deepening the Single Market persist, and new obstacles continue to appear. Although some of these barriers result from national rules pursuing legitimate policy objectives, addressing them will reduce unnecessary fragmentation while maintaining EU protection standards. Further progress is needed in services, digital and energy markets, the 'fifth freedom' for knowledge and innovation, and public procurement. And in this respect, the Commission is implementing a concrete action plan to address the most harmful barriers with particular attention to services.

More broadly, the EU Competitiveness Agenda also contains many initiatives with a Single Market dimension, as they are interconnected with competitiveness objectives: the Savings and Investments Union, which aims for deeper and more integrated capital markets, the Union of Skills, which aims at improving labour matching but also labour mobility, or the Startup and Scaleup Strategy to facilitate innovative firms to grow and reach continental scale.

What are the priorities for simplifying EU banking regulation and supervision while preserving financial resilience? How can the cumulative impact of microprudential, macroprudential and resolution requirements be better coordinated and simplified?

This is part of the wider simplification and competitiveness agenda, alongside the already tabled Omnibus package on sustainability reporting. The ambition is clear: simpler, more proportionate, more effective rules, while preserving financial stability.

In July, the European Commission set out measures to strengthen Europe's banking sector and support growth, advancing across three fronts. First, fostering integration with appropriate safeguards for cross-border banking groups. Second, implementing international standards while respecting EU specificities, particularly for smaller banks. Third, simplifying the framework itself by reducing regulatory and prudential overlaps and reporting costs.

Capital and liquidity trapped by overlapping requirements is capital that cannot support lending and growth. Here, simplification is a competitiveness issue as much as a prudential one. But simplification does not mean deregulation. The objective is to remove unnecessary complexity and duplication while preserving the resilience of the banking sector.

Successive reforms have created overlaps, duplication and unnecessary complexity, without a corresponding benefit for financial stability. We therefore propose stronger coordination between the authorities responsible for microprudential, macroprudential and resolution rules to set requirements more coherently. We will also review the process for adopting level 2 and level 3 measures and consider moving certain rules into directly applicable regulations to improve consistency across the Union.



Q&A

MARIA LUÍS ALBUQUERQUE

Commissioner for Financial Services
and the Savings and Investments
Union – European Commission

A strong Savings and Investments Union for a stronger Europe

Will the key SIU measures needed to transform EU capital markets be implemented on time while preserving their initial ambition?

The SIU is a horizontal enabler key to this Commission's competitiveness focus. The political momentum is there to deliver on transformative changes in a relatively short time frame. The recent One Europe, One Market Roadmap sets the timeline for delivery on these initiatives and co-legislators are committed to comply. Discussions are difficult, as expected, because what we propose are not minor adjustments to the status quo but a new approach whereby the EU can leverage on its combined resources. The Commission is actively engaging in the ongoing debates, continuously reiterating the ultimate objectives of our proposals, and helping to build bridges and reach consensus. I remain confident that ambition will be preserved as there is full alignment between all stakeholders on how important it is for the EU not to miss the opportunity to secure its strategic autonomy.

How can Europe strengthen the global competitiveness of its banking sector while preserving financial stability? Where do you see the greatest opportunities to improve the regulatory environment without undermining resilience?

We should remind ourselves that the debate is not about banks for the sake of banks. It's about how banks should be able to contribute to the competitiveness of the EU economy, and, for that, financial stability is a pre-requisite. In preparation for the work on the banking regulatory framework, the Commission launched a very broad public consultation, and we have been engaging extensively with stakeholders, so we believe we now have a deep, evidence-based, understanding of where we need to act. There is significant room for improvement in

removing the existing unnecessary layers of complexity. That applies to EU level rules but also to national gold-plating and divergent interpretations. It also entails a different approach to compliance focused on substance, not on ticking boxes. By having a holistic view of the way the microprudential, macroprudential and resolution frameworks interact, we will also create more predictability for capital requirements and allow for better medium-term planning and a much more efficient allocation of resources. Action in this direction, combined with efforts to enable a true single market for banking and to make the rules more proportionate overall have a real chance to boost our banks' competitiveness.

What are the main obstacles to completing the Banking Union, and what political agreement could break the current deadlock? How should key issues such as the home-host debate, common deposit insurance and sovereign debt exposures be addressed?

The creation of the Banking Union in the aftermath of the Great Financial Crisis had two fundamental objectives: protect taxpayers' money from being used to bail out banks deemed too big to fail, and break the doom loop between sovereigns and their domestic banking sectors. Without completing the Banking Union these objectives may not be fully met in a new crisis, whenever it comes. The agreement on the Crisis Management and Deposit Insurance (CMDI) framework is a relevant step in that direction. The Commission's intention, as indicated in the recently adopted banking report, is to put forward legislative proposals to allow the remaining elements of the Banking Union to be completed. The evidence gathered reveals that it will be key in promoting the scale and efficiency gains, with a reinforced competitive position, much needed for a stronger banking sector. The issues mentioned in your question – the home/host debate on cross border banking groups, the common deposit insurance – but also the

sovereign debt exposures, are central to allowing persistent barriers to a more competitive banking sector to emerge. The capital and liquidity currently trapped by lack of trust and inefficient mechanisms could greatly benefit the EU economy were they to be released, and that is a core objective we will pursue. For that to be met by a political agreement, we will need to make sure that there are rules in place to guarantee that the financial stability in all Member States, including non-Banking Union, will always be defended, both in normal circumstances and in crises situations.

How can Europe simultaneously achieve a genuine Banking Union, a truly integrated Single Market for banking, and a simpler banking regulatory and supervisory framework to strengthen the global competitiveness of European banks? Are these objectives fully compatible, or do they require difficult trade-offs?

The objectives are fully compatible. In fact, they are all core objectives of the SIU strategy, adopted by the Commission and strongly supported by all Member States. Some stakeholders are afraid of integrating the EU markets further because they see trade-offs between the EU interests and the interests of each Member State. But there is no such a trade-off. Going forward, the interests of each individual Member State can only be better protected if the stakeholders from that Member State can leverage on a fully integrated EU financial market. No one claims to be able to overcome the challenges we collectively face acting on its own, no Member State has the capacity to be a relevant competitor in the economic sectors of the future relying only on its resources and capacities, and every single one recognises that, if pooled together, the EU resources are sufficient to deliver it. So, the question now is to translate that awareness into a willingness to promote necessary disruptions and do it in a way that assures everyone can be in a better position in the future. It will require not protecting inefficient incumbents, rather creating the right conditions for those willing to change to do so. So, to conclude, I would say the main challenge will be to be able to see beyond some short-term political challenges and focus on the benefits of change. We can not afford to

miss the opportunity to position the EU as a relevant world actor and for that we need to regain our economic strength.

Can the EU banking framework be meaningfully simplified without addressing market fragmentation and the home-host dilemma, or must simplification and deeper integration advance together?

All the issues mentioned are deeply interconnected. To simplify the regulatory framework, we must also address rules that create frictional barriers, allowing financial firms to operate cross-border across Europe. Fully removing overlaps, national discretion, and duplicative requirements ultimately calls us on finding solutions that address the legitimate concerns of all Member States. To achieve this, we need a regulatory framework that gives host Member States the necessary safeguards to fully restore trust.

I am aware that some believe parts of the framework can be simplified without tackling the most difficult political debates. Regulatory reporting is often cited as a prime example, with all stakeholders demanding simplification and streamlining. However, if we look beyond slogans, many reporting obligations stem from national gold-plating, which is the result of the lack of trust among supervisors. Our assessment demonstrated that market fragmentation is the main drag on competitiveness and a major source of complexity. There are no easy wins; real simplification can only be achieved alongside deeper market integration.

1

EUROPE'S ECONOMIC AND SECURITY CHALLENGES

INTERVIEW	22
Lucy Rigby - HM Treasury / Jacques de Larosière - EUROFI	
REVIVING PRODUCTIVITY IN THE EU	28
Mateusz Szczurek - International Monetary Fund / Mario Nava - European Commission / Carmine Di Noia - Organisation for Economic Co-operation and Development / Līga Kļaviņa - Ministry of Finance of the Republic of Latvia / Michael West - Moody's Ratings / Colin Hunt - AIB	
FRAGILITIES OF HIGHLY INDEBTED EU COUNTRIES	34
Harald Waiglein - Federal Ministry of Finance, Austria / Avgi Chrysostomou-Lapathiotis - Ministry of Finance, Cyprus / Signe Krogstrup - Danmarks Nationalbank / James Longsdon - Fitch Ratings	
MONETARY POLICY AMID RESURGENT INFLATION, WEAK GROWTH AND HIGH DEBT	38
Mateusz Szczurek - International Monetary Fund / Johan Van Overtveldt - European Parliament	
FINANCING INNOVATION AND SCALE UPS IN EUROPE	40
Alexandra Jour-Schroeder - European Commission / Nathalie Berger - European Commission / Märten Ross - Ministry of Finance, Estonia / Sandra Veseli - Moody's Ratings / Christian Edelmann - Oliver Wyman / David Serrero - CDC TECH PREMIUM	
DEFENCE FINANCING IN EUROPE	46
François-Louis Michaud - European Banking Authority / Sandrine Ménard - Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France / Harald Waiglein - Federal Ministry of Finance, Austria / Francesco Ceccato - Barclays Europe / Gilles Moëc - AXA Group / Benoit De La Chapelle Bizot - Groupe BPCE	
FOSTERING INTERNATIONAL REGULATORY COOPERATION	52
Jean-Paul Servais - IOSCO / Toshiyuki Miyoshi - Financial Services Agency, Japan & IAIS / Mark T. Uyeda - U.S. Securities and Exchange Commission	



Q&A

LUCY RIGBY

Economic Secretary to the Treasury
– UK Government

Growth, innovation and partnership: the future of UK financial services

Ambitious reform combined with strong international partnerships can strengthen financial services as a driver of growth, resilience and shared prosperity.

Turning strategy into action

The world is navigating a period of rapid change and the speed of technological advancement in particular has the potential to transform economies, financial services included.

The financial services sector has a central role to play in addressing the challenges which this era of fast-paced change presents, from increasing resilience to global economic shocks to financing the climate transition.

Financial services provide the circulatory system for the real economy: providing credit, channeling investment, driving jobs and growth in all of our countries. And it is these same services that facilitate the economic lives of all of our citizens – paying for everyday goods and services, enabling home ownership, ensuring people can save for retirement.

Put simply, the good health of the financial services sector is critical to the health of the global economy, and to the wellbeing of billions of people the world over.

In 2025, the UK published our plan for the long-term success of the sector through support for open and resilient markets, strong international partnerships and proportionate, effective regulation.

One year on, we have made good progress. The Financial Conduct Authority and Prudential Regulation Authority share a secondary growth and competitiveness objective, enabling them to support long-term growth and competitiveness whilst maintaining their existing objectives on consumer protection, market integrity and financial stability.

The UK has also taken steps to help capital flow more efficiently: recent pensions reforms will support better outcomes for savers and increase investment into productive

assets; targeted support will help consumers make informed financial decisions.

Delivering the next phase of reform

As Economic Secretary to HM Treasury, my focus is on building on that momentum to continue delivering on the Strategy. The next step is the Financial Services and Markets Bill 2026.

This legislation will modernise our regulatory landscape. It will introduce more ambitious authorisation deadlines for regulators, and reform the Senior Managers and Certification Regime to reduce administrative burdens whilst maintaining individual accountability. The Bill will also progress growth-focused reforms, including for credit unions.

Enabling market-leading innovation to flourish remains central to our vision for the sector and in no area is this more important at present than digital assets and tokenisation. That's why the Bill will introduce a secondary innovation objective for the Bank of England in relation to payments.

This builds on the publication of the Wholesale Financial Markets Digital Strategy last year, which highlighted the digitalisation of our markets as a strategic national priority. The UK is proceeding at pace in delivering on the Strategy, including by issuing a digital gilt instrument and continuing the operation of the successful Digital Securities Sandbox.

Partnerships for shared prosperity

But digitalisation requires an approach that extends beyond national borders. Global coordination is needed; an approach that builds connectivity and interoperability across borders. That's why international collaboration and partnerships are so important in this context, as indeed they are in many other aspects of financial services policy too.

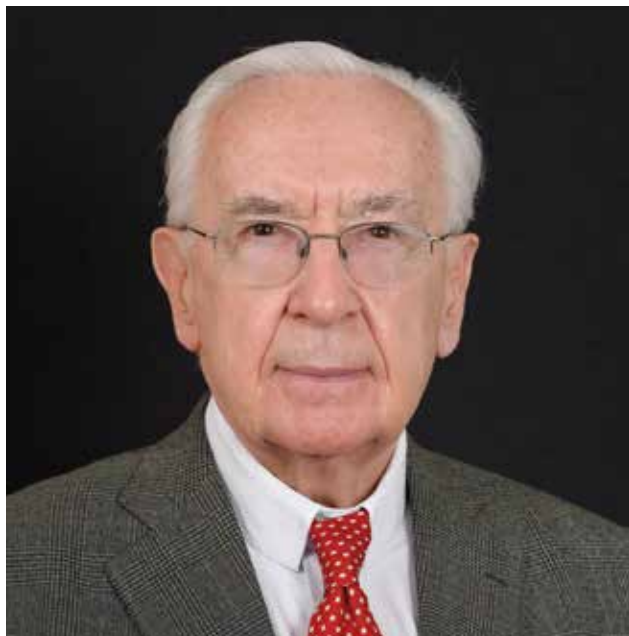
The next Joint UK-EU Financial Regulatory Forum will take place this Autumn, providing a vital opportunity to share

perspectives on common challenges. In addition, the UK and EU have agreed to take forward regulatory cooperation, focusing on transaction reporting and emerging challenges such as the green and digital transitions. As we confront shared challenges, deeper cooperation can help build more open, innovative and resilient financial sectors.

Looking across the Atlantic, the recommendations of the Transatlantic Taskforce for Markets of the Future published on 14 July set out a practical agenda to deepen UK-US financial services cooperation. By advancing collaboration on digital assets and capital markets, they aim to reduce cross-border frictions and create opportunities for innovation and investment.

By combining ambitious domestic reform with durable international partnerships, we can strengthen resilience, support investment and deliver shared prosperity at home and abroad.

I'm looking forward to continuing to work with partners to build that future.



Q&A

JACQUES DE LAROSIÈRE

Honorary President – EUROFI

Restoring balance to French public finances

France will need a comprehensive overhaul of public finance under whichever president the country elects to succeed Emmanuel Macron next year. Otherwise, it will be drawn into a negative spiral of progressively higher interest costs and slower growth. This could significantly constrain the state's ability to take on new debt and trigger a financial crisis within economic and monetary union.

Some bond market investors appear to consider that French public finances will somehow benefit from largesse via a bailout from the European Central Bank. Otherwise, it is difficult to understand why yields on French 10-year bonds are trading at only 0.8 percentage points over German government bonds. This 'spread' is up from a range largely below 0.5 points in the decade to 2024. But it compares favourably with a yield spread of 1.8 points for the UK, whose public finances, although far from healthy, are in a less poor state than France's.

It is an illusion for France to believe it will somehow be kept afloat by the ECB or by German benevolence. France cannot rely on charity from others, nor should it ask for any. One of the reasons for the breakdown in Franco-German cooperation over building a new generation of fighter aircraft is because Germany is no longer willing to subsidise France in joint industrial projects. The reality is that French public finances are in a catastrophic state – with repercussions for next April's presidential elections marking the end of Macron's second five-year term. France's general indifference to its public spending malaise makes it 'the sick land of Europe'.

The budget deficit of 5.1% of gross domestic product last year is expected to rise slightly this year, remaining well above the Maastricht reference level of 3%. France's general government debt as a percentage of GDP has risen to close to 120% from just under 100% in 2019 and 60% in 2000, the last time it was at the Maastricht level.

Public spending has been rising for 25 years, now at 57% of GDP, 8 percentage points above the European average, epitomised by the bloated number of public employees, up by 1m since 1997. Over this period public sector staff numbers have risen 23% compared a population rise of 15%.

The primary deficit (excluding interest charges) of 2.9% of GDP is the highest in the eurozone.

The economy is under pressure because of general uncertainty over US tariff measures as well as extreme heatwaves and disastrous wildfires. There is no perspective that the deficit will be reduced. The French experience compares with stabilisation of the debt in Italy and a sharp decline in the last 10 years in Germany – even though German debt is expected to rise significantly in coming years as a result of higher defence spending driven by the war in Ukraine and the US request for Europe's Nato members to shoulder more defence burdens.

Europe has been undermined by two wars, in Ukraine and now, since the end of February, between the US- Israel and Iran. We see the effects in the shift in trade in energy with Russia, the diversion of Chinese exports away from the US to Europe, and America's benefits under President Donald Trump from its position as a net oil exporter.

Add to that the power of the dollar and the overall effect of mistaken European Central Bank monetary policy including a far too easy stance when the ECB was combating alleged deflation 10 years ago.

Entry into the euro and the ECB's loose policies have undermined the state's ability to maintain financial equilibrium. Far too many people believed that EMU was a panacea for Europe's ills. As long ago as 1975 I warned – as director of the French Treasury – that the mooted creation of a European currency would in no way eradicate imbalances between member states.

The European Commission's stewardship of the euro area is a fiasco. It has abandoned any pretence of maintaining discipline through fiscal orthodoxy.

On present trends, France's position will deteriorate. Assuming annual economic growth of no more than 0.7–1% relative to ten years interest rates at around 4% in August 2026, the 'snowball effect' of rising public debt-to-GDP could

soon render the budgetary position untenable, leading to rising bond market spreads and economic stagnation.

What can be done? A minimum effort is needed to reduce the primary deficit from 2.9% of GDP to a 'stabilising' level of 0.1% - requiring a fiscal adjustment of 3% of GDP. This effort needs to be achieved over several years and is possible without changing the fundamental component of the French social system. Maintaining the public debt at the current figure of €3.5tn would require a still greater adjustment.

I would favour carrying out this latter ambition over five to seven years, cutting the primary deficit by €30bn a year. This would produce a primary surplus of €30bn in 2030 compared with a primary deficit of €88bn in 2025. Public debt would be 121.8% of GDP in 2029, falling to 108.2% in 2035 if the adjustment was maintained for 10 years. If, on the other hands, the primary deficit stayed at the current level, public debt would rise to 131.5% of GDP in 2029.

The problem cannot be resolved in its fundamental aspects by a mere support by the ECB. If the ECB were to indulge in buying the public debt that cannot be absorbed by markets anymore, this would not change the basic structural weaknesses that lie at the heart of France's adjustment problems. The worse of all scenarios would be to see the ECB throwing unconditional money at problems that require reforms more than financing. Such a scenario would lead to more inflation and less growth.

REVIVING PRODUCTIVITY IN THE EU



MATEUSZ SZCZUREK

Director of the European Department –
International Monetary Fund (IMF)

How Europe can revitalize growth and innovation

Europe is falling short of potential due to a lack in reforms.

Europe's per capita income is 27.4 percent below the US—not far from where it was two decades ago. Had it not been for Europe's rising labor force participation, the gap would be even higher given Europe's underwhelming productivity growth. Europe's structural shortcomings became more penalizing with the unfolding of the ICT revolution, which put a premium on scale and reallocation. Between 2005 and 2025, real GDP per hour worked increased by 0.9 percent annually in Europe, compared to 1.4 percent in the U.S. Low growth also reduced resilience in a world where supply disruptions and uncertainty have become commonplace. The good news is that better policies can change all that.

Closing Europe's productivity and income gap requires action at both domestic and EU level.

Fully adjusting domestic structural policy to best practice and lowering intra-EU cross-border barriers to trade and labor mobility to those observed within the US would raise EU productivity by about 20 percent.¹ This would nearly close the existing productivity gap. As powerful as each lever is, neither of them can be operated in Brussels or Member States' capitals alone: about half of these gains come from addressing domestic shortcomings, and the other half from fully integrating the EU's product and labor markets. What is more, even a moderate effort towards addressing fragmentation in financial markets would not only bring gains in its own right, but also magnify the benefits of non-financial reforms.² The EU's Single Market Roadmap provides a useful framework for advancing reforms that could help realize part of these gains.

Reforms would also spur private investment... Sustained capital formation depends on firms seeing profitable opportunities to expand and innovate. We estimate that the productivity lift from closing domestic and EU-level gaps would raise private investment such that Europe's GDP per capita increases by at least 35 percent. In a virtuous cycle, higher growth would also help ease fiscal policy tradeoffs.³

... including in innovations needed to remain at the frontier.

Productivity growth at the frontier comes from high-growth innovations, yet Europe tends to focus on incremental innovation in traditional, low-growth sectors. Why are there not more emerging European firms going big? The answer is large policy barriers prevent firms from adjusting up and down production capacity. Scaling-up constraints—

such as limited access to foreign markets through trade, or tax disincentives to grow—limit the potential returns to innovation and growth. Scaling-down constraints—such as costly bankruptcy procedures and employment protection legislation that shields jobs instead of workers—prevent firms from adjusting production down or exiting when investments fail, disincentivizing risky investments where flexibility is most valuable. But the benefits of these domestic and EU-level reforms go beyond higher productivity and income. Many of the same reforms would also make Europe more adaptable and less sensitive to shocks.

Industrial policy can help with growth and resilience if used carefully and in moderation.

While more direct support, such as R&D subsidies, can aid innovation activity, these policy instruments must be very precisely targeted, otherwise they can hurt competition and become more costly than structural reforms. Policies that directly weaken competition (e.g., relaxed merger rules, or trade protection that goes beyond addressing economic security vulnerabilities) can undermine long-run incentives to innovate.

Careful design and communication will go a long way in easing implementation of reforms.

Any reform brings concerns that need to be taken seriously. But a careful analysis of the combined domestic and EU-level reforms aimed at reducing intra-EU barriers to trade, labor mobility, and capital flows show that all EU member states will benefit. This suggests that an ambitious reform effort yields gains that can be shared through the existing tax and social benefits systems. Europe's own experience shows that successful reforms are possible when policymakers clearly communicate the costs of inaction, build social consensus, and bundle measures so that gains are widely shared.

This article was co-authored by Diego Cerdeiro (IMF).

1. *Making European Reforms a Success on the Ground*, IMF 2025.
2. *Deeper and More Integrated Financial Markets to Foster Growth and Resilience in Europe*, IMF 2026.
3. *Europe's Fiscal Squeeze: Tackling Rising Spending Pressures*, IMF 2026. *The choice is not between national and European solutions; both should be pursued together.*



MARIO NAVA

Director General, DG Employment, Social Affairs
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The 2026 European semester: Restoring productivity, credibility and convergence

The Productivity Challenge

The EU stands at a crossroads. For many years, productivity growth has lagged behind major global competitors, weighing on competitiveness, innovation and long-term prosperity. This challenge goes beyond economics: weak productivity affects wages, public finances and the capacity to deliver quality public services and social cohesion.

The euro area recommendation for 2026 rightly points to productivity as the central economic issue. Mario Draghi's report underlined the need for coordinated action, but the answer is not a single top-down strategy. Europe's strength lies in combining a common direction with reforms tailored to national conditions.

Three priorities should guide action:

- closing the innovation and technology gap;
- accelerating decarbonisation while preserving industrial capacity;
- reducing strategic dependencies in key sectors.

Achieving these goals requires stronger public and private investment, better framework conditions for firms, and labour markets that support adaptation and inclusion. This is also where the Union of Skills matters: Europe cannot raise productivity without improving skills, matching workers to changing labour market needs and supporting transitions across sectors and regions.

Fiscal Credibility and Social Investment

A stronger euro area also depends on fiscal credibility. High debt in several Member States limits room for action and can weaken confidence. Sound public finances are therefore not optional; they are a condition for sustainable investment and resilience. Credibility means not cutting productive or social spending that supports future growth and ensure social services (eg early childhood assistance, general childcare, workers upskilling and reskilling) that foster higher employment rates.

This balance is especially important as the Recovery and Resilience Facility (RRF) is approaching its end this year. The RRF showed that European financing can help drive reform and investment, but it was temporary. As it winds down, Member States will need to maintain momentum with credible national fiscal paths while protecting expenditure that strengthens productivity, skills and social resilience.

This includes investment in education, training, childcare, housing and active labour market policies. It also includes fair wage-setting and job quality. In this respect, the Minimum

Wage Directive remains relevant as part of a broader effort to support upward convergence and reduce in-work poverty. The EU Anti-Poverty Strategy, launched in May 2026, gives further political impetus by linking economic coordination more clearly with social inclusion.

The proposed Quality Jobs Act can further support this agenda by encouraging labour market reforms that combine competitiveness with security, better working conditions and stronger participation in training.

The Role of the European Semester

The European Semester remains the main framework for translating these priorities into coordinated action. It does not replace national policymaking, but connects common objectives with country-specific guidance, surveillance and peer learning. In a monetary union where economic choices spill across borders, this coordination remains essential.

Still, the Semester can only be effective if it focuses on implementation. Too often, recommendations identify the right challenges without creating enough follow-through. The key task is therefore to make the Semester more operational: better alignment between fiscal surveillance, reform priorities and investment needs; clearer benchmarks; and stronger national ownership.

The Semester should also help ensure that the end of the RRF does not create a policy vacuum. It can support continuity by linking reform commitments, budgetary planning and social objectives in a single framework. In that sense, it remains indispensable to delivering on the euro area recommendation for 2026.

Realistic Outcomes

In the short term, euro area prospects for 2026 are improving, but cyclical relief should not be mistaken for structural renewal. Europe's diversity means progress will remain uneven, and many reforms depend on political choices made nationally.

But that does not make coordination ineffective. If the euro area recommendation for 2026 is used to sharpen national priorities, the European Semester to improve delivery, and post-RRF fiscal strategies to protect productive and social investment, meaningful progress is possible.

The most realistic outcome is not a dramatic leap, but a stronger basis for sustained improvement: higher productivity, more credible public finances, better skills, lower poverty and better-quality jobs. That is how the EU can strengthen competitiveness while preserving its social model and narrowing internal gaps.



CARMINE DI NOIA

Director for Financial and Enterprise Affairs –
Organisation for Economic Co-operation and Development (OECD)

Europe's competitiveness test: spend better, unlock scale

At a time of growing geopolitical tensions, rising defence needs and weak growth prospects, Europe faces increasing pressure to do more with limited fiscal space.

Debt markets have remained remarkably resilient despite rising borrowing needs. The OECD Global Debt Report 2026 shows that central government borrowing from debt markets across OECD countries reached USD 17 trillion in 2025 and is expected to rise to USD 18 trillion in 2026. Yet higher debt, shortening maturities, and more price-sensitive investors leave no room for complacency.

For Europe, high debt and abundant savings alike must be channelled into productive investment capable of raising competitiveness and productivity.

First, fiscal discipline should be recognised as part of a growth strategy. Resources should increasingly be allocated towards skills, digital and energy infrastructure, R&D, childcare, labour-force participation and public-sector efficiency. Expenditure that raises productive capacity strengthens both long-term growth and fiscal credibility.

In a more demanding financing environment, credibility becomes a source of competitive advantage. As central banks unwind years of quantitative easing, investors increasingly price sovereign debt according to the soundness of public finances, regulatory predictability and implementation capacity. In Europe, differences in institutional quality can quickly result in different financing conditions.

Since the Global Financial Crisis, years of fiscal and monetary support stabilised demand but did not remove structural constraints: too much capital remains trapped in fragmented markets, scale-up financing is limited, innovation diffuses too slowly, and administrative barriers delay investment. Liquidity itself is not productive capacity, and Europe's task is to turn the capital it has into the productivity it needs.

Second, Europe possesses abundant savings and innovative firms yet struggles to achieve scale. Fragmented financial markets divide savings, investment, supervision and risk-sharing along national lines, weakening firms' ability to grow and compete globally.

The consequences are visible: IMF analysis shows that, in the US, young public firms – those under 50 years old – are valued at USD 42.9 trillion. In the EU, that figure is closer to USD 5 trillion. In fact, over the past 50 years, only 14 companies with a market capitalisation above USD 10 billion have been founded in the EU, compared to more than 240 in the US.

A deeper Single Market, a credible Savings and Investment Union and greater supervisory convergence can reduce these

barriers, improving the allocation of savings and broadening financing options for growing firms. Yet common initiatives must go hand in hand with credible domestic reform: persistent divergence in fiscal credibility, administrative quality and reform momentum would limit their impact.

Third, demographics add urgency to both agendas, as ageing raises pension and healthcare pressures while reducing the contribution of labour-force growth. Pension sustainability, labour participation and skills policy are therefore part of the same productivity challenge. Longer lives must be matched by longer, healthier and more flexible working lives, supported by incentives to make provision for retirement, lifelong learning and measures to mobilise underrepresented groups.

Ageing affects both the supply of labour and the supply of long-term capital. Well-designed pension systems protect retirement income, support fiscal sustainability and strengthen citizens' participation in growth: directly through longer working lives and indirectly through long-term savings.

Debt must finance productivity; savings must finance scale!

OECD data shows that assets earmarked for retirement reached USD 70 trillion in OECD countries by 2024, representing a major pool of long-term capital. Asset-backed pensions can thus support productive investment, provided they remain retirement systems first rather than captive buyers of public debt.

Pension funds and insurers can be stabilising long-term investors, but they remain sensitive to price, duration, liquidity, solvency and regulation. Their contribution to productivity depends on trust, governance, transparency and sound supervision.

Europe's productivity challenge ultimately lies in how effectively it can deploy both borrowed and accumulated capital. Meeting this challenge will depend on its ability to align (i) fiscal credibility with investment ambition, (ii) national reform with EU coordination, and (iii) long-term private capital with credible institutions.

Resilience in debt markets is an opportunity, not a guarantee – Europe must use it to build productive capacity before adjustment is imposed on less favourable terms.



LĪGA KĻAVIŅA

Deputy State Secretary on Financial Policy –
Ministry of Finance of the Republic of Latvia

Productivity, competitiveness and convergence: Why Europe needs a deeper single

We are living in an era of one shock after another: COVID-19, inflation, Russia's unprovoked war against Ukraine, rising trade tensions and US tariffs, and now renewed instability in the Middle East. At the same time, productivity growth in the euro area has remained weak for almost two decades. According to the IMF, income per capita in Europe is around 70% of that in the United States, and the gap continues to widen.

Meanwhile, national budgets are under increasing strain from long-term spending pressures, including the rising pension and healthcare costs associated with ageing populations, the costs of the green transition, and growing defence expenditure needs.

To restore productivity growth, regain fiscal credibility, and restart economic convergence across the euro area, the policy debate has moved beyond marginal adjustments. The renewed focus on European competitiveness is reflected in key policy documents, most notably the Draghi Report on European competitiveness and the Letta Report on the future of the Single Market. Together, these reports have shaped the European Commission's policy agenda, which aims to strengthen Europe's innovation capacity, productivity, and global competitiveness.

An emerging consensus is taking shape that a core set of reforms can no longer be postponed.

Policy discussions have largely focused on two crucial drivers of future productivity growth. First, there is substantial untapped potential from completing the Single Market associated with “low hanging fruit”, including through regulatory simplification and the removal of remaining barriers to cross-border activity. Too many conflicts persist between EU and national rules and priorities, and too many barriers continue to hinder cross-border services, digital activities, finance, energy, and labour mobility. Second, significant productivity gains can be achieved by fostering innovation and strengthening the diffusion of new technologies across sectors and industries.

Key priorities for completing the Single Market include removing regulatory barriers to cross-border services, creating a genuine Digital Single Market, and reducing the administrative burden faced by companies operating across multiple Member States.

At the same time, Europe faces an estimated annual investment gap of approximately €800 billion. The Draghi Report and the EIB have both highlighted the urgent need to finance strategic priorities, including the green transition, digital and AI transformation, and defence capabilities. Developing a truly integrated savings and investment market that channels Europe's substantial pool of household savings into productive investments across the Union will be essential to closing the investment gap and strengthening competitiveness.

For smaller Member States, deeper integration offers particularly significant benefits. Small economies are inherently constrained by domestic demand. A more integrated Single Market allows businesses to serve more than 400 million consumers under a common regulatory framework. Greater integration increases competitive pressure, encourages innovation, accelerates the adoption of new technologies, and improves efficiency.

Smaller Member States often prosper by specialising in niche activities within broader European value chains rather than attempting to build complete industrial ecosystems domestically. Integration also reduces dependence on domestic economic cycles by allowing businesses to diversify customers, suppliers, talent, and financing sources across Europe.

**Deeper market integration should
be viewed not merely as a project
of market enlargement.**

However, integration does not automatically benefit all regions equally. Without appropriate safeguards, there is a risk that headquarters functions become increasingly concentrated in major metropolitan areas, venture capital flows predominantly towards already established innovation hubs, highly skilled workers migrate disproportionately to larger economies, and smaller markets become consumers rather than producers of high-value-added goods and services.

For this reason, deeper market integration should be viewed not merely as a project of market enlargement but as a project of shared prosperity and economic convergence. Under such a model, both large and small economies stand to benefit. Larger economies benefit from scale, while smaller economies gain improved access to markets, greater resilience, stronger specialisation opportunities, and faster productivity growth.



MICHAEL WEST

Chief Executive Officer – Moody's Ratings

Europe has the capital to compete - the challenge is to channel it

Europe does not lack the resources to compete. It has a single market of 450 million consumers, a deep talent base and €39 trillion in household financial assets - of which around 30% sit in cash and deposits.

What it needs is the speed and cohesion to deploy them. Interlocking economic, technological and geopolitical pressures are exposing the limits of the EU's economic model and fragmented institutional architecture. The question is not whether Europe has the means to build long-term resilience, but whether it can mobilise them in time.

The pressures compound one another. Start with the economic challenge: sluggish long-term growth prospects, intensified by an ageing population and rising defence spending, are straining public finances.

Growth-enhancing policies remain key to safeguarding fiscal sustainability and sovereign credit quality - and some member states show what is possible. The Netherlands and Scandinavia rank among the OECD's top 10 for labour productivity, delivering forward-looking pension and labour market reforms that preserve resilience and underpin Aaa credit profiles.

The economic challenge is closely linked to a second, technological one. EU labour productivity per hour rose only 3% between 2019 and early 2026, against 12% in the US, reflecting lower business spending on innovation and a smaller tech sector: EU R&D spending has stagnated at 2% of GDP over the past decade, versus 3.5% in the US.

US leadership in AI has been reinforced by surging private investment, with hyperscalers expected to lift capital spending to around \$1 trillion by 2027, up from our previous estimate of \$800 billion. These strengths have enabled the US to have more resilient growth prospects than the EU despite heightened policy uncertainty. AI offers the EU a generational opportunity to strengthen productivity - but without decisive action at scale, it risks falling further behind.

The technological deficit magnifies a third challenge: geopolitical exposure. The EU holds strategic leverage in parts of the AI value chain - ASML in lithography, Siemens in industrial software - but relies heavily on non-EU providers for computing, frontier models and cloud infrastructure, leaving it vulnerable to supply-side disruption if the US restricts access to advanced models, which could weaken the EU's competitiveness and economic resilience.

This is why the execution and timing of the European Commission's proposed digital sovereignty package will be decisive. As in many areas, EU policy effectiveness is constrained by a long, complex legislative process that struggles to keep pace

with rapid technological change. Delivery hinges on channeling capital to critical investments and establishing a clear, simple framework enabling viable European alternatives at scale.

Digital infrastructure is where these threads converge. European data center capacity has grown at roughly half the global average rate over the past decade, which widens the imbalance between supply and demand.

Continued underinvestment in data centers risks undermining European data sovereignty and prolongs the region's dependence on international service providers, which increases latency using current technology and further weighs on the region's competitiveness. Europe accounts for only around 15% of global installed capacity, against about half in the US and a quarter in China.

Underinvestment reflects grid constraints, stricter environmental rules and market fragmentation: grid connection waits in the UK, Germany and the Netherlands can run five to ten years, versus one to three in the US.

Productivity initiatives are key to long-term creditworthiness.

With nearly half of Europe's operational capacity concentrated in its five largest cities, we expect increasing growth in the Nordics and Southern Europe given computing capacity and power constraints in the largest cities, a shift the EU's AI Continent Action Plan actively encourages.

A fragmented financing landscape compounds the challenge. Tripling EU data centre capacity will require an estimated €250-500 billion over five to seven years - beyond bank balance sheets alone, and requiring equity, structured finance, project finance, corporate issuance and a growing role for private credit.

Which brings the story back to where it began: Europe's untapped savings. Delivering the Savings and Investments Union and developing pillar II pension systems at national level, are crucial to mobilising the region's deep private savings pools - converting idle capital into the productivity-enhancing technology on which long-term competitiveness, and creditworthiness, depend.



COLIN HUNT

Chief Executive Officer – AIB

Europe's productivity challenge: investing for growth

Europe's productivity challenge is one of the defining economic issues of our time. At the turn of the century, the euro area economy was converging with the United States. Since then, especially after the financial crisis, that convergence has reversed. GDP per capita growth has been almost twice as strong in the US as in the euro area, while productivity growth has consistently lagged.

The reasons are structural as much as cyclical. Europe recovered more slowly from the financial crisis, has experienced weaker population growth, and has not captured the full productivity benefits of the digital revolution. Mario Draghi's report on the future of European competitiveness makes this point clearly: the productivity gap between the EU and the US can "largely be explained" by developments in the tech sector and Europe's failure to capitalise on the digital revolution.

Fiscal and monetary support were essential in stabilising economies through crises, but they were never a substitute for investment, innovation and reform. Accommodative monetary policy can support demand, but over time may misallocate resources. Similarly, fiscal policy can boost productivity when directed towards infrastructure, education, skills and innovation, but high debt levels and heavy current expenditure can reduce the room available for future-oriented investment.

The lesson is that macroeconomic support must be matched by supply-side action. Europe needs deeper capital markets, stronger incentives for innovation, and a renewed focus on scaling businesses across the Single Market. Without that, fiscal and monetary policy can cushion shocks, but they cannot deliver the sustained productivity growth that Europe needs.

Against this backdrop, high-debt countries must show their public finances are sustainable. That is essential for confidence, lower uncertainty and ultimately investment. But fiscal consolidation must not come at the expense of the investments that drive long-term growth.

Europe has too often responded to fiscal pressure by cutting public investment. Investment in infrastructure, education, energy, housing, transport and digital capacity can lift productivity. It is not simply expenditure, it is the foundation for future competitiveness.

One approach worth considering is a carefully designed "green golden rule", under which defined green public investment would be treated differently within fiscal rules. Such an approach would need strict definitions and robust safeguards to avoid greenwashing, but it could help protect investment in the energy transition while encouraging discipline elsewhere in public spending.

Public-private partnerships also have an important role to play where risks are properly allocated and value for money is clear. The public sector cannot fund every productivity-enhancing project alone. By combining public policy objectives with private sector capability, Europe can accelerate investment in critical infrastructure and the transition to a more sustainable economy.

Regulation matters. Europe needs high standards, but it also needs a regulatory environment that supports enterprise, innovation and investment.

At the same time, Europe does not lack productive investment opportunities. On the contrary, the opportunities are significant: artificial intelligence, digitalisation, clean energy, energy infrastructure, transport, housing, defence and advanced manufacturing all require investment at scale. The problem is less a shortage of ideas and more a shortage of scale, speed and integrated financing.

The Draghi Report estimates that Europe faces an additional investment need of around €750-800 billion per year between 2025 and 2030. That is a substantial figure, reflecting the scale of the challenge if Europe is to remain competitive, resilient and strategically autonomous.

A key issue is that Europe has not been as effective as the US in turning innovation into large, globally competitive firms. In the US, research and innovation investment has shifted strongly towards software, hardware and digital platforms. In Europe, investment leadership has remained more concentrated in traditional sectors.

Europe's productivity challenge is one of the defining economic issues of our time.

That is why the Savings and Investments Union is so important. As highlighted in the Letta report, Europe has deep pools of private savings, but too much of that money remains in low-yield deposits or flows outside Europe rather than being channelled into productive investment.

The issue, therefore, is not whether Europe has productive projects. It does. The challenge is creating the financial, regulatory and market conditions that allow those projects to become investable, scalable and competitive globally.

FRAGILITIES OF HIGHLY INDEBTED EU COUNTRIES



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Temporary improvements in debt sustainability risk a rude awakening

Debt sustainability is largely determined by growth, interest rates, and the primary balance. However, macroeconomic risks and contingencies, together with the capacity to resolve them, also affect markets' assessment of repayment capacity.

When sovereign debt tensions emerged in the euro area in 2010, member states had significantly lower debt-to-GDP ratios than they do today – in some cases below the 60% threshold. Nevertheless, the euro area's institutional architecture was ill-equipped to handle the impact of the large-scale unwinding of imbalances accumulated in the run-up to the global financial crisis. As market sentiment deteriorated, flight-to-safety dynamics exposed the vulnerabilities associated with external borrowing – even when the

debt was denominated in the domestic currency.

Countries in a monetary union issue debt in a currency they do not control. Advanced euro area member states thus faced a situation resembling that of emerging markets under balance-of-payments pressure. They could not independently address capital outflows nor break the sovereign-bank feedback loop that ultimately brought five member states under the supervision of the Troika.

A decade later, the COVID-19 pandemic unfolded. Risk spreads of highly indebted countries surged in spring 2020 but were quickly stabilised by decisive ECB intervention. Average debt in the euro area jumped from 84% of GDP in 2019 to 97% in 2020, yet by the end of the year, risk premiums relative to German government bonds were lower than before the pandemic.

The interest rate – growth differential will turn significantly less favourable.

Institutional developments have increased debt sustainability. Banking union has reduced sovereign-bank feedback loops, notably through common supervision, a resolution framework, bail-in-able capital, and the diversification of banks' sovereign bond portfolios. The ECB's toolkit was expanded by the Outright Monetary Transactions (OMT) programme in 2012, the Pandemic Emergency Purchase Programme (PEPP) in 2020, and the Transmission Protection Instrument (TPI) in 2022, creating the capacity to purchase, on an unlimited scale, debt securities issued by countries affected by market turbulence.

Macroeconomic vulnerabilities have also been reduced. Private indebtedness is lower than before the sovereign debt crisis, driven by passive deleveraging, stricter lending standards, higher capital requirements, and macroprudential policies to limit household borrowing. Current account deficits have been corrected in most cases and NIIPs have improved, reducing risks of sudden stops to capital flows. The composition of

NIIPs is also more stable than in the past, with a higher share of non-defaultable instruments.

And finally, the interest rate – growth differential has been negative for some time, reducing the fiscal cost of public debt. Euro area member states continue to benefit from monetary accommodation between 2016 and 2022 via lower effective rates on outstanding debt and longer maturities; extending the time until higher market rates translate into higher effective rates. Moreover, most highly indebted countries have recorded solid growth in recent years, bolstered by substantial inflows from the Recovery and Resilience Facility. As a result, the share of GDP spent on interest rates is lower than in the 2010s, even as the share of debt to GDP is higher.

Still, the euro area lacks certain key characteristics of its global partners. The US dollar remains the dominant reserve currency, providing US Treasuries with a distinct funding advantage – despite increasingly unpredictable policy and a high level of public debt. Also, the US continues to post strong economic growth, driven by technological leadership in key sectors, which ensures a steady influx of foreign capital into equity and portfolio debt. With its own capital market underdeveloped, the EU plays a significant role in underpinning the US dollar's position in the global economy. Japan, by contrast, boasts a strong domestic investor base – a factor that also spared Italy from sharing the fate of other euro area countries.

While the key determinants of debt sustainability have moved in the right direction, some of these movements are temporary and create a false sense of security. The interest rate – growth differential will turn significantly less favourable as the funding advantage of the years 2016-2022 gradually fades from government debt portfolios. At the same time, ageing populations will increase budgetary pressures, while lower potential growth limits revenue growth. Positive interest rate – growth differentials cause debt to explode unless offset by primary surpluses. The EU's fiscal rules, by excluding interest rates from the expenditure benchmark, will likely miss a key element of debt dynamics going forward, holding the potential for a rude awakening.



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Debt markets are patient, not indifferent

Financial markets have shown remarkable tolerance towards rising debt levels in many advanced economies. Debt-to-GDP ratios that would once have triggered concern are now absorbed with limited market reaction. In the euro area, spreads remain contained despite weaker fiscal positions, slower growth and expenditure pressures linked to ageing, pensions, healthcare, climate transition, defence and digital transformation.

This apparent calm raises an important question: why are investors willing to finance indebted sovereigns at moderate risk premia, and what could trigger reassessment?

Part of the answer lies in the profound changes in the European institutional framework over the past fifteen years. The euro area today is not the euro area of the sovereign debt crisis. Governance, banking supervision, crisis-management tools and debt management practices have evolved. Markets recognise that self-fulfilling liquidity crises are less likely.

The European Central Bank has played a crucial role. Instruments designed to

preserve monetary policy transmission and safeguard financial stability have reduced fears of disorderly market fragmentation. Investors do not necessarily expect intervention; rather, they draw confidence from credible backstops reducing tail risks.

Sovereign debt management has also become more resilient. Many European issuers entered the recent tightening cycle with longer average debt maturities, diversified investor bases and well-developed funding strategies. This has allowed governments to absorb higher interest rates gradually and reduced refinancing vulnerabilities.

Yet none of this means that markets have become indifferent to fiscal fundamentals. Markets are not complacent; they are distinguishing more carefully between liquidity risks and solvency risks. ECB backstops have reduced the former, but the latter remain ultimately determined by fiscal fundamentals, growth prospects and policy credibility.

**Market tolerance
is not unlimited;
credibility remains the
ultimate anchor.**

Current pricing reflects confidence that governments will maintain sustainable debt trajectories. Investors may tolerate temporary deterioration when imbalances remain manageable and institutions credible. What markets reward is policy predictability, economic resilience and the capacity to adjust when necessary.

The more difficult question is not why markets are calm today, but what could cause confidence to change. Repricing rarely results from a single debt threshold. Markets do not react automatically when debt reaches a particular percentage of GDP. Instead, reassessments occur when debt concerns combine with weaker growth, higher financing costs, political uncertainty or doubts about institutions.

Several catalysts could trigger a sharper reaction. Persistent weak growth would undermine the denominator of the debt equation. Prolonged elevated interest rates could raise debt servicing costs faster than anticipated. Ageing-related expenditure, including pensions, healthcare and long-term care, may place sustained pressure on public finances, especially where potential growth is weak and reform momentum slows. Defence, climate adaptation and digital investment may intensify competition for fiscal

space. Geopolitical shocks or financial sector stress could also lead investors to reassess sovereign risk. Above all, loss of confidence in a government's willingness or ability to implement corrective policies could rapidly alter sentiment.

Some observers argue that ECB backstops, more flexible fiscal rules and strong market demand may reduce incentives for adjustment. This concern should not be dismissed. Institutional safeguards can create a perception that financing conditions will remain favourable regardless of underlying fiscal dynamics.

However, fiscal discipline has not become irrelevant. The reformed European fiscal framework places greater emphasis on national ownership, medium-term planning and debt sustainability. Its success will depend on national implementation, enforcement and political ownership. If applied credibly, it can help identify risks and guide corrective action before crises emerge.

The real challenge is maintaining willingness to act while market conditions remain favourable. Consolidation is easier when undertaken gradually and proactively than when imposed by market stress. Governments should view periods of confidence as opportunities to strengthen resilience and rebuild buffers, not as justification for postponing adjustment.

There remains, therefore, an effective discipline mechanism in the euro area. Markets may react more gradually than in the past, but debt sustainability constraints have not disappeared. Markets, fiscal institutions and European governance mechanisms continue to signal when debt trajectories become unsustainable. Policymakers should not wait for those signals to become crises.

Market tolerance is best understood as confidence earned through credibility, not as a permanent guarantee. Investors remain patient, but patience should never be mistaken for indifference.



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Changing investor landscape creates new risks in European sovereign debt markets

Public debt levels are on the rise

Global public debt levels have increased markedly over the past two decades, partly reflecting the fiscal response to major crises, including the global financial crisis (GFC) and the pandemic. Public debt in EU Member States stood at around 82 per cent of GDP in 2025. The European Commission projects a rise to 100 per cent over the coming decade, albeit with significant country dispersion.

High debt and increasing borrowing costs reduce fiscal space and limits the ability to respond to future shocks. This also constrains governments' capacity to finance EU strategic priorities such as defense, energy security, and the green transition.

Persistent debt accumulation can raise market concerns about fiscal sustainability. As Europe experienced during the sovereign debt crisis, changes in market sentiment can quickly become self-fulfilling, with far-reaching consequences for financing conditions, growth, and financial stability.

The financial sector is stronger today thanks to post-GFC reforms

High sovereign debt can affect financial stability through several channels. Sovereign stress may impact banks directly through their sovereign exposures. The impact can also be indirect, through higher risk premia and increased borrowing costs for households and firms, weighing on economic activity.

Europe is better prepared today than before the sovereign debt crisis. The Banking Union, the European Stability Mechanism and broader regulatory reforms have strengthened the resilience of both banks and sovereigns. Yet the link between sovereigns and banks has not disappeared. If elevated sovereign risks increase materially, vulnerabilities could re-emerge.

A shifting investor landscape presents new risks

A major difference from before the European debt crisis is the growing role of non-bank financial intermediaries (NBFIs) in government bond markets. Pension funds, investment funds and highly leveraged offshore hedge funds now account for a larger share of sovereign debt trading and holdings. ECB analysis indicates that hedge funds accounted for more than half of secondary market trading in euro area government bonds in 2023, up from one quarter in 2018.

Sound public finances and oversight of the financial sector are key to mitigating emerging risks.

This shift may have profound implications for sovereign bond market dynamics. A broader investor base can improve market liquidity in normal times. But it may also make sovereign bond markets – and capital flows more broadly – more sensitive to global shocks. Some non-bank investors tend to adjust portfolios more rapidly than banks during periods of stress, and current tolerance of debt levels could quickly evaporate.

As a result, changes in global risk appetite or investor balance-sheet capacity could lead to greater volatility in government bond markets, potentially spilling over into other market segments. This may increase risk premia and government

borrowing costs, further reducing fiscal space across EU Member States.

Policy priorities

First, the reformed EU fiscal framework should be implemented credibly and consistently. Sustainable public finances are essential for economic resilience, financial stability and effective monetary policy transmission.

Second, public balance sheets cannot be expected to meet Europe's investment needs. More private capital needs to be channeled towards productive investments. Deeper and more integrated European capital markets are therefore essential. Progress on the Savings and Investments Union, including the Market Integration and Supervision Package, and the Banking Union are key in that regard.

Third, simplification of EU financial regulation can support these objectives by reducing unnecessary burdens and strengthening the competitiveness of the banking sector. However, simplification should not come at the expense of resilience. Core regulation must be preserved, including strong capital and liquidity requirements. The lessons of past crises remain highly relevant.

At the same time, regulation and supervision should focus more strongly on banks' material risks and taking a risk-based approach. This includes addressing European banks' sovereign exposures and encouraging prudent diversification over time, while avoiding abrupt adjustments that could themselves create instability. It also includes monitoring and addressing the growing importance of NBFIs, including in government bond markets.

Conclusion

Europe's combination of high public debt, large investment needs and a changing investor base requires attention. While post-GFC reforms have strengthened the resilience of both sovereigns and banks, elevated debt levels in many EU countries and the growing importance of NBFIs may increase the sensitivity of government bond markets to periods of stress and global shocks. Preserving sustainable public finances, deepening and integrating European capital markets, and ensuring effective oversight of both banks and NBFIs will be essential in the years ahead.



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Shocks and secular trends straining sovereign public finances

Fitch Ratings estimates developed market (DM) sovereign general government debt will exceed USD75trn by end-2026, up USD4trn in just 12 months. By many estimates, that would make this year's increase alone larger than the entire private credit market, one of investors' top concerns in 2026. Shocks and secular trends have pushed DM government debt to about 104% of GDP over the past two decades, from 68%. Rating implications have been negative: the average DM sovereign rating is now 'AA', around two notches below where it stood 20 years ago.

Euro-area diversity

Nonetheless, aggregate debt deterioration masks a diverse sovereign picture. Nowhere is this clearer than in the euro area, where sovereign ratings span half Fitch's scale, from 'AAA' to 'BBB', upgrades and downgrades have been fairly balanced recently, and ratings have converged towards an average of 'A+'. Fitch expects debt ratios to rise in 12 euro-area sovereigns over 2026-2028, but to remain stable or fall in nine, including Spain and Italy. We think six euro-area sovereigns, including France, Spain and

Italy, will have debt above 90% of GDP at end-2028, but that around half of the zone's members will be below 60%, a level associated with limited concern over DM debt sustainability.

High sovereign debt is not the same as high fragility. Even so, fiscal loosening by Germany and high debt in the next three largest euro-area economies raise questions about whether highly indebted euro-area sovereigns are structurally more fragile than DM peers elsewhere, why markets remain tolerant of worsening global debt dynamics, and what could trigger a reassessment of risk.

Strong secular expenditure demands

Budget balances and their effect on debt trajectories strongly influence market perceptions of debt sustainability. We expect the euro-area median budget deficit to be broadly flat at around 2.9% over 2026-2028, slightly higher than the all-DM median, but much lower than the US. There is little to suggest large euro-area sovereigns are structurally disadvantaged versus other large DMs in terms of expenditure pressures. Rising demands on budgets from defence, ageing populations, climate change and interest costs, often amid difficult politics, are as relevant in the euro area as in other highly indebted sovereigns such as the US, Japan and the UK, although emphasis and timing may differ.

High sovereign debt is not the same as high fragility.

Institutional and financial frameworks

More meaningful differences emerge at the institutional and financial framework level. The US and Japan borrow in currencies they control and benefit from the financing flexibility of monetary sovereignty. By contrast, the euro area remains an incomplete union: monetary policy is centralised, while fiscal policy is largely national. Its institutional architecture is far stronger than a decade ago, with the EU also acting as a stabilizing mechanism. ECB backstops, stronger banking supervision, the European Stability Mechanism, the Transmission Protection Instrument and joint funding through NextGenerationEU have all reduced risks. Still, this asymmetry can matter for individual sovereigns when public finances are weak and markets become more discriminating.

The US also benefits from the world's dominant reserve currency. Nearly 57%

of global FX reserves are held in US dollars, which also account for 90% of FX transactions and 60% of external debt issuance. Major commodities such as copper, wheat and oil are largely priced in dollars, and the US Treasury market remains by far the deepest and most liquid in the world.

Japan's debt/GDP ratio is currently falling but remains far above that of major euro-area sovereigns and weighs on its rating. However, debt tolerance is supported by stronger structural governance indicators than in most euro-area countries, as well as very strong funding capacity from deep private-sector savings. Only 15% of Japan's government debt is held by non-residents, versus around 35%-55% in the big four euro-area countries.

Economic resilience and debt structure mitigate risks

While higher yields since the Iran war mostly reflect changing policy rate expectations, there are also signs at the long end that investors are becoming more concerned about fiscal deterioration. Nonetheless, markets have remained broadly tolerant. There is no universal debt threshold at which panic sets in. Investors, like credit ratings, focus less on a single debt-to-GDP figure than on a broader set of credit factors: governance, policy effectiveness, debt trajectory, affordability, external strength, growth and macroeconomic resilience. The global economy has proved resilient to the Iran war energy shock, and higher yields will feed into budgets only gradually, given long average debt maturities.

Geopolitical risks, technological disruption, climate change, populism and political polarisation point to high susceptibility to shocks at present. Those shocks appear to be becoming more frequent and represent the biggest threat to debt dynamics and to markets' tolerance of them.

MONETARY POLICY AMID RESURGENT INFLATION, WEAK GROWTH AND HIGH DEBT



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Monetary policy under high uncertainty

Since late February, central banks across Europe have been contending with yet another large, adverse shock of uncertain magnitude and duration. Higher global energy prices following the war in the Middle East have quickly fed through to inflation and weakened activity. The challenge central banks now face is how to adjust monetary policy in response to this latest energy supply shock which pulls inflation and growth in opposite directions.

Large shocks—from energy market disruptions and geopolitical fragmentation to trade shifts and technological change—have become a recurring feature of the policy landscape. The task for central banks is further complicated by the high uncertainty surrounding the scale and length, the propagation of such shocks through the economy and the persistence of their effects. Shocks can appear temporary, yet leave lasting effects through pricing behavior, wages, inflation expectations

and financial conditions. Across Europe, while institutional settings differ, the ECB, the Bank of England, and central banks in the Czech Republic, Poland and Romania face the same challenge: distinguishing transient shocks from those that risk leaving lasting effects. But their room to “wait and see” differs. Central banks in central and eastern Europe, in particular, are confronting the shock from a starting point of higher wage and price inflation, which can make the risk of propagation through wages, prices and expectations more immediate.

In the current moment, central banks will be well served by adopting a flexible, state-contingent policy approach. Small and temporary shocks can be accommodated, especially when demand is subdued and inflation expectations are well anchored. But when indicators such as inflation expectations, firms’ selling price intentions and wage trackers suggest that the shock is likely to feed into wages and broader prices, monetary policy should respond quickly. If it doesn’t, the monetary stance could become overly accommodative in the face of rising wages and prices, encouraging borrowing and spending and further broadening price pressures. The response must be sufficiently firm to prevent a relative price shock from becoming generalized inflation. Once households and firms expect inflation to deviate persistently from target, and these expectations become embedded in wage and price setting behavior, restoring price stability requires a larger and more costly monetary policy adjustment.

While deciding whether and how quickly to adjust policy settings, central banks must assess the strength of transmission of their policy stance to financial conditions and the broader economy. Policy rates are the principal lever, but they do not fully capture the monetary stance. Liquidity conditions, credit conditions, and risk appetite are all useful indicators of transmission to help assess the degree of policy restraint. The stance should therefore be assessed using a broad set of indicators, not a single rate.

Beyond the principal lever of the policy rate, central bank communication is an important tool to help steer financial conditions in highly uncertain times. In this regard, scenario analysis can be helpful to guide expectations regarding policy rates by clarifying how the central bank would respond to alternative

paths for inflation, growth and financial conditions. At the same time, to be effective, communication must balance flexibility and commitment: it should be flexible enough to respond to new information, but clear enough to keep expectations anchored. It is important not to muddy the waters by communicating too frequently or with a large number of scenarios that could make financial conditions unduly volatile.

The key policy question therefore is not whether a shock is temporary, but whether its effects will persist.

**The key policy question
is not whether a shock is
temporary, but whether
its effects will persist.**

Central banks should remain flexible with a state-contingent policy approach while consistently signaling their firm commitment to price stability. When shocks threaten to leave lasting effects on inflation expectations or price-setting behavior, they should act early enough and communicate clearly on how future decisions will evolve with incoming information to prevent temporary shocks from becoming persistent inflation.

This article was co-authored by Alexandra Fotiou (IMF).



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Monetary policy and price stability

The Iran war and the uncertainty surrounding its prolongation retain the potential, primarily through their significant impact on oil and gas prices, to fuel a substantial rise in the overall inflation rate. It has been five years since inflation first began to increase after the Covid pandemic, with energy prices, in particular, skyrocketing after Russia's invasion of Ukraine. The ECB was a year late in combating inflation. To avoid repeating this, the risk of unanchored inflation should be taken very seriously.

For inflation to remain "tamed," it is of utmost importance that inflation expectations remain, as the saying goes, well-anchored. In plain language, this means that consumers and producers behave as if the 2% inflation target will be rigorously respected. If that belief vanishes, all prices within the economy will tend to rise because the majority is convinced that inflation will be (much) higher than the 2% target. For the "2% belief" to be respected, the central bank needs to signal loudly and clearly that it will act accordingly. Given current inflationary trends, reassuring words are no longer sufficient. Despite the negative impact interest rate rises will have on national budgets, especially for countries carrying a heavy debt burden, the ECB cannot refrain from implementing restrictive monetary policy to combat inflation.

Moreover, the fear that monetary tightening will significantly impact economic growth appears overblown. Other concerns, closely related to the structural growth potential of the economy, support the argument for higher interest rates at this moment in time.

The business cycle in industrialized countries is no longer primarily determined by changes in monetary policy but much more by the unwinding of financial imbalances. This thesis has, in recent years, emerged from a research program at the Bank for International Settlements (BIS) under the leadership of Claudio Borio, who headed the BIS' Monetary and Economic Department until the end of 2024. The 2008 meltdown in the financial markets and its destructive impact on the real economy clearly illustrate this sequence. The pattern of the euro area business cycle in the first part of the third decade of the 21st century generally confirms this thesis, which has profound implications for monetary policy. More specifically, what is often referred to as the unintended consequences of monetary policy should occupy a much more central role in decision-making regarding monetary policy than is currently the case.

For inflation to remain tamed, it is of utmost importance that inflation expectations remain well-anchored.

First and foremost, low interest rates encourage taking on more debt and increase the degree of leverage throughout the financial and economic system. The IIF Global Debt Monitor shows that global debt (private + public) peaked during the Covid-19 pandemic and now stands at a historically high 308% of worldwide GDP. Government debt in the world has not been as high since the Napoleonic wars of the early 19th century. The more debt that permeates through the system and the higher the degrees of leverage, the more pronounced financial imbalances become, increasing the risk that even a partial unwinding of these imbalances will negatively impact the growth path of the economy.

Secondly, there is the phenomenon of zombie companies. First described during the long stagnation period of the Japanese economy despite relentless budgetary and monetary stimulus,

zombie companies are entities that can only survive in an environment of extremely low interest rates. Otherwise, their debt burden would drive them out of business. Some estimates indicate that up to 15% of corporate entities in the West exhibit zombie-like characteristics, which means that huge amounts of capital and labor remain trapped in these zombies at the expense of new, more profitable endeavors. The forces of creative destruction that underpin real economic development are seriously hindered by the zombie phenomenon, which is fundamentally a consequence of very low interest rates.

Last but not least, there is the impact of expansionary monetary policies on wealth inequality. Very low interest rates consistently give rise to a search for yield by investors, both large and small. Money is channeled into stocks and bonds, benefiting those who already own these assets as compared to savers who cautiously keep their money in savings accounts. Wealth inequality increases, leading to heightened tensions within society, a force that does not directly stimulate smooth economic and social progress. Moreover, in the search for yield, a whole range of more exotic but practically always riskier investments (art, cryptocurrencies, etc.) become more attractive, simultaneously increasing the fragility of the financial system. Again, the unwinding of such imbalances negatively impacts economic growth.

To conclude, monetary policy remains a powerful tool of economic policymaking. More than ever, monetary policy should focus on price stability.

FINANCING INNOVATION AND SCALE UPS IN EUROPE



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Financing growth: EU policy measures to unlock investment in innovation

In his 2024 report on the future of European competitiveness, Mario Draghi delivered a clear diagnosis: Europe suffers from an innovation gap. We have a strong education system, contribute one fifth of scientific publications and account for 17% of patent applications. Yet we fail to turn these ideas into drivers for growth. Our industrial landscape lacks dynamism, and innovative companies have been facing too many barriers. Some have chosen the easier way up – relocate. Between 2008 and 2021, Draghi reminds us, close to a third of European unicorns moved abroad, mainly to the US.

Europe knows how important it is to innovate. Today, EU public contribution

to R&I is comparable to that of the US and higher than China's. Where we fall behind is in private investments – EU private R&I intensity is roughly half the size of the US and well behind China. These countries have heavily invested in new technologies and high-tech industries. Failing to tap on opportunities that EU innovative companies create risks perpetuating and deepening our dependencies in increasingly critical areas – such as AI.

Closing the innovation gap is one of the three pillars of the competitiveness compass, the roadmap to restore Europe's dynamism and boost our economic growth that the Commission presented in January 2025. Alongside key actions to support innovation, such as the EU Inc or Startup and scaleup strategy actions, which expand financing for innovative companies through the EIC and Scaleup Europe Fund, the roadmap identifies the Saving and Investments Union as a key horizontal enabler of growth.

Deeper and well-integrated capital markets can play a key role in increasing funding opportunities for businesses. This is another reason why speedy delivery of the Market Integration and Supervision Package is a must.

The SIU strategy acknowledges the need for policy measures that promote investment in equity, and particularly in venture/growth capital, by institutional investors. The Commission has already delivered on most of these policy measures.

First, we have put forward measures to support investments by banks and insurers in the context of so-called "legislative programmes". These programmes, established under EU or national law, combine public and private financing to support businesses in strategic economic sectors. Banks benefit from more favourable prudential treatment on capital requirements, meaning they must hold less capital than for other equity investments. The Commission communication of October 2025 provides guidance on its use to facilitate uptake and thereby banks' contribution to investments. Recent changes to insurance prudential rules that will apply as of next January extend this preferential treatment to insurers.

In line with the SIU mandate, the revised Solvency II framework lowers the prudential costs of investing in

long-term equity, applies simplified capital requirements to European long-term investment funds, unleveraged alternative investment funds and qualifying European Venture Capital Funds, and reduces capital charges for many securitisation exposures.

Lastly, to facilitate investments by pension funds, the Commission issued guidance last November to clarify that acting prudently does not require avoiding equity investments such as venture capital. While smaller funds may not be able to afford investing in alternative assets, private assets are a key part of a larger fund's long-term diversified portfolio.

The SIU has more in store, with a reform of European venture and growth capital funds under preparation to enable the sector to make the most of the EU Single Market to grow and scale. And we also recently concluded a targeted consultation on potential barriers and solutions to help facilitate the exit environment in private markets. This work complements previous efforts to support listings on public markets.

All these measures contribute to an enabling framework where capital can find its way to productive investments, help us restore EU competitiveness and set ourselves at the forefront of innovation. This requires continuous efforts from the regulatory side to remove barriers to investment – and the recent banking report is a testament to the Commission's commitment to do so. It also requires helping investors gain trust and find suitable opportunities in venture capital investments. This is the goal of initiatives such as the European Institutional Investors Pact and the next generation of EIB's flagship European Tech Champions Initiative. Critically, it requires investors to seize the investment opportunities that innovative companies can offer and contribute to a sustainable ecosystem where innovation can flourish.



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Financing Europe's intangible economy: The role of IP- backed finance

Early-stage innovative firms face a combination of high demand uncertainty and few tangible assets that systematically shuts them out of conventional debt finance. A technology company at the growth frontier holds its value in patents, trade marks, and accumulated know-how rather than in property or equipment. This reflects a structural incompatibility between the architecture of traditional lending and the way value is increasingly created in modern economies. European policy has long responded with alternative instruments. Horizon Europe, the EIC and InvestEU have improved the landscape for early-stage innovators, yet their reach is limited. Grants are non-scalable. Equity is dilutive. The EU's share of global venture capital fundraising stands at approximately 5%, compared with 52% in the United States and 40% in China. As the Draghi report (2024) concluded, Europe's challenge is not invention but scaling, the primary driver of a productivity gap with the United States that has widened from 17% in 2002 to 30% in 2023.¹

The financing constraint is inseparable from the rise of the intangible economy. The estimated share of intangibles in the total value of leading firms reached approximately 80% in 2024.² A joint EUIPO and EPO studies found that more than 88% of EU private equity and venture capital investment between 2021 and 2023 flowed to IP-right-intensive sectors.³ Firms filing patents at the seed or early growth stage are 6.4 times more likely to receive subsequent venture capital funding, and those filing trademarks are 4.3 times more likely to attract equity investment.⁴ Despite this, most European banks continue to rely on physical collateral. IAS 38 prohibits recognition of internally generated intangible assets on corporate balance sheets, and Basel III treats IP-backed loans on broadly equivalent terms to unsecured lending.⁵ On the other hand, the evidence proves that IP-holding firms show approximately a 40% lower probability of default, and a loss-given-default rate around 50% lower.⁶ IP-rich firms are not inherently riskier borrowers. They are treated as if they were, by institutions and frameworks that have not kept pace with how economic value is now generated and held.

The recently launched unitary patent system reduces the legal fragmentation that has made cross-border IP lending structurally uncertain. Broader use of IP assets in bank lending would make debt finance accessible at the scale-up stage, bridging the Valley of Death - the phase when a firm has demonstrated viability but cannot access the credit to scale and consequently relocates outside Europe or goes bankrupt. Any enabling environment must begin with valuation. Under the EU Startup and Scaleup Strategy, a framework for IP valuation is under development: standardised methods, automated screening tools, a network of accredited valuers, and capacity-building programmes for the financial community.⁷ The SME Fund already subsidises IP registration costs; a successor instrument, the Innova Fund will extend support to the commercialisation stage, covering IP valuation, due diligence and the expert assistance firms need to translate IP portfolios into the language that credit committees recognise.

With a valuation foundation in place, complementary instruments are needed to reduce lender risk and ensure intellectual property is realisable when borrowers default. Secondary market development is a prerequisite: lenders will not accept IP as collateral without confidence that the asset can be sold or licensed if the borrower fails. A credit and insurance transactions repository would provide the pricing data the market currently lacks. IP securitisation

converts predictable royalty income streams into tradable securities, allowing banks to recycle capital for new lending. Public guarantee schemes are necessary to bridge the gap between what the evidence justifies and what private lenders will accept without a track record. A new framework, including a possible guarantee instrument financed under the European Competitiveness Fund, is currently under development.⁸ A central EU registry of IP pledges would make security interests visible and enforceable at scale, substantially lowering the risk premium lenders attach to IP collateral.

These components are interdependent: a guarantee without a valuation framework creates moral hazard; a valuation framework without a guarantee produces caution; secondary markets without legal harmonisation remain fragmented. The broader EU investment agenda will be more effective operating alongside a functioning IP finance ecosystem.⁹ A market capable of recycling public investment through IP-backed debt unlocks private capital that does not currently reach Europe's most innovative firms. Europe holds significant reserves of household savings and generates world-class intellectual property. Creating the conditions for the two to meet would be one of the more consequential acts of financial policy the EU could undertake in this decade.

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Fostering innovation and scale-up financing in Europe

What should be the national and European priorities for mobilizing long-term savings into innovation finance?

Innovation financing does not exist in isolation from the overall investment environment of European economies. If the economic policy framework does not incentivize economic agents to invent, innovate and scale up, it is unlikely that investors will look for European assets. A given financing structure on its own will not generate more competitive investment opportunities if the underlying environment remains weak.

At the same time, the fact that Europe has several success stories in innovation could prove that there is nothing fundamentally wrong per se with our system. However, ensuring these successes are evenly spread and aggregated forcefully onto a global level remains an obvious challenge.

The answer is likely not found in just picking low-hanging fruit, if there are any, from the financing infrastructure side. Finding the right levers to incentivize higher risk-taking is not easy. Ironically, diverse income levels have helped some economies overcome obstacles to innovation or digitize

rapidly; the outlook for catching up has been a powerful incentive. One could also speculate that it has been easier for some smaller countries to achieve disproportionate success because entrepreneurs have few alternatives but to innovate due to small domestic markets. This has pushed them to expose themselves to global competition early. However, these are not universal answers at the European level.

While strengthening the European capital market infrastructure is highly important, supporting a more competitive internal market must come first. Many crucial elements for supporting innovation and scale-up financing still lie within national-level economic policies that foster entrepreneurial vigor.

In some cases, the bigger obstacle is direct or indirect domestic market support that hampers healthy competition. One could speculate that the ease with which some economies turn to energy support measures is one example of how market signals are removed from economic agents. Such a lack of clear signals is detrimental to scale-ups as it diverts resources away.

Good market
infrastructure is
important, but more
competitive internal
market must come first.

If national pension or tax systems do not incentivize higher risk-taking as a necessary element to support future incomes, the integration of technical market infrastructure cannot do much for risk capital pooling. For any positive outcome, one should not underestimate the importance of structural pension reforms or a fundamental refresh of corporate legislation, particularly within the biggest member states, whose success matters significantly for smaller ones as well. This structural inertia has been visible also in European defense sector, where public shielding has often protected traditional national incumbents rather than channeling capital into agile, dual-use tech scale-ups.

While some decisions have been taken in the right direction recently, we can only hope that implementation remains swift. Success cannot be taken for granted. Worse still, as case studies from our own region regarding so called pension reforms have shown, things can actually deteriorate if political cynicism

and shortsightedness gain the upper hand.

Furthermore, strengthening the single market in financial services is vital to strengthening the business case for European investment. Lowering the costs of listing, investing, and managing assets cross-border inside Europe is critically important for scale-ups. One cannot expect "Choose Europe"-type initiatives to be particularly successful if investing in an overseas market remains less burdensome and cheaper than undertaking the same endeavor in a neighboring country (or even in your own market).

Whether the Market Integration and Supervision Package (MISP) or similar mechanisms are the definitive way to achieve this cost lowering remains up in the air, as the devil always rests in the details. But for true success, Europe needs progress on two fronts: guaranteeing seamless and cheap linkages for smaller players, while simultaneously exerting pressure on larger players to maintain competitive dynamics.

Finally, direct public interventions via venture capital (VC) funds or development banks can continue to provide market support. However, it is questionable how much these instruments can help innovators scale up when they remain nationally directed and in many cases continue supporting domestic incumbents. Politically, a practice must be established where "others can win" too, ensuring that the success of these instruments is not measured solely by the amount of investment kept within a domestic market.



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Innovation, energy transition and the role of private credit in Europe

As Europe aspires to greater strategic autonomy from defence to data centres, it is embarking on its largest investment cycle in decades against the backdrop of a transition to a lower-carbon economy.

The scale of the challenge is unprecedented – the EU estimates €1.2 trillion of funding is needed annually to support these needs, while the UK foresees €60-70 billion per year of infrastructure spending running into the 2030s¹. At the same time, the need for reforms that facilitate innovation and deepen capital markets are acknowledged by investors and regulators.

The potential of private credit is increasingly recognized as one of the financing tools to unlock these opportunities. Once primarily associated with leveraged buyouts and middle-market lending, private credit has evolved into an ecosystem capable of financing large investment-grade corporates, infrastructure, renewable energy platforms, digital assets and strategic innovation.

In Europe, Moody's Ratings estimates private credit assets under management

could reach €700-800 billion of the €3 trillion globally by 2028, a growth rate that outpaces the US.

Companies are partnering more closely with private credit investors. This is particularly visible in sectors linked to innovation and energy transition with unique risk and cash-flow profiles. One of the most innovative developments has been the rise of structured asset sales and minority asset partnerships. In these transactions, companies transfer assets into a joint venture and sell a minority stake to a private credit investor while maintaining control of operations. The structure provides immediate liquidity without necessarily increasing reported debt.

Examples include infrastructure and semiconductor transactions involving companies such as Intel in the US, Aramco in the Gulf, and RWE, EdF, Orsted and others in Europe. In many cases, the proceeds help finance large investment programmes, strengthen liquidity or protect balance sheets while preserving ownership of strategically important assets.

Private credit strengthens Europe's innovation ecosystem, but needs careful scrutiny as risks grow.

For innovation-intensive sectors, this model can be particularly attractive. Building semiconductor plants, renewable generation assets or electricity transmission networks often requires vast upfront investment, and it can take years before cash flows fully materialise. Private credit can provide patient capital to bridge this gap.

The benefits for companies are clear. Unlike traditional bank loans or public bonds, private credit investors can provide bespoke solutions, including customised maturities, tailored covenants and financing linked to specific assets rather than the entire corporate balance sheet. As ongoing reforms aim at increasing Europe's competitiveness and private credit is called to play a greater role in supporting growth, it's important to understand where private credit can be best deployed, what it can't do, and where risks are likely to emerge.

Nonetheless, private credit is by no means a replacement for the loss-absorbing equity innovation at the scale companies need. As the market grows,

cash leakage, hidden leverage and future refinancing needs create long-term risks for investors that require careful scrutiny.

Although many structured transactions reduce reported leverage, they do not necessarily improve credit quality. Our research² shows cash leakage through dividends to private credit investors can reduce funds available to existing creditors and may offset the apparent deleveraging benefits.

There is also the risk of "hidden leverage" whereby some structures contain debt-like characteristics despite being accounted for as equity. Minority investors may receive predetermined returns, strong downside protections or contractual mechanisms that make eventual repayment highly likely. In such cases, economic leverage may be greater than financial statements initially suggest.

Looking ahead, many companies may ultimately seek to repurchase minority stakes in critical assets. However, if market conditions deteriorate, refinancing these obligations could become challenging or expensive. We already see investors increasing their focus on structuring and disciplined credit analysis, while regulators scrutinize transparency and concentration among a small number of large alternative asset managers.

It's clear that private credit will play an important role in facilitating scale and innovation, particularly for green and digital investments across Europe, but its success rests on balancing short-term liquidity benefits against long-term potential risks.

1. *Moody's Sector In-Depth Report: Private credit fundraising accelerates, positioning Europe for faster growth – November 2025*
2. *Moody's Sector In-Depth Report: Rise in structured asset sales will reshape corporate balance sheets – May 2025*



CHRISTIAN EDELMANN

Managing Partner Europe
– Oliver Wyman

Europe needs to put its capital to work for scale-ups

Europe's central innovation challenge is not invention. It is scale. The continent produces world-class research, engineering talent and many high-potential companies. What it too often fails to do is turn them into global champions on home soil. This is often treated as structural. In today's geopolitical context, such resignation is a luxury Europe cannot afford: strategic capacity increasingly depends on whether ideas can scale at home.

The numbers frame the challenge. Venture-capital funds located in the United States total about €930 billion, against roughly €150 billion in the EU. Early-stage finance is generally available; the gap opens when companies need large follow-on rounds. The European Commission's Joint Research Centre sample covering 2008 to 2021 found that 40 of 147 EU unicorns relocated their headquarters abroad, 32 to the United States. When a company needs a nine-figure round, there are more doors to knock on in Palo Alto than in Paris.

This is not a shortage-of-money story. EU households held about €37 trillion in financial assets in 2023, yet only 17% was invested in securities, versus 43% in the United States. Europe's problem is conversion: too little of that savings pool reaches productive risk and companies

capable of scaling. The continent must connect savers, institutional investors, and entrepreneurs more effectively. Three priorities matter most in closing this gap.

First, unlock capital and build funds of scale. The ongoing Institutions for Occupational Retirement Provision (IORP II) review should preserve a genuinely principles-based prudent-person rule: diversified venture and growth allocations should not be deemed imprudent solely because they are unlisted or illiquid, but judged at portfolio level against liabilities, liquidity, governance, expertise and members' interests. Pooling or consolidating smaller pension vehicles can strengthen the specialist capabilities needed to invest in long-horizon assets. National schemes to mobilise institutional investment, such as France's Tibi and Germany's WIN, should be linked across borders so successful managers can raise larger pan-European funds. For retail savers, the European Long-Term Investment Fund framework, or ELTIF 2.0, offers a regulated EU route into diversified long-term assets, including private companies. The next step is wider, lower-cost distribution, with transparent fees, robust suitability tests and liquidity terms matched to the underlying assets.

Europe's central innovation challenge is not invention. It is scale.

Second, build a credible exit continuum. Exits are not the end of the financing cycle; they are what replenish it. They return capital to investors, create liquidity for founders and employees, validate valuations and release experienced people to back the next generation. Europe therefore needs three functioning channels: strategic acquisitions by European buyers, transparent secondary markets for private shares, and most importantly public markets with enough long-term investor demand, research, and post-IPO liquidity to support growth companies. Relative to GDP, US capital-market liquidity is about four times Europe's. And while Europe has created competition among trading venues, it has fragmented liquidity. Oliver Wyman research finds the share of trading on lit primary venues has fallen from 38% in 2020 to around 30% in 2025, so barely a third of European equity trading now contributes fully to price formation. Milan-based Bending Spoons' July 2026 Nasdaq IPO makes the point. Europe is not a credible first choice for listing.

Third, make public money and public demand work harder. The state should be catalytic: crowd private capital in, then step back. ETCI 2.0, the second phase of the European Tech Champions Initiative, backed by all 27 EU Member States and institutional investors, aims to mobilise up to €80 billion for European scale-ups. The €5 billion Scaleup Europe Fund can add direct late-stage capacity once it reaches first close, provided its governance remains commercial and it attracts private co-investment. But procurement matters at least as much as financing. Europe has demand pools in energy, health, defence, mobility and industrial automation, yet procurement remains too fragmented, slow and risk-averse to give young companies reference customers. When authorities ask entrepreneurs to build here, they must also make it easier to sell here. That is where Draghi's proposal for the 28th regime comes in: a single market for customers matters as much as one for capital.

There is reason for confidence. Europe has solved coordination problems before, from medicines regulation to product standards, by choosing common rules over patchwork. The talent and savings are here, and the EU Startup and Scaleup Strategy shows political momentum. The work ahead is practical: enlarge the investor base, connect markets, create exits and use public purchasing power intelligently. The question is no longer whether Europe can finance its scale-ups at home. It is whether it will decide to.



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IPOs in Europe: The missing link to boosting European technological expertise

Europe excels in research, engineering, and start-up creation. Yet, it struggles to transform these successes into global technological leaders. This paradox reveals a structural weakness: a market failure in the European financing chain, particularly during the scale up phase.

The *Groupe Caisse des Dépôts* is addressing this failure through the CDC Tech Premium fund, which specializes in IPOs for European technology companies with a primary focus on Euronext of which it is a strategic shareholder. Our conviction is simple: without specialized investors and dynamic stock markets, Europe will be unable to retain its most promising companies or ensure the sustainable financing of its innovation.

Strategic technologies—such as artificial intelligence, cybersecurity, semiconductors, quantum computing, defense, cloud computing, and healthcare—require significant investment in research, industrial capacity, and international expansion. While venture capital plays a decisive role in the early stages of development, the needs of companies reaching critical

mass often exceed the capacity of private markets.

An IPO provides these companies with access to broader, more diversified capital. It enables them to sustain growth, pursue acquisitions, and attract top talent, while avoiding premature acquisition by foreign groups. The trajectories of industry giants like ASML, SAP, Dassault Systèmes, and STMicroelectronics illustrate the vital role public markets play in the emergence of European leaders.

IPOs are also essential for "recycling" capital, a function critical to the ecosystem. By providing liquidity to historical investors, an IPO allows venture capital funds to return capital to their limited partners, which can then be reinvested into new projects. This fuels a virtuous cycle where long-term savings, released at the time of an IPO, finance the next wave of innovation. Since 2020, IPOs of venture-backed technology companies have generated over \$250 billion in liquidity in the United States, compared to approximately €40 billion in Europe. This gap illustrates Europe's difficulty in converting its technological excellence into economic value.

Technological
sovereignty depends
in part on the dynamic
of the IPO market.

The stakes are also strategic. Without sufficiently deep European stock market outlets, the most promising companies risk prioritizing a US listing or a foreign acquisition. Currently, 20% of European unicorns have their management or headquarters in the United States, leading to a loss of decision-making centers, skilled jobs, intellectual property, and associated industrial capabilities.

Europe must be capable of financing the transition from innovation to industrial power. Developing a robust European IPO pipeline is an essential condition for converting technological genius into growth, jobs, and sovereignty.

How to Increase the Fluidity of the European Tech IPO Market?

To revitalize the European tech IPO market, Europe must first better concentrate its resources. Between 2015 and 2025, European venture capital funded nearly as many companies as in the US (around 30 000) but with four times less capital (€400 billion versus

€1600 billion). This dispersion reduces the funding available for each company and too often prevents the most promising ones from reaching the size and maturity necessary for an IPO.

Much like the success of Airbus, Europe could lead a proactive industrial policy by selecting—on a supranational level—a few champions in strategic tech sectors. Concentrating more resources on fewer, high-potential scale-ups would increase their chances of becoming global leaders. European public authorities could act as anchor investors to stabilize shareholding, preserve independence, and support investments before transitioning to the financial market.

There is a significant pipeline of future Euronext listing candidates in strategic sectors, representing tens of billions of euros in potential market capitalization. Companies such as Mistral, Doctolib, Alan, Pasqal, and Qonto should eventually benefit from the advantages of the market and create a multiplier effect across the entire French innovation ecosystem. The European Deeptech ecosystem boasts over 150 companies generating more than €100 million in revenue or holding a valuation exceeding €1 billion.

This strategy also requires developing private funds specialized by technology—AI, semiconductors, quantum, defense, or cybersecurity—covering the entire financing chain. These funds would allow for the pooling of risks associated with breakthrough technologies. "Crossover" pre-IPO funds would then accompany companies as they prepare for the rigors of financial markets, while reinforcing the credibility of the European listing option. Building a Specialized Finance Chain is the key to sustainable, technological sovereignty.

Finally, specialized listed technology equity funds are indispensable for increasing expertise, market depth, and liquidity. CDC Tech Premium illustrates this catalytic role. By acting as a cornerstone investor in the IPOs of Planisware and Exosens, the fund helped secure their execution and strengthened the confidence of other investors. Dialogue with private tech companies further confirms their need for guidance from investors who possess deep expertise in financial markets.

Europe must therefore combine strategic selection, targeted public intervention, and continuity between venture capital, crossover funding, and public markets. In doing so, IPOs will become a genuine tool of economic policy, serving innovation, growth, competitiveness, and sovereignty.

DEFENCE FINANCING IN EUROPE



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Financing of defence: looking beyond banking

Before Russia's invasion of Ukraine, defence financing played a marginal role in EU banks' lending portfolios. Many banks were even retreating from that segment. The geopolitical shift that followed prompted both policymakers and banks to reassess the sector's financing needs.

Even though its importance has increased since then, defence financing accounts for only ca. 0.3% of loans and advances of EU banks. They now made clear their support to defence investment, which included joint initiatives with the EIB.

According to the EBA's Risk Assessment Questionnaire, 34% of EU banks aim to increase their financing of defence and security companies. They have a focus on defence related R&D and supply chains. Our survey shows that over 70% of banks expect rising loan demand in this sector in the next 12 months, making it the sector expected to rise the most.

Defence has drawn interest from many financial institutions, such as investment funds and non-bank lenders. While banks compete in some areas of defence financing with non-banks e.g. private credit funds, the latter can play complementary roles, such as in venture capital or equity financing. Consequently, the increasing participation of private credit should not be seen as a threat to banks. It is important to ensure that the two are not too intertwined to limit contagion risk.

From a prudential perspective, the framework should remain risk-based. Defence exposures should not be penalised because of the sector, nor should they receive lower capital requirements not justified by their risk profile. Prudential regulation should avoid stigma or privilege: its role is to ensure that risks are identified, measured and capitalised.

The main issue is credit risk capital. For banks using an internal ratings-based approach, capital requirements reflect specific borrower and transaction parameters. This allows defence exposures to reflect borrowers' strength, collateral, contractual structure and expected recoveries.

Capital requirements calculated through the standardised approach should not be an impediment either, neither for banks applying it directly, nor for large banks using internal models which makes standardised requirements a binding reference point through the output floor introduced by CRR3.

In many cases, defence financing is provided to large industrial groups with external ratings, with the standardised approach differentiating credit quality. The framework assesses exposures based on their specific risk characteristics rather than by sector alone. It also provides differentiated treatment for specialised lending and project finance, which can be relevant for well-structured defence-related investments. In addition, the EU framework includes SME and infrastructure supporting factors and recognises the role of trade finance instruments, such as letters of credit and other off-balance-sheet instruments. They enable the execution of large public contracts while remaining consistent with prudential risk sensitivity.

Overall, the current framework provides channels through which defence financing can be treated in a risk-sensitive manner which should allow to properly take into account the sector's features and support viable defence investment.

Moreover, the EU sustainable finance framework is compatible with those investments. They are to be assessed on a case-by-case basis like any other sector. As clarified by the Commission, banks should not treat defence as a de facto excluded or disfavoured sector, but may finance defence activities subject to sustainability, due diligence and disclosure principles that apply across the economy.

Current rules allow
banks to play a key role
in a defence financing,
which so far
remains scattered.

In conclusion, it is essential to look beyond banking. The review of EU securitisation rules can help banks transfer risk, diversify funding sources and free balance-sheet capacity for new lending, while maintaining transparency, due diligence and financial stability. The reviews aim to make securitisation simpler, updating due diligence and transparency requirements and increasing the risk-sensitivity of the prudential framework.

Finally, the most powerful lever may lie outside prudential regulation: better defence procurement. Larger, more coordinated and predictable procurement programmes would improve industrial planning, strengthen supply chains and create investment opportunities better suited to banks and institutional investors. The EU Defence Readiness agenda rightly emphasises joint procurement, closing capability gaps and strengthening the EU defence industrial base. A resilient, risk-sensitive prudential framework and a more integrated defence market are therefore complementary: together, they can support Europe's defence readiness without compromising financial stability.



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Financing Europe's rearmament: a public-private compact for the supply chain

Europe's rearmament is as much a financing challenge as an industrial one. Public budgets set the demand, but the ramp-up of production will be delivered by thousands of SMEs and mid-caps whose balance sheets were not built for it. The French experience shows that a structured public-private approach can unlock financing at scale, provided each actor plays its role.

Public authorities should provide predictability and correct market failures; private finance should carry the bulk of the effort. The role of the State is to give the industrial base predictable order books, to remove unjustified obstacles and to intervene only where the market does not deliver. In France, the "dialogue de place" launched in March 2025 brought together banks, insurers, investment funds, defence primes and public authorities and found

no regulatory obstacle to bank lending to defence: no emblematic case of refusal on defence exclusion grounds was identified, and outstanding financing from the six main French banking groups to French defence companies exceeded 46.6 billion euros at end 2025, up 26 % in one year. On the equity side, more than thirty investment vehicles dedicated to defence and sovereignty are operational or being raised, targeting over 7 billion euros.

For supply chain SMEs and mid-caps, the priorities are working capital and equity. French defence SMEs are more indebted and less capitalised than their civilian peers, with longer payment terms. Two levers address this. First, a "cash neutral" objective throughout the subcontracting chain: generalising advances, down payments and responsible payment practices so that executing a defence contract has minimal impact on suppliers' cash positions. Second, closing the equity gap, estimated at 4 to 6 billion euros by 2030 in France to reach full production capacity. This requires leveraged and private debt funds, guarantees, but also credible exit routes: reinforcing listed small and mid-cap funds is essential to make IPOs an attractive prospect for investors. These challenges differ across Member States according to the depth of capital markets and the structure of the industrial base, but equity and cash constraints are common priorities almost everywhere.

Public authorities are
providing predictability
de-risking, and a
continuous political
momentum.

Genuine European cooperation can be built while preserving national strategic interests. Any EU-funded instrument should carry European preference criteria, so that common money strengthens the European industrial and technological base. Demand aggregation and joint procurement, supported by SAFE and EDIP, reduce costs, avoid duplication and give suppliers the volumes that justify capacity investment. National strategic interests, such as security of supply and sovereign technologies, are best preserved through this coordination, not against it. All of this must remain consistent with credible national budgetary trajectories, which underpin the financing conditions of the whole effort.

Financing tomorrow's defence also requires dedicated attention to innovative dual-use companies.

A structural financing gap persists at the growth stage for companies carrying breakthrough innovation. France is responding with a 3rd phase of the Tibi initiative¹, prioritising deeptech and associating defence primes as partner investors, in order to build investment vehicles of significant size and limit dependence on non-European capital. Mobilising large defence contractors alongside institutional investors has a strong multiplier effect and anchors these strategic technologies in Europe.

EU instruments should be optimised for visibility, leverage and sustainability. The European Defence Fund supports R&D upstream; EDIP must now finance the industrial ramp-up and SAFE must provide long-term loans to Member States for joint procurement with European preference criteria for both instruments. InvestEU and guarantees can de-risk private financing of dual-use technologies. The EIB Group has made security and defence a transversal objective and financed 4.5 billion euros of projects in 2025; the EIF has made several changes to clarify its eligibility rules for defence funds, and a fund of funds dedicated to cybersecurity and defence companies will be launched. Finally, the Commission notice of December 2025 confirmed that the EU sustainable finance framework imposes no limitation on financing defence: this clarification must now be reflected in investors' practices.

The lesson of the French experience is clear: public authorities need to provide predictability of demand, clarification on legal standards and targeted de-risking, so that private finance follows, at scale and durably. Europe's rearmament will be financed on that basis.

1. *The Tibi Initiative marshals institutional investors – particularly insurance companies managing French savings held in life insurance and retirement savings plans – to channel a portion of these funds towards tech companies, through specialised funds (venture capital, growth capital and specialised technology stock funds).*



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Reducing regulatory complexity and strengthening the resilience of the EU prudential framework – a contradiction or a chance?

With the publication of the European Commission's report on the competitiveness of the EU banking system and the expected legislative proposals in early 2027, the discussion among policymakers, authorities and stakeholders about the simplification of the current financial regulatory system has gained new momentum in the EU. The current framework is often characterized by inefficiencies, complexity and fragmentation along national lines making cross-border capital allocation difficult. The lack of completeness in the euro area's banking union represents another hurdle.

While there seems to be consensus about the goal of simplification that needs to be achieved, the real challenge is HOW it should be done to avoid unintended consequences.

The main problem is that the current prudential system is very multifaceted and multilayered. All bits and pieces are intertwined, some of them in a very complicated manner. Thus, the question is, can the whole system be simplified without weakening the resilience of the banking sector? Every layer of the system must be considered, all decisions for simplification and their consequences must be thought through carefully. Changing elements of this multidimensional system should not result in counteraction of their effects.

When it comes to restructuring an existing system, a look at other systems for comparison and inspiration might be the first step. A seemingly simpler prudential system can be found in the U.S. But to what extent could it be applied to European needs and purposes?

A starting point of this discussion could be centered around Megabanks, as both are found in the EU and in the US. Megabanks are a subset of Global Systemically Important Bank (GSIB), meaning large internationally active banks that hold above a trillion in total assets measured respectively in US dollars for US banks and in euros for EU banks¹. Since the second Trump Administration the policy for US Megabanks is marked by deregulation, conducted by significant changes in stress-testing scenarios and methodology and a reduction in leverage capital standards². In addition, the supervisory capacity of US federal banking authorities has been sharply reduced, in both quantitative and qualitative terms, most likely leading to harmful effects on supervisory effectiveness and subsequently on financial stability in the long term.

Renovating an
existing system is
sometimes more
difficult than building a
completely new one.

Thus, following the US example is not the best option for EU banks. Simplification and enhancing competitiveness should never come at the cost of supervision and financial stability. Hollowing out the Basel standards would not enhance efficiency in the regulatory framework. Stable capital requirements alongside the resolution frameworks, leverage ratio requirements and capital buffers established by the Basel setting and implemented into EU legislation have contributed over the years to the resilience of the EU banking sector

against significant macroeconomic shocks such as the COVID-crisis, the Ukrainian war and the geopolitical turmoil in the Middle East.

Different from the US, it is a consensus among European policymakers and authorities that simplification should not lead to deregulation. Thus, capital requirements should remain stable while complexity in their setting must be reduced. This might entail a more simplified regulatory regime for small and non-complex banks with tailored reporting and disclosure requirements. The Basel III regulations were designed from the ground up for complex, internationally active institutions (such as Megabanks) and do not focus on smaller credit institutions, which often operate locally and would benefit from a more proportional prudential regime. In addition, overlaps across regulatory layers should be reduced but without diminishing overall safeguards. It is well understood that reporting burdens should be cut as well, which also includes a better exchange of data between authorities. However, the creation of additional administrative burden or institutional structures should be avoided.

Although reducing complexity and streamlining capital requirements regarding simplification remains a challenging task, what has already been achieved is a wide level of understanding among the private and the public sector for the necessity of simplification. With that growing awareness among policymakers, authorities and banks, it is generally agreed that for facing current and future economic and geopolitical challenges, a strong and competitive banking sector with an efficient prudential framework is of substantial importance for growth and sustainability of the EU banking landscape.

1. See Mejino-López, J. and N. Véron (2026) 'European Union capital requirements on megabanks: the low road or the high road,' Working Paper 18/2026, Bruegel, p. 5
2. See Federal Reserve Board - Agencies issue final rule to modify certain regulatory capital standards (<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm>)



FRANCESCO CECCATO

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Europe's defence challenge is financial as much as military

Europe's defence debate has centred on spending. European NATO defence spending has increased from just over €300bn in 2021 to more than €500bn in 2025, while Germany, Poland and the Nordic countries have all committed to further increases this decade. Yet the real test is not how much governments commit, but how effectively those commitments are converted into industrial capability.

Europe's defence challenge is no longer constrained by political intent; it is constrained by the speed at which capital, industry and procurement can move together.

This is where Capital Markets Union takes on strategic significance. Conceived as an economic integration project, it has become a key enabler of Europe's security. Money appropriated by governments does not strengthen Europe's defence; money converted into factories, technology, supply chains and production capacity does.

Europe wants a world-class defence industry, yet too often fails to treat defence as a strategic asset. This tension lies at the heart of Europe's defence financing challenge.

The first barrier is access to capital. Defence is a strategic public good, no different from energy security or critical infrastructure. Yet many institutional investors maintain exclusion policies that limit capital flows to the sector. One of the key sovereign institutional investors, for example, excludes companies involved in producing components used in weapons systems. Individual investors are, rightly, entitled to define their own investment policies, but Europe should recognise the broader inconsistency. If governments expect industry to expand production, they must also ensure that long-term private capital can finance that expansion and that regulatory and investment frameworks enable such capital to flow into the sector.

Europe's security depends on converting capital into capability.

The second barrier is fragmentation. European security increasingly depends on collective capability, yet procurement remains overwhelmingly national. The UK's exclusion from SAFE and the collapse of the Future Combat Air System (FCAS) programme, following the failure to agree work-sharing and industrial responsibilities, demonstrate how national priorities continue to outweigh European strategic interests. Capital markets will more readily support programmes with sufficient scale and profitability. Yet fragmentation persists across Europe's defence industrial base.

Industrial policy must evolve alongside financing. Europe does not necessarily need more defence factories; it needs more factories capable of becoming defence factories when strategic circumstances require. The debate surrounding Volkswagen's Osnabrück plant illustrates the opportunity. While Rheinmetall ultimately decided not to pursue the site, the debate highlighted how underutilised industrial capacity could, where commercially and strategically appropriate, be repurposed to strengthen Europe's defence industrial base. A manufacturing ecosystem capable of shifting between civilian and defence production would strengthen resilience, improve asset utilisation and shorten J-curves, making the sector more financeable. It would also serve a broader public interest by supporting regional employment and ensuring strategically important industrial capabilities remain utilised, thereby improving both economic and national resilience.

The third barrier is financial innovation. Banks helped build the financing architecture behind Europe's energy transition through green bonds, blended finance and sustainability-linked instruments. Defence deserves the same ambition. Defence bonds, procurement-backed financing, dedicated private credit vehicles and public-private risk-sharing mechanisms can broaden the investor base while supporting Europe's defence sector. Banks will play a critical role as arrangers, underwriters and distributors, connecting institutional investors with financing opportunities and mobilising private capital at scale. Public financial institutions such as Bpifrance have shown how targeted intervention can unlock private capital, attracting €3.8bn of demand for a €1bn defence bond. Europe now needs to replicate that model at continental scale.

Europe's security will depend not only on what governments are prepared to spend, but on whether the entire ecosystem (public authorities, investors, banks and industry) can evolve and align behind a common objective. The real challenge is transforming twenty-seven national defence markets into a single European industrial capability. Until that happens, Europe will continue to spend like a major power while procuring, financing and producing like a collection of smaller ones.

Capital Markets Union was conceived to deepen Europe's single market. Today's geopolitical reality gives it a far greater purpose: helping convert Europe's economic strength into strategic capability. Done well, it can become one of the most important enablers of Europe's security, ensuring that capital, industry and innovation move at the pace the moment demands.



**GILLES
MOËC**

Chief Economist
– AXA Group

Stronger European markets for a stronger European defence

The financial sector can hardly afford to remain indifferent to the financing of defence, as the increase in European military spending is a crucial element in reinforcing the continent's credibility.

Demonstrating that the European Union is becoming more strategically autonomous in this field can only strengthen global investors' confidence in Europe's resilience. Moreover, the modernisation of European defence, as a driver of technological innovation - particularly in areas such as cybersecurity - can also help revive productivity growth across the continent.

What lessons have we at AXA drawn from our already well-established financing activities in the defence sector? In our view, regulatory obstacles - particularly those related to ESG - are not the main impediment, once certain inconsistencies, such as exclusions embedded in some national sustainability labels, are corrected. That said, the transparency requirements associated with the most ambitious responsible investment products can be difficult to reconcile with the nature of defence companies' activities which can cover both civilian and military purposes.

Until now, the main constraint has instead been the defence sector's limited demand for market financing. After two decades of declining military expenditure, European defence companies have generally relied on traditional bank financing, leaving limited room for other financial institutions, particularly insurers.

If the renewed defence effort is pursued on a sufficiently large scale, it should lead to a broader range of financing instruments, as all participants in the financial community will need to play their part. In this area, however, what matters most for long-term investors is the visibility of future demand facing defence companies.

That visibility depends primarily on the commitments made by national governments, which are the sector's principal customers. Yet it may come into conflict with the principle of annual budgeting in public finances, especially at a time when national budgets are under unprecedented pressure across many European Union countries.

The EU should use joint defence funding to create a common risk-free reference asset.

This has resulted in substantial sovereign financing needs that may compete with those of private companies. Russia's war in Ukraine—and the prospect of a reduced US security commitment—have created a broad European consensus in favour of a long-overdue rebuilding of military capabilities. That consensus must not be allowed to weaken, and greater clarity is needed on the major strategic defence procurement programmes jointly undertaken by several Member States.

What is still missing to give Europe's new defence ambition a durable financial foundation is the establishment of common financing mechanisms.

Over the past twenty years, the euro area has addressed its existential challenges by pooling financial resources. This was the case in overcoming the sovereign debt crisis of 2010–11 through the strengthening of solidarity mechanisms such as the European Stability Mechanism (ESM).

Likewise, the severe macroeconomic consequences of the pandemic were

addressed through a collective European response with the Next Generation programme. For now, however, mutual funding on defence remains very limited. European “federal debt” has been an asset of choice for us, as well as for many institutional investors.

The European Union should not miss the occasion to use joint funding of defence projects to raise the availability of a common risk-free asset of reference. With – fortunately – the disappearance of the funding needs of the ESM, once the full capacity of the Next Generation programme is used, Europe will no longer produce such reference asset. This would complement Savings and Investment Union and go a long way towards putting the European financial system on a more equal footing with the US.

Europe needs to direct more of its plentiful savings towards its own investment priorities, and defence is one of the most urgent ones. European defence and SIU naturally complement each other. .



BENOIT DE LA CHAPELLE BIZOT

Head of Public Affairs,
Advisor to the Chief Executive
Officer – Groupe BPCE

Financing Europe's defence industrial base: a public private partnership

The return of high-intensity risks in Europe, the deteriorating geopolitical environment and the need to accelerate Member States' defence ambitions are forcing an unprecedented change of scale: stronger military capabilities, technological innovation, secure supply chains and reindustrialisation. Achieving these objectives will require massive investment in the years ahead.

This goes far beyond the defence sector alone. The European Commission estimates that more than €1,000 billion in additional investment is needed every year to finance Europe's major societal, environmental, energy and technological transformations. States alone cannot cover such needs.

Budgetary room for manoeuvre will be constrained in most Member States. The question is not how much to invest, but how to finance this collective effort, and private-sector players will have a decisive role to play.

Bank financing is the first driver. European banks are already an essential asset for

financing the defence technological and industrial base (DTIB), not only by supporting major prime contractors but by financing the entire value chain: specialised SMEs and mid-caps, with unique know-how, often on critical technological segments. Europe's defence effort depends on the ability to foster investment, increase these companies' production capacity, recruit highly qualified staff and drive innovation, while respecting each Member State's industrial know-how.

Access to financing is a matter of competitiveness, but also of strategic independence. Banks have a central role in directing savings towards productive investment and supporting companies' growth projects. As Nicolas Namias, CEO of BPCE, recently recalled, "a bank's fundamental mission is to make its clients' projects possible" and to finance the major transitions redefining global economic balances. Retail banking networks, through their physical presence across the regions (thousands of branches), are major players in sovereignty.

Banks and investors: key players in European sovereignty.

Within Groupe BPCE, the commitment to supporting the DTIB has long been part of a long-term trajectory, considerably accelerated since 2022, with multiple initiatives ranging from bank financing to innovative market operations. BPCE was the first bank to issue an European defence bond (€750 million), and the first French bank to benefit from a significant EIB envelope supporting the DTIB Supply Chain across the regions.

Bank credit alone will not meet all future needs. A second pillar must be fully mobilised: capital markets financing. Many defence companies will need to durably strengthen their capital to finance growth, secure industrial investments or support internationalisation, which requires directing more capital investment towards Europe's defence players.

This requires better visibility of the defence industrial ecosystem. While the largest companies are generally well identified by investors, many SMEs in the Supply chain beyond level 2 remain insufficiently visible, even though they carry out activities critical to the industrial autonomy of Member States which have a DTIB. A finer, more dynamic mapping of value chains would

help identify and qualify these players, improve understanding of industrial dependencies and, in fine, facilitate the allocation of capital towards the companies that need it most.

Visibility is essential to securing supply chains and private investment, along with better predictability of order books, industrial outlooks, future activity flows and well-controlled payment terms. The more clearly financing players can read industrials' needs and outlooks, the faster and more effectively they can mobilise financing for the DTIB.

Lastly, a few targeted regulatory adjustments could usefully amplify this effort. The aim is not to question the prudential requirements underpinning the solidity of the European financial sector, but to ensure excessive rules do not hinder the financing of strategic companies. Simplifying certain provisions for financing the real economy, particularly in specialised lending or trade finance, would strengthen the private sector's investment capacity without compromising financial stability.

Europe has the financial and industrial players, and the resources, to support its defence and security ambition. The priority is therefore to give industrial companies, banks, markets and investors the room they need to act, rather than adding unnecessary constraints. Stronger spaces for cooperation must also be built, respecting each Member State's industrial know-how. Finally, a deeper investor base must be organised for the European DTIB, with active support for export momentum.

FOSTERING INTERNATIONAL REGULATORY COOPERATION



JEAN-PAUL SERVAIS

Chair of the Board – IOSCO
& Chairman – Belgian FSMA

Global markets, common regulatory outcomes: The IOSCO Effect

Technological innovation and the rising interconnectedness of global capital markets are driving profound transformations in the financial sector. As jurisdictions modernize regulatory frameworks to reflect market developments and technological advances, IOSCO serves as a strong bridge-builder, helping market regulators keep pace and providing global solutions to fast evolving global challenges.

Serving as a catalyst for global regulatory alignment, the organization supports a flexible framework to contribute to global market development. This approach ensures that despite diverse legal systems, the core objectives of investor protection, market integrity, and financial stability remain universally upheld and fragmentation is contained.

IOSCO standards and recommendations have always been purported to be outcomes focused and principles based. Working on a consensus basis at all phases of risk identification, priority setting and

policy development ensures a clear buy-in from our members for the faithful implementation across member jurisdictions, while respecting local specificities. This flexibility is not a weakness but a strength; it allows jurisdictions to align around common outcomes, such as investor protection and market integrity, while retaining the adaptability necessary for diverse legal systems. Outcomes-based standards have proven particularly resilient, enabling cooperation even when rules differ. By actively engaging with external stakeholders and leveraging an inclusive process, IOSCO ensures its standards reflect collective wisdom and practical realities. This consensus-driven method fosters trust and ensures that global standards are not merely theoretical but are effectively integrated.

This philosophy is vividly illustrated in IOSCO's recommendations for crypto and digital assets and the recent thematic review assessing their implementation across jurisdictions. Overall, the thematic review concluded that significant progress is being made in the implementation of the key elements of the recommendations. Jurisdictions are implementing legal and regulatory frameworks, with some having adapted existing legislation or introduced new legislation in line with IOSCO's recommendations.

Our work on tokenization is another example of our collective ability to monitor global market developments and initiatives lucidly. We recognise that real benefits arise from the technology. But developments remain nascent and that scale depends on fixing fundamentals (things like interoperability, settlement assets, disclosure of rights associated to tokenised assets, and custody arrangements), beyond the technology alone. This is precisely where international dialogue adds value: by establishing common understanding, IOSCO enables jurisdictions to innovate responsibly, ensuring that technological advancements enhance efficiency without compromising stability.

Operational resilience is another vital priority, carrying immense importance for all members—spanning both large, sophisticated financial centres and emerging markets—regardless of differences in their legal frameworks.

Given the incredible speed of development with frontier AI models, resilience is increasingly critical. The fundamentals, such as sound governance, clear accountability and tested controls, are

consistent across jurisdictions, and that consistency is itself a form of international alignment. It remains a standing priority within IOSCO's work programme and is frequently a topic of discussion within IOSCO.

Also in the realm of artificial intelligence, IOSCO has recently published a Supervisory Toolkit for AI Use in Capital Markets. This toolkit supports regulators in overseeing AI systems across their full lifecycle, addressing risks related to complexity, transparency, and third-party dependencies. It provides practical tools for monitoring adoption and enhancing oversight, ensuring that AI benefits are realized while safeguarding market integrity.

Through peer learning and capacity building, IOSCO helps members strengthen their supervisory capabilities, ensuring they can effectively monitor vulnerabilities such as the emergence of complex new product types, the rise of digital assets and operational risks, contributing to implementation of agreed standards.

International standards contribute strongly to reducing regulatory arbitrage and enhancing cross-border cooperation. IOSCO's Multilateral Memorandum of Understanding (MMoU), with 132 signatories (recently welcoming our Ukrainian counterpart), remains a pillar of enforcement cooperation, enabling timely information sharing. Furthermore, high-quality data are central to effective oversight. IOSCO's Investment Funds Statistics Dashboard helps regulators compare fund's leverage and exposures globally, supporting better risk monitoring.

Moreover, IOSCO has deepened its collaboration with the Financial Stability Board and other international bodies to provide a securities sector perspective on horizontal developments such digital innovation, tech-driven disruptions and interconnected markets.

In conclusion, IOSCO is well-positioned to foster coherence through comparable outcomes, acting as a forum for dialogue, promoting consistent implementation, and adapting to new realities. Where markets are genuinely global, fragmented frameworks create real costs for investors and intermediaries alike. That is where IOSCO adds practical value: not solely as a rule-setter, but as a powerful common denominator and as a resource to our members to make cross-border markets function effectively.



TOSHIYUKI MIYOSHI

Vice Minister for International
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Structural shifts in the life insurance sector: IAIS insights

The global life insurance market is undergoing significant structural shifts, driven particularly by increased investments in alternative assets such as private credit and the growth of asset-intensive reinsurance.

The IAIS has been closely monitoring these trends since 2021. In the past year, this work produced two outputs: (i) a sector-wide thematic focus on private credit in the 2025 Global Monitoring Exercise (GME); and (ii) an issues paper analysing the drivers and potential risks of these structural shifts and supervisory responses.

Traditionally, life insurers have relied heavily, but not exclusively, on high-quality bonds and equities to ensure liquidity and maintain value for meeting long-term liabilities. However, prolonged low interest rates and the search for higher returns and diversification have driven insurers to increase their investments in alternative assets, such as private equity (PE), real estate, infrastructure, hedge funds and private debt. This trend has continued even as interest rates have risen, reflecting broader factors such as an increased demand for insurance

products with retirement savings features, driven by demographic shifts in advanced economies and broader economic trends.

Private credit is a growing subsector of alternative assets with distinctive characteristics. Private credit offers life insurers potential benefits such as higher yields, diversification, illiquidity risk premiums and improved asset-liability matching. This asset class can be attractive to life insurers seeking stable, long-term cash flows to match their liabilities. It can support the real economy through long-term financing for sectors like infrastructure, while potentially offering insurers higher yields and lender-friendly protections.

While these alternative assets bring benefits, they also come with risks, such as valuation uncertainty, illiquidity and complexity, which require robust risk management and careful alignment with insurers' liabilities. Additional concerns include hidden leverage, conflicts of interest, credit rating reliability, capital considerations, and information gaps.

The implications of these structural shifts also depend on how they may evolve under stress and whether they could give rise to systemic risk.

The IAIS will enhance its systemic risk analyses of structural shifts in the life insurance sector.

From a system-wide perspective, current exposures of the global insurance sector to alternative assets and AIR remain limited, so the near-term risk to global financial stability is relatively small. However, rapid growth in these areas could increase risks over time. Potential transmission channels may include insurers' forced asset liquidations in stress, including those to meet liquidity needs from policyholder behavior, a rapid withdrawal of insurers from lending markets, and mass AIR recaptures which could lead to financial market disruption by triggering market-wide rebalancing of investment portfolios by insurers.

Growing interconnectedness of life insurers with other financial institutions through alternative asset markets creates potential contagion risks. Risks may be amplified by the use of leverage in alternative asset market, and the concentration of AIR transactions backed by significant holdings of

alternative assets in a small number of insurers in a few jurisdictions.

Responding to these evolving risks requires continued monitoring, analysis and effective supervisory responses.

The IAIS's Global Monitoring Exercise provides a strong foundation for addressing emerging risks and data gaps. The GME allows the IAIS to provide a strong empirical insurance sector perspective into international cross-sectoral discussions, ensuring the specificities of the insurance sector and its regulation are adequately represented.

The IAIS provides regular reports and input to the Financial Stability Board (FSB) on the key outcomes of the global insurance sector risk assessment and supervisory response, as conducted through the annual data-driven GME. Recognising the interconnectedness of these risks within the broader financial sector, the IAIS is working closely with the International Monetary Fund (IMF) and FSB to strengthen the insurance supervisory perspective in policy debates and to align cross-sectoral responses to systemic risks.

Looking ahead, the IAIS has several initiatives planned to address systemic risks. This year the IAIS will enhance its systemic risk analyses of structural shifts in the life insurance sector, including private credit, to strengthen global monitoring and improve understanding of emerging risks and vulnerabilities. At the same time, we are developing application papers on alternative assets and AIR to provide practical guidance to supervisors and strengthen supervisory practices. In addition, the IAIS will review the Insurance Core Principles (ICPs) to ensure that our standards remain robust and any identified gaps are addressed.



MARK T. UYEDA

Commissioner – U.S. Securities and Exchange Commission (SEC)

Global regulatory cooperation does not necessarily mean global uniformity

Capital markets operate on a global basis, with investors choosing which regions, industry sectors, and companies to invest in. What makes capital markets credible is not just liquidity or exchange listing rules, but the governance structure affecting the relationship between a company and its investors. When investors allocate capital, they are judging whether companies in that market are run with accountability, transparency, and genuine regard for shareholder interests. However, it would be a mistake to view corporate governance as a uniform set of legal requirements or best practices. Allowing flexibility in governance structures, with appropriate disclosure, can facilitate capital formation and economic growth.

Regulators have an important role in supporting trust and function in the markets. Disclosure needs to be accurate, investors must have relevant information, and companies and their executives must be held accountable. The more difficult question is where regulation ends and the role of boards, shareholders, and management begins.

My own view is that the most effective governance comes from within: from

boards that take their responsibilities seriously, from shareholders who are genuinely engaged, and from management that understands accountability as a feature of good leadership. Regulation that reinforces those dynamics tends to work well. Regulation that seeks to substitute for them—prescribing specific governance structures and processes rather than enabling informed investor decisions—is less likely to achieve those aims, and more likely to have substantial compliance costs without corresponding benefits.

New Challenges and Risks Facing Companies

Today, active discussions are underway at the international level on how regulations and corporate governance affect several evolving areas, including crypto-assets, sustainability disclosures, and artificial intelligence. The underlying questions are genuine: how should companies address these new developments, and what role, if any, should financial market regulators play? If regulatory responses are mandated, how can they be implemented so that they are not outdated ten or fifteen years into the future? For example, the global financial crisis occurred nearly two decades ago and it is questionable whether some reforms taken in its aftermath will remain fit for purpose in the next couple of decades.

Regulators have an important role in supporting trust and function in the markets.

One approach is to focus on proportionality and financial materiality with respect to disclosures, rather than prescriptive measures. In the United States, public companies have long been subject to a materiality-based framework that already requires them to disclose risks that are important to their financial results and condition.

Despite the significant cooperative efforts being made by regulators, international organizations, and market participants from around the world, it is not clear whether some form of consensus will emerge on these new challenges and risks. However, that outcome should not be viewed as inherently undesirable. In fact, different regulatory structures among jurisdictions can accelerate

collective understanding by allowing for comparative study and analysis of alternative choices.

The Path Forward

Individual jurisdictions have taken different approaches on aspects of corporate disclosure and governance, often based on an assessment of the costs and benefits specific to that jurisdiction's markets, legal traditions, and investor base. It should be unsurprising that separate jurisdictions, applying that kind of analysis to their own circumstances, sometimes reach different conclusions. Global conformity should not be the express outcome of international dialogue. That does not mean, however, that jurisdictions have nothing to learn from one another. Dialogue among regulators is valuable precisely because it exposes each jurisdiction to approaches it might not have considered, and to evidence of what has worked, or not, elsewhere.

What jurisdictions can usefully share instead is a common objective: governance frameworks that align the interests of boards, management, and shareholders, and that preserve the integrity of the information on which their decisions are based. How that objective is implemented—the specific disclosure requirements, the degree of judgment left to boards and shareholders—can and will vary. Rather than pursuing uniformity as an end goal in itself, regulators should consider whether the results are comparable. Two markets can arrive at that alignment by different paths and still give investors information they can meaningfully rely on and compare.

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2

MISP AND SIU: IMPACTS AND NEXT STEPS

SIU PROGRESS AND NEXT STEPS	56
Karen Dorte Abelskov - Ministry of Taxation and Economic Growth, Denmark / Olivier Belorgey - Crédit Agricole Corporate and Investment Bank / Daniel Maguire - LSEG / Valérie Urbain - Euroclear S.A. / Stéphane Boujnah - Euronext / Terri Dempsey - State Street Ireland / John Vibert - PGIM	
MISP: EU-LEVEL SUPERVISION AND SIMPLIFICATION PROPOSALS	64
Verena Ross - European Securities and Markets Authority / Urška Cvelbar - Ministry of Finance, Republic of Slovenia / Dušan Hradil - Ministry of Finance, Czech Republic / Marie Anne Barbat-Layani - AMF / Corentine Poilvet-Clediere - LSEG / Jakub Michalik - Euronext / Joe McHale - Bloomberg	
EU CAPITAL MARKETS: COMPETITIVENESS AND ATTRACTIVENESS	72
Carlos San Basilio - Spanish Securities and Exchange Commission / Odile Renaud-Basso - European Bank for Reconstruction and Development / Jimmy Kvarnström - Swedish Financial Supervisory Authority / Barbara Antonides - Dutch Authority for the Financial Markets / Guylaine Vandooren - Optiver	
SECURITIES TRADING: TRENDS AND MISP IMPACTS	78
Vasiliki Lazarakou - Hellenic Capital Market Commission / Carlo Comporti - Commissione Nazionale per le Società e la Borsa / Birgit Puck - Austrian Financial Market Authority / Nikolaj Kosakewitsch - Nasdaq / Niels Brab - Deutsche Börse Group / Nick Dutton - Cboe Europe / Emma Lokko - Susquehanna International Group	
POST-TRADE INTEGRATION AND MARKET STRUCTURE EVOLUTION	86
Thomas Vlassopoulos - European Central Bank / Giuseppe Grande - Banca d'Italia / Haroun Boucheta - BNP Paribas / Michalis Sotiropoulos - The Depository Trust & Clearing Corporation / Cecile Nagel - BNY	
DIGITAL INNOVATION IN POST-TRADING	92
Dirk Schrade - Deutsche Bundesbank / Klaus Löber - European Securities and Markets Authority / Simon Morley - Bank of England / Axel Weber - Raisin GmbH / Isabelle Delorme - Euroclear S.A. / Stephanie Eckermann - Deutsche Börse Group / Marco Kessler - SIX Group	
THE FUTURE OF ASSET MANAGEMENT	100
Paloma Marín Bona - Spanish Securities and Exchange Commission / Michelle Beck - Financial Conduct Authority / Christoph Bergweiler - J.P. Morgan Asset Management (Europe) S.à r.l., Frankfurt Branch / Ann Prendergast - State Street Investment Management / Anne Macey - Natixis Investment Managers	
ASSET MANAGEMENT AND THE MISP	106
Marco Zwick - Commission de Surveillance du Secteur Financier / Jérôme Reboul - Autorité des Marchés Financiers / Martina Tambucci - Commissione Nazionale per le Società e la Borsa / Samantha Ricciardi - Fidelity International / Stéphane Janin - BNP Paribas Asset Management / Adrian Mulryan - Invesco Investment Management Limited / Susan Revell - BlackRock / Ben Pott - BNY	
RETAIL PARTICIPATION: ARE THE SIU PROPOSALS SUFFICIENT?	114
Jos Heuvelman - Dutch Authority for the Financial Markets / Colm Kincaid - Central Bank of Ireland / Mariana Kühnel - Austrian Financial Market Authority / Regina Doherty - European Parliament / Jonathan Cleborne - Vanguard Asset Management, Ltd / Sergiu Cristian Manea - Banca Comercială Română / Michael Tae - Broadridge	
NEW RETAIL INVESTMENT MODELS	122
Damian Jaworski - European Insurance and Occupational Pensions Authority / Marie-Anne Barbat-Layani - Autorité des Marchés Financiers / Luís Laginha De Sousa - Portuguese Securities Market Commission / Chloe Barz - Robinhood / Marc Roberts - Raisin GmbH / Daniel Kapffer - DekaBank Deutsche Girozentrale	
DEVELOPING SUPPLEMENTARY PENSIONS	128
Petra Hielkema - European Insurance and Occupational Pensions Authority / Anna Jegnell - Ministry of Finance, Sweden / Philippe Blanchot - Caisse des Dépôts / José Antonio Álvarez - Santander / Agathi Pafili - Capital Group / Aleksandra Maczynska - BETTER FINANCE	
REVIVING EUROPEAN SECURITISATION	134
Christian Noyer / Sirpa Pietikäinen - European Parliament / Stefano Cappiello - Ministry of Economy and Finance, Italy / Januš Kizenevič - Ministry of Finance of the Republic of Lithuania / Damian Jaworski - European Insurance and Occupational Pensions Authority / Alexander Batchvarov - Bank of America / Ansgar West - Munich Re / Christian Castro - CaixaBank	

SIU PROGRESS AND NEXT STEPS



KAREN DORTEA ABELSKOV

State Secretary for Financial Affairs – Ministry of
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Three interlocking gears that can deliver the SIU

Europe needs to increase its productive investments if our economy is to foster more competitive companies and succeed in key strategic areas such as the green transition, defence, and digitalisation. In his 2024 report, Mario Draghi estimated that meeting these challenges would require closing a daunting investment gap of at least 750 billion euros annually. Meanwhile, Europeans have plenty of savings. And as Enrico Letta has noted, more than 10 trillion euros of these savings are currently held in idle deposit accounts.

Against this background, the Savings and Investment Union (SIU) has the potential to be the key lever for channelling European savings into productive investments across Europe. Realising a true capital union with deep and efficient capital markets is paramount to strengthening the EU's competitiveness, supporting our economy and labour markets.

To deliver on the goals of the SIU, three interlocking gears need to turn in parallel. We need *long term, risk-willing capital*. We need a *cost-effective and efficient market infrastructure* across Europe. And we need *attractive investment opportunities* in the EU. Improving EU legislation alone will not be sufficient to set these gears in motion. National initiatives are also necessary.

On long term capital, Member States should address how in fact to mobilise savings into capital markets. Denmark has had good experiences with pension scheme auto-enrolment where savings are invested by pension funds. So has Sweden and the Netherlands. Almost two thirds of pension assets in the EU are held in these three countries today despite that the countries only make up 12% of EU GDP. This points to considerable potential here for the EU to increase long term investments. But unlocking this potential requires a joint effort across all Member States. We should recognise that structural reforms to strengthen capital formation are long-term undertakings. Let us get started now.

On a cost-effective and efficient capital market infrastructure, the Market Integration and Supervisory Package (MISP) is an important building block. MISP will reduce barriers for cross-border capital mobility and support the smooth and efficient functioning of our markets.

A key element is ensuring that our markets are fit for a future in which technology and tokenization will transform the way capital markets operate. This includes reducing costs and improving accessibility for retail investors.

Europe's Retail Investment Strategy (RIS) is also an important building block in strengthening retail investor incentives and accessibility. In Denmark, an increasing amount of Danes are taking advantage of the Savings and Investment Account, particularly among the younger generation. Our Nordic neighbours are even further in building a strong retail investor culture.

On attractive investment opportunities in Europe, EU policy should strive for a business environment that fosters innovation and excellence to build competitive companies. Over the past decade, we have been moving in the wrong direction. Consequently, EU capital markets have seen their role on the global stage diminish, while capital markets in the US and China have gained importance.

An example of this is the asset allocation of Norway's sovereign wealth fund – perhaps the world's largest index fund. The value of the fund's equities located in EU countries has fallen from 22 per cent of the fund's total investments in 2015 to 13 per cent in 2025, while the value of its US equities has increased from 35 per cent of total investments to 55 per cent over the same period. This reallocation is in part due to technical guideline changes in the fund's politically mandated equity strategy but also clearly exhibits how Europe's capital markets have not kept up.

Our efforts to simplify financial regulation in the EU are an important step in the right direction towards supporting our capital markets. But at its core, Europe needs a true capital union with stronger opportunities for European companies to innovate and grow globally. Put simply, we need more attractive investment cases.

So, Europe has an investment mountain to climb. And indeed, we are making good progress. EU policy makers have already made this agenda a top priority. But we need these essential gears to turn in parallel across the Union for the engine to work. MISP, the securitisation package and the supplementary pension package are all important improvements to financial regulation. But they are not silver bullets.

To mobilise private investment in Europe's key priorities, we need competitive companies and stronger efforts to channel savings into long term investment. To set these gears in motion, we should advance structural reforms in all Member States. A competitive growth agenda and institutional pension saving schemes are good places to start.



OLIVIER BELORGEY

Deputy Chief Executive Officer and Chief Financial Officer
– Crédit Agricole Corporate and Investment Bank

Last call for Savings and Investment Union

After a decade of stalled ambition through 3 “Capital Market Union” actions plans that didn’t achieve their goals, Europe’s capital markets are now at an inflection point. The new “Savings and Investment Union” has the ambition to leverage on the potential on European savings to channel them in capital markets, to support the European growth. Europe mustn’t miss this unique opportunity to relaunch its markets that have been historically less developed than in other jurisdictions, especially the US. Indeed, the indebtedness of the Euro area corporates still relies mainly on banks balance sheets (78% compared to 37% in the US).

Capital markets: What for ?

Europe needs to finance huge amounts of productive investments to support the transitions (environmental, digital, demographic), innovation (start-ups, scale-ups) especially in the sectors of technology, and last but not least to finance defence. That’s the reason why we need strong and efficient capital markets.

There is urgency for the current legislative initiatives to deliver; there is a sentiment of “last call” for European Savings and Investment Union, that could be achieved through the following axes:

**SIU is also for Europe a matter
of defending its sovereignty
and its strategic autonomy.**

Securitization, or how to bridge financing to capital markets ?

Banks are facing many regulatory constraints on their capital, and CRR3 will even more constrain the capacity for European banks to lend to the economy.

That’s why securitization needs to be considered as a bridge between bank and capital markets-based funding, as it consists in a financial operation which turns illiquid and homogeneous assets, such as mortgages, credits or trade receivables, into tradable and liquid securities that can be proposed to a large diversity of investors, while preserving financial stability – as long as the pool of underlying assets experiments predictable performance and follows strict loan origination principles.

The challenge for the regulatory framework under review is to deliver on a true relaunch of the market. ABCP for instance are an essential source of funding for corporates and SMEs for

their working capital and short term financing, they need to be adequately treated through technical parameters currently under discussion. Another key priority is about residential mortgages that need to be economically viable in the future package, in order to develop a deep European mortgage securitization market.

How to better channel savings to the capital markets?

Europe must unlock its savings pool to channel the European savings to the capital markets, while a large part is currently invested either in low risk financial instruments or outside Europe. Financial assets in the euro area are around 35 trn €, o/w 1/3 are in cash or deposits. An additional 10% of deposits invested in capital markets would unlock 1,1 trn €.

We need to develop long term investment vehicles, supported by tax incentives. The perfect envelope for that is pension funds, which give the double advantage of canalizing the retail investment and addressing the demographic challenge of financing the pensions. Member States should progressively implement funding schemes that would complement the current pay-as-you-go schemes, the challenge being to manage the transition. It’s worth underlying that European countries which have already implemented pension funds have also established dynamic capital markets (for example Sweden and Netherlands).

From markets fragmentation to European sovereignty?

The fragmented markets and post-trade infrastructure in Europe escalate costs, reduce liquidity, and create a systemic competitive disadvantage. Many initiatives in the MISP package are going in the right direction to fix these issues, including the centralized supervision for systemic market infrastructures. However, what is missing is that ESMA should have a secondary objective of competitiveness in its regulatory mandate, as was done in the UK. As global markets are a fast moving world, a competitiveness objective would provide agility to react rapidly to any significant move.

Finally, Europe must rise to the challenge of the tokenization revolution, as a solution for simplifying the processes around settlement and provide an end-to-end immediate payment and asset settlement facility in infrastructures available 24/7, through the instantaneity and atomicity of transactions.

To conclude, Europe has no choice but to make the reforms under way succeed, because beyond the challenge of a true recovery of the markets, it is also a matter of defending its sovereignty and its strategic autonomy, and the financial industry is essential to achieve this goal.



DANIEL MAGUIRE

Group Head, LSEG Markets & Chief Executive Officer, LCH Group – LSEG

Europe's capital markets: from integration to execution

Europe no longer faces a diagnostic challenge. The need for deeper, more integrated and more efficient capital markets has been identified for years. The real challenge today is implementation. In a world increasingly shaped by geopolitical competition, technological transformation and strategic dependencies, the Savings and Investments Union (SIU) and the Market Integration and Supervision Package (MISP) should be viewed as essential building blocks of Europe's economic sovereignty and long-term competitiveness.

Strengthening the attractiveness and competitiveness of EU capital markets globally

The SIU and MISP have the potential to significantly enhance the attractiveness, liquidity and depth of European capital markets. Europe faces substantial investment needs to finance innovation, digitalisation, infrastructure, defence and the energy transition. Mobilising private capital at scale has become both an economic and strategic imperative.

More integrated markets can improve the allocation of capital, broaden investor participation and lower financing costs for companies. Today, European capital markets remain fragmented, which limits liquidity and creates barriers to cross-border investment. Greater supervisory convergence, more harmonised market frameworks and stronger integration of market infrastructures can help unlock economies of scale and increase market efficiency.

The objective is not simply to make European markets larger, but to make them more effective in financing Europe's long-term future. Globally competitive European firms require competitive European capital markets, which in turn depend on Europe remaining open and attractive to international investors, who provide a significant share of market funding.

Advancing the objectives of the SIU

Further policy efforts remain necessary to deliver the full benefits of the SIU.

First, Europe should continue reducing market fragmentation. Market participants should be able to operate across the Single Market with fewer regulatory, supervisory and operational barriers. Simplification and harmonisation can improve efficiency while making Europe more attractive for investment and capital formation.

Second, policymakers should continue strengthening the role of market-based finance alongside traditional bank financing. A more diversified financing ecosystem improves resilience, supports innovation and enables faster scaling of European companies.

Third, the focus should increasingly shift from process to outcomes. Regulatory frameworks should be assessed on whether they deliver deeper markets, stronger liquidity, more efficient capital allocation and greater attractiveness for global investors.

More broadly, the debate around capital markets should be considered within a wider strategic context. **Europe's pursuit of sovereignty should not be mistaken for autarky.**

Rather, strengthening European sovereignty means ensuring that Europe can mobilise the resources necessary to support its long-term ambitions.

Moving from digital experimentation to digital scale

Digitalisation represents one of the most significant opportunities to strengthen European capital markets. Europe has established a solid foundation through its digital finance framework, the DLT Pilot Regime and Eurosystem initiatives such as Pontes and Appia. The next challenge is no longer experimentation but scaling successful solutions across the Union.

The priority should be interoperability. Digital and traditional market infrastructures must be able to operate seamlessly together. Tokenisation should not create parallel ecosystems but facilitate the progressive integration of digital and conventional financial markets.

Digitalisation has the potential to transform the underlying architecture of capital markets. Industry-led initiative already demonstrate that distributed ledger technologies and tokenised assets may reconfigure the fundamental mechanisms of trust, record-keeping, execution and settlement. Over time, they could reshape the role of market intermediaries while reducing operational frictions and increasing transparency.

Europe should therefore create the conditions for European champions to emerge in financial market infrastructure and digital finance, supported by access to capital and a sufficiently integrated market to achieve scale.

The next phase should focus on connecting these innovations into a broader European ecosystem capable of competing globally. Europe has the resources, expertise and legitimacy to remain a leading global financial centre. The question is no longer whether deeper capital markets are needed, but whether Europe can deliver them.



VALÉRIE URBAIN

Chief Executive Officer and Chair of The
Executive Committee – Euroclear S.A.

Making SIU Work: Aligning Regulation, National Action and Market Delivery

Europe has spent years discussing capital market integration. The challenge now is execution. As policymakers advance the Savings and Investments Union (SIU), the focus must shift from identifying barriers to removing them, from designing frameworks to delivering outcomes.

A more integrated European investment ecosystem would help ensure that European savings finance European innovation, infrastructure and resilience. But this will only happen if regulation, national reforms and market delivery move together.

The Market Integration and Supervision Package (MISP) can make a significant contribution to advancing these goals. Trading, clearing, settlement, asset servicing, collateral management and funds processing are not back-office technicalities; they are the rails on which European capital flows. If those rails remain fragmented or costly to access, Europe will struggle to build the deeper, more competitive markets it needs.

Euroclear welcomes the direction of travel in the MISP proposals. The objectives of fostering open access, removing barriers, breaking down silos and unlocking competition across market infrastructures provide a strong foundation. These principles must translate into well-designed frameworks that facilitate market connectivity, improve the recognition of group structures and enhance the consistency of supervision across the single market.

**SIU will succeed if regulation,
national action and market
delivery move together.**

Establishing the right foundations and regulatory enablers

The CSD hubs-and-spokes concept introduced in the MISP is consistent with a practical vision of integration: an open and interconnected architecture that leverages Europe's most significant infrastructures and gives users access to deep liquidity and scale. When markets are structured around scale and openness, they tend to become more efficient.

The policy challenge is not to rebuild connectivity that is already available, but to make use of and enhance existing networks. The framework should allow CSD groups to deploy links efficiently responding to user needs and capitalising on Target2-Securities capabilities.

But post-trading integration cannot be reduced to institutional design. A recent report by the European Central Bank's Securities Experts Group identified more than 40 remaining post-trading barriers, several of them in areas of law and taxation. We need concrete steps at the European Union and national levels to address these barriers and maximise the effectiveness of the MISP framework.

If full harmonisation takes time, optional frameworks – for example 28th-regime-like models – can deliver real value in some market segments – for example in the issuance of dematerialised securities.

Digital transformation is a key dimension. Europe should avoid reproducing today's fragmentation in tomorrow's digital markets. Tokenisation, distributed ledger technology (DLT) and wholesale central bank money can bring real efficiencies, but only if they are interoperable with existing infrastructure and governed by robust standards. The future will be hybrid for some time: traditional and digital systems must connect, liquidity must not be trapped in silos, and trust must remain the foundation of adoption.

Implementing European solutions through collaboration

We should not wait for perfect harmonisation before implementing practical solutions. As we gather for Eurofi in Dublin, it is worth recalling Ireland's unique CSD model as an example of simplification and consolidation that advances both European and national interests. Following Brexit, Irish securities, previously held at our UK-based CSD, were transferred to Euroclear Bank, an international CSD based in the EU. Functions that are usually performed by a national CSD are now delivered through a pan-European infrastructure. This experience shows that more integrated European structures are achievable through collaboration and alignment between authorities and market participants.

The industry must deliver further solutions that reduce cost and increase efficiency, working with all stakeholders. They include the implementation of multi-jurisdictional CSD platforms, effective market links for all asset classes and robust DLT infrastructure deployed at scale under high regulatory standards.

The SIU will succeed if these three levels of action – EU, national and industry – reinforce one another. Europe does not need to build a new financial system from scratch; it needs to connect, scale and modernise the one it already has. The time for designing integration is over. The time for delivering it is now.



STÉPHANE BOUJNAH

Chief Executive Officer and Chairman of
the Managing Board – Euronext

Delivering SIU through supervision, transparency and retail participation

Over the last years, we have witnessed the old world-order unravel. In this environment, Europe, more than ever, needs the capacity to stand on its own feet while remaining open for business and opportunities coming from outside. We should not close ourselves off, but we can no longer continue with business as usual as European savings are under-invested while homegrown companies struggle to find financing and sufficiently liquid markets in Europe.

To support competitiveness, growth and strategic autonomy, Europe must mobilise capital more effectively than today. We need to build capital markets that are deeper, more liquid and genuinely attractive to investors. This is a core challenge and one that deeply resonates with the history and mission of Euronext where we have to date integrated seven, and soon eight exchanges, as Euronext Athens will follow soon, within one single technology platform enabling one single liquidity pool. The objective needs to be empowering European champions, not only of today, but also of tomorrow, while at the same time providing citizens with opportunities allowing them to take part in this wealth creation to support their future pensions and investment needs.

In this context, the European Commission's proposal on the Market Integration and Supervision Package (MISP) is most welcome as it aims to integrate markets, improve scaling opportunities and reduce cross-border barriers. The proposal gives ESMA a strong direct supervisory role over significant market infrastructures such as CSDs, CCPs and significant trading venues. It also introduces a genuine single licence for pan-European market operators allowing firms, like Euronext, to operate across borders without navigating a patchwork of national regimes. Reducing this fragmentation is not a technical exercise; it is the foundation for scale as, if achieved, European capital markets would gain further efficiency and depth to compete globally.

Alongside integration, Europe must strengthen the structure of its equity markets by ensuring a level playing field between lit markets and bilateral execution venues. The E6 group, gathering the Ministers of Finance of France, Germany, Italy, Poland, Spain and The Netherlands, in tandem with the European Parliament Rapporteur, have shown strong leadership in bringing this issue to the core of the MISP negotiations. What matters now is the follow-through, as EU co-legislators need to prioritise measures that enhance market liquidity, price formation and efficiency. Doing so would enable deeper more liquid secondary and primary markets, ensuring companies can access the capital they need to invest, innovate and grow.

The Savings and Investments Union will only succeed if ordinary households become active participants in capital markets. One encouraging path to this is the creation of Savings

and Investment Accounts (SIAs) across Europe. Setting up national frameworks for these accounts that promote simple and attractive investment products would help citizens put their savings to work more effectively, offering better returns and long-term financial security, while bringing more capital to companies looking for financing. Euronext is actively supporting these developments at the local level to bring this vision to reality.

Supplementary pensions offer a second lever. As demographic pressures weigh on public pension systems, citizens need stronger options to secure their long-term financial future. The review of the Pan-European Personal Pension Product (PEPP) and the wider pensions package would encourage higher participation in supplementary pensions, while also creating a steady source of long-term capital to fund European growth for decades to come.

Europe's challenge today is not diagnosis but delivery.

Bringing these strands together, three priorities stand out as part of a successful Savings and Investments Union: integrated supervision and market integration; a more transparent equity market structure; and greater retail participation through SIAs and supplementary pensions.

Europe's challenge today is not diagnosis but delivery. We all know we need deep and liquid markets, capable of financing Europe's strategic investments, benefiting companies, citizens and Europe as a whole. The commitment by Ministers of Finance to find a rapid agreement on the MISP is a strong signal. Action is now needed to ensure European markets can finance strategic priorities, support business growth and innovation, strengthen economic resilience, and deliver better outcomes for citizens and the European economy as a whole.



TERRI DEMPSEY

Senior Vice President Chief Executive Officer and
Country Head – State Street Ireland

Safeguarding the competitiveness of EU depositary banks

The European Union is undertaking important legislative reviews, amid a global strategic calibration driven by continued geopolitical and economic tensions.

The political goal is laudable—to dismantle internal financial barriers and fundamentally assess the overall competitiveness of its financial system, or risk falling behind in the global competition for growth. The Savings and Investments Union (SIU) offers a timely, ambitious blueprint to strengthen and deepen European capital markets.

By focusing on savings and investment mobilisation and cross-border scale, the Market Integration and Supervision Package (MISP) directly targets the structural friction and barriers towards such integrated capital markets: national gold-plating, duplicative notification hurdles, and fragmented marketing practices.

Discussions continue to progress well and it's positive to see the proposal to introduce an EU depositary passport remaining an important element of the overall package. Current rules bind fund depositaries to the domicile of the underlying fund, permitting cross-border service provision only under rare, highly restrictive exceptions. This territorial lock-in limits depositary choice—a vulnerability felt most acutely in smaller Member States.

Custody-bank specific policy recommendations (supporting the MISP depositary passport, and on banking competitiveness) would not only improve European banks' ability to support economic growth across the European Union but also enhance their ability to compete on the global stage.

The MISP discussions on the depositary passport have raised certain concerns which can be effectively addressed without sacrificing investor protection. Moving those talks to consider additional safeguards—such as clarifying that cross-border depositaries will follow local laws of the funds they service and delineating clear duties and supervisory coordination among national competent authorities—is welcome.

There is an important role for ESMA in addressing these concerns—that is, developing binding technical standards

to harmonise home-host NCA protocols and guarantee clear application of host-state laws where funds are domiciled. By preserving local supervisory proximity while establishing unified cross-border practices, we can finally operationalise a workable depositary passport that enhances Europe's competitiveness without sacrificing investor protection.

Permitting EU-authorized credit institutions to provide depositary services seamlessly across borders is a long-overdue evolution that directly mirrors the core philosophy of the Single Market, and ambitions for the SIU.

The MISP will close a remaining gap for 'passportable' financial services by banks in the EU. Equally important is ensuring that banks in the EU can operate in a sound, yet competitive, environment. While the SIU strategy will improve the way the EU financial system facilitates the allocation of savings to productive investments, it also envisages an efficient and integrated banking sector. In that context, State Street strongly welcomes the report from the European Commission on banking competitiveness.

Custody-bank specific policy recommendations, such as a more risk-sensitive treatment of banks' exposures to unrated corporates, or a recalibration of the Leverage Ratio framework to permanently exempt central bank placements, would not only improve European banks' ability to support economic growth across the European Union but also enhance their ability to compete on the global stage.



JOHN VIBERT

Senior Managing Director and Head of Credit – PGIM

Making the Savings and Investments Union (SIU) work for investors

Europe needs deeper and more competitive capital markets to support innovation and growth, as well as the development of its infrastructure, defence strategy, and green and digital transitions. It also needs them for its financial resilience and to give households better opportunities to invest their long-term savings. These objectives are widely shared by policymakers and investors. The SIU remains the right agenda to help achieve this goal; the harder question is how to make it succeed in practice.

This matters more so than ever as the SIU moves from vision to implementation. The past decade has seen over 70 legislative and non-legislative initiatives launched under the SIU and its predecessor, the CMU. Europe should avoid launching the next big idea while many existing rules remain too complex and ineffective.

Unlike the U.S., which has swung wildly between regulation and deregulation in the past two decades, stability and predictability are strengths of the European regulatory framework. But Europe has become too conservative in many aspects of its rulemaking: laser focused on investor protection while ignoring the increasingly urgent need for growth.

Nonetheless, there are encouraging signs. The review of the European Long-term Investment Funds (ELTIF 2.0) framework showed the EU can revisit a well-intentioned framework and make it more usable. Sustainable finance is another opportunity to focus less on disclosure complexity and more on decision-useful information. These are good examples of areas where the EU has sought to iron out wrinkles in existing rules with real positive outcomes for markets.

The Market Integration and supervision Package (MISP) is something different – a massive legislative overhaul designed to eliminate cross-border barriers and centralise financial oversight across the EU. While this can help reduce fragmentation, the boundaries between EU- vs. national-level supervision should remain clear. Multiple layers of national and EU-level supervision could add unnecessary complexity to the system and stifle borrowers and investors alike.

The SIU also needs to be more investor-centric as well as borrower-centric. Too much of financial regulation is debated through the lens of supervisors, banks and market structure. While these perspectives matter, they should not always dominate. The important question to ask is whether reforms balance financial stability with the urgent need to improve choice, access, returns and resilience for end investors, while helping companies obtain the financing they need.

The latter lens should guide the current legislative files under discussion. The Retail Investment Strategy will be successful if it improves competition, advice, transparency and access to

better products. It will be less successful if it mainly adds cost and process. The supplementary pensions package should support flexible pension frameworks, appropriate private market investment and remove constraints such as rigid fee caps or barriers to efficient delegation. The European Savings & Investment Accounts are good examples of simple, attractive and tax-supported initiatives that benefit investors.

Perhaps nowhere is the need for an investor-centric approach more acute than in the case of EU Securitisation Reform. While the reform reduces capital constraints for banks and simplifies rules for issuers, the reform is not delivering for European investors. They remain locked out of global securitisation markets that their international peers can access and may face a new sanctions regime.

A final ingredient is a more proportionate approach to risk. The lessons of the GFC remain important with prudent regulation and financial stability being foundations for confidence. But regulation should reflect actual risks rather than historical perceptions of risk, while considering opportunity costs that are difficult to measure, but potentially far more costly given the urgent need for growth.

The SIU needs to be more investor-centric as well as borrower-centric.

All of this argues for more ambition. The SIU should not be judged by the number of legislative initiatives launched but by whether savers are better off, capital is transformed into productive investment, and if European companies and infrastructure projects can access deeper pools of capital both domestically and abroad.

If policymakers keep that end-user test at the centre of every measure, the SIU can avoid becoming another well-intentioned strategy that is refreshed, renamed and relaunched without changing outcomes — and instead become a route to stronger capital markets, better retirement outcomes and a revitalized European economy.

We thank the partner institutions
for their support in organizing
the Eurofi Dublin Financial Forum



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MISP: EU-LEVEL SUPERVISION AND SIMPLIFICATION PROPOSALS



VERENA ROSS

Chair – European Securities and Markets Authority (ESMA)

As markets evolve, so must supervision

Our capital markets are being asked to do more than ever before. They are expected to channel investment into innovation and growth, support Europe's strategic priorities, deliver long term returns to retail investors, help spread and manage risk and compete in an increasingly demanding global environment. As markets become more interconnected, the question is not simply whether we have the right rules, but whether we have the supervisory framework needed to make those rules work effectively in this new reality.

This is the context in which the Market Integration and Supervision Package (MISP) should be viewed. Its purpose is not institutional change for its own sake but ensuring that supervision evolves alongside increasingly integrated markets, supporting greater consistency, efficiency and resilience while maintaining high standards of regulation.

A central element of the package is the proposed strengthening of EU-level supervision for some significant, cross-border entities, including trading venues, central counterparties, central securities depositories, as well as crypto-asset service providers. While these sectors differ in nature, they share an explicit European dimension. Their business models, risks and client bases often extend across multiple Member States, creating a strong rationale for ensuring that supervision can operate with an appropriately European perspective.

The objective, however, is not centralisation. The test of any supervisory model is whether it delivers better outcomes: greater consistency, clearer accountability, stronger resilience and, ultimately, more integrated markets. A stronger EU-level approach can contribute to these objectives by facilitating more coherent decision-making, supporting the development of specialised expertise and providing a broader view of risks that increasingly emerge across borders rather than within them.

Its success will depend on clear responsibilities, effective governance and strong cooperation between ESMA and national authorities. National expertise remains indispensable and must continue to play a central role in any future framework. The objective is not to replace national knowledge, but to blend it more effectively with an EU-wide perspective.

The package also presents an opportunity to simplify aspects of the supervisory landscape. Despite a common rulebook, firms operating across Europe can face differing supervisory

approaches and expectations. Reducing unnecessary fragmentation can improve predictability, support efficiency and strengthen the functioning of the Single Market.

This reflects a broader effort, on which ESMA is already leading the way. From reducing reporting requirements to easing the investor journey, ESMA has made simplification and burden reduction a key goal in its current mission. This same pursuit should continue to guide the implementation of agreed MISP reforms.

Simplification should nevertheless not be misunderstood. The objective is not to reduce supervisory ambition, nor to assume that the challenges facing Europe's financial system are becoming simpler. If anything, the opposite is true. The growing use of artificial intelligence, rapidly evolving technologies and business models, cyber threats and a more uncertain geopolitical environment are creating new supervisory challenges that often transcend national borders.

A simpler framework therefore does not mean a simpler job. Effective supervision will continue to require appropriate expertise, resources and effort. The challenge is to ensure that those resources are directed towards understanding and addressing material risks rather than navigating unnecessary procedural complexity.

This is also where a stronger European supervisory perspective can add value. Many emerging risks affect firms, infrastructures and investors across the EU simultaneously. In such cases, a more integrated supervisory approach can help develop common responses more quickly, deploy specialised expertise more effectively and promote more consistent outcomes across the EU. For some highly cross-border activities, this may prove a more efficient means of achieving those outcomes than relying on or expanding intensive convergence arrangements.

As discussions on the package continue, the opportunity is broader than a debate about powers or responsibilities. It is about creating a supervisory framework that is fit for increasingly integrated markets and increasingly complex risks. More integrated markets require more integrated supervision. Equally, more integrated supervision can help foster deeper market integration. So, as the EU's capital markets continue to evolve, supervision must evolve with them.



URŠKA CVELBAR

Director General, Financial System Directorate –
Ministry of Finance, Republic of Slovenia

Designing a new EU supervisory framework all 27 capital markets can carry

Slovenia supports the Market Integration and Supervision Package. For a Member State whose companies rely predominantly on bank financing, deeper and more integrated European capital markets are the most realistic route to diversified funding for our businesses and better investment opportunities for our savers. We therefore see clear added value in EU-level supervision of significant market infrastructures: greater supervisory consistency, fewer duplicative requirements for cross-border operators, and a simpler landscape overall. The question, in our view, is not whether to strengthen EU-level supervision but how to design it so that it delivers for every market in the Union.

Our contribution to the negotiations has been guided by a single principle: proportionality must be measured, not merely declared. It is easy to invoke proportionality in a recital; it is harder, and far more valuable, to build it into the architecture itself. Slovenia has therefore argued throughout that significance should be determined by an entity's own activity and cross-border footprint, using measurable indicators such as market share and cross-border trading activity assessed at the level of the individual entity, rather than structural proxies such as group affiliation. An infrastructure that is individually small and domestically focused does not become systemically significant simply because it belongs to a larger group.

The discussion on crypto-asset service providers illustrates why this matters well beyond legal principle. Centralising supervision of all CASPs, irrespective of size, would have implied a substantially larger supervisory apparatus at ESMA, with staffing and budgetary consequences ultimately borne by the system as a whole. Focusing direct supervision on providers of true significance, under clear and objective criteria, delivers the integration benefits where they actually arise, at a fraction of the institutional cost. It also keeps the package internally consistent: the test of significance should be the same across all the sectors it covers. Proportionality, properly applied, is not a brake on ambition; it is what makes ambition affordable.

across borders and for foreign providers serving our market. In return, the new framework must allocate responsibilities clearly between ESMA and national authorities, keep drawing on what supervisors close to the market know, and avoid parallel layers that raise costs without raising standards. National supervisors in smaller markets are an operational resource for this architecture, not bystanders to it. One structural point from the public debate deserves particular attention: as long as crisis management and fiscal responsibility for market infrastructures remain national, supervision must reflect that reality through a meaningful role for the authorities that carry it.

There is one further condition, and for us it completes the equation. ESMA's mandate is set to expand substantially, and its budget with it. How that budget is financed then becomes part of the reform itself rather than a technical afterthought. Therefore, the national authorities' contributions to ESMA should reflect the actual size of national capital markets, replacing an allocation key derived from Council voting weights designed under the Nice Treaty. Public data show that 21 of 27 Member States currently contribute above their proportionate share; Slovenia contributes roughly seven times more than its market size would warrant, a burden carried in our case directly by market participants, since our supervisor is funded entirely by industry fees. An expanded mandate and its funding are two sides of the same coin and belong in the same reform. Recalibrating one while leaving the other untouched would build the new supervisory architecture on an old imbalance.

Slovenia will continue to work constructively across the full breadth of the package, and we look forward to supporting the Presidency on the path towards a balanced agreement in the Council. Integration succeeds when its architecture works for all 27 markets, measured in criteria, in responsibilities and in budgets alike.

**An expanded mandate and its funding
are two sides of the same coin and
belong in the same reform.**

For smaller and less developed capital markets, the benefits of EU-level supervision are real but conditional, and we say this as a constructive participant in the negotiations rather than a sceptic of their objective. A uniform supervisory approach lowers barriers both for our market participants operating



DUŠAN HRADIL

Department Director, Financial Markets –
Ministry of Finance, Czech Republic

MISP: fine-tuning and one supervisory challenge

There are two sides of the MISP coin.

You flip it one side and get a feeling of a wide consensus. Well, at least at a first glance. As the devil lies in the detail, Member States experts and financial attachés still have a lot to do till all the provisions are polished to the requested glance. But the overall goal is widely shared – deeper and cheaper (I should rather say cost-effective) capital markets. How to get there? Less duplicities, more proportionality, easier and greater use of the tools, for example the EU passport for funds or DLT. No doubt. More harmonization of the rulebook is what helps (but not makes) markets to become more interconnected.

The MISP approach works better for the larger players who can benefit from the provisions more easily, having also larger teams to ensure compliance. For smaller players, the newly introduced obligations may create relatively significant challenges. We need to avoid discouraging them from entering or staying in the market. Europe benefits from diversity. And so do capital markets. Moreover, any new obligation must create a clear value added. Let's take an example of the CSDs expected to obligatory connect to the T2S, even if they don't clear in the T2S currencies. An option rather than obligation would fit much better. The text would benefit from some fine-tuning in this way.

And then you flip the MISP coin over and land in a parallel world of centralized supervision. With the idea that one supervisor will contribute to deepening and cost reduction of the capital markets. And there we go with a widely held disagreement. Proponents of centralization would argue that the initial assumption works in practice, others see it differently.

You may move the supervision to a centralized body but there will still be a residuum, and not a negligible one, staying with the national supervisor – AML, market abuse or obligations arising from national law. So the supervised entities would have to be in touch with more supervisory bodies, speaking different languages, sitting in different cities. Would that cut on costs? No, at least not for the smaller players operating in smaller markets. Would that improve the quality of supervision? One may doubt, as local knowledge of the legal system and national provisions as well as a local presence are desired functional benefits of the current decentralized model. And the quality of all national supervisory entities shall be ensured through supervisory convergence.

But this does not mean that there are no use cases where a centralized supervisor makes sense. Market operators with a clear cross-border scope and significant presence in more countries are the ones. But we need to identify them carefully – the criteria have to be clear and delivering a stable categorization over time. We should avoid an enforced change of the

supervisory body solely because of a change in the ownership structure where the activities of the respective market player remain unchanged. Similarly, an annual recalculation of the criteria would add unnecessary uncertainty. A multiple-year cycle would definitely be more appropriate.

**A centralized supervision as an
opt-in regime on a voluntary basis
could save time and money.**

Proponents of the supervisory centralization are also adding the cost argument. Not for the supervisor, but (also) for the industry. If that is indeed the case, why not introduce centralized supervision as an opt-in regime on a voluntary basis. PEMOs could be a good use case – if they conclude that their cross-border scope of activities matches with a centralized supervisor better, they could choose that option. Similarly the CASPs under the MiCA – as small entities, even start-ups, they may prefer to stay with their national supervisor who understands them better. But once they grow bigger and truly cross-border, they may benefit from dealing with one centralized supervisor. Simply a “choose-your-own-supervisor” regime. This would be a reliable test of the added value of centralized supervision, from the market industry point-of-view. On the contrary, if the market participants assess such an option as more cost intensive, this would be a clear signal to stay with the national supervisor. Lower costs lead to lower fees (or higher revenues) for the end clients. And to the objectives of the SIU – less costly access to the capital funds and higher returns for European investors. And there would be no need for the co-legislators to agree on the significance criteria in the regulatory framework, allowing to close the file easier and earlier. And that is what we all aim for.



MARIE ANNE BARBAT- LAYANI

Chair – Autorité des Marchés Financiers (AMF)

European supervision is key to the construction of a single market for capital

The *Savings and Investment Union (SIU)* project is undoubtedly the most important financial project in the European Union since the single currency. It is our generation's responsibility to make it succeed. Other than that, we will face a steep decline in the EU's financial independence and ability to fund its political choices. None of us should take this risk and we must join forces and get over our reluctances and second thoughts : whoever is in charge now should make everything in their power to facilitate its adoption.

Is it perfect ? Maybe not. But it is historical ; and the cost of failure would be terrible.

Is it difficult ? Maybe. Especially where supervision is concerned.

Surreal criticism is sometimes heard about the *Market Integration and Supervision (MISP)* reform in supervision proposed by the European Commission : it is as if the current system were perfect, and some malevolent troll in Brussels had decided to degrade it. Fake news. The current architecture is far from perfect !

It is fueling fragmentation in the financial system, creating unnecessary administrative burden, higher financing costs for the economy, and regulatory arbitrage.

It is far from perfect in terms of financial stability: dilution of supervisory responsibilities is never a good idea, and it is currently the case for large pan-European financial entities and market infrastructures.

It is also sub-optimal in terms of investor protection : passporting with insufficient supervisory convergence and limited skin in the game paves the way to misunderstanding and mis-selling.

Fixing market supervisory framework is necessary, and the MISP is a very moderate, yet well calibrated step forward. Let us hope we will not need a financial crisis to adopt it. A swift adoption is needed.

Criticism is harsh on the risk of bureaucracy and higher costs with a more centralized supervision. Some are taking the example of the SSM and voicing nostalgia on the good old days of national banking supervisors. It was so much nicer ! Or was it so ? Who would question that the European banking sector is now much sounder than in 2008 ? Of course the unfinished Banking Union, with its old-fashioned obstacles to equity and liquidity circulation in pan-European banking groups, is frustrating. But the progresses in terms of financial stability are undoubtedly there.

As regards market supervision, more centralization and supervisory convergence is a key condition to better regulation and simplification. Absurdly precise and prescriptive rules are

only necessary to try and prevent supervisory divergences. Fixing supervision would dramatically reduce the need for this and allow a more outcome-based approach.

Is bureaucracy unavoidable? Why couldn't ESMA become a good European supervisor?

Of course it needs to develop its supervisory culture, and it needs to do that efficiently. The French AMF and the Dutch AFM made proposals for that in a paper published on July 22¹.

But governance is of the essence and we need to be creative there. European financial supervisory institutions often lack sociological diversity in their governance. While many national supervisors benefit from diverse competences and professional backgrounds on their boards. Those prove to play a challenging but constructive role in these authorities, making sure they remain aware of the realities of the activities they are regulating. Why not try this at European level? We could imagine a balanced and diverse governance for the future ESMA. Let us imagine an innovative formula : 1/3 of permanent directors, 1/3 of representatives of the Colleges of national supervisors, and 1/3 of independent qualified personalities. These independent board members, appointed by European institutions, would not have to be permanent - which tends to lead to the appointment of professional supervisors only. They could contribute their diverse expertise and experiences to a new ESMA. This could reassure investors and the industry on this new ESMA.

There are concerns around the risk of loss of competence and local knowledge. NCAs will indeed need to support a smooth ramp up of ESMA's capacity and culture - through secondments, mutualization of resources, building up a supervisory culture. But that should not contradict the fact that there should be no room for double supervision. **We need a clear European responsibility in supervision.**

To conclude on a note of hope, Europe remains one of the most powerful and innovative place in the world, as it has been for centuries. We are at a time where we have an opportunity to move decisively to make European markets fit for the future. Let us mobilize to create a single European market for capital that will enable us to finance our political priorities. This is the project of our generation and we have to deliver on it now.

1. <https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/design-delivery-afm-and-amf-identify-five-enablers-effective-eu-level-market-supervision>.



CORENTINE POILVET-CLEDIERE

Chief Executive Officer – LCH SA & France Country Head – LSEG

Europe needs supervision that can match its scale

Europe does not need another institutional debate. It needs a market that can finance its own future.

The question of who supervises significant cross-border post-trading market infrastructures may sound technical, but it goes to the heart of Europe's ability to mobilize capital, fund innovation, support defence and energy investment, and give companies the ecosystem to grow at home rather than scale elsewhere. In a world defined by U.S. scale, Chinese strategic investment and sharper geopolitical competition, Europe cannot afford capital markets that behave as national systems.

Market infrastructures are where Europe's financial ambition becomes operational. Clearing, settlement and post-trade connectivity determine whether capital moves efficiently, investors access liquidity with confidence, and markets sustain the scale required by the Savings and Investments Union. Yet supervision is not keeping pace. Significant infrastructures operate across borders, serve clients across the Union and deal daily with global regulators and central banks. Supervising them through fragmented national lenses is no longer a harmless legacy. It is a strategic constraint.

Transferring supervision of significant cross-border infrastructures to ESMA would therefore not be a symbolic institutional shift but a practical competitiveness measure. It would give Europe a supervisory architecture that reflects the way markets actually work: integrated, fast-moving and global. For firms operating across the Single Market, the benefits are clear: greater consistency, less duplication, faster decisions, more predictability and a clearer route to innovation and expansion. For investors and issuers, the result should be a market that is easier to use, easier to trust and easier to scale.

This is not about lighter regulation but about better regulation. Europe's competitive advantage rests on trust, legal certainty and high standards. But high standards do not require fragmented delivery. As European markets integrate, they need supervision that is coherent, accountable and capable of taking a genuinely European view. A single lead supervisor would reduce ambiguity, limit regulatory arbitrage and support a level playing field. It would also help ensure that decisions are taken with full sight of Europe's market-wide interests, not only one national ecosystem.

The case is also geopolitical. Market infrastructures are strategic assets. They connect Europe to global capital, support public and private markets, and help transmit Europe's standards internationally. If Europe wants to shape global markets rather than merely adapt to them, it needs the ability to speak with one voice. A stronger ESMA role would give Europe a clearer interlocutor abroad and reinforce its capacity to defend open, resilient and competitive markets on its own terms.

But the reform will only work if it is designed with discipline. ESMA must be the clear supervisory lead for entities brought within its scope. National authorities, central banks and resolution authorities should continue to play essential roles, especially where local expertise, financial stability and crisis management are concerned, but the objective must be cooperation without complexity. A European supervisor supported by national expertise is very different from a system of parallel reviews, overlapping requests and blurred accountability. Supervised entities need a single interlocutor, clear decision-making and one coherent set of expectations.

The transition matters as much as the end-state. The shift must be rapid, credible and business-aware. Clear deadlines, continuity of supervision, early clarity on roles and a firm commitment to avoid double reporting and duplicated fees will be essential. A prolonged or ambiguous transition would delay the benefits and risk turning a competitiveness measure into another layer of process.

If Europe wants capital at scale, its supervision must scale.

Europe has spent years diagnosing its market problem. Fragmentation is costly. Scale is essential. Private capital must do more of the heavy lifting. These points are now widely accepted. The difficult part is acting on them. Supervision is not the whole answer to Europe's financing challenge, but it is one foundation for a deeper market. If Europe wants deeper markets, stronger firms and greater strategic autonomy, it needs institutions that match those ambitions.

This is a moment for urgency, not hesitation. The choice is not between national expertise and European ambition. Europe needs both. The real choice is between a model built for yesterday's market and one capable of supporting the market Europe wants to build. If Europe wants capital at scale, its supervision must scale.



JAKUB MICHALIK

Chief Policy Officer & Member of the Executive Committee – Euronext

Building the SIU: aligning supervision with the EU's integrated capital markets

The EU's capital markets have become increasingly integrated, but supervision has not kept pace. While market infrastructures, issuers and investors operate across borders, supervisory frameworks remain largely organised along national lines. This creates fragmentation, inefficiencies and unnecessary complexity for firms operating across the EU.

Euronext illustrates this reality. As the leading pan-European market infrastructure, it operates eight regulated trading venues, five CSDs and two CCPs, serving more than 1,900 listed companies with over €7 trillion in aggregated market capitalisation.

As the EU advances the Savings and Investments Union (SIU), supervisory frameworks must evolve to reflect the reality of integrated markets, including centralised supervision under ESMA and the proposed Pan-European Market Operator (PEMO) framework that would allow cross-border market infrastructure groups to operate under a single authorisation and unique supervisory framework.

Benefits of ESMA Supervision and PEMO

Indeed, a key benefit of the intended reform is greater supervisory consistency. Despite operating under a common European rulebook, cross-border market operators are often subject to different supervisory approaches and interpretations. Central ESMA supervision for all cross-border market operators – trading venues, CCPs and CSDs – would promote a more harmonised application of rules, increase legal certainty and strengthen the level playing field.

The reforms would also deliver meaningful efficiency gains. PEMO would enable operators to manage multiple trading venues under a single authorisation, reducing organisational complexity, costs and regulatory friction. Simplified supervisory engagement and reporting would create a more scalable framework for integrated European market infrastructures.

Central ESMA supervision would also strengthen financial stability and risk management as it would provide a holistic view of market structures, interconnections and emerging systemic risks across all jurisdictions. Combined with streamlined reporting, this would support earlier risk identification and enhance the resilience of EU capital markets, which in turn would increase their attractiveness.

Conditions for Success

To fully absorb the benefits of the new regime, group recognition should be fully embedded in the new framework, with regulatory requirements applied at PEMO level whenever appropriate. This would better reflect the operational reality of

integrated market infrastructure groups and support genuinely pan-European business models.

The division of responsibilities between ESMA and NCAs must be clear on the onset. In particular, ESMA should act as the sole prudential and conduct supervisor for entities within the PEMO framework and for all other systemic, cross-border infrastructures, while NCAs should retain responsibilities related to local market surveillance and enforcement. Any overlap would recreate complexity, duplication and uncertainty.

Implementation should also be harmonised and strictly time-bound. Regulatory certainty for operators and supervisors alike will be essential to ensure continuity and allow the benefits of the new framework to materialise quickly and effectively.

Strengthening EU Competitiveness

Beyond supervisory efficiencies, centralisation of supervision under ESMA should be viewed as a strategic tool to strengthen the EU's position in global capital markets. The EU competes with major financial centres that already benefit from more integrated regulatory and supervisory frameworks. Policymakers should therefore ensure that direct ESMA supervision supports scale, innovation and cross-border growth, enabling European market infrastructures to compete effectively on the global stage. A dedicated competitiveness mandate for ESMA is a necessary addition to the new framework.

The EU needs integrated capital markets, and integrated capital markets need integrated supervision.

Conclusion

The SIU requires not only integrated markets, but also supervision that reflects their cross-border nature. Direct ESMA supervision and PEMO offer unique opportunities to align supervision with market realities, reduce fragmentation and strengthen the competitiveness of EU capital markets.

The time to act is now. The EU needs to move from ambition to delivery and swiftly implement a supervisory framework that matches the scale and integration of its capital markets. By acting decisively, policymakers can help build deeper, more competitive and more resilient capital markets capable of supporting investment, growth and the EU's strategic ambitions.



JOE MCHALE

Head of International Government Affairs &
Regulatory Strategy – Bloomberg

Building ESMA for success - making supervision deliver for the SIU

Europe is sitting on extraordinary potential. Over a decade after the Capital Markets Union launched, the case for deeper, more liquid capital markets has never been stronger. The often-cited figures are well-known: around three-quarters of corporate funding in the US come from capital markets, while EU companies raise only around 10% of new funding needs there. The Savings and Investments Union (SIU) is designed to close that gap, and the Market Integration and Supervision Package (MISP) is the supervisory engine meant to help deliver it. As an operator of EU regulated entities - including an EU trading venue - and a long-standing participant in EU market infrastructure, Bloomberg supports stronger competitiveness through the unification of capital markets, and we see MISP as a welcome step.

The proposals can deliver clear added value in consistency, efficiency and agility, but only under specific conditions. We would highlight four.

Trust and dialogue.

Effective supervision depends on dialogue between supervisors and supervised entities - dialogue that builds trust, deepens market understanding and supports innovation. For MISP to add value, ESMA should build a culture of partnership, not purely procedural oversight. This amounts to regulation by principle: structured, continuous dialogue that helps supervisors track macro-EU and micro-member-state developments and evolving market practices. It is a multi-year journey, but done well it strengthens EU-level supervision because it builds on - not away from - the experience within national authorities.

Calibration to asset classes, protocols and venue models.

Markets are not monolithic. A lit equity order book, an RFQ-based fixed income venue and a cleared derivatives platform differ in liquidity, transparency, protocol and risk, so supervision must be calibrated to each, not applied as a single template. The same holds for post-trade: a CCP managing default risk and a CSD ensuring settlement finality raise supervisory questions - concentration, interoperability, cross-border resilience - that differ again from those on venues. Diversity across asset classes, protocols, and venue and infrastructure models, as well as member states, is a strength to harness through specialised NCA expertise, not a complication to standardise away. Consistency of outcome, not uniformity of method, should be the goal.

A hub-and-spoke model.

This offers a pragmatic route to that outcome, with ESMA as central decision-maker drawing systematically on National Competent Authority (NCA) expertise. Representatives embedded within NCAs would ensure a two-way flow of

information as responsibilities transfer, building up ESMA's own capabilities - anchored in supervisory specialisation, particularly in fixed income and post-trade infrastructure, where cross-border interdependencies are greatest. This phased transfer is what allows greater consistency and efficiency without losing the granular market understanding that currently sits at national level.

Agility in the rules, not only the institutions.

In addition, competitiveness deserves to be a primary objective of rulemaking, alongside stability and investor protection, not beneath them. Innovative proposals are too easily set aside when theoretical risks are raised. A proportionate burden of proof, one that weighs the cost of inaction, would let good ideas advance while keeping markets safe. Simplification adds value only where it reduces duplicative or divergent requirements, not the substantive bar.

Can the SIU, via the MISP proposal, make EU markets more attractive and competitive? Yes - under those conditions. The appetite is already unmistakable: European equity trading has proved increasingly "sticky," with average daily value traded rising 28% year-on-year to €87 billion in 2025. But ambition needs accountability. The SIU's health should be checked yearly: a metrics-based "state of the SIU" tracking whether Europe is closing the gap on funding, liquidity and integration. Where the numbers do not improve, the treatment should change, with levers from targeted rule tweaks to broader policy ready to deploy.

**The path to deeper integration
is best travelled in a pragmatic,
phased and proportionate way.**

Conclusion

The path to deeper integration is best travelled in a pragmatic, phased and proportionate way, building ESMA's capability step by step, anchored in the expertise and dialogue that exist across the Union, calibrated to the real differences between asset classes and between trading and post-trading infrastructures, and matched by rules that place competitiveness at the centre. On those conditions, MISP can deliver added value. Bloomberg remains a committed partner in delivering an SIU that works across all asset classes.

The EUROFI Financial Forum
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**Uachtaránacht na hÉireann ar
Chomhairle an Aontais Eorpaigh 2026**

**Irish Presidency of the Council of
the European Union 2026**

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 through 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.

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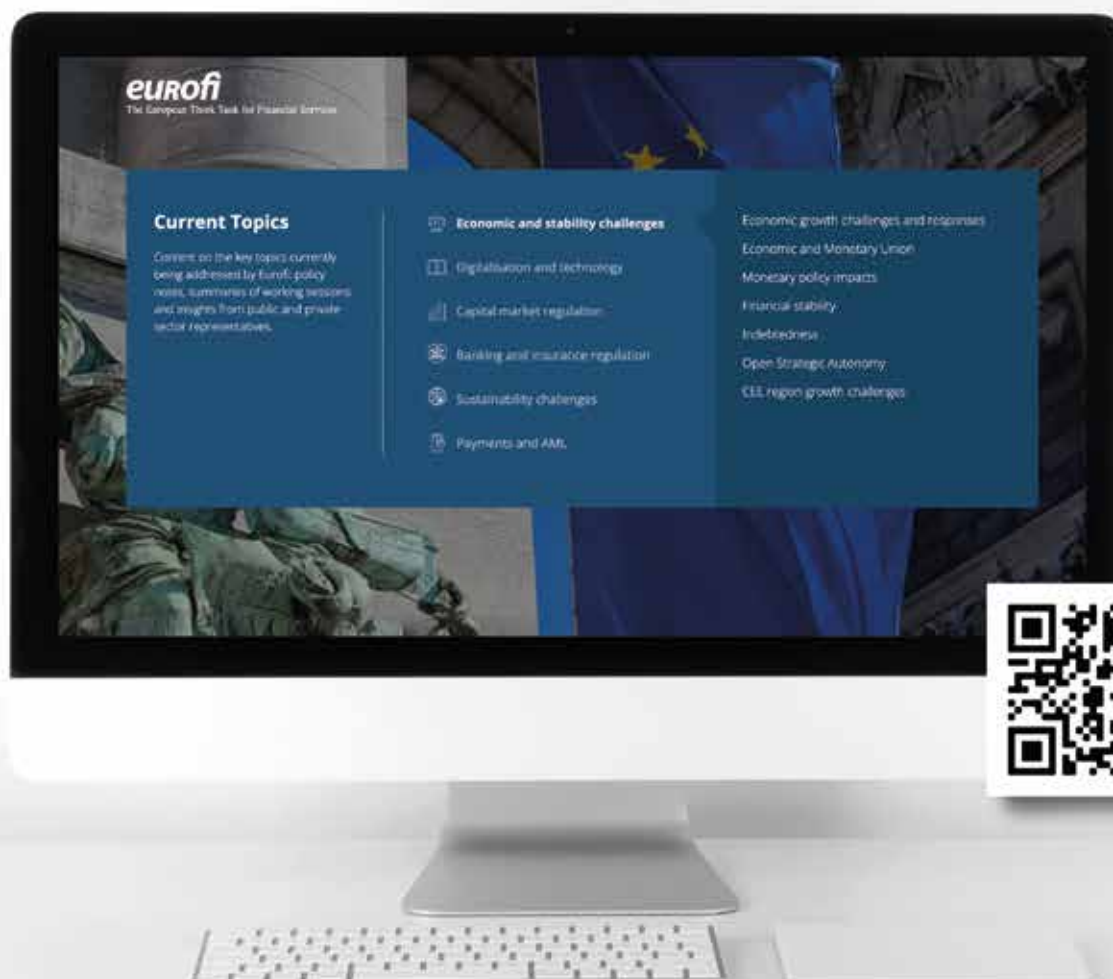
Banking and insurance regulation



Sustainability challenges



Payments and AML



SECURITIES TRADING: TRENDS AND MISP IMPACTS



**VASILIKI
LAZARAKOU**

Chair of the Management
Board – Hellenic Capital
Market Commission (HCMC)

Liquidity, fragmentation and price formation in European equity markets

Liquidity, Fragmentation and Price
Formation in European Equity Markets

European equity markets are undergoing a profound transformation in how liquidity is created, accessed and executed. This evolution reflects not a decline in market activity, but a structural reallocation of trading across an increasingly diverse ecosystem of execution venues and mechanisms. As technology, competition and regulatory reforms reshape market structure, the central policy challenge is no longer simply the quantity of liquidity, but whether its organization continues to support efficient, transparent and resilient price discovery. Achieving the right balance between innovation, competition and market integrity will be critical to the long-term competitiveness of Europe's capital markets.

Recent ESMA analysis confirms that European equity trading is becoming more diversified across execution mechanisms. Between 2022 and 2025, the share of turnover executed through continuous lit order books on regulated markets declined from 35% to 27%, while trading on multilateral trading facilities (MTFs) fell from 19.4% to 17.7%. At the same time, activity increased in closing and intraday auctions, frequent batch auctions and systematic internalisers (SIs), demonstrating that liquidity is becoming distributed across a wider range of execution mechanisms. This should not be viewed solely as harmful fragmentation. Greater execution diversity can enhance competition, improve execution quality and broaden investor choice. However, as trading migrates away from continuous lit markets, displayed liquidity and market depth may decline, making price discovery increasingly reliant on a smaller share of transparent trading. Since continuous lit order books continue to generate the reference prices used by many alternative execution mechanisms, preserving sufficiently deep and visible order books remains essential to ensuring that competition strengthens, rather than weakens, the efficiency and credibility of price formation.

Trading fragmentation should also be considered alongside post-trade frictions and the broader underdevelopment of EU capital markets. The implications of market fragmentation cannot, however, be assessed in isolation. The efficiency of European equity markets also depends on the ability of investors to access liquidity seamlessly across borders. As highlighted by the Draghi Report, fragmented post-trade arrangements remain a structural barrier to market integration. Although post-trade processes do not directly determine prices, operational barriers and higher post-trade costs hinder the efficient allocation of liquidity across the Union, discourage cross-border participation and limit the integration of liquidity pools. At the same time, relatively small domestic markets, fewer listed companies, limited investor participation and the continued reliance of European businesses on bank financing constrain the depth of EU capital markets. Consequently, while market-structure reforms can improve the efficiency with which liquidity is allocated, achieving materially deeper and more liquid markets ultimately depends on broader progress in developing Europe's capital markets.

Looking ahead, the expansion of passive investing, the growing use of periodic auctions, the possible extension of trading hours and the transition to T+1 settlement will continue to reshape European market structure. Together, these developments point to a more diversified market structure while reinforcing the need to preserve transparent liquidity and robust price discovery.

**Integrated markets need
robust price formation
to sustain liquidity.**

Against this backdrop, the Market Integration and Supervision Package (MISP), together with the MiFIR Review, seeks to remove regulatory, supervisory and infrastructure barriers that continue to impede a fully integrated European market. The two initiatives address different, but closely related, dimensions of market integration. MiFIR focuses on improving the transparency and execution of trading, whereas MISP seeks to reduce supervisory, operational and post-trade barriers that continue to fragment European markets. Consolidated tapes will improve the visibility of liquidity across trading venues, facilitating liquidity discovery, reducing information asymmetries and strengthening price formation. Combined with measures to reduce operational and post-trade barriers, these reforms can support more integrated and competitive European capital markets. Their benefits, however, will only be fully realized if they are underpinned by high-quality market data, interoperable trading and post-trading infrastructures, and consistent implementation across Member States.



CARLO COMPORTI

Commissioner – Commissione
Nazionale per le Società
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Competition, fragmentation and the future of market structure

With MiFID I the evolution of European equity markets has been transitioning from a model based on concentration rules to one based on competition among trading venues. MiFID II further opened the door to competition not only among multilateral venues, but also between multilateral venues and bilateral execution mechanisms, such as systematic internalisers (SIs).

Increased competition generated benefits: it contributed to a significant reduction in trading costs, facilitating broader investor participation. Yet, while lower trading costs is clearly positive, these policy choices had an impact on the structure of European capital markets.

As competition on execution fees intensified, the scope for further price-based differentiation diminished. Today, trading costs are increasingly influenced by post-trading expenses, rather than by execution charges themselves. As a result, competitive dynamics shifted toward the provision of trading solutions capable of minimising market impact and reducing exposure to risks associated with the growing presence of high-frequency trading strategies.

This evolution strengthened the role of dark trading and led to an increasingly complex system of transparency waivers. At the same time, systematic internalisers gained increasing importance. Parallel developments have favoured a growing concentration of volumes in periodic auctions and closing auctions, also due to the expansion of passive investment strategies. Collectively, these developments have fragmented liquidity across an increasing number of liquidity pools while reducing activity during ordinary continuous central limit order books (CLOBs). The risk that fragmentation could reach a point where it materially impairs price formation is now more evident than ever.

Such changes exacerbate supervisory challenges, particularly on market integrity, as thinner liquidity pools could facilitate opportunistic behaviour, allowing prices to be influenced with lower capital commitments than would be required in deeper markets. It is no coincidence that during episodes of heightened volatility, liquidity tends to migrate back toward traditional lit markets, which continue to perform a “safe harbour” function.

**Preserving robust
and reliable price
discovery should
remain at the centre of
any future reforms.**

Looking forward, technological and market developments could further accentuate the trends described above. Extending trading hours and reducing settlement cycles beyond T+1, potentially toward atomic settlement enabled by tokenised assets, could generate important benefits. Investors operating world-wide would enjoy greater flexibility, while faster settlement could improve liquidity management and reduce counterparty risk. However, these innovations may also further dilute liquidity across venues and time periods, weakening trading concentration at any given moment.

In this context, assessing the overall impact of the Market Integration and Supervision Package (MISP) is not straightforward. Measures in the post-trading area, particularly stronger connections among central securities depositories (CSDs) and enhanced open-access arrangements, could better link liquidity pools across Europe and reduce post-trading costs.

The effects of trading-related initiatives are less predictable. The enhancement of the consolidated tape could improve visibility over European liquidity, enabling market participants to route orders more efficiently while potentially reducing market data costs. Furthermore, initiatives such as the Pan-European Market Operator (PEMO) may generate lower operating costs enhancing the competitiveness of pan-European platforms. But greater efficiency may not necessarily lead to greater liquidity concentration.

Similarly, current proposals concerning systematic internalisers are targeted and aimed at enhancing transparency on quotes for retail orders. At the same time, there is a noticeable absence of measures aimed at simplifying the increasingly complex waiver regime.

Against this backdrop, ESMA's Call for Evidence is particularly valuable, bringing evidence of trading data at EU level. Before designing more ambitious reforms of trading microstructure, policymakers require a clear picture of how liquidity is distributed and how different execution mechanisms interact.

More fundamentally, it may be time to reconsider the respective roles of the various execution venues within Europe's evolving market ecosystem. A simpler and more coherent framework could help ensure that innovation, competition and investor choice continue to flourish without undermining the effectiveness of the price formation process. **Preserving robust and reliable price discovery should remain at the centre of any future reforms** to European market structure.



BIRGIT PUCK

Managing Director of Securities
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Financial Market Authority

Key trends shaping the European equity market and their lessons

ESMA's Call for Evidence on the structure of European equity markets provides the first data-driven assessment based on transaction reporting data of how EU equity trading has evolved in recent years. Its central conclusion is reassuring: European equity markets continue to function well overall. The share of addressable liquidity has remained broadly stable (85-90% of trading volume over the period 2022-25) and on-book trading continues to account for most trading activity (75-80% over the period 2022-25). At the same time, the analysis highlights significant changes in the composition of liquidity that deserve continued attention from policymakers.

The most important development is the gradual shift away from lit continuous order-book trading towards other execution mechanisms, notably closing auctions, frequent batch auctions and systematic internalisers ("SIs"). This trend does not necessarily indicate a deterioration of market quality. Rather, this evolving market structure reflects how investors are using different mechanisms to achieve their respective and various goals, such as cost or speed of execution. However, the trend raises important questions regarding the adequate level of transparency for certain

types of execution venues, liquidity formation and the long-term resilience of price discovery.

A key lesson from ESMA's analysis is that market fragmentation should not be assessed solely by the number of venues or execution mechanisms. A large proportion of liquidity remains addressable and therefore accessible to market participants. Nevertheless, an increasing share of trading relies on prices generated elsewhere. Reference-price trading, benchmark transactions and parts of SI activity all depend directly or indirectly on prices established in lit continuous order-book trading and closing auctions. This highlights the continued importance of robust reference prices and effective price formation as public goods underpinning the entire market ecosystem.

The growing role of auctions is particularly significant. They have become a central component of European equity markets, reflecting investors' increasing demand for benchmark-based execution. Their importance is reinforced by the rapid growth of passive investment strategies and index-tracking funds, often requiring execution at official closing prices. Unlike some execution mechanisms that primarily rely on existing prices, closing auctions also contribute directly to price discovery by concentrating liquidity and generating widely accepted reference prices, but lead to thin liquidity during the day and higher operational risks (e.g. in case of an outage during the auction). Their expanding role therefore merits continued monitoring.

**Ensure innovation,
competition, market
integration for efficient
trading and a level
playing field.**

Several ongoing market developments are likely to reinforce these trends. The continued expansion of passive investing can be expected to increase demand for benchmark executions and auction liquidity. Extended trading hours may provide greater flexibility for global investors but could also disperse liquidity over longer trading periods, potentially affecting liquidity concentration during core market hours. Similarly, shorter settlement cycles should improve efficiency and reduce risk while further encouraging automation and innovation in execution models. The cumulative effects of these developments on transparency, liquidity

distribution and price formation require close observation.

Against this backdrop, the trading-related proposals under the Market Integration and Supervision Package (MISP), together with the implementation of the last MiFIR review, can contribute to more efficient and integrated EU capital markets. Their objective should not be to favour specific trading models, but rather to ensure a level playing field, improve transparency and strengthen market integration. Improvements in market data, reporting quality and supervisory visibility can help both regulators and market participants better assess market developments and allocate capital efficiently.

Importantly, ESMA's findings support a measured and evidence-based approach and provide a strong basis for future policy decisions. The analysis should be further developed by looking into price formation and better understanding the activities of SIs. The successful implementation of the consolidated tape, further improvements in trade transparency and in the tick-size regime and its application as well as a continued assessment of recent MiFIR reforms will contribute to strengthening capital markets in the Union.

Ultimately, the debate is not about favouring one venue or execution model over another. **It is about ensuring that innovation, competition and market integration continue to support efficient trading while preserving robust price formation and a level playing field for all market participants.** Maintaining that balance will be essential if the Savings and Investments Union is to achieve deeper, more integrated and globally competitive European capital markets.



NIKOLAJ KOSAKEWITSCH

President of European
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Strengthening EU market structure for competitive and integrated capital markets

European securities markets are evolving rapidly under the combined influence of technological innovation, new trading models and regulatory reform. While the MiFID framework has increased competition and investor choice, it has also contributed to a more fragmented trading landscape where liquidity is increasingly dispersed across trading venues, systematic internalisers and other bilateral execution channels. The challenge for policymakers is no longer simply to increase market activity, but to ensure European capital markets remain efficient in financing companies, allocating capital and supporting economic growth.

Competition among trading venues has delivered benefits, including lower execution costs and greater innovation. However, fragmentation can also reduce transparency and weaken the visibility of available liquidity. Public price discovery remains reliant on transparent multilateral trading venues where buyers and sellers interact to establish market prices. As a growing share of trading takes place through bilateral or less transparent mechanisms, there is a risk that fewer transactions contribute

directly to the price formation process. Over time, this can weaken transparency, reduce investor confidence and diminish the attractiveness of European public markets.

The implications extend beyond trading itself. Deep, liquid secondary markets are essential for vibrant primary markets. Companies are more likely to list when investors can benefit from efficient trading, transparent valuations and reliable liquidity. Strong secondary markets support capital raising, lower the cost of capital and improve access to long-term financing. As Europe seeks to strengthen competitiveness, finance innovation and encourage companies to scale within the Single Market, market structure quality becomes a strategic economic issue.

Several trends are expected to shape the next phase of market development. The move towards shorter settlement cycles, including T+1 settlement, should improve capital efficiency, reduce counterparty risk and enhance the competitiveness of European markets. Successful implementation will nevertheless require close coordination across trading, clearing and settlement infrastructures.

**EU competitiveness
will depend on its
ability to combine
innovation, integration
and transparency.**

Algorithmic trading is also likely to continue growing. Automated execution can improve liquidity provision, reduce transaction costs and accelerate the incorporation of information into prices. At the same time, it reinforces the need for resilient and transparent market structures capable of maintaining orderly price formation during periods of market stress. Similarly, the continued growth of passive investing increases the importance of transparent markets. As fewer investors engage directly in fundamental price discovery, maintaining deep and visible liquidity pools becomes even more important for the efficient functioning of capital markets.

Alongside these developments, digitalisation and tokenisation are opening new possibilities for European capital markets. Distributed ledger technology has the potential to improve issuance, trading and settlement processes, reduce operational costs and

support new forms of capital formation – including for new asset classes. Tokenised securities may also broaden investor access and increase market efficiency. To realise these benefits, innovation must develop within robust regulatory frameworks that preserve investor protection, legal certainty, transparency and market integrity. Tokenisation should strengthen market integration rather than create new forms of fragmentation.

Against this background, the Markets Integration and Supervision Package (MISP) is an opportunity to deepen the integration of European capital markets. Measures to centralise supervision, improve post-trade efficiency and support the digitalisation of financial markets are welcome. But the package should go further in strengthening transparent, lit trading by addressing structural imbalances that favour bilateral and opaque execution models. While Nasdaq supports the Consolidated Tape, any expansion of the framework should be evidence-based and carefully assessed. Reforms should maximise the public disclosure of transactions while safeguarding liquidity on transparent Union trading venues and preserving robust price formation. A pan-European consolidated pre-trade tape risks incentivising more internalisation and bilateral execution rather than displayed liquidity. This would increase information asymmetries, weaken market depth and reduce the attractiveness and competitiveness of EU capital markets, contrary to the objectives of the Savings & Investment Union (SIU).

Ultimately, EU competitiveness will depend on its ability to combine innovation, integration and transparency. Deep liquidity, effective price formation and modern market infrastructures are mutually reinforcing objectives. By pursuing reforms that strengthen these foundations, the EU can build more attractive, resilient and globally competitive capital markets.



NIELS BRAB

Chief of Staff/Head of
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Deutsche Börse Group

Switch on the light: A successful MISP depends on strong primary markets & IPOs

The European Union's global competitive standing and economic sovereignty are directly tied to the depth of its capital markets, yet its public markets are falling behind. Listed companies are the backbone of European growth and social cohesion – accounting for 60 million jobs (over 30% of EU employment) and contributing more than 50% of total corporate tax revenues.

Despite this vital role, less than 8% of global IPOs now occur in the EU, with European listings shrinking consistently – a trend that dangerously accelerates. Meanwhile, the US and Asia pull ahead: In 2025, US IPOs rose to 220 transactions – over 60% of which originated from abroad, including European innovators looking across the Atlantic to scale. This is not merely a financial metric – it represents a profound loss of corporate tax base, employment, and strategic leverage in an era of uncertain growth and intensifying systemic rivalry, underscored by the fact that no EU company ranks among the world's twelve trillion-euro giants.

Amid shifting geopolitical and macroeconomic realities, the negotiation

on the EU's Market Integration & Supervision Package (MISP) offers a critical opportunity to aggregate the true depth of European equity markets. This reform is desperately needed to correct the cumulative impact of two decades of MiFID-driven market structure regulation, which has fragmented European liquidity across more than 500 execution venues, leading to weak valuation realities by draining liquidity from primary markets, raising implicit societal costs, and degrading price formation.

A prime driver of this fragmentation is the Systematic Internalizer (SI) regime and associated dark trading. Though introduced primarily for large-in-scale trades, a 2022 AMF study exposed a stark regulatory paradox: Median trade sizes on SIs (€5,200 to €5,900) fell below those on regulated markets, with execution sizes declining further in recent years. By performing functionally equivalent execution services without equivalent rules – such as the tick-size regime – SIs bypass public markets and obscure true market depth.

**Reviving the EU's IPO
ecosystem is impossible
without fixing the
underlying equity
market framework.**

Next to the drastic implications for the EU's primary markets ecosystem, this regulatory imbalance also erodes public price formation and spirals into a damaging cycle where companies risk falling below index inclusion thresholds because the transparent liquidity which is used to measure eligibility is eroded. This drops their index eligibility, which in turn reduces passive investment, weakens free-float liquidity, and further undermines valuation. At the same time, listed companies lose visibility over where and how their shares are traded, limiting their ability to monitor their shareholder base and engage with investors. Maintaining deep and visible lit liquidity is therefore essential not only for market transparency, but also for preserving the attractiveness of EU capital markets and supporting listed company valuations.

At Deutsche Börse Group, we welcome the recent E6 (France, Germany, Italy, the Netherlands, Poland, Spain) consensus and the European Parliament's MISP Master Regulation Draft Report. We fully share the E6's rationale that migrating activity away from transparent

lit order books deteriorates pre-trade transparency and fuels informational asymmetries. As the E6 rightly concludes, the combination of fragmentation and declining transparency weakens the anchoring role traditionally played by transparent multilateral venues, ultimately eroding market efficiency and integrity. We therefore strongly support the E6's objective to enhance transparency in equity capital markets and to ensure a level playing field between banks and trading venues.

Ultimately, reviving the EU's IPO ecosystem is impossible without fixing the underlying equity market framework – prioritizing liquidity at transparent lit venues, enforcing a genuine level playing field, requiring SIs to disclose their operational rules, and reforming liquidity classifications to boost pre-trade transparency across European markets.

In light of the Irish Council Presidency's agenda focusing on competitiveness, values, and security, fundamental reforms under MISP should be guided by a single strategic objective: Strengthening public markets to secure the EU's international competitiveness, retaining vital liquidity, and safeguarding Europe's economic power and security. After all, tangible strategic autonomy cannot simply be decreed by policy papers – it must be funded by the very public markets we now have the historic opportunity to repair.

Plato once said, "we can easily forgive a child who is afraid of the dark; the real tragedy of life is when men are afraid of the light." Let's jointly work towards a credible reform agenda that switches on the light across secondary markets – fostering transparency, integrity, and a fair level playing field – but, most importantly, addressing the EU's most fundamental growth problem: a structural lack of IPOs.



NICK DUTTON

Chief Regulatory Officer
– Cboe Europe

Venue competition works - Europe's real fragmentation problem is in clearing

Competition between trading venues in Europe has done exactly what competition is meant to do: given investors more ways to achieve better outcomes. MISP's challenge is to build on Europe's recent market successes by reinforcing healthy venue diversity, while tackling the kind of fragmentation that genuinely damages liquidity, market efficiency and execution outcomes.

On trading, the evidence supports diversity. The EU market includes continuous limit order books, frequent batch auctions, closing auctions, large-in-scale venues and systematic internalisers, each meeting a different need: price certainty, reduced-impact price formation, close benchmark pricing, minimal impact for large patient orders, or bespoke capital commitment. Each serves a different part of the same investor's execution needs, while remaining regulated and post-trade transparent.

Within that range of alternatives, frequent batch auctions have been a recent success story because they deliver precisely what MiFID/MiFIR's architects intended. The framework sought to promote genuine, multilateral price formation while mitigating the risks created by the

growth of algorithmic, high-frequency trading; periodic auctions achieve both, on-venue and under full regulatory oversight. Cboe's own data bears this out: broker preferencing has fallen to a record low of 5.4%, down from 22.1% in 2021, and off-midpoint pricing has more than doubled over the same period, evidence of auctions forming prices, not merely referencing them. Venue competition is not producing fragmentation; it is producing investor choice, and brokers, discharging a legal duty of best execution, are using that choice exactly as intended.

That said, a discrepancy between on- and off-venue trading still limits choice: multilateral venues lack the explicit right to execute at the true midpoint that systematic internalisers gained under the 2024 MiFID review. That asymmetry, not venue diversity, is what quietly pushes liquidity off-exchange and offshore, and MISP should address this directly by granting venues that same right, rather than seeking to constrain venues that are already competing on transparent, regulated terms. It is worth remembering that previous attempts to force flow into a single model have consistently failed: the 2019 dark-trading caps, tightened again in 2025, did not increase limit order-book activity, instead pushing volume onto alternative platforms — roughly two-thirds of SI activity in EU shares now takes place outside the Union.

**Venue competition is not
producing fragmentation;
it is producing
investor choice.**

The genuine fragmentation problem sits in post-trade, not trading. Without mandated interoperability among large CCPs, firms trading across member states must maintain multiple clearing relationships to access what should be a single market. Open access provisions already exist in MiFIR but have not delivered on their own; voluntary interoperability leaves gaps, because incumbent CCPs have no commercial incentive to open access themselves. MISP should mandate interoperability among large CCPs as the default outcome, strengthening Articles 35 and 36 of MiFIR and reviewing Article 51 of EMIR so it does not frustrate them. That single change would do more for genuine market integration than anything else in MISP, far more than any adjustment to trading-venue rules.

On market data, one of MISP's proposed enhancements to the consolidated tape

in particular is overdue and necessary: venue attribution. Unattributed prices tell investors what happened but not where, undermining the transparency the tape exists to deliver. Scope should stay disciplined too; public SI quotes add noise without adding information and should be excluded. A properly designed tape, combined with clearer, simpler trade reporting that strips out non-price-forming technical trades, would give investors and issuers a genuinely trustworthy view of EU liquidity.

Taken together, these features of MISP can improve the functioning and competitiveness of EU securities markets, but only if negotiators avoid conflating two different problems. Venue competition in trading is delivering real benefits for investors and issuers and should be reinforced, not constrained, including through an explicit midpoint-execution right for multilateral venues. The fragmentation that actually damages EU capital markets sits in post-trade, where mandatory CCP interoperability is the single reform that would do the most good, and in the data landscape, where an attributed, appropriately scoped consolidated tape would finally give investors one trustworthy reference for EU liquidity. Deeper, more visible liquidity also makes EU listing venues more attractive to issuers. Get the distinction between diversity and fragmentation right, and MISP delivers exactly what it promises: a genuinely integrated market, more attractive to global capital and issuers alike than the sum of its national parts.



EMMA LOKKO

Head of Market Structure,
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International Group (SIG)

Strengthening liquidity provision in European securities markets

Deep and liquid securities markets underpin Europe's competitiveness by lowering the cost of capital, improving investment outcomes and supporting economic growth. As the EU advances the Savings and Investments Union, the challenge is no longer simply how trading should be organised, but how to sustain liquidity across European securities markets.

European securities markets have evolved significantly over the past decade. Trading is increasingly distributed across complementary execution mechanisms, reflecting changing investor needs, innovation and more sophisticated execution strategies. While today's debate often focuses on fragmentation and the balance between lit and non-lit trading and alternative execution models, the more important question is how Europe sustains deep, competitive and resilient liquidity.

The starting point is simple: liquidity follows investor demand. Markets work best when investors determine where liquidity is needed and liquidity providers compete to meet that demand. Regulation should support that competitive process rather than prescribe where trading should occur.

The central limit order book remains the foundation of European securities markets. It anchors transparent price formation and should remain the preferred execution mechanism wherever it can efficiently meet investors' needs. However, not every order can be executed efficiently in the lit market. Larger, benchmark-driven or information-sensitive trades require different execution solutions. The market has evolved to support complementary execution mechanisms that meet different execution needs. This is not liquidity migrating away from the lit market, but liquidity providers deploying capital differently in response to changing investor demand while continuing to support robust price formation through the lit market.

The policy objective should therefore not be to favour one execution mechanism over another, but to preserve competition so investors continue to choose the execution method that best meets their objectives. Complementary execution mechanisms should reinforce, not replace, the role of the lit market. Market quality should be judged by outcomes including spreads, market depth, resilience and execution quality rather than by trading volumes on any individual execution mechanism. Competition between execution mechanisms has driven innovation in execution quality, technology and investor choice.

**Regulation should
support that competitive
process rather than
prescribe where
trading should occur.**

This is particularly important in less liquid securities, where there is greater execution uncertainty, thinner markets and frequently higher transaction costs. Achieving those outcomes depends on maintaining a competitive liquidity ecosystem in which firms can deploy balance sheet capacity where it is most needed.

If investor demand determines where liquidity is needed, regulation determines the conditions under which liquidity is provided. Every regulatory proposal should therefore be assessed against one question: does it strengthen or weaken the market's capacity to support competitive liquidity provision

and deliver better outcomes for investors?

Effective transparency is central to that framework. High-quality pre- and post-trade transparency supports robust price formation and investor confidence while promoting competition between liquidity providers. Future reforms should focus on improving market data and be grounded in better evidence, with the Consolidated Tape providing a more comprehensive picture of addressable liquidity and trading activity across European securities markets.

The same principle applies beyond execution. While competition between execution mechanisms has strengthened European securities markets, there remains scope to improve the efficiency of the post-trade chain. The EU Market Integration Package (MISP) provides an opportunity to reduce unnecessary operational friction and create a more efficient clearing and settlement landscape. The Banking Competitiveness Review also offers an opportunity to ensure prudential requirements remain proportionate to firms' business models and risk profiles, so that regulation continues to support competitive and resilient securities markets without unnecessarily constraining liquidity provision.

The debate on market structure should ultimately be about more than where trading takes place. It should be about ensuring investors receive the best possible execution outcomes, promoting effective competition in liquidity provision and strengthening the competitiveness of European securities markets. Strong lit markets, complementary execution mechanisms, effective transparency, efficient post-trade infrastructure and proportionate prudential regulation are all essential to that objective. If Europe gets that balance right, it will strengthen liquidity provision, reinforce investor confidence and enhance the long-term competitiveness of its capital markets.

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**THOMAS
VLASSOPOULOS**

Director General, DG Market
Infrastructure & Payments –
European Central Bank (ECB)

Completing the journey towards European capital markets integration

Europe often underestimates one of its greatest integration successes. TARGET2-Securities (T2S) has quietly achieved something remarkable: fully integrating central bank money settlement with securities settlement on a common platform in a harmonised way. Few European integration projects have delivered such tangible results.

Even though T2S covers only settlement (but not asset servicing, i.e. processing of corporate events and tax), the expectation by most stakeholders around the go-live of the platform (2015) was that the common settlement platform would induce strong harmonisation across all post-trade services.

T2S created a single settlement platform with common rules and processes for participating CSDs. It harmonised business hours, calendars, messaging, settlement instructions, liquidity

management and settlement finality. It also allows CSD participants to connect directly to the platform while keeping their relationship with their CSD. As a result, firms active in several T2S markets can use one set of settlement procedures instead of adapting to different national practices.

Despite the remarkable achievements of T2S, we should be clear-eyed about the fact that while settlement fragmentation has been addressed to a significant extent, post-trade market fragmentation has not. The use of the common platform has not induced sufficient alignment of practices and rules on asset servicing across European markets. While settlement has become increasingly integrated, many of the barriers that prevent capital from flowing seamlessly across Europe remain firmly in place. Market participants continue to navigate different custody models, divergent asset servicing practices, fragmented tax procedures and varying legal frameworks. The result is a European post-trade landscape that remains far more national than European.

This fragmentation comes at a cost. Investors face unnecessary complexity and higher operating expenses. Issuers struggle to access a truly European investor base. Liquidity remains dispersed across markets rather than pooling at scale. Ultimately, Europe pays the price through less efficient capital allocation and shallower capital markets.

The European Commission's Market Integration and Supervision Package (MISP) published in December 2025, is a welcome and necessary step towards removing the remaining barriers to a Single European Securities Area. By mandating CSD links in a hub-and-spokes model leveraging T2S, MISP aims to achieve full connectivity between EU CSDs. This should support cross-border settlement and holding of securities, ensuring that all EU securities can be settled and held across all CSDs. In turn, this would strengthen competition between CSDs and reduce costs for market participants.

Measures to improve CSD connectivity in settlement should, however, be accompanied by action to remove the legal and tax-related fragmentation in asset servicing that continues to limit the use of CSD links and hold back post-trade integration. Although legal harmonisation is ultimately in the remit

of EU lawmakers, market participants also have an important role to play by aligning legacy national market practices, notably in the processing of corporate events, based on the AML-SeCo's SCoRE Rulebook. Member States can also contribute by adopting common tax processing practices, including through a consistent implementation of the FASTER Directive without opt-outs.

Moreover, T2S itself must continue to evolve. The T2S pricing structure needs a thorough review to identify opportunities for simplification. The T2S governance for change management should be made leaner and more efficient. The platform should also support more efficient and automated interaction with non-T2S markets and contribute to harmonised reference data management.

**We must avoid replacing
yesterday's national
silos with tomorrow's
technological silos.**

Finally, evolution must also mean embracing opportunities offered by technology, such as tokenisation. The baseline expectation is that there will be an extended period of time during which securities will exist both in tokenised form and on traditional infrastructures. We must avoid replacing yesterday's national silos with tomorrow's technological silos. We need to enable a seamless interaction between the different forms in which securities are held, whether it is a position on a securities account or a token in a distributed ledger.

EU legislative efforts and T2S have brought European capital markets much closer to integration but this task remains unfinished. Completing this journey now requires renewed commitment from public and private stakeholders alike — to deepen harmonisation, remove remaining barriers and bring a truly single and deep Savings and Investments Union within reach.



GIUSEPPE GRANDE

Head of the Market and
Payment Systems Oversight
Directorate – Banca d'Italia

The MISP and the integration of post-trading in the EU: strengths and challenges

The post-trading measures proposed in the MISP could significantly advance the integration of European securities settlement markets. Their main strength lies less in any single reform than in the combination of measures aimed at reducing operational fragmentation, facilitating cross-border access and promoting convergence across market infrastructures.

Four elements are particularly important: requiring all EU CSDs to connect to T2S, introducing a mandatory inter-CSD hub-and-spoke connectivity model, strengthening open-access provisions and reinforcing the EU supervisory framework. The package also creates a more supportive environment for DLT-based solutions, enabling innovation when justified by market demand. Taken together, these measures seek to combine greater legal and operational convergence with broader access, while preserving competition and allowing market-driven consolidation, subject to appropriate supervisory and risk-management safeguards.

At the same time, the MISP alone is unlikely to remove all barriers to an integrated European settlement market.

Regarding open access, the proposed reforms are a clear improvement, particularly through ESMA's enhanced role in assessing access refusals, but some legal uncertainty remains. Further harmonization is needed in key areas, including the definition of access requests and refusals, access conditions, risk-assessment criteria and responsibilities for determining the place for settlement. Legal certainty would also benefit from consolidating the various access provisions that are currently scattered across different legislative acts into a single framework.

The outsourcing regime could also be improved to ensure a more proportionate treatment of intragroup arrangements and to facilitate efficient market-driven consolidation while preserving adequate supervisory oversight. Greater clarity is needed as to which arrangements require prior approval and which should only be subject to notification. Procedural timelines should be clarified, ESMA could play a stronger coordination role while preserving meaningful NCA involvement, and a presumption of compliance could be introduced for certain requirements.

The supervisory framework raises broader institutional issues. Strengthening ESMA's role is an important step towards a genuine Capital Markets Union, but supervisory integration cannot be considered separately from crisis management and fiscal responsibility, especially in relation to government bond markets. Financial market infrastructures are critical for sovereign debt markets and for the financing of strategically important sectors. Their disruption could have significant fiscal and economic consequences at the national level, including higher sovereign funding costs and disruptions to critical public functions, thereby justifying a meaningful supervisory role for NCAs. At the same time, if supervisory responsibilities become more integrated, credible arrangements for the management of financial distress and appropriate burden-sharing mechanisms should accompany that process.

As recommended by the European Commission, the Eurosystem and market participants should further advance the harmonization of securities-settlement and asset-servicing standards. In addition, a mandatory connection to T2S does not necessarily imply its mandatory use. One way to expand the platform's role would be to increase the number of

currencies supported, an option strongly encouraged by the Eurosystem.

Concerning DLT and other new technologies, widespread adoption requires maintaining trust, which makes the choice of settlement asset crucial. Preserving the two-tier monetary system, with central bank money as the ultimate settlement asset, remains essential. The Eurosystem's Pontes and Appia initiatives can provide an important impetus in this direction.

**The MISP is a major step
forward, but deeper
integration requires
broader reforms.**

Finally, some of the main obstacles to market integration lie outside market-infrastructure legislation. The lack of a genuinely risk-free European asset continues to fragment collateral pools and settlement activity, while the differences in insolvency, corporate and securities laws raise the costs of cross-border investment. In this context, the proposed 28th regime could complement the MISP by providing a voluntary EU-wide legal framework alongside national regimes. This could reduce legal fragmentation and facilitate cross-border issuance and investment without requiring full harmonization of national laws. Its effectiveness will, however, depend on its design. Excessive reliance on national laws and courts could limit its benefits, as could a narrow focus on innovative start-ups and scale-ups. Ultimately, neither the MISP nor the 28th regime is sufficient on its own, but together they could form a meaningful step towards a more integrated and competitive European post-trading landscape.



HAROUN BOUCHETA

Global Head of Public and Regulatory Affairs, Securities Services – BNP Paribas

Post-trade integration for Europe's next market cycle

European post-trade markets are entering a decisive phase. The debate is no longer only about making settlement safer or more efficient; it is about whether the EU can build a market structure able to support scale, innovation and investor access while preserving genuine competition across the value chain.

The Market Integration and Supervision Package (MISP) is therefore timely. It can help reduce fragmentation and improve interconnections between infrastructures, but only if integration is pursued with a clear compass: proportionality, user choice - for both CCP clearing members and CSD participants - and a level playing field.

First, internalised settlement should be assessed for what it is: a custody service provided to clients when two clients' assets are held within the same omnibus account and they have agreed to settle in that way. It is not a substitute for the core settlement function of central securities depositories (CSDs). The current reporting framework already gives national competent authorities full visibility over settlement internalisers. Improvements may be

useful, for example to ensure that CSD reporting captures all triparty collateral management activities consistently with settlement internalisers' reporting.

Transparency should follow the same logic. Relevant information is already disclosed to clients. Public disclosure of prices and fees by custodians could create complexity and competition concerns without clear benefits. A like-for-like comparison between CSDs and custodians is inappropriate: CSDs' core services are public infrastructure functions, while internalised settlement is ancillary to custody. Regulation should avoid treating different activities as if they were the same.

Second, stronger interconnections between CSDs can be positive if they increase competition and improve cross-border access. Hub-and-spoke CSD models, links and enhanced access arrangements could help overcome national silos. Yet this must not result in disproportionate costs being passed on to participants and, ultimately, investors. Integration should not simply shift complexity from infrastructures to intermediaries. It should simplify the operating model end-to-end and ultimately deliver cost benefits, over the medium term if not in the short term.

Europe must build post-trade markets that can evolve faster – not just settle faster.

Third, the boundary between CSD core services and ancillary services matters. Where CSDs provide services beyond their core public infrastructure role, they may compete directly with other financial market participants, including global custodians. A competitive EU market requires all providers of comparable ancillary services to operate at arm's length, under conditions that preserve neutrality and a level playing field. Regulation should apply equivalent requirements to equivalent services.

The next wave of change will come from both the trading and post-trade sides.

Europe is preparing for T+1, but the structural question is already what comes after: end-of-day T+0 for certain instruments, and potentially atomic settlement for some digital or highly standardised market segments. This evolution would further compress post-trade timelines and operations, and would also significantly affect key areas

such as funding, inventory, securities lending and FX. In other words, it will require greater automation, earlier allocation and confirmation, richer data and more resilient intraday liquidity tools.

Extended trading hours will add another dimension. If 24/5 or near-24-hour trading expands in major markets, Europe cannot wait to react. Overnight trading may support investor access, but it also raises concerns: thinner liquidity, higher price volatility, fragmented order books and wider bid-ask spreads. Post-trade systems would need to process transactions across time zones, currencies and liquidity windows, while maintaining settlement discipline and operational resilience.

Policy responses should therefore be practical. The MISP should foster interoperability and connectivity but not impose infrastructure-style obligations on custodians where it would add costs without clear added value. It should support CSD links where they are justified and proportionate. It should ensure fair competition when infrastructures provide ancillary services. And it should help the industry prepare for shorter settlement cycles and extended trading hours without undermining risk management.

The objective should be a European post-trade framework that is more connected but not more rigid; more transparent but not less competitive; more innovative but not less safe. Integration will succeed if it gives users more choice, reduces duplications and enables market participants to adapt to the next cycle of market structure change.

Europe's challenge is not only to settle faster and more efficiently, but also to build a post-trade ecosystem that can evolve faster.



MICHALIS SOTIROPOULOS

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Post-trade evolution, a catalyst for efficient and competitive EU markets

European capital markets are entering a defining period of transformation. As policymakers pursue deeper market integration, market participants prepare for T+1 settlement and digital asset initiatives gain momentum, the post-trade ecosystem is becoming a central enabler of Europe's competitiveness. Integration, evolution and openness will shape the success of these reforms and the future of European capital markets.

Let's start with integration. In order to pave the way for capital markets integration, the European Commission has put forward the Savings and Investment Union strategy (SIU). The jewel in the crown of this strategy is the Market Integration and Supervision Package (MISP), which aims to reduce fragmentation through greater supervisory convergence and deeper market integration. In a way, MISP taken together with a plethora of other proposals could increase scale and reduce complexity. If the EU delivers on these objectives, it will also achieve further standardisation and modernisation of post-trade processes.

In parallel, a tangible example of this evolution is Europe's move to T+1, scheduled for October 2027. The EU, UK and Switzerland have agreed on a common transition plan. Europe must deliver T+1 across a fragmented landscape of multiple jurisdictions, custodian banks, FMIs and legal frameworks. This complexity reinforces the need for harmonisation and standardisation across the post-trade ecosystem.

T+1 represents a once in a generation opportunity to redesign post trade workflows and enhance the efficiency and resilience of European markets through automated processes. Compressed timelines increase the importance of same-day processing, high-quality data and post trade connectivity. A critical indicator of readiness is the ability of market participants to agree the details of a transaction on the day it is executed. Reflecting this, the industry roadmaps call for same-day allocations and confirmations from December 2026. The regulatory framework is also evolving to facilitate the transition to T+1, with ESMA proposing amendments to its rulebook that are aligned with the recommendations of the Industry Committee. Meeting these requirements will necessitate greater automation through central matching platforms and more standardised management of non-economic reference data, particularly SSIs, helping reduce settlement fails, improve efficiency and support greater operational resilience.

The forces reshaping post-trade infrastructure are not limited to Europe.

For us in Europe, this transition is a strategic shift, an opportunity to optimise end-to-end post-trade workflows and strengthen connectivity across the settlement ecosystem. Greater integration between trade matching, settlement instruction and related processes can reduce operational friction and support a more efficient settlement environment. Through that lens, the MISP and T+1 can work synergistically, reinforcing efforts to reduce fragmentation while promoting greater efficiency and standardisation across European markets.

The forces reshaping post-trade infrastructure are not limited to Europe. Globally, market infrastructures are adapting to evolving trading models, changing investor expectations and increasingly interconnected markets. Growing demand for extended trading

hours in the U.S. have led us at DTCC to implement 24x5 clearing hours for our equity CCP (NSCC) to support overnight trading activity while maintaining robust risk management and market stability.

Turning to openness: the financial industry is entering the era of tokenisation, with authorities and firms actively exploring the benefits and limits of tokenised assets and processes. The review of the DLT Pilot Regime and proposed reform of settlement finality both point to the emergence of a more permanent framework that preserves legal certainty, finality, collateral protection and insolvency safeguards, while enabling broader participation, deeper liquidity and asset mobility. The EU frameworks are evolving but must remain open if EU capital markets are to remain globally attractive. Many of the capabilities required for successful tokenisation, including automation, interoperability, common standards and high-quality data, are the same foundations firms are building today to support T+1 settlement.

From shorter settlement cycles and evolving trading modalities to tokenised assets, the post-trade landscape continues to evolve, requiring greater automation, connectivity, openness and resilience. Investments made today to support T+1 can therefore help build the foundations for tokenisation and further post-trade modernisation. In doing so, they can contribute to the objectives of the SIU, helping to reduce fragmentation, while strengthening the competitiveness of European capital markets. Ensuring these evolving frameworks remain open will help global markets continue providing European corporates with efficient access to financing, supporting long-term competitiveness.



CECILE NAGEL

Global Head of Corporate
Trust – BNY

Europe's capital markets moment: integration, innovation and the need to act

Europe has debated capital markets fragmentation for decades. The diagnosis is familiar: too many national rules, operational frictions and insufficient scale across what should be a single market for capital. What has changed is the urgency. Europe needs to finance growth, innovation, defence, the energy transition and digital transformation amid geopolitical competition. In that context, capital markets integration is no longer a technical project but a strategic necessity.

MISP as a practical starting point

The Commission's Market Integration and Supervision Package is an important step. It recognises that Europe will not unlock the full potential of its savings and investment base unless capital can move more efficiently, safely and predictably across borders. The package can help reduce barriers that still make cross-border activity too complex, including through practical measures linked to clearing, settlement, market infrastructure access and, where appropriate, targeted examples such as a depositary passport.

However, the package should be seen as a starting point, not the end state.

Europe's challenge is not only to simplify today's market structure, but to build the market architecture of the future. That means asking whether Europe can create the conditions for a truly integrated, competitive and innovative capital market at scale.

Where integration becomes real: post-trade and market infrastructure

Post-trade reform is central to that ambition. Fragmentation in settlement, custody, asset servicing, investor rights, collateral and tax processes may sound technical, but its impact is real. It increases cost, reduces efficiency, limits competition and makes it harder for savers, issuers and investors to benefit from the scale of the European market. A single market for capital cannot be built if the systems connecting issuers and investors remain fragmented along national lines.

The depositary passport is one example of the kind of targeted reform that could reduce complexity and friction. Allowing funds to appoint qualified providers across Member States could support competition, resilience and choice, while reducing barriers to cross-border fund activity. Alongside, the EU needs enhanced links between market infrastructures, more consistent settlement arrangements and reforms that support clearing, collateral mobility and digital market rails.

**The MISP is a valuable
step, but Europe now
needs to focus on
getting things done.**

Digital innovation can accelerate integration

Europe should not stop at fixing legacy frictions. Innovation creates an opportunity to rethink how markets operate. New digital instruments, tokenisation and digital market rails could support greater automation, interoperability and transparency across the investment lifecycle. If designed well, they could help Europe address fragmentation rather than reproduce it in digital form. The objective should be clear: innovation must strengthen the single market, not create disconnected national or platform-based systems.

The way forward

The proposed 28th regime could be part of that answer. By creating an optional common framework alongside

national regimes, Europe can reduce legal complexity without requiring immediate full harmonisation in every Member State. Used intelligently, such an approach could provide a practical bridge between political reality and market need, enabling cross-border issuance, supporting innovative companies and making it easier to build scalable European market solutions.

There are further important shortcomings: Collateral mobility remains too constrained across the Union, despite its importance for clearing, liquidity and market resilience. Investor rights, securities registration and corporate action processes remain too dependent on national practices. Tax processing continues to create friction. These issues may not always dominate the headlines, but they determine whether Europe's capital markets can function as one market.

The Eurosystem's AMI-SeCo work is useful in identifying remaining post-trade barriers, and the priority should now be on delivery. Europe does not need another abstract debate about fragmentation. It needs a practical agenda that combines market access, legal certainty, digital innovation, collateral mobility, investor rights and tax simplification.

The wider global context makes this a now-or-never moment. Other jurisdictions, including the United States and leading Asian markets, are moving quickly to modernise market infrastructure, support digital assets and attract capital. Europe has the savings, regulatory depth and political ambition to compete. What it needs now is the execution.

The conclusion is straightforward. **The MISP is a valuable step, but Europe now needs to focus on getting things done.** A more integrated capital market would help mobilise European savings, finance strategic priorities and strengthen competitiveness. The task now is to move beyond debate and incremental reform, and deliver the practical changes needed to build the capital markets Europe needs for the decade ahead.

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DIGITAL INNOVATION IN POST-TRADING



DIRK SCHRADER

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DLT in EU post-trading: balancing innovation, interoperability and stability

DLT and tokenisation offer the potential to create transformative innovation for financial markets and the infrastructures that support them. Atomic settlement and the use of smart contracts are among the most innovative features facilitated by DLT and tokenisation. Such innovation would be especially welcome to increase the integration and efficiency of the unique European post-trading landscape, which is, to a significant degree, still shaped by historically grown national infrastructures. However, the EU post-trading system is complex and thoroughly regulated as it plays a crucial role for European financial stability and the implementation of monetary policy by the Eurosystem.

This means that even though innovation is of utmost importance, other key aspects have to be considered as well. For instance, there is a certain risk that only a part of the market adopts a specific

DLT solution, thus creating a “walled garden”, which is not desirable from an industry and a regulatory perspective. Moreover, the safety and stability of financial markets in the EU, including the vital post-trading segment, have to be guaranteed at all times. That is why there is public oversight and supervision of crucial financial market infrastructures.

In general, the introduction of potentially transformative technologies in financial markets is characterised by a tension between three objectives: innovation, interoperability and stability. This also holds for DLT and tokenisation. First, too much or rather too rapid innovation combined with interoperability, but without stability, could lead to financial instabilities. Second, innovation and stability – ensured by supervision and oversight – but without interoperability, could create a new kind of fragmentation in EU post-trading. And finally, interoperability and stability without innovation would cause technological stagnation, an outcome desired neither by market participants nor by regulators. In short: introducing DLT into EU post-trading requires balancing innovation, interoperability and stability.

In 2023, the EU introduced the DLT Pilot Regime to provide a regulatory sandbox for experimentation with DLT-based financial market infrastructures. Market interest in DLT and tokenisation has increased significantly since then. To enable the further development of DLT in European trading and post-trading, the European Commission has proposed significant changes to the DLT Pilot Regime in the context of the Market Integration and Supervision Package (MISP). As part of this package, the scope of eligible financial instruments is expanded substantially. The maximum aggregate market value of tokenised securities allowed on a single DLT platform is increased up to €100 billion. Asset-specific caps are removed as well. The time limit on licenses is removed, shifting the DLT trading and settlement framework from a temporary experiment into a permanent regulatory environment. New participant categories, such as crypto-asset service providers (CASPs), are allowed too. Moreover, the MISP seeks changes to the CSDR that would allow incumbent providers to use DLT in their market infrastructures.

All these measures are sensible and should be implemented as soon as

possible – without compromising safety. In addition, the Eurosystem will work on the full eligibility of tokenised securities for use as collateral. Europe needs to act quickly to keep up with developments in other parts of the world. These reforms will facilitate profound innovation in EU post-trading. At the same time, the MISP explicitly calls on entities active in the EU post-trading value chain to form an industry group and develop industry standards that support interoperability between DLT market infrastructures. This shows that innovation and interoperability have to go hand in hand.

Introducing DLT into EU post-trading requires balancing innovation, interoperability and stability.

Finally, the third crucial objective is stability. To safeguard the long-term stability of a future EU post-trading ecosystem that operates on DLT, it is necessary for the Eurosystem to enable the settlement of transactions in central bank money. The MISP allows transactions to be settled using commercial bank money and regulated e-money tokens, which makes sense for certain use cases. However, only settlement in central bank money is always highly secure and liquid. That is why the Eurosystem is pursuing a dual-track strategy to allow wholesale financial transactions on DLT platforms to be settled in central bank money. Pontes will create a short-term interoperability solution that acts as a bridge between private market DLT platforms and the Eurosystem's existing TARGET Services. Under the more long-term Appia initiative, the public and private sector will cooperate to build an innovative and integrated tokenised wholesale financial ecosystem. Such a public-private partnership is the best way to balance innovation, interoperability and stability in order to unlock the potentially transformative benefits of DLT and tokenisation for EU post-trading.



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European Securities and
Markets Authority (ESMA)

MISP, tokenisation and the future of European post- trade integration

Europe's post-trade landscape is at a decisive moment. The Market Integration and Supervision Package (MISP) could result in significant progress in post-trade integration. At the same time, distributed ledger technology, tokenisation and artificial intelligence are moving from experimentation to practical use. The challenge is to ensure that these developments reinforce one another, creating a more integrated, efficient and competitive European post-trade ecosystem without introducing new fragmentation, complexity or risk.

For MISP to succeed, it must focus on removing real barriers to cross-border activity. It should simplify market access, improve transparency and strengthen the connectivity of European infrastructures. Its success will be judged by whether market participants face less operational friction, manage clearing, settlement and collateral more efficiently, and operate more seamlessly across borders.

Technology can help deliver this. Tokenisation may reshape how ownership is recorded, collateral is mobilised, transactions are settled and post-trade processes are automated. Shared ledgers

could reduce reconciliation, accelerate transfers and support more efficient collateral management. AI can add value by improving data processing, risk monitoring, reconciliation and operational workflows.

But innovation also changes the supervisory challenges. Tokenisation does not remove risk; it changes how risk arises and spreads. The key question is not whether an activity uses DLT or another technology, but whether it performs functions equivalent to financial market infrastructures. Where tokenised arrangements perform infrastructure-like functions, they should meet infrastructure-like supervisory expectations.

Central counterparties, central securities depositories and other infrastructures depend on legal certainty, settlement finality, sound risk management and operational resilience. These foundations are even more important when critical processes are automated or distributed across multiple technology providers.

Tokenised collateral is a prime example for this. Collateral underpins margining, settlement, liquidity management and default procedures. Before tokenised assets can be used at scale, market participants and supervisors must be confident that transfers are legally enforceable, ownership rights are clear, segregation is robust, and collateral can be mobilised or quickly liquidated under stress. Custody, key management, insolvency treatment and legal finality are not technical details; they are conditions for trust.

**MISP and tokenisation
can advance integration
if innovation is resilient
and well-supervised.**

Operational resilience is equally essential. Smart contracts and automated workflows may reduce manual errors, but they can also amplify failures if weaknesses are embedded in code or governance is poor. Processes that move collateral, liquidity or settlement assets need strong governance, independent review, testing and disciplined change management. Institutions must also be able to intervene when necessary, especially during disruption or market stress.

The regulatory framework is moving in the right direction. The DLT Pilot Regime has provided useful experience, but experimentation alone will not

support tokenisation at scale. MISP is an opportunity to bring tokenisation into mainstream European market infrastructure regulation. Scalable tokenised markets will also require reliable settlement in tokenised forms of cash and effective interoperability between infrastructures.

Important obstacles remain. Technology alone cannot solve legal fragmentation. Ownership, settlement finality, conflict of laws, insolvency treatment and interoperability remain significant barriers. The transition will also be complex, as tokenised and conventional infrastructures are likely to coexist for years. Supervisors must therefore focus not only on new technologies, but also on migration risks and the interfaces between traditional and new systems.

The goal should not be innovation for its own sake, nor the reproduction of today's fragmentation in digital form. Innovation should serve the long-standing objectives of European post-trade integration: safer markets, greater efficiency and deeper cross-border capital flows. This requires a technology-neutral but risk-sensitive approach. Innovation should scale where it is legally certain, operationally resilient, well governed and subject to appropriate risk-sensitive supervision.

If these conditions are met, MISP, together with tokenisation, DLT and AI, can support the next phase of European post-trade integration and help build a more efficient, resilient and competitive Capital Markets Union.



SIMON MORLEY

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Building the next generation of digital market infrastructure

The UK is home to some of the world's most important capital markets and trusted institutions; this presents an opportunity not simply to harness innovative technologies, such as distributed ledger technology (DLT), but to help shape their use globally.

This is not just a choice between the old and the new. As money and assets become increasingly tokenised through technologies like DLT, we can build on and transform globally connected infrastructures, allowing digitally enabled and conventional markets to coexist and interoperate.

The rapid advancement in tokenisation presents an opportunity to reduce reconciliation, automate asset servicing, improve data gathering capabilities and move collateral and liquidity more efficiently. In these areas, the market is moving beyond experimentation and proof of concept towards implementation. Through the joint Bank of England and Financial Conduct Authority Digital Securities Sandbox (DSS), firms are exploring tokenisation under a modified regulatory regime and in a live environment.

The UK government is also helping drive this transition. Recognising

the deep interconnections between government debt and the wider financial system, the Government's Digital Gilt Instrument (DIGIT) pilot is intended to be the first tokenised sovereign issuance by a G7 country. As a natively issued digital asset, DIGIT will allow us to explore the use of DLT across the lifecycle of government debt, while helping to galvanise investment and broader market adoption. Issued through the DSS, it could provide a trusted benchmark for issuance, trading, and settlement, with potential future applications as collateral. Over time, secondary market activity and connections to other infrastructures may support a wider digital market ecosystem.

Our work with the FCA is also seeking to provide greater clarity. Our joint Call for Input set out a shared vision for tokenised wholesale markets and invited industry to help shape the route towards scale.

Alongside this, Christopher Woolard's interim report as Wholesale Digital Markets Champion provides a practical route towards adoption at scale. Industry action groups will focus on markets, tokenised collateral, the cash leg, legal and tax questions, financial crime and operational resilience. An orchestration group will aim to bring these strands together through an end-to-end tokenised repo use case. We hope this collaboration will identify practical barriers and give firms greater confidence to invest and move beyond pilots.

Settlement assets will be central to how this develops. In sterling wholesale markets, central bank money remains the anchor as the ultimate risk-free settlement asset. The Bank's renewed RTGS service provides a modern platform for connectivity. We plan to introduce synchronisation functionality so transactions on distributed ledgers can settle in sterling central bank money. We are also consulting on steps towards near-24/7 settlement, which could widen the window for transactions and collateral movements. The DSS can help us understand where tokenised commercial-bank deposits or regulated stablecoins could complement this offering.

Interoperability will be critical to creating a genuine ecosystem. Tokenised and conventional infrastructures will need common data, messaging, and connectivity standards, while new DLT platforms will need to interact with existing trading, clearing, custody and settlement systems. Done well, this

can support competition without creating isolated pools of liquidity.

International harmonisation will also be important. Securities markets are global, while legal regimes, settlement models and technical standards are often national or regional. Not every jurisdiction needs an identical model. What matters is compatibility: common principles, interoperable standards, and cooperation between authorities. By designing our domestic reforms with cross-border use in mind, we can help shape emerging global practice.

**Building trusted,
interoperable digital
markets through
innovation and delivery.**

From a regulatory perspective, the Bank's primary objective is to protect and enhance financial stability. That has not changed. But, as this article highlights, the environment in which we pursue that objective is evolving rapidly as new technologies, firms, and market structures reshape wholesale and retail financial infrastructure. In the UK, the legislative framework has evolved to reflect that. Under the Financial Services and Markets Act 2023, the Bank now has a secondary objective to facilitate innovation in FMI services, particularly in relation to CCPs and CSDs. That formalises something that had already been developing in practice: an understanding that innovation, done well, can strengthen the resilience and efficiency of the financial system, and support broader economic growth.

We therefore have good reason to be confident. By putting in place the infrastructure and live use cases needed for innovation, and combining ambition with practical delivery, we can help build a connected, resilient, and scalable digital market.



AXEL WEBER

Chairman, Board of
Directors – Raisin GmbH

How can new technologies improve post-trading in European capital markets?

European post-trading infrastructure is among the world's safest and most resilient, but it remains operationally fragmented. Trading, clearing, settlement, custody and collateral management are performed by multiple institutions operating across different jurisdictions and technology platforms. While this market structure has evolved successfully over several decades, it generates significant operational complexity through duplicated processes, multiple reconciliations, fragmented collateral pools and extensive messaging between intermediaries. New technologies—including distributed ledger technology (DLT), tokenisation, smart contracts, artificial intelligence (AI) and, where appropriate, decentralised finance (DeFi) concepts—offer the opportunity to modernise these operational processes without fundamentally changing the existing market structure or the roles of regulated market participants.

The main opportunity lies in simplifying post-trade processing. Today, transactions pass through several intermediaries, each maintaining separate records and exchanging settlement instructions. DLT and tokenisation can provide a shared digital representation of securities and transactions, reduce reconciliation and

improve data consistency. Smart contracts can automate settlement instructions, coupon payments, corporate actions and other lifecycle events, reducing manual intervention, operational risk and settlement delays. Tokenisation enables programmable settlement through atomic Delivery-versus-Payment (DvP) by transferring securities and cash simultaneously. This reduces settlement risk and shortens settlement cycles. Digital securities can also improve collateral mobility by automating collateral transfers, substitutions and eligibility checks. This supports more efficient collateral use, stronger liquidity management and improved capital efficiency. AI can enhance post-trade operations by optimising settlement, reconciliation, collateral allocation, exception management and operational monitoring. Rather than replacing existing market functions, AI can automate routine processes and improve decision-making across market infrastructures.

Successful deployment requires several important conditions. Interoperability is essential to ensure digital platforms connect seamlessly with existing trading venues, CCPs, CSDs, custodians and payment infrastructures using common standards. Access to appropriate settlement assets is necessary to enable efficient tokenised settlement, whether through central bank money or appropriately regulated digital settlement assets. Legal certainty must provide clear recognition of digital securities, ownership rights, settlement finality and smart contract execution across jurisdictions. Governance and operational resilience are equally important. Future infrastructures should remain market-neutral, secure, scalable and subject to appropriate regulatory oversight. Finally, market adoption will require broad participation by issuers, investors and market infrastructures, with conventional and tokenised securities likely to coexist during a lengthy transition period.

**DLT, tokenisation, AI
and related technologies
will modernise the
operational market
infrastructure.**

Industry-led solutions can play an important role in accelerating innovation by developing interoperable technology platforms that complement existing financial market infrastructures. Rather than replacing established institutions, such solutions can provide shared digital

capabilities including tokenisation services, programmable settlement, common connectivity, collateral optimisation, digital identity management and automated operational workflows.

A particularly promising model is the development of a common horizontal interoperability layer connecting existing trading venues, clearing houses, CSDs and custodians. Such a layer could standardise connectivity, support tokenised securities and settlement assets, enable AI-assisted operational optimisation and reduce duplicated post-trade processing across Europe. This approach preserves the existing institutional landscape while significantly improving operational efficiency, transparency and interoperability.

Overall, the greatest opportunity presented by DLT, tokenisation, AI and related technologies is not the replacement of current market structures but the modernisation of the operational infrastructure that supports them. By reducing reconciliation, automating manual processes, improving collateral mobility and enabling programmable settlement, these technologies have the potential to strengthen the efficiency, resilience and integration of European post-trading while supporting broader objectives such as the Capital Markets Union.



ISABELLE DELORME

Head of Product Strategy &
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Tokenisation: building safer, more efficient and more connected capital markets

Tokenisation and DLT are often presented as major technological innovations for capital markets. Their real significance lies in what they can help build: deeper, more integrated and more competitive European capital markets connected to a global investor base.

Euroclear's purpose is to innovate to make financial markets safer, more efficient and connected. Tokenisation must be assessed against that objective. The ultimate test is not the technological sophistication but whether additional value is created for issuers and investors. We think that DLT can help, but cannot by itself solve fragmented rules on ownership, insolvency or tax.

The potential impact of tokenisation on post-trade is significant.

DLT-based models can enable fully automated, data rich processes which eliminate reconciliation breaks, improve efficiency and lower operational risk. They may also enable a more immediate, always-on environment, appealing to new and digital-native investors, with services available nearly 24/7 across time

zones. Market structure design needs to evolve to fully capture these benefits whilst preserving liquidity, the benefits of netting and minimising fragmentation are critical.

Asset servicing is another promising area. Lifecycle events remain complex and data intensive. Shared ledgers and smart contracts could automate processes, improve transparency and reduce discrepancies.

Collateral management may offer one of the strongest use cases. Tokenisation could make assets easier to mobilise across institutions, markets and time zones, improving liquidity management and balance-sheet efficiency.

Innovating at scale

Markets will not simply abandon infrastructures built over decades to provide resilience and operational reliability. The challenge is to capture new benefits without compromising the trust on which capital markets depend. This is the logic behind Project Pythagore, a Euroclear - Banque de France initiative showing how a full market ecosystem, including the ECB, can move to a DLT-enabled infrastructure while preserving trusted infrastructure standards.

**The future European
ecosystem is trusted,
efficient internally and
attractive externally.**

Tokenisation will only deliver at scale if it avoids new fragmentation. Multiple platforms with different standards, governance models and liquidity pools could reproduce existing fragmentation in digital form. End-investors, including retail investors, should have access to products and services irrespective of the network they use. Therefore, interoperability between new networks and traditional ecosystems will be key, at least for a while. Eventually, Europe needs a fully scalable digital market, not simply connect today's structures to tomorrow's technology.

The same applies to regulation. Europe should avoid separate frameworks for traditional and tokenised markets and aim for one core, technology-neutral framework.

The Digital Asset Securities Control Principles, developed by major global market infrastructures, address how digital securities can benefit from innovation while preserving legal

certainty, investor protection, resilience and governance. Follow-up work on interoperability recognises that the next phase will be defined by the ability of assets, data and liquidity to move efficiently across new and existing ecosystems.

The future European ecosystem: efficient internally, attractive externally and built on strong foundations.

Appia offers an opportunity for public-private debate on a European tokenised financial ecosystem. Its objectives — preserving central bank money as an anchor of trust, supporting integration, competitiveness and innovation, and promoting standards, interoperability and governance — mirror the ambitions of the Savings and Investments Union.

Europe should not build a closed regional digital market. It should build markets that are more efficient internally and more attractive externally. International investors value liquidity, legal certainty, operational efficiency and access. Tokenisation can strengthen these attributes only if embedded in trusted infrastructure, aligned with global standards and designed to serve institutional and end-investor needs. FMI's therefore have a critical role. Their value is not simply technological. It lies in neutrality, governance, risk management, resilience and connectivity across large market ecosystems.

Success should be measured by whether tokenisation can safely mobilise savings, facilitate cross-border investment, improve collateral circulation and strengthen Europe's capacity to finance innovation, growth and the green and digital transitions. For Euroclear, tokenisation is not about technology replacing trust. It is about using technology to reinforce trust, efficiency and connectivity. Managed well, it can help Europe build capital markets that are more integrated, competitive and connected to the world — moving from experimentation to meaningful transformation in support of the real economy.



STEPHANIE ECKERMANN

Member of the Executive Board
of Deutsche Börse Group,
responsible for Post-Trading
– Deutsche Börse Group

Avoiding new fragmentation while scaling innovation

The digital transformation of capital markets continues to accelerate. With the review of the DLT Pilot Regime, the EU is aiming to lay the foundation to scale technological innovation – significantly higher thresholds, a shifting asset class focus from cryptos to include all traditional finance instruments, and a discussion around exemptions from key financial regulations, such as MiFID II and CSDR – quo vadis?

At Clearstream, we are fully committed to driving new efficiencies and the next generation of technological evolution, also in the DLT sphere. From our digital issuance platform D7, over our DLT collateral and repo services, through to our Funds DLT and institutional crypto asset custody – we have developed regulatory compliant business offers within existing frameworks.

Amongst all of heated conversations on technological leadership in a different geopolitical context, one fundamental is particularly close to my heart: Avoiding new fragmentation across the internal market's post trading sphere while scaling innovation to drive the next generation of efficiency, boosting global competitiveness.

To unlock the power of DLT in post-trading, we must look beyond the securities issued natively on blockchain. The ultimate objective for the ecosystem across the internal market must be to tokenize existing securities under domestic securities law to ensure a hybrid approach that efficiently bridges traditional finance and new digital assets.

Otherwise, the EU will run the risk of injecting new and unintended fragmentation risks that run against the parallel objectives to integrate the post-trading landscape, fostering cross-border competition and empowering a natural drive towards liquidity consolidation, efficiency, and structurally lower costs for issuers and investors.

The geopolitical clock is ticking: In the US, a No-Action Letter granted by the SEC gives DTCC a direct path to tokenize the existing \$115 trillion of securities at scale jointly with key market participants. In addition, NASDAQ and NYSE can offer tokenized securities trading, opening regulated market access for real on-chain assets. The comparison shows: Irrespective of the deployed technology, it will remain critical to avoid fragmentation driven by a regulatory framework that provides different rules for the same business against the argument of incompatibility of the existing regulatory frameworks with new technology.

To secure global competitiveness and avoid new and unintended fragmentation in a time when the internal market needs scaling, the priority must be a technology-neutral modernization of core, crisis-proven frameworks rather than containing innovation within siloed, parallel regimes. Importantly, CSDs should be allowed to tokenize existing securities via notification under their existing CSDR license. On the trading layer, we need to create an environment for liquid secondary trading of tokenized securities on MiFID-regulated trading venues.

**Bridging traditional
finance and digital assets
to drive efficiency and
global competitiveness.**

In this regard, we welcome the E6 MISP consensus aimed at scaling DLT under CSDR and defining a viable transition path from the DLT Pilot Regime. This path could successfully maintain a level playing field with the ordinary market

infrastructure framework, avoiding the creation of a lighter, parallel regime for systemically important activities.

Crucially, we must avoid creating parallel structures that lead to liquidity fragmentation. Especially in an environment where the US is allowing its core infrastructures to apply the new tech realities within their existing proven and trusted regulatory frameworks. This would lead to a significant competitive disadvantage in a world where capital is a global good. The EU cannot repeat the MiFID mistake in post-trading. To prevent legal, operational, and liquidity silos, traditional and DLT rails must be interoperable.

Finally, a modern digital securities layer requires common digital rails. Clearstream strongly supports the Eurosystem's foundational work on Project Pontes, viewing it as an effective project for settling the cash leg of wholesale transactions in a DLT environment. The ECB's wholesale Central Bank Digital Currency (wCBDC) workstreams are important opportunities and should be accelerated and accompanied through effective private-sector execution – this would be a unique value proposition of European capital markets in a global context.

By establishing an environment that seamlessly bridges traditional and digital rails, we can secure our continent's global competitive edge, reinforce our strategic financial autonomy, and position the EU as the pioneer and standard setter for the next generation of digital post-trading. Together, we can build a thriving, highly integrated capital markets ecosystem that will drive growth and prosperity for decades to come.



MARCO KESSLER

Head of Custody
Business Development &
Markets – SIX Group

From tokenized pilots to trusted market scale

Europe has made important progress in digital finance. Tokenization is moving from experimentation to early adoption: tokenized securities are being issued, new settlement assets are being tested, and AI-enabled controls are entering the post-trade value chain. Yet large-scale deployment remains limited. The issue is no longer whether the technology works, but whether it can scale safely across markets, participants and ledgers.

Europe does not need a separate tokenized market alongside the existing one. It needs a framework that allows trusted market infrastructures to support both traditional and tokenized securities in a coherent way. The future is hybrid, not parallel. Both forms of securities should coexist within the same infrastructures, processes and client ecosystem, with common risk standards and interoperable access.

Financial market infrastructures have an undisputed role in this model. Tokenization does not remove the need for trusted infrastructure; it increases it. As more assets, ledgers and forms of money emerge, markets will need neutral institutions that provide finality, asset protection, resilience, governance and supervisory accountability. These are the

conditions under which banks, issuers and investors can adopt new technology with confidence.

For Europe, this points to a clear regulatory direction. CSDR should evolve to enable regulated CSDs to support tokenized securities alongside traditional securities under a single framework. Existing CSDs should be able to provide issuance, custody, settlement and asset servicing for both forms of securities. This would avoid forcing market participants to choose between today's regulated infrastructure and tomorrow's digital capabilities.

The benefits are hard to dispute. First, a hybrid FMI model gives the market a credible migration path. Adoption will be gradual, asset-class specific and driven by use cases. Allowing traditional and tokenized securities to coexist in the same trusted environment reduces duplicative connectivity, operating models and controls. It lets innovation enter the core market progressively, rather than through isolated parallel networks.

Second, it supports market integrity and a level playing field. Equivalent activities and risks should be subject to equivalent rules, regardless of whether a service uses traditional technology or DLT. This is essential to avoid regulatory arbitrage, protect investors and prevent fragmentation. In a tokenized environment, common rules for issuance, settlement finality, custody, corporate actions and lifecycle management become more important, not less.

Europe needs hybrid FMIs, not parallel tokenized markets.

Third, the future of settlement will require multiple forms of regulated digital money. Tokenized securities cannot scale if the cash leg remains uncertain, fragmented or limited to a single model. Europe should enable wholesale CBDC, MiCA-compliant e-money tokens and tokenized deposits to coexist as settlement assets, provided they meet robust standards for credit, liquidity, governance, settlement risk and financial stability. This would give markets flexibility to innovate and scale, while preserving market integrity. The relevant test should be the quality and risk profile of the settlement asset, not its technology label.

Fourth, interoperability will ultimately determine success. The future will not be built on a single ledger. Different

asset classes, jurisdictions and networks will use different technologies. Scaled adoption will depend on connecting these ledgers without fragmenting liquidity or weakening controls. FMIs are well placed to act as neutral interoperability hubs: validating assets, orchestrating settlement, and promoting common standards.

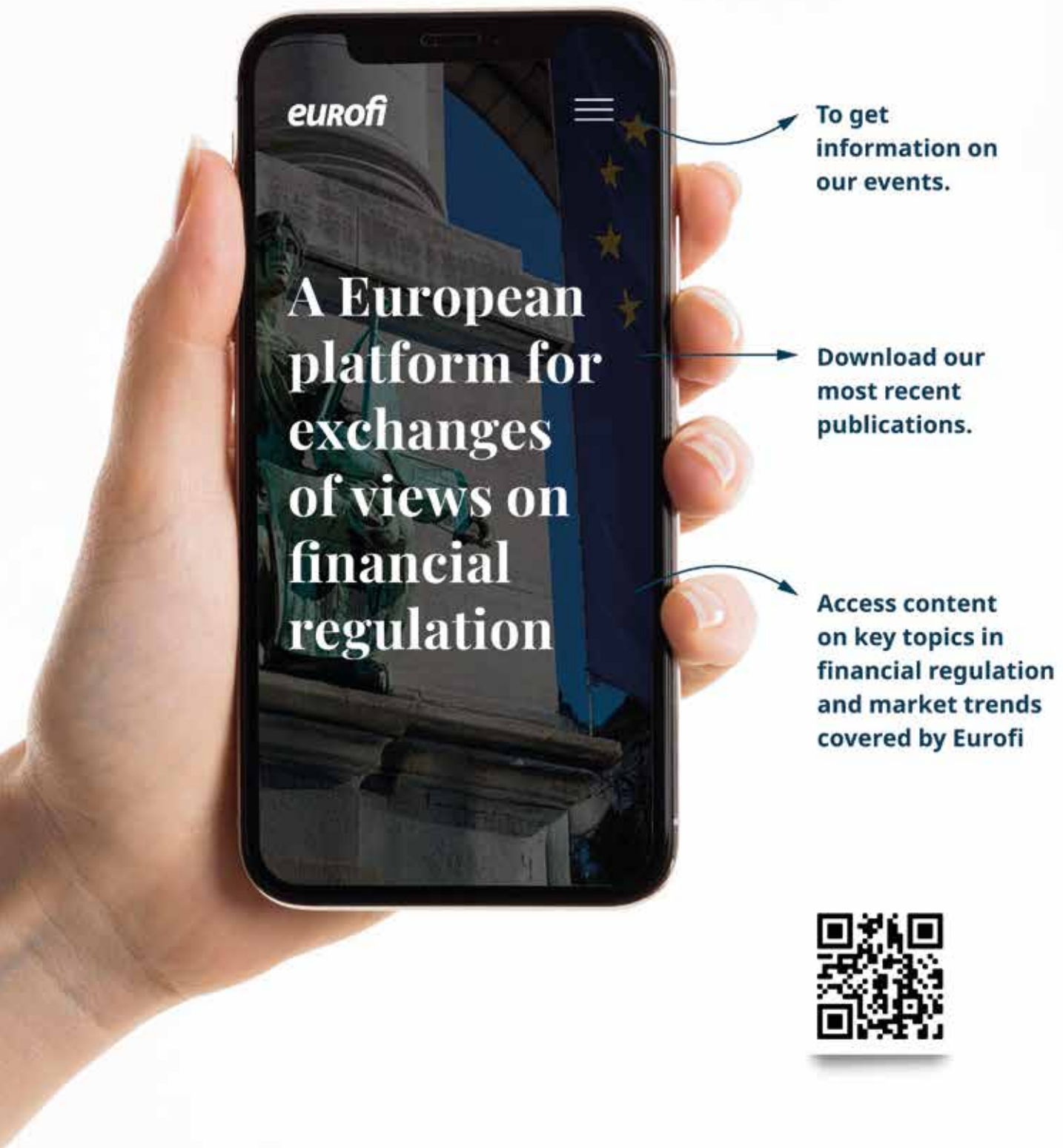
The EU has taken important steps with MiCA and the DLT Pilot Regime. But legal clarity is not the same as market scalability. If securities, crypto-asset and payment rules remain in separate silos, Europe may end up with well-regulated experiments rather than integrated markets. The Market Integration and Simplification Package can help if it builds a bridge between CSDR, MiCA and related rules, enabling regulated infrastructures to combine securities services, digital assets and regulated digital-money settlement in a controlled way.

Europe should focus on four priorities: make the DLT framework permanent and scalable; enable FMIs, including CSDs, to operate hybrid securities services; recognize multiple safe forms of regulated digital money as settlement assets; and promote common standards for multi-ledger interoperability, custody, asset servicing and resilience.

The prize is not simply faster settlement. It is a more integrated European capital market in which innovation strengthens trust rather than bypassing it. Tokenization will scale when it connects to the institutions and supervisory expectations that institutional markets rely on. Europe should move from parallel experiments to a trusted FMI-led post-trade layer connecting traditional and tokenized finance across multiple ledgers.

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THE FUTURE OF ASSET MANAGEMENT



**PALOMA
MARÍN BONA**

Vice Chair – Spanish
Securities and Exchange
Commission (CNMV)

Innovation and investor protection: the future of European asset management

European asset management is entering a new phase, driven by product innovation, technological change and evolving investor interests. The rapid growth of ETFs, the revival of ELTIFs, increasing access to private assets are reshaping European investments.

Investors are increasingly seeking accessible, cost-efficient and outcome-oriented solutions, while policymakers are looking for more effective ways to mobilise long-term savings in support of growth, innovation and competitiveness.

ETFs have broadened investment opportunities by offering diversified market exposure at lower cost. At the same time, outcome-oriented solutions, including multi-asset and long-term investment strategies, are becoming increasingly relevant as households

seek to achieve retirement and other financial goals. Interest in private assets is also growing. Through vehicles such as ELTIFs, investors can gain exposure to infrastructure, private equity, private debt and other productive assets. These investments can improve portfolio diversification, support long-term investor outcomes and channel capital towards innovative firms, SMEs and scale-ups.

The expansion of private markets should, however, be viewed as a complement to, rather than a substitute for, public markets. A competitive European financing ecosystem requires both: private markets can support companies through key stages of development, facilitating business consolidation. Public markets, meanwhile, continue to play a vital role in providing transparency, liquidity and efficient price discovery, while offering companies access to a broader investor base and financing opportunities to scale further.

These trends have the potential to improve investor outcomes and strengthen the competitiveness of the European asset management industry. However, they also raise important challenges. As access to private assets expands, investor protection must remain a priority. Redemption terms should be consistent with the liquidity of the underlying assets, supported by robust valuation arrangements and appropriate liquidity management tools.

Equally important is the product distribution. Measures such as Value-for-Money assessment and enhanced cost transparency under the Retail Investor Strategy should support the development of investment products that better meet investors' needs and profiles, without restricting access to growth opportunities. Innovation and investor protection should not be viewed as competing objectives. Sustainable innovation depends on investor confidence.

Europe's product frameworks have generally demonstrated a strong capacity to support market development. UCITS remains the global benchmark for retail investment funds, while the reform of the ELTIF framework shows that European regulation can adapt to changing market realities. Furthermore, centralized access via the European Single Access Point (ESAP)

will enhance fund transparency. The challenge is to ensure these frameworks evolve smoothly alongside market developments.

In this context, the review of the UCITS eligible-assets framework should focus on preserving the credibility of the UCITS label while guaranteeing that it remains fit for purpose in a changing investment environment. This requires enhanced legal clarity on asset eligibility, a consistent application of the look-through principle and a balanced approach to indirect exposure to certain alternative assets. Any reforms should seek to strengthen the flexibility and attractiveness of the UCITS framework, while continuing to uphold high standards of investor protection.

**Europe's challenge
is not reinvention,
but evolution.**

Technology will also be an increasingly important driver of competitiveness. Artificial intelligence, tokenisation and distributed ledger technology offer significant opportunities to improve efficiency, reduce operational frictions and improve investor experience. At the same time, increased dependence on digital infrastructure, data and third-party technology providers raises new operational and cyber risks. As digitalisation accelerates, operational resilience and cybersecurity will become strategic priorities for the asset management industry. Realising the benefits of technological innovation will require a regulatory environment that supports innovation while ensuring robust risk management, operational resilience and cyber preparedness.

Europe does not need to reinvent its successful fund frameworks. It needs to ensure they evolve in ways that support innovation, strengthen competitiveness and preserve investor protection. If Europe succeeds in maintaining that balance, the industry will be well placed to deliver better outcomes for investors while supporting the long-term growth and competitiveness of the European economy.



MICHELLE BECK

Director of Wholesale Buy-Side – Financial Conduct Authority (FCA)

The future of asset management

The UK has a world-leading asset management centre, spanning 2,600 firms with £16.5 trillion of assets for UK and global clients.

It plays a crucial role channelling savings into investments, supports retirement outcomes and underpins the efficient allocation of capital across markets.

Firms operate at significant scale, using data, technology and smarter systems to deliver more, faster. As a smarter regulator, the FCA is working in lockstep to support.

We encourage firms to engage with our innovation and pre-application services to help this market to go further.

And we will leverage our outcomes-based framework to help support robust growth while maintaining high standards.

Tokenisation

This mindset is borne out in our work on tokenisation. It has huge potential to lower costs for firms, reduce risks and unlock automated and programmable infrastructure.

Last year, we authorised our first tokenised UCITS fund based on a model

led by industry and supported by the FCA. We published our Policy Statement in April, setting out how firms can use distributed ledger technology within our framework, and approved the UK's first 'fully native' tokenised authorised fund in June.

Our rules allow UK fund managers to deliver the entire transaction journey, end to end, on chain to benefit investors right now.

It isn't a theoretical, niche technology. That's a real-world practical tool. And according to Barclays and PwC, it could inject £33 billion into UK GDP by 2030.

We stand ready to support other firms in their development – our regulatory sandboxes have enabled firms to test drive new ideas for 10 years now. They provide a clear runway to speed innovation and launch products in full.

And we are going further, setting out, together with the Bank of England, a vision for how tokenisation can develop safely in UK wholesale markets. Streamlining wholesale markets could make everything from issuing securities to managing assets faster and more efficiently. We are also working closely with industry to ensure UK markets can benefit from other opportunities presented by tokenisation, including mobility of collateral and new forms of retail distribution.

The future of asset management needs smarter regulation.

Alternative Investment Fund Managers Directive (AIFMD)

The UK asset management industry operates globally and we want to ensure our rules interact effectively with requirements firms are subject to in other jurisdictions. That's why we are removing prescriptive requirements from the AIFMD as we update it in the UK.

Reforms are designed to modernise rules dating from 2013, making them fit for today's UK market – more flexible, more tailored to the business models and stripped of rules that no longer serve a purpose. They would better equip UK markets and asset managers to serve global customers. Crucially, they would maintain clear standards, proportionate to the size and complexity of firms and funds.

Underpinning this project are proposals to automate some fund authorisation and supervisory processes. They would transform how the FCA interacts with the asset management sector, harness better data and save asset managers tens of millions of pounds a year.

With a sharp focus on proportionality and harnessing technology, we can boost freedom for smaller firms to find new ways to achieve the same high standards.

Mills review

While digitalisation is already unlocking opportunities here and now, we know the future of the industry will be greatly affected by Artificial Intelligence.

That's why we commissioned the Mills Review to explore how AI could reshape retail financial services for consumers, firms, markets and regulators.

The exercise was a first of its kind. Blending analysis, research and engagement, the review sets out a roadmap for how industry can prepare for the next AI-driven evolution in our world leading financial services sector.

Trusted records. Automated execution. Clear governance and transparency. They are key guardrails to support the safe implementation of AI. And they are the same ingredients that can deliver tokenisation and our reforms to asset management.

Conclusion

The right regulatory calibration, like fine tuning a car, can fire the engine of industry. Regulatory standards and innovation reinforce one another and can give firms the confidence to rollout cutting edge technology and give consumers the confidence to take advantage of it.

Supporting tokenisation, updating the rulebook for asset managers and sharing insight on AI underlines the FCA's unwavering commitment to supporting and informing innovation.

This is the FCA's strategy in action: a smarter regulator that is more efficient, more proportionate, forward thinking and easier to work with.



CHRISTOPH BERGWELER

Head of Continental Europe Funds – J.P. Morgan Asset Management (Europe) S.à r.l., Frankfurt Branch

From savers to investors: Europe's opportunity

Europe has no shortage of savings; the challenge is putting them to productive use, for both the European economy and, more importantly, European citizens. Investing will only ever be part of the story, and the liquidity and access offered by deposits will always be a prominent aspect of financial wellbeing. However, facilitating the journey from saver to long-term investor is becoming increasingly important. This would enable households to protect purchasing power, build retirement wealth, and participate in Europe's economic future.

The need to act is clear. Households hold very large sums in bank deposits, the power of which is being eroded by high inflation. At the same time, the continent needs long-term capital to finance competitiveness, sustainability, and innovation. The EU's Savings and Investments Union recognises the opportunity to transform savings into a strategic driver of growth. The objective is not to force savers into risky assets, but to empower them to take well-informed, calibrated risk, supported by advice and financial education. A successful framework should embed simplicity, trust, and appropriate safeguards, enabling citizens to invest regularly,

diversify effectively and, where attractive, allocate more capital to Europe.

The investment management industry and the products they offer will be crucial to facilitate this broader shift. Well-established products, such as UCITS, can be a helpful launchpad into investing, while industry innovation can deliver more personalised solutions that reflect individual circumstances and risk appetite. For example, the rise of active exchange-traded funds (ETFs) adds the potential for investment insight and alpha within an accessible wrapper. Similarly, the industry – and policymakers – have responded to growing demand and opportunity in private markets. Vehicles such as the European Long-Term Investment Fund (ELTIF) offer suitable investors diversification, potentially higher long-term return profiles, and access to asset classes less available in public markets, including infrastructure, energy transition, and innovation.

For this to succeed, we need holistic, long-term, and ecosystem-wide solutions. All parts of the financial services industry – product manufacturers, distributors, and financial advisers – have a role to play in delivering for investors, and any strategy that seeks to exclude part of the value chain is unlikely to succeed. We should not lose sight of the bigger picture: investing needs to be considered alongside pension systems and applicable tax regimes.

A successful framework should embed simplicity, trust, and appropriate safeguards.

So where are we today? We have strong foundations, with well-established frameworks in some countries and helpful reforms emerging in others. Sweden is a positive example: its investment savings account has simplified investing, reduced friction, and made participation in capital markets more mainstream through straightforward tax treatment and easy deposits and withdrawals. But more can be done. J.P. Morgan Asset Management is about to publish findings from a new survey across nine Central European markets. Early results point to a strong preference for cash and property, driven by risk aversion and limited confidence in financial decision-making, while also showing that progress is possible. This evidence can help policymakers and industry advance pension and savings reforms, particularly as ageing-related fiscal pressures rise and the scope for

more generous state support becomes increasingly constrained.

Recent pension reforms in Germany and Italy are also encouraging. In Germany, while some of the proposed changes may be politically sensitive, they will likely support the long-term sustainability of the German pension system. And in Italy, auto-enrolment and greater flexibility in how future benefits can be drawn should help make funded retirement provision more accessible and more relevant to individual needs. Together, reforms such as these point to a broader European shift: long-term investing should become a normal part of working life, not an exception.

Europe does not need product innovation for its own sake. It needs innovation that lowers barriers, improves value for money, supports scale and strengthens trust. Asset managers have a responsibility to combine fiduciary discipline with education, research, and product design that serves real client needs. Policymakers have a responsibility to create frameworks that are proportionate, predictable, and internationally competitive.

If Europe gets this right, in particular a more competitive fund sector, the prize is substantial: deeper capital markets, better long-term outcomes for citizens, and more financing for European companies. Europe's savings challenge is also its greatest investment opportunity. The next phase of policy should help citizens take that opportunity with confidence.



ANN PRENDERGAST

Executive Vice President and
Head of EMEA – State Street
Investment Management

From products to investor journeys: the next chapter for EU asset management

The European asset management sector is at the centre of two converging forces: product innovation and digitalisation. Together they are changing not only what Europeans invest in, but how they invest. Getting the participation framework right is the key policy question that will define the sector's contribution to EU competitiveness and the success of the Savings and Investment Union.

The evidence on retail participation across the EU is clear. Only around a third of European adults invest in capital markets, with participation rates varying widely across markets. The products available are largely the same, but what differs is the journey: the wrapper, the tax treatment, the onboarding experience, the way risk and cost are communicated, and whether investing small amounts regularly is easy or cumbersome. Broadening retail participation is fundamentally a journey challenge, not a product challenge, and policy should be judged by whether it improves the journey end to end.

Digitalisation

Digitalisation is the main force redesigning the investor journey. Digital platforms

have reduced the cost and friction of market access, and savings plans built on ETFs are turning investing into a regular habit. The investors arriving through these channels are new to markets, in their prime earnings years, and starting with small, regular contributions, exactly the profile of investors the Savings and Investments Union seeks to reach. Data-driven and AI-enabled tools will personalise this journey further, offering guidance at a different scale than traditional advice. In this context, policy should ensure that easier access is matched by good outcomes: robust product governance calibrated to digital distribution, and disclosure that people actually use: digital-native disclosure designed around real behaviour.

Product innovation

Product innovation is keeping pace. The centre of gravity is the ETF, which continues to democratise access while expanding what it can deliver: active ETFs are bringing professional management into a transparent, low-cost, tradable format, and fractional ownership is lowering entry barriers further. Innovation is also widening the investable universe, with tokenised funds and carefully designed exposure to private markets extending diversification once reserved only to institutional investors. Throughout, UCITS remains the wrapper of reference and its strength lies precisely in its capacity to absorb innovation without diluting protection.

Europe and exportable worldwide as a global standard.

Delivering good outcomes to investors

None of this diminishes the responsibilities of product manufacturers. Our accountability begins with product design, definition of target-market and long-standing relationships with our investors. But the investor journey is a shared responsibility across the ecosystem: legislators setting simple and stable rules, supervisors converging on outcomes, platforms designing engagement that serves long-term needs, and manufacturers delivering products that are simple, diversified and low-cost.

A sector that is able to continue to invest in technology and product innovation is a sector able to deliver better outcomes at lower cost, and to keep Europe competitive. If the next phase of EU policy keeps its focus on the investor journey and lets a proven product framework evolve, the European asset management sector can turn today's momentum into lasting retail participation.

**By focusing more on
the investor journey
and less on regulatory
processes, the EU
can turn the current
momentum into lasting
retail participation.**

Where targeted evolution is genuinely needed is the review of the UCITS eligible asset rules. The review should resist the temptation to narrow the universe: restricting what UCITS may hold would weaken diversification and push investors towards less regulated alternatives. Its objective should instead be to move towards more outcome-based criteria: can the asset be reliably valued, does it support the fund's liquidity profile, does it contribute to diversification? A principles-based approach would future-proof the framework, allow retail investors measured access to a broader investment universe, and preserve the protections that make the UCITS brand trusted in



ANNE MACEY

Global Head of Public Affairs –
Natixis Investment Managers

Shaping growth, not just following it: a new era for asset management

The world has changed. A new era characterized by higher risk, higher volatility, and higher dispersion, has replaced the old macro regime of low interest rates, low inflation, and hyper-globalization of the past decades. This environment makes active judgment more important, not less. Our conviction is that it is opening opportunities for the best active managers. Passive investing will remain a powerful tool, but a world driven only by passive allocation would risk excessive concentration of capital, standardised portfolios and weaker financing of the real economy.

A first megatrend lies in innovative wrappers such as ETFs that are taking up for both retail and institutional investors. While early ETF offerings were concentrated on broad equity indices, the product universe now spans fixed income, commodities, thematic strategies, ESG-focused investments and actively managed ETFs. The European market has also benefited from the UCITS framework, that has provided enhanced investor protection, market transparency, and a strong foundation for cross-border distribution and investor confidence.

A second big trend is the convergence between listed and unlisted markets. Both listed – equities and bonds-

and unlisted – private equity, private credit, infrastructure, real estate- are complementary and finance the real economy. The recent success of ELTIF is a testament to this shift, allowing retail investors to reap the higher long-term risk-adjusted return premiums that used to be accessible only to institutional investors. Such a democratization should be done in a responsible manner: a small percentage of private assets within large and diversified wrappers. Tokenisation could become the missing link between listed and unlisted assets by reducing friction, improving transparency, supporting secondary liquidity for assets that are today largely illiquid, and allowing customization at scale for retail investors.

A third major trend is the rise of outcome-oriented investment solutions. Investors increasingly seek products designed to achieve specific objectives such as retirement income, capital preservation, inflation protection or long-term wealth accumulation. This evolution reflects the growing recognition that investors evaluate success not through benchmark performance alone but through their ability to meet real-life financial goals. Outcome-oriented products have the potential to encourage longer holding periods and reduce the focus on short-term market fluctuations. We see private pension savings as a key opportunity to make investment more accessible for companies, especially young and innovative ones, and to significantly increase equity investments.

**"Investing should be
more like watching
grass grow. For
excitement, go to Las
Vegas" Paul Samuelson**

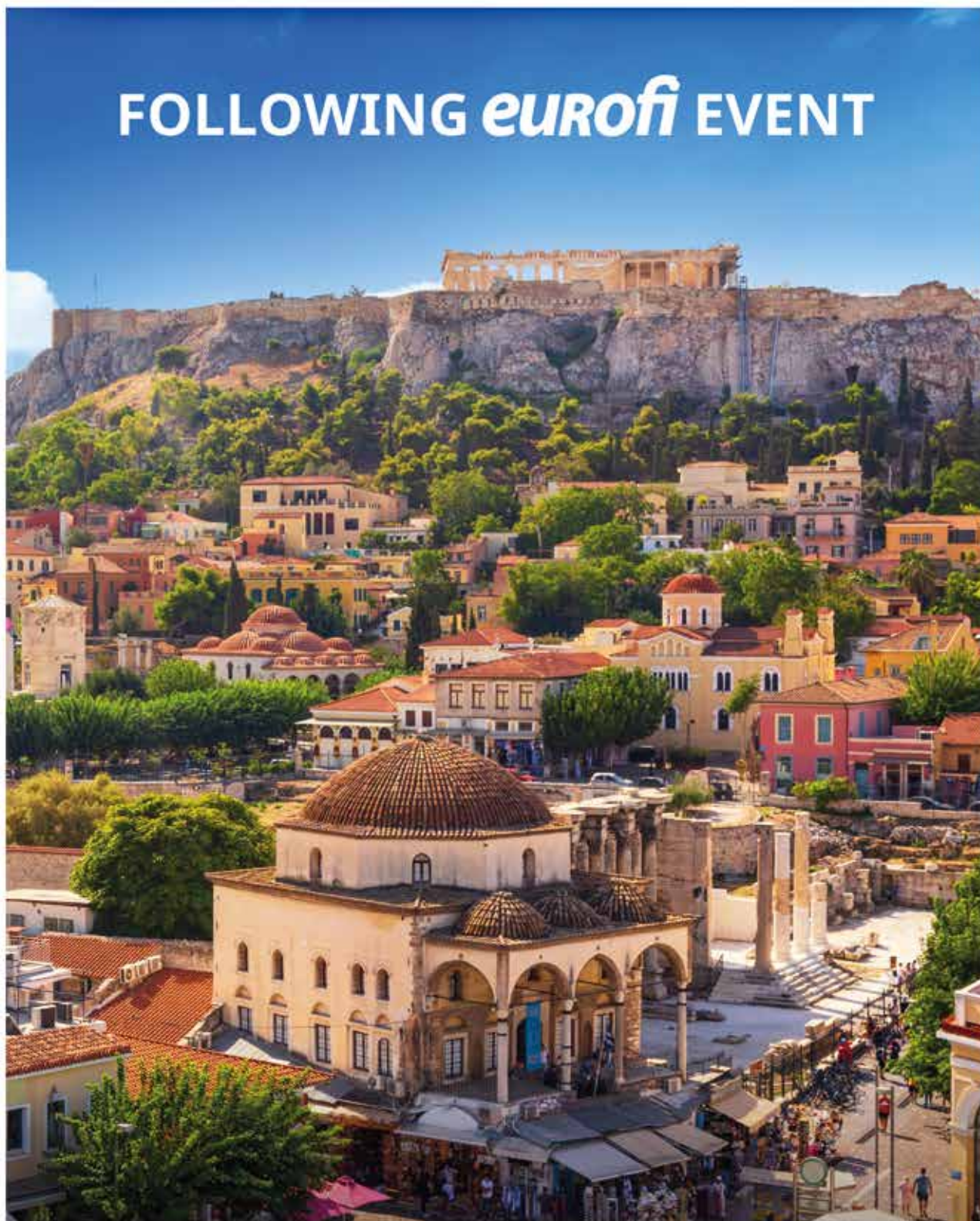
Finally, in an environment that has been reshaped by geopolitical shocks, tighter financial conditions and the rise of economic sovereignty, nations and regions are increasingly focused on self-reliance and controlling the transitions that are redefining our economies in the long-term. That means the very nature of the ecological transition is changing to become a financial and strategic imperative. Investing in companies that are currently carbon-intensive but have the potential to be sustainable offers a far greater opportunity for systemic change than exclusively investing in players that are already green. It is here where active judgement becomes critical, as we need to identify and allocate capital to the players with the will and capability to

transform and commit to support these developments over time.

All these developments suggest that European product regulation should become more flexible, more technology-neutral and more focused on outcomes, to accommodate new market developments and forward-looking strategies, whilst maintaining robust safeguards. Overall, the frameworks remain broadly fit for purpose: they have provided a high level of investor protection and facilitated the development of a large cross-border fund market. As a global gold standard and a cornerstone of EU financial integration, the UCITS framework requires careful consideration during the ongoing eligible assets review. Any refinement should focus on enhancing clarity and supervisory convergence, in line with the Savings and Investment Union's objectives. One should be mindful not to put European investors and the European fund industry at a disadvantage as compared to the US.

To secure its future, Europe must urgently reconnect its domestic savings with domestic growth. We can no longer afford to stand by as €300 bn of European capital flee our markets annually to fund US technology. If we are to finance our own innovation, defense, and reindustrialization, we must champion the emergence of competitive financial players, scalable distribution, and attractive long-term savings products. To level the playing field, it is imperative that the EU adopts a more holistic and simplified approach to regulation, which can't be geared only at customers, but should also integrate growth and competitiveness.

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ASSET MANAGEMENT AND THE MISP



MARCO ZWICK

Executive Board and Director
of UCI Department –
Commission de Surveillance
du Secteur Financier (CSSF)

Supporting a competitive EU fund market with MISP and the PRIIPs review

The Market Integration and Supervision Package (MISP) aims at reducing fragmentation by means of increased regulatory convergence, the avoidance of national gold-plating of European regulations, and the removal of supervisory barriers to cross-border investment fund management, distribution and administration. In that sense, MISP will also support the Savings and Investments Union's stated objective to "create better financial opportunities for EU citizens, while enhancing our financial system's capability to connect savings with productive investments.". This will most certainly be achieved by reconciling better harmonised regulation with the need for operational efficiency and cost management of product manufacturers and with the demand of retail and professional investors to have an increased access to financial products which are governed by transparent and

clear rules applied in the same way across the EU.

The outstanding success of UCITS demonstrates the value of a pragmatic EU framework grounded in trust, demonstrated resilience and market expertise. UCITS is the example to follow when designing a financial product with an outreach to investors in European and non-European countries. The "retailisation" of alternative investment funds (AIFs), possibly the creation of a EU passport for EU AIFs, as opposed to the current sole availability of a EU passport for alternative investment fund managers – as well as the distribution of future other financial products responding to consumer needs – should follow the UCITS example. As an example, the MISP proposal to remedy the current process on cross-border marketing by removing, inter alia, the ex-ante reviews of marketing communications by host National Competent Authorities (NCA) in addition to the review already performed by the home NCA, will support the objective of quicker "time to market" and of a harmonized approach to informing investors across multiple jurisdictions.

**UCITS is the example to
follow when designing a
financial product with an
outreach to investors...**

In addition to the proposed MISP framework, the Retail Investment Strategy package also introduces a number of amendments in the area of investor disclosures and product marketing, most notably through targeted revisions to the Packaged Retail and Insurance based Investments Products (PRIIPs) Regulation. These amendments are intended to enhance the quality, accessibility and comparability of pre-contractual information provided to retail investors, while simplifying certain existing requirements as well as addressing specific shortcomings identified in the current framework. They clarify the definition of a PRIIP, introduce a new "Product at a glance" section in the Key Information Document (KID) by means of a dashboard, require the inclusion of information on sustainability objectives, and revise the presentation of

performance information. The proposal also streamlines the rules governing updates to the KID, maintains its concise format, and improves digitalisation by requiring the KID to be made available in a structured electronic and machine-readable format. These amendments are expected to facilitate the cross-border distribution of investment products by further harmonising investor disclosures, enhancing the comparability and accessibility of PRIIPs across EU Member States, and supporting digital distribution channels. Together, these measures should also reduce practical barriers to cross-border marketing, thereby contributing to a more integrated EU retail investment market.

The CSSF contributes actively to the development of the regulatory technical standards (RTS) under the revised PRIIPs framework. Through its contribution to this process, it seeks to further enhance the existing disclosure regime by improving the clarity, comparability and usefulness of the information provided to retail investors, thereby strengthening investor protection and supporting the cross-border distribution. However, the envisaged timetable for the development of such RTS is likely to pose considerable challenges, as it allocates only a limited period for both the drafting of the technical standards and the consumer testing which is necessary to ensure that the revised disclosures are comprehensible and effective.

The MISP and the PRIIPs reviews have the potential to reinforce the EU fund industry's competitiveness, provided their implementation avoids unnecessary complexity and excessive costs that could ultimately fall back on investors. The ongoing commitment expressed by the European Commission to simplify regulation and to reduce the burden of implementation will certainly benefit market actors as well as NCAs in their endeavor to ensure compliance with regulations by, at the same time, prioritising the creation and authorisation of those financial products that will really assist EU consumer transition from savers to investors.



JÉRÔME REBOUL

Managing Director, Regulatory
Policy and International
Affairs – Autorité des
Marchés Financiers (AMF)

Single supervision for asset managers is a precondition for market integration

The European Commission's proposal with its Market Integration and Supervision Package (MISP) falls far from ambitious but the direction of travel is clear. The harmonisation of the authorisation process and the move of certain cross-border marketing provisions from UCITS and AIFM directives into the Cross-Border Distribution Regulation should help reducing divergences in national transpositions.

The current fragmented supervision is one of the highest barriers we need to surmount to support the development of a pan-European investment funds' market. As mentioned in our recent position paper published with the Dutch AFM, we believe that a single supervision for asset managers is a precondition for genuine market integration. **A unified supervision would ensure consistent supervisory outcomes across the EU** as only one interpretation of the European rule book would then apply.

The defenders of the *status quo* seem to disregard the accrued regulatory arbitrage at which national competent

authorities (NCAs) may be subject to from asset managers. The ever-increasing complexity and level of details of the European legislation, in an attempt to reduce the margin for interpretation by national competent authorities, may actually have opposite effects and leave room for interpretation (e.g., when the level of details increases to cover all possible outcomes, some may be missed and new ones can emerge over time). Such flexibility for interpreting legal texts can actually diminish the power of competing supervisors to impose firm interpretations to asset managers, which have the ability to make regulatory arbitrage when choosing where to domicile their funds. This can lead, in certain circumstances, to a supervisory race to the bottom, which becomes even more concerning in a context where new and more sophisticated asset classes are being made available to retail investors. Especially if they reside in a different Member State than the one where the fund is domiciled.

**A unified supervision
would ensure consistent
supervisory outcomes
across the EU.**

From an investor protection perspective, how the supervisory duties are split between the home and the host NCAs is essential. When they have an issue, retail investors generally complain to their NCA rather than to the management company's or fund's authorities if they are located in different Member States. This reality is by itself a strong argument to keep the existing prerogatives of host NCAs concerning the marketing documentation of funds commercialised in their jurisdiction, at least until a unified supervision that ensures same supervisory outcomes is in place and effective. A standardised marketing documentation is not appropriate for retail investors of different Member States; and it is not only a matter of language but also a matter of using a language and content that national retail investors can understand.

In the same vein, the AMF welcomes the MISP's proposals to grant ESMA more powers to identify supervisory divergences and treat them more rapidly than is the case today. ESMA should be able to mandate corrective actions to address supervisory shortcomings that hinder the effective exercise of passporting rights by asset management firms. So far, the AMF's experience of supervisory convergence tools is that they are slow and complicated to use.

Voluntary colleges, however, are useful to exchange information between authorities, even though each NCA remains autonomous in supervising "their" part of the group, while none has a clear global responsibility on the group's situation.

From a financial stability perspective, we can easily acknowledge that investment funds, with approximately EUR 20.5 trillion of assets under management, have a non-negligible footprint in certain economic sectors. As these exposures continue to increase, alongside the interconnections with other financial market participants, it becomes more and more crucial for competent authorities to be able to assess the risks of those aggregated exposures. To this point, the ongoing work on the integrating fund reporting and the MISP proposals to integrate the authorization process of funds and managers via an ESMA data platform are welcome.

To conclude, all modernisation projects have an initial cost, specially to adapt technological systems and organisational structures. I strongly believe that, overall, the balance would remain largely positive in favour of European investors, but also to the European economy, by contributing to achieve the Saving and Investment Union's objectives, which are to *"create better financial opportunities for EU citizens, while enhancing our financial system's capability to connect savings with productive investments"*.



MARTINA TAMBUCCI

Head of the International
Relations Office – Commissione
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e la Borsa (CONSOB)

Rethinking EU asset management: the role of the depository passport

The objective of the European Commission, in addressing the asset management area as part of the MISP package of proposals, was to promote further expansion of the sector and greater scale, as well as wider cross-border distribution. Some might note that these same drivers also underpinned the earlier 'cross-border distribution of funds' package. However, that initiative mainly refined the existing framework by removing obstacles and inefficiencies identified through operational and supervisory experience. By contrast, the asset management sector has been re-examined under the MISP from a broader and more ambitious perspective.

Within the Master Directive which is part of the MISP, a set of measures are designed to align the UCITS and AIFMD regimes and reduce national divergences in transposition and supervision. A new concept of large EU groups of management companies and AIFMs, to be identified by ESMA and subject to annual supervisory review, is introduced, along with a fee framework to ensure that the costs of ESMA's new functions are also borne by those groups. The proposal also

simplifies authorisation and cross-border notification procedures, removes the UCITS obligation to draw up a KID where this would overlap with PRIIPs, recognises and streamlines intra-group delegation and introduces a depository passport.

The aspect that most clearly distinguishes this set of measure and highlights the European legislator's greater level of ambition, with regard to the sector, is precisely the creation of a depository passport.

In promoting this significant development, the EC highlights a starting point for the asset management sector, characterised by a significant concentration of the industry in just a few countries. Among the various factors that may have led to this concentration, the presence (albeit only implicit) of a link between the location of the management company and that of the custodian bank is also identified. Consequently, those countries where banks are not sufficiently structured or sophisticated to offer this service are also at a disadvantage in terms of the ability to develop their own investment funds' industry.

**The depository passport
represents the true added
value of the MISP as of
asset management.**

The EU custodian market is characterised by a high degree of concentration in the safekeeping of assets on behalf of clients, with this activity being concentrated in the hands of a small number of entities. As also highlighted in a peer review conducted by ESMA in 2025 (on the supervision of depository obligations), in the countries whose authorities were examined the top five UCITS and AIF custodians account for between 67 and 100 per cent of all assets held in custody in the respective jurisdictions. This aspect is therefore also highly significant from the perspective of systemic risk containment. Without any corrective action, the situation can only continue as it is or even get worse, given the degree of rigidity that generally characterises relations between banks and their customers.

However, there are many obstacles to the effective functioning of such a passport regime. Firstly, the persistence of significant differences in the underlying national laws. Indeed, the introduction of the depository passport should be accompanied by a more harmonised

regulatory framework not to run the risk of exacerbating the negative effects of the divergences clearly highlighted by the aforementioned ESMA peer review (which may not be adequately addressed solely by a substantial commitment to convergence in the supervision of custodians). Secondly, the effects of the potential increase in competitiveness that would be introduced are unpredictable, both within the internal market and in relation to the wider landscape. It is not entirely clear, in fact, whether the benefits of the passport scheme might paradoxically lead to a strengthening of dominant positions, or rather result in genuinely greater competition – which, however, could ultimately benefit either European entities or those from outside the EU.

In essence, the depository passport represents the true added value of the MISP as of asset management, but a common set of rules at Level 1 should be carefully considered to deal with the functions of the depository and the criteria applicable to their exercise, the identification of the relevant framework applicable to depositaries operating cross-border, the allocation of tasks and responsibilities of the NCAs involved in cross-border depository activities and, potentially, the insolvency regime. This is specifically needed for a twofold reason: the extremely delicate and central role that depositaries play as an independent supervisory layer (under UCITS and AIFMD) regarding valuation, investment restrictions and leverage limits, which is of the utmost importance from both a macroprudential and investor protection perspectives, and the significance that the MISP package sought to attach to investment funds due to their potential to mobilise and channel savings towards the revitalisation of the European economy.



SAMANTHA RICCIARDI

Head of EMEA – Fidelity International

From savers to investors: Why MISP's distribution reforms matter

Europe does not lack savings; it lacks efficient channels to turn savings into investment. The Commission has highlighted that EU households hold around €10 trillion in bank deposits, while Europe faces additional annual investment needs of €750-800 billion by 2030.

This is one of Europe's key challenges. As the EU needs to finance innovation, boost competitiveness and improve retirement outcomes, too much household wealth remains in cash rather than being invested in productive assets.

Moving people from savers to confident long-term investors is essential if Europe is to build deeper capital markets and improve financial resilience.

However, the savings-investment gap is striking. Fidelity's Be Invested Global Study 2026 found investors target annual returns of 7.3%, with 65% confident they can meet their long-term goals. Yet many Europeans continue to hold significant levels of cash with deposits accounting for 40.8% of EU household financial assets.

Encouraging savers to invest will require confidence, education, advice, attractive investment solutions and, critically, efficient distribution.

This is where the Market Integration and Supervision Package (MISP) can make a meaningful contribution. EFAMA's latest research shows that advice-based intermediaries account for 80% of retail fund distribution in Europe and banks alone represent 57% in the EU making them one of the most important levers to increase retail participation in capital markets.

If Europe wants to move more citizens towards investing, ensuring distribution channels work efficiently will be just as important as encouraging people to invest.

The cross-border distribution elements of MISP therefore deserve particular attention because they are among the parts of the package most likely to improve retail outcomes directly. The proposals would remove the current 30-day delay before a UCITS or AIF can be marketed in another Member State, create a single ESMA notification channel, harmonise marketing rules and end outdated local agent requirements.

These may appear to be technical changes, but they have real implications for investors. Every unnecessary regulatory hurdle ultimately limits choice, increases costs or delays access to investment solutions.

By reducing unnecessary complexity, firms can bring products to market faster, operate more efficiently across Europe and increase competition. For investors, that means earlier access to a broader range of products, more consistent disclosures and a better access to best-in-class strategies regardless of where they are domiciled.

The clearest retail gains in MISP come from improving cross-border distribution.

This should not be underestimated. The Commission's analysis shows that EU stock market capitalisation stood at around only three-quarters of EU GDP in 2024. Distribution frictions are part of that problem.

When firms are navigating multiple filings, divergent marketing rules and local-presence requirements, costs rise and scale is lost before the investor ever sees the product. By reducing these barriers, MISP enables asset management firms to scale funds more efficiently across borders, strengthen competition and

improve product availability in smaller markets that cannot sustain the same domestic range of investment solutions.

In that sense, the package is not simply about administrative simplification; it is about making the Single Market work more effectively for citizens.

The direction of travel is positive, but success will ultimately depend on how it is implemented. Simplification must be tangible with a central notification process to replace multiple national procedures.

The same is true of the legal, operational and supervisory conditions around the reform. The final framework requires common templates, clear turnaround times and a principles-based approach to marketing documentation that remains investor-friendly across different media and distribution models.

Operationally, authorities will need interoperable systems, common data standards and a genuine commitment to ensuring firms only need to submit information once. Consistent supervision across Member States will also be essential.

Notably, the joint statement from the E6 countries placed strengthening cross-border fund distribution at the heart of its recommendations, recognising the potential to lower costs, widen participation and support investment for growth, while advocating proportionate convergence tools rather than complex duplicative structures. Maintaining that focus will be important if Europe is serious about building deeper capital markets.

While MISP won't in itself complete the savers-to-investors journey, it can materially improve one of its key enablers: distribution. If implemented with ambition and discipline, it can widen access to best-in-class products, improve competition, lower unnecessary operating costs and make the promise of the Single Market more tangible for retail investors. Without that, the savers-to-investors agenda risks remaining a political aspiration rather than a practical reality.



STÉPHANE JANIN

Co-Head of Global Regulatory Developments and Public Affairs – BNP Paribas Asset Management

MISP: how to enhance the competitiveness of EU-based asset management companies?

The MISP aims at making the SIU more integrated. In terms of legislative approach, the new keyword is “simplification”.

But beyond that overarching objective and approach, how may the MISP be used as a booster to increase the global competitiveness of EU-based asset management companies?

That issue of global competitiveness is critical, not only for the EU asset management companies themselves, but also as a prerequisite to enhance the financing component of EU sovereignty.

From that dual perspective, several uncertainties remain today, in the context of the current political negotiation of the asset management part of the MISP package.

On the positive side of it, there is a very wide consensus across EU institutions to make the EU investment fund market

less fragmented. The review of the Cross Border Distribution of Fund (CBDF) legislation will probably achieve that objective, by meaningfully shifting many provisions from a Directive to a Regulation and reducing potential barriers in host Member States to the benefit of a more actual Single Market.

However, on two core aspects, the asset management part of the MISP negotiation has still to be improved and clarified, if the EU wishes to make its asset management companies more competitive at global level.

Simplify delegation arrangements for EU and non-EU subsidiaries in EU asset management undertakings.

One core aspect regards the need for facilitating investment management delegation arrangements, in the case of delegations across subsidiaries of an EU asset management undertaking. Today the same EU obligations apply whenever we delegate to subsidiaries belonging to our own EU asset management undertaking or alternatively to pure third parties. In practice, it does not make sense, as we already comply internally with the same corporate standards (starting from EU regulatory provisions) for all our subsidiaries - wherever they are located in the world. Why then should we carry out additional ongoing regulatory due diligence and monitoring on those subsidiaries as if we were delegating to pure external third parties? Of course, we agree that EU delegating entities should remain legally responsible for their delegations and should not become letter-box entities either. But the lack of differentiation between the two types of delegation arrangements, i.e. being internal or external, ends for us with burdensome and useless tasks, and associated significant costs. To simplify such delegation arrangements for EU and non-EU subsidiaries applying the same corporate standards within EU asset management undertakings, we are therefore asking for a lighter regime for internal delegations as compared to external ones: that would be a great achievement for the competitiveness of EU asset management companies.

The other core aspect with room for improvement regards the EU supervisory framework, which should not be made more complex. In the medium term, we totally acknowledge that the role of ESMA will become

more critical in the EU and we wish to enhance it. But in the short term, we have to avoid the risk of cumulative supervision on us, by both national competent authorities and ESMA: once again on the ground of competitiveness for EU asset management companies, we have to simplify, and not complexify, obligations. First, in the area of fund reportings to regulators, we are asking to make ESMA the single recipient of our fund reportings, while today we have to provide for multiple fund reportings to all the national competent authorities where our funds are domiciled across the EU (e.g. France, Luxembourg, Ireland, Germany, etc.). Alternatively, a single fund reporting by us to ESMA would become a true win-win: for us, a single IT process and administrative stream of reporting; for ESMA, becoming the central collector of our fund data. Second, in the area of coordination colleges for asset management companies active across the EU, we are not against enhancing coordination among NCAs (with the possible participation of ESMA), but the solution to be found must be as simple as possible. We think that some core aspects should be set: that coordination framework should give a prominent role to the lead supervisor of the asset management companies being considered; and the thematic reviews carried out from industry samples by such a coordination framework should end with public conclusions promoting anonymized best practices to the wider industry – as a way for regulators to educate and make converge the EU industry in a constructive manner (e.g. as done successfully by the French AMF through its “spot controls”).

Still, a very important question mark remains ahead of us, regarding the MISP negotiation: as the Package is covering more than a dozen of various texts related to Financial Markets, the political will for getting a fast adoption of the overall package should not lead to consider the asset management part as secondary as compared with other MISP topics such as digital finance, market or post-market ones. The EU needs a stronger and more competitive asset management industry – it must be done.



ADRIAN MULRYAN

Chief Executive Officer
– Invesco Investment
Management Limited

Upgrading the plumbing of Europe's Savings and Investments Union

Europe's challenge is not a lack of savings, but a failure to mobilise them. Around €10 trillion remains parked in low-yield bank deposits, while the Draghi Report estimates that Europe will need an additional €750-800 billion of investment annually to support competitiveness, drive innovation, and finance the energy transition. The question is how to bridge that gap.

Addressing this challenge lies at the heart of the European Union's Savings and Investments Union (SIU). The objective is clear: encourage greater participation in capital markets, mobilise private savings and ensure capital can flow efficiently to productive investment opportunities across the Union. Several Member States, including Ireland, are already exploring national savings initiatives aimed at helping households participate more actively in long-term investing. The central question is no longer whether Europe has sufficient savings (households save €1.4 trillion a year, against €800 billion in the United States) but whether its financial system

can deploy those savings efficiently across borders and at scale.

However, increasing the pool of available capital is only part of the solution. The other challenge is ensuring that capital can move efficiently across borders. This is where the Market Integration and Supervision Package (MISP) becomes important. If SIU provides the vision, MISP upgrades the “plumbing”. Put simply, if Europe wants to mobilise savings at scale, it needs a market framework that allows capital to move more efficiently across the Union.

The European fund industry already plays an essential and global role in connecting savers with investment opportunities. UCITS and AIFs allow investors across Europe to access diversified portfolios while helping channel capital towards businesses, infrastructure and public markets. Yet, despite decades of market integration and the global success of the UCITS passport, cross-border distribution remains more complex and costly than necessary. Firms continue to navigate differing national procedures, interpretations and supervisory practices that create friction in what is intended to be a single market.

The MISP proposals seek to reduce these barriers. Efforts to streamline marketing notifications, limit divergent national requirements and create more efficient administrative processes are welcome. While technical in nature, these reforms would have practical consequences: lower operational costs, greater scalability and better access to investment solutions for European investors.

If SIU provides the vision, MISP upgrades the plumbing.

MISP also rightly seeks to promote greater supervisory convergence. Integrated capital markets require confidence that common rules are applied consistently across Member States. Asset managers operating across the EU benefit when supervisory expectations are clear, predictable and proportionate.

At the same time, supervisory convergence should not be confused with supervisory duplication or centralisation. The European asset management industry is already subject to extensive oversight by national competent authorities, supported by ESMA's existing convergence tools. Policymakers should therefore focus on proportionate, risk-based supervision

that strengthens consistency across the Union without creating unnecessary additional layers of oversight or increasing costs for investors.

Ireland provides a practical illustration of what successful European market integration can achieve. As Europe's second-largest investment fund domicile, with over €5 trillion in investment fund assets and more than 9,000 funds and sub-funds, Ireland has developed an ecosystem that supports cross-border investment. Ireland also accounts for around 70% of European ETF assets, making it the leading domicile for ETFs in Europe. Irish-domiciled funds are distributed across the EU and in more than 90 countries worldwide, enabling savings from different jurisdictions to be pooled and invested efficiently through a common European regulatory framework.

At a time when many Member States are exploring national savings and investment initiatives, the Irish experience offers an important lesson: mobilising savings is only half the challenge. Those savings must also be able to move efficiently across borders to achieve scale, diversification and productive capital allocation. Such initiatives are most likely to succeed when supported by an integrated European framework that allows capital to be deployed wherever investment opportunities are most productive.

MISP alone will not complete the Savings and Investments Union. Important questions remain around taxation, pensions, financial literacy, competitiveness and broader capital markets integration. But by reducing costs, increasing certainty and improving access to investment opportunities across borders, it can make a meaningful contribution to the broader objective.



SUSAN REVELL

EMEA General Counsel &
Global Head of Trading
Legal – BlackRock

Building on success: the future of asset management

Europe's agenda to grow deeper, more connected capital markets is central to its broader drive to marshal the investment needed to enable structural changes and unleash productive economic growth. Asset managers are key to that growth.

Europe already has one of the world's most integrated asset management industries. Thanks to the UCITS and AIFMD passporting frameworks, firms can establish products in one Member State and offer them across the EU, giving millions of investors access to a broad range of investment opportunities. This is a major European success story — one that has made UCITS a trusted investment product globally - but one that cannot be taken for granted.

The next phase of the Savings and Investment Union should build on these foundations by making cross-border fund distribution as seamless as possible. The Commission's proposals under the Market Integration and Simplification Package (MISP) provide an important opportunity to reduce unnecessary friction, enhance Europe's attractiveness as a location for asset management and preserve the appropriate standards of investor protection that underpin confidence in European markets.

We particularly welcome the move towards “passporting upon authorisation”. Today, operational and supervisory divergences between Member States can delay product launches and create unnecessary costs for firms seeking to distribute funds across Europe. Simplifying these processes would lower the cost of doing business for firms of all sizes, accelerate access to markets and make Europe's fund passports work more effectively.

These benefits would extend well beyond the industry. More efficient cross-border distribution would enable funds to achieve greater scale by reaching investors across the EU more easily. Larger funds can spread fixed costs over a broader investor base, helping to reduce costs for end investors while improving choice and access. This is precisely the type of practical integration that strengthens European capital markets while delivering tangible benefits for end investors.

Digitalisation can also play an important role. More consistent digital processes and greater standardisation of regulatory reporting can reduce duplication, improve data quality and streamline interactions between firms and supervisors. Initiatives such as an ESMA-run reporting platform could support this objective, provided they are designed around a “define once, report once” principle that avoids creating duplicate reporting obligations or additional layers of cost.

Alongside digitalisation, effective and efficient supervision will remain a cornerstone of Europe's competitive asset management industry. As cross-border activity continues to evolve, further strengthening supervisory coordination can enhance the efficiency and consistency of supervision, while preserving the clear expertise and accountability of national competent authorities.

As policymakers consider supervisory reforms, it is equally important to distinguish between the needs of different financial sectors. Unlike some other market participants, asset management does not require a single centralised supervisor to support an integrated market. The priority should instead be to improve supervisory convergence while avoiding duplication and ensuring that existing structures work more effectively together, benefiting supervisors and supervised entities.

Our experience at BlackRock illustrates the value of this approach. For several years, we have participated in a voluntary supervisory college, which brings together our principal supervisors from

across Europe in a single forum. The arrangement has improved information sharing, reduced the risk of multiple and uncoordinated information requests and enabled more coordinated engagement, while fully respecting the responsibilities and expertise of national supervisors. It has strengthened supervisory understanding without introducing additional decision-making layers.

This model offers a practical blueprint for the future. Standardised information sharing and coordination forums can enhance efficiencies across borders while allowing national supervisors to retain responsibility for local investor protection. Such an approach delivers greater consistency without creating unnecessary complexity or overlapping oversight.

Europe's asset management industry already shows what successful Single Market integration can achieve. The next stage should focus on removing the remaining operational barriers that prevent firms from serving investors seamlessly across borders. By facilitating cross-border distribution, reducing duplication and strengthening supervisory cooperation through proportionate tools, Europe can enhance competitiveness, deepen its capital markets and help more Europeans move from savers to investors. That is a genuine win-win for the industry, for regulators and, most importantly, for European investors.



BEN POTT

International Head of
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Affairs – BNY

Why the EU needs a full depositary passport

The publication in December 2025 of the European Commission's Market Integration and Supervision Package (MISP) has given a major boost to the debate on a European depositary passport. It should now be treated not as a narrow technical reform, but as a core building block of an integrated single market for financial services.

European legislation prohibits the provision on a cross-border basis of depositary services to European investment funds; this means that European depositaries must be located in the same member state as the investment fund for which they provide depositary services. There is just a limited exemption from this prohibition for alternative investment funds (AIFs) located in a few member states.

The proposals in the MISP would allow European banks and investment firms to provide depositary services on a cross-border basis; they would in effect create a depositary services passport for banks and investment firms. This is essential if the EU is serious about removing structural barriers that prevent capital, funds and specialist services from operating at true European scale.

Since December 2025, the debate on the depositary passport has focused on two

main questions. The first is whether there should be a passport; the second is, if there is a passport, whether, and what, additional safeguards should be introduced.

Most participants in the debate express support for the principle of a single market and recognise that the lack of a depositary passport means there is no single market in depositary services. European depositaries and investment funds therefore continue to operate in segregated national markets, limiting scale, reducing choice and increasing costs for investors and asset managers.

This matters directly for the Savings and Investment Union (SIU) which seeks to mobilise European savings, deepen capital markets and improve investment outcomes but will remain incomplete if a critical part of the fund value chain remains locked behind national borders.

. As part of the MISP, the European Commission has introduced a set of safeguards to accompany the introduction of the depositary passport. And yet many participants in the debate argue that these safeguards are insufficient, and that additional safeguards are needed before a passport can be introduced.

Among the additional safeguards that have been suggested are a pan-European mechanism for the authorisation of depositaries, direct supervision of depositaries by the European Securities and Markets Authority (ESMA), and granting all member states the ability to decide whether to allow their investment funds to use a depositary located in another member state.

**A depositary passport is a
core building block of an
integrated single market
for financial services.**

Each proposal should be assessed against the same objective: whether it helps create a genuine European market for depositary services, or whether it preserves national fragmentation under a different name.

There is a rationale for the creation of a pan-European mechanism for the authorisation of depositaries. This would bring the authorisation process for depositary services in line with the authorisation process for the provision of MiFID-related services, for which a pan-European passport currently exists. The

creation of a pan-European mechanism for the authorisation of depositaries would replace existing, and in some cases complex, national mechanisms and authorisation requirements.

There is also potentially a rationale for the direct supervision of depositaries by ESMA. However, this is a much more complicated proposal, and it would raise significant issues, including the risk of duplicate supervision. The more immediate priority should be a coherent supervisory framework that enables cross-border provision while preserving effective national authority access to information and inspection rights.

Giving member states the discretion to determine whether to accept depositaries from other member states would alleviate the problem of a limited number of depositaries in some member states. But it would not create a single market for depositary services. Cross-border provision would remain dependent on a decision by the competent authorities of the member state of the investment fund, and in many cases member state authorities would have an incentive to refuse access to their national market to cross-border providers.

Such a discretion would favour depositaries from member states with larger fund markets. That outcome would be inconsistent with the logic of the SIU and with the EU's objective of building deeper, more competitive and more integrated capital markets.

If the EU wants the SIU to be credible, a full depositary passport should be treated as part of its core architecture. Safeguards that are designed as pan-European safeguards are most appropriate as safeguards for the introduction of a full pan-European passport for depositary services. A partial or optional model would leave the market fragmented and would fail to deliver the scale, competition and investor choice that the reform is intended to achieve.

RETAIL PARTICIPATION: ARE THE SIU PROPOSALS SUFFICIENT?



**JOS
HEUVELMAN**

Member of the Executive
Board – Dutch Authority for
the Financial Markets (AFM)

From ambition to outcome: Making the Savings and Investment Union deliver

Europe has too much money sitting idle. A widely cited estimate puts roughly €10 trillion of household savings in EU bank accounts. These savings earn limited returns. Meanwhile, Europe needs capital for innovation, digitalization and competitiveness. At the AFM, our research "Underutilised assets" shows something striking. Around 2.6 million Dutch households do not invest, despite holding liquid assets well above a prudent emergency buffer¹. Investing part of this capital would strengthen their financial resilience. In total, these Dutch households could invest around €50 billion of underutilised assets. The capacity to invest is there. The real question is whether households can and will use it.

The EU's answer has been ambitious. Three initiatives were meant to work

together: the Retail Investment Strategy (RIS), the Savings and Investment Accounts blueprint, and the Financial Literacy Strategy. They aim at a genuine shift of cash savings into productive, long-term investment, by ensuring that products deliver value for money, strengthening protection against conflicts of interest and modernizing disclosures through a digital-first Key Information Document. Together, these initiatives should improve supervision of financial influencers and strengthen financial literacy. The underlying logic is simple. Consumers will invest when they trust the market. They stay invested when products function in line with well-founded expectations. I still believe this underlying logic is correct.

Has the original ambition survived?

Now that the RIS has cleared trilogue, it is fair to ask what remains of that ambition. The value for money framework should in principle keep poor-value products off the market. The final text also brings real gains: clear accountability for marketing via influencers, and stronger tools for cross-border supervision. However, other important proposals were weakened along the way. The initial inducement ban is a notable example. It became a softer test, not too different from what we already had under MiFID II. Whether this delivers better products for EU retail clients remains to be seen. Savings and Investment Accounts are a case of underutilised ambition. What could have been a common European framework remains a recommendation, leaving part of its potential unrealised.

**Moving idle savings
requires households
who are ready, willing
and confident to invest.**

Why consumer behaviour matters

At the AFM, our focus starts with the consumer. Moving idle savings requires more than product rules. It requires households who are ready, willing and confident to invest. The Dutch experience shows what strong practice looks like: collective pension saving, built on automatic enrolment, safety, diversification and a long-term horizon. It is one reason why Dutch household

pension assets invested in capital markets exceed 150% of GDP. Besides these collective investments through the pension system, direct investments by Dutch households remain below the European average. [2] Our research shows why this matters: around 800,000 Dutch households have sufficient assets to invest but don't do so, and risk an insufficient pension. For them, retail investing is a necessary complement to a sustainable retirement. That is exactly why RIS must get the fundamentals right: value for money, inducements under control, and clear, comparable information.

Trust drives participation

That is why we look at behaviour as much as knowledge. A financial system that is simple, transparent and genuinely trustworthy lets households start with confidence.

None of this makes RIS wrong. It makes it incomplete. If Europe wants that capital moving, the softened or dropped parts of RIS deserve a second look, not a quiet shelving. Above all, conflicts of interest need a genuinely robust answer.

Finishing the Savings and Investment Union

On Savings and Investment Accounts, Europe does not need to start from scratch. Sweden's ISK shows the way: a simple, transparent, low-threshold account with clear rules attracts retail investors at scale, without weakening protection. A common minimum EU standard, modelled on that logic, would serve households better than 27 diverging national versions. The Financial Literacy Strategy should be judged on behaviour change, not just on increasing knowledge. Our experience shows that these lessons apply at home too.

The capital is there. The initiatives are right, but unfinished. Three priorities stand out: finish what RIS started on conflicts of interest, give Savings and Investment Accounts one shared standard and judge financial literacy by behaviour change rather than information. It can work. We want it to work. But only with the right guidelines in place.

1. AFM, "Underutilised assets" (2026) [2]
DNB, "Dutch households invest less
than European average" (2025)



COLM KINCAID

Deputy Governor, Consumer and Investor Protection – Central Bank of Ireland

Building resilience and financial wellbeing through retail investment

Retail investment in capital markets can deliver two important outcomes - provide opportunities for households to secure their long-term best interests and provide a critical source of funding for growing businesses, thereby enhancing overall productivity across the broader economy. This makes the European Union's retail investment initiative under Savings and Investments Union central to strengthening the economic and financial resilience of the EU and supporting its long-term competitiveness.

The Irish experience

Ireland's position in relation to retail investor participation is distinctive. Irish household wealth is heavily concentrated in housing, accounting for roughly two-thirds of total net wealth.¹ Where households do hold financial assets, these are mainly held indirectly in occupational pensions and life insurance. Also, approximately €175 billion sits in deposits in Irish banks.²

The result is that direct Irish retail participation in financial markets is limited compared to our European

peers. This reflects a complex interplay of historical, cultural and structural factors that have shaped how Irish consumers think about savings and investment. Research undertaken by the Central Bank of Ireland suggests these factors are deeply rooted, reflecting Ireland's economic history and the financial crises we have experienced.³ There are also knowledge and understanding gaps, and a perception that investment is complex and the preserve of the wealthy.

The Action Needed

No one intervention will be enough to enhance retail investor participation. It requires multiple sustained efforts from all stakeholders, and an eye to the longer-term.

It requires access to an appropriate range of products and services, delivered through channels that provide the right level of support for retail investors at different stages of their financial journey (including those looking to invest modest sums). Access to an appropriate range of supports and advice is especially important, as consumers look to step into areas of financial services that may be unfamiliar to them.

It requires a robust regulatory framework, clear disclosure requirements which effectively inform investors, and sustained efforts to improve and foster a positive investment culture, and restore public trust and confidence in capital markets.

Enhancing retail participation requires sustained efforts from all stakeholders.

It requires that we advance the aims of our National Financial Literacy Strategy. Together with our colleagues in the Competition and Consumer Protection Commission and the Department of Finance, the Central Bank of Ireland is playing its part in advancing the aims of Ireland's National Financial Literacy Strategy, through our role on the Executive Board set up under that Strategy.

It requires that regulated firms apply the investor protection framework consistently and effectively, while robust safeguards against frauds and scams are critical to maintaining consumer confidence as retail investment grows.

An Investment Account for Ireland

This is the context in which the Irish Government has identified the development of an Investment Account for Ireland as a priority. Work is underway to deliver an account in-line with the European Commission's recommendation for simple, accessible, tax-efficient, easy to administer accounts that are transparent on fees and portable across borders where possible.

The Central Bank of Ireland is playing its role in supporting the Savings and Investments Union, in line with our mission to ensure the financial system operates in the best interests of consumers and the wider economy. This means that the regulatory framework supports retail investment, that consumer protections are robust and that greater trust and confidence in capital markets is created and sustained for the longer-term.

1. <https://www.centralbank.ie/statistics/data-and-analysis/household-wealth>
2. <https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/bank-balance-sheets>
3. <https://www.centralbank.ie/publication/retail-investor-participation-in-ireland--consumer-research-and-analysis>



MARIANA KÜHNEL

Executive Director –
Austrian Financial Market
Authority (FMA)

Empowering EU retail investors through trust, literacy and simplicity

The Retail Investment Strategy (RIS), the blueprint for Savings and Investment Accounts (SIAs), and the Financial Literacy Strategy (FLS) are key pillars for strengthening retail participation in European capital markets while ensuring investor protection.

A New Generation of Investors Is Reshaping the Investment Journey

The RIS aims to ensure that investors feel adequately protected. At the same time, retail market developments show a clear shift towards younger, more digitally oriented investors. A recent FMA study highlights exactly this trend among Austrian consumers. This evolution is reshaping investment behaviour, both in terms of products and access channels. Financial services are increasingly accessed via digital channels, neo-brokers and investment platforms that serve as gateways to capital markets. The investor journey on neo-brokers and trading platforms offers a unique opportunity to provide the right information at the right time. Some firms already analyse investor engagement

with educational content to improve its relevance and effectiveness. This can enhance the investor experience, strengthen financial literacy, and benefit companies, investors, and markets alike. Moreover, as products, ETFs act as entry points to capital markets. Young investors increasingly combine conservative investments such as ETFs with high-risk assets like cryptocurrencies and fractional shares, raising questions about their full understanding of the risks associated with crypto products. These trends underline that effective investor protection cannot rely on regulation alone and must be accompanied by the knowledge and skills needed to make informed financial decisions.

From Information to Empowerment - Financial Literacy

Protection alone is not enough; lasting participation requires investors to understand both the opportunities and risks. While the Financial Literacy Strategy can help address knowledge gaps and build trust in capital markets, its success depends on effective national implementation. A recent Austrian study shows that although general financial knowledge is relatively strong, specific knowledge remains weak. The FMA therefore considers targeted financial education and clear regulation, to be essential for empowering retail investors. The FMA's investor education efforts build on insights from investor enquiries and complaints, helping to address key market issues while ensuring initiatives remain coordinated and complementary.

**Trust and participation
grow when protection,
literacy, simplicity and
incentives align.**

Making Long-Term Investing the Easy Choice

For many retail investors, particularly first-time investors, trust is closely linked to simplicity, transparency and a clear understanding of how investment products contribute to long-term financial goals. SIAs can be an effective tool to increase retail participation by offering a simple, consumer-friendly investment solution. However, digital platforms (neo-brokers) are often the primary access point to capital markets for young investors. Aside from such benefits, the services offered by neo-brokers can raise investor protection concerns, particularly when traditional investments are marketed alongside speculative assets. It is therefore

important to draw young investors' attention to less speculative, long-term investment models, such as SIAs. Consequently, SIAs should be designed as an attractive option for young investors.

The Building Blocks of Successful Savings and Investment Accounts

The effectiveness of SIAs depends on their ability to combine simplicity, attractive economic incentives, and strong consumer safeguards. Several conditions are essential for SIAs: First, account portability and cross-border usability to reflect the realities of the EU Single Market. Second, fees must remain transparent and proportionate. Third, eligible investments should allow diversification across shares, bonds and regulated investment funds while excluding unnecessarily complex or excessively risky products. Fourth, tax incentives must be meaningful and easy to understand. Finally, communication should focus on long-term wealth creation rather than short-term speculation.

Furthermore, simplicity and retail participation would benefit from greater convergence across Europe. However, SIAs' non-binding nature may limit their effectiveness, resulting in fragmentation and disparity of consumer protection. Common benchmarks, monitoring and the exchange of best practices supported by targeted European Commission funding and guidance could promote greater convergence. Significant disparities persisting may necessitate future legislative action.

The RIS, FLS, and proposed SIAs framework provide a credible basis for empowering retail investors. Their greatest strength lies in recognising that participation is driven by a combination of protection, financial literacy, simplicity and incentives. If implemented consistently across the EU, SIAs can help mobilise household savings, strengthen capital markets, and improve European citizens' long-term financial resilience and wealth.



REGINA DOHERTY

MEP ECON & Vice-Chair Tax Matters Sub-Committee
– European Parliament

Giving Europeans more options to build financial security

From an economic perspective, the Savings and Investments Union should be the only game in town. Boosting innovation, reducing gold-plating, and incentivising retail investment will make Europe a stronger global player.

We know the challenges. Europe's taxation levels are already among the highest in the world, yet businesses and communities struggle to get the funding they need. Mario Draghi has told us that €800 billion is needed to meet our competitiveness ambitions. We cannot meet our goals without capital markets. This is a mindset shift that needs to happen.

€10 trillion.

It's a lot of money.

That is the amount the European Commission estimates is sitting in bank accounts across Europe, sometimes earning less interest than inflation and losing value every year.

If used more productively to invest in small businesses, infrastructure, digitalisation or climate action, the benefits for society would be much greater.

To achieve this, we need to move from a culture of saving to a culture of investment. This means giving people more options than low-yield accounts, incentivising investment from an early age, building financial literacy, and helping people to make their own money work better.

This discussion should not be about closing ourselves off from non-EU markets, or making it harder for capital and investment from outside the EU to enter our market. If we want to be competitive, we need to compete.

People are already looking for these options. After a decade of inflation, with pension systems facing demographic challenges and pressure on public spending, the appetite to invest is a good-news story.

But this project must not lose momentum or be overshadowed by other pressing issues. It still requires work to help people understand the opportunities available.

This was clear in the Commission's SIU strategy, including the Retail Investment Strategy and Financial Literacy Strategy.

We need to incentivise people to consider investment opportunities from an early age, to build their financial literacy, and to make their own money work better for them.

Nowhere is this more urgent than in pensions. Encouraging Europeans to build their retirement savings by putting money into a supplementary pension product is vital.

If the Commission's PEPP reform is to succeed, it must help unlock access to capital currently not being used productively across the EU.

Member States are already making innovative policy choices in the area of pensions. From tax relief to auto-enrolment, there is a lot that we can learn from each other.

To succeed, PEPP must be attractive to providers and consumers alike. That means removing barriers and caps, encouraging competition and reducing unnecessary costs.

We should also increase flexibility and allow products to adapt to consumers' needs throughout different stages of life.

Similarly, when it comes to the Commission's blueprint for Savings and Investment Accounts, we must make the case for these accounts across all Member States.

A year after the blueprint's publication, responsibility has moved from the

Commission to Member States to drive retail investment forward. But the onus still rests on Member States to act.

Inspired by models such as the American 401(k), the British ISA, and the Swedish Investment Account, national SIAs should be accessible to as many people as possible, allowing regular investment at any level, in a tax-efficient manner, with limited red tape and the best possible returns.

Such accounts need tax incentives, simplicity and minimal administrative burdens.

We need to move from a culture of saving to a culture of investment.

If we really want to launch this culture change, then governments are going to have to get serious about making investing more attractive. This means changing the tax rules that dissuade people from doing it.

Investing must become truly democratised so everyone sees it as an option. This means reducing red tape, keeping fees low, simplifying tax reporting, creating incentives, widening access to financial instruments, ensuring competition, and not penalising people for achieving returns.

Many of these levers remain in the hands of Member States. The EU is speaking the right language about building a common market for savings and investment opportunities, but without domestic reforms that remove barriers and enable cross-border investment, progress will remain limited.

If we are serious about reform, there is no time like the present. We need to be brave and ambitious. This is how we build a culture of investment and turn savers into investors.



JONATHAN CLEBORNE

Chief Executive Officer,
Vanguard Europe – Vanguard
Asset Management, Ltd

Smart EU policy can boost dynamic retail markets

Federal Reserve Governor Paul Volcker famously said in 2009 that the only useful financial innovation in decades was the ATM. Perhaps this was a harsh judgment but Volcker was making a serious point: in many areas of the industry, financial innovation did little to improve the lives of everyday investors. More recently with technology advancing rapidly, Vanguard sees the promise of real benefits for retail investors globally.

We are particularly excited about three major trends in financial innovation: artificial intelligence (AI); new digital platforms (or 'neo-brokers'); and the growing adoption of exchange-traded funds (ETFs). Through these trends, Europe's retail market is evolving faster than EU policy can match; 3-plus years of negotiations on the Retail Investment Strategy (RIS) have made this painfully clear.

Let's examine how each is impacting the retail market. Firstly, AI, which already provides the starting point for many retail investor journeys. Tools such as ChatGPT have started to shape how people understand financial topics, make early decisions and form behaviours. Whilst this trend presents potential risks for consumers, we see significant

opportunities for AI within the regulated advice market. We believe AI can enable greater personalisation, sophistication and real-time engagement around critical life moments; whether investors remain self-directed or appoint a financial adviser.

Secondly, digital platforms are becoming key players in Germany, France and EU-wide, with more than €1 trillion in retail assets. The impact of digital platforms is evident on investment funds as well as retirement products like personal pensions. Neo-brokers are driving big changes to investor behavior and engagement and exerting real cost pressure, benefiting investors. The growth of EU neo-brokers is striking; client assets grew from €50 billion in 2020 to €150bn by 2023, according to ESMA data, and continue to grow rapidly.

Thirdly, diversified, low-cost ETFs are becoming a cornerstone of retail portfolios for EU investors. According to the consultancy ETFGI, total assets held in European ETFs have doubled since 2023 to reach €3.3 trillion. ETFs are bringing flexibility and product innovation with low costs to millions of new EU retail investors; many of whom are younger and new to markets, investing directly through monthly savings plans.

**Driven by AI, neo-brokers
and product innovation,
retail investing is evolving
faster than policy.**

How should EU policymakers respond to this retail market innovation? They have the essential part right: advocating for broad and deep retail investment markets for Europe's economic competitiveness and prosperity, building on the Draghi and Letta agendas. Concretely, on regulation, recent experience suggests that the EU policy process alone cannot deliver precise interventions in a rapidly evolving retail market. However, both the Commission and ESMA should stay close to developments in AI, fund products and digital distribution – using their leadership roles and policy tools to take fear (including risk aversion) and friction out of retail investing.

Addressing fear, European policymakers should seek inspiration from other jurisdictions' efforts, such as two current UK initiatives. The first is work by the UK's FCA to make risk warnings to investors more informative rather

than potentially discouraging retail investors as currently. The second is a partnership between industry and government, 'Invest for the Future', which aims to educate UK citizens on the importance of investing for their financial wellbeing. Addressing friction, we commend ESMA's plans to simplify the retail investor journey. ESMA's priorities here are sensible: streamlining disclosure; tackling information overload; and simplifying product governance, particularly in suitability and appropriateness assessments.

EU policy efforts can and should be bolstered by national reforms, since they allow greater scope to be strategic and agile. The Dutch authorities have a longstanding pro-investor agenda, built on a strong research and evidence base. Denmark's regime for assessing funds' value for money is the foundation of the RIS compromise agreement. And the Irish authorities have a highly proactive agenda to drive retail participation, guided by their recent Fund Sector Review.

Partnership between EU and national level reforms can also drive progress in areas such as tax policy and pensions. On tax, for example, last year the Commission published a strong blueprint for Savings and Investment Accounts, drawing on best practice globally. We are greatly encouraged by the progress being made on SIAs, including in the Netherlands, Ireland and Poland – and openness to reform in Italy, Spain and beyond.

The lesson is clear: Europe's retail investment market is innovating rapidly, creating new opportunities for citizens to build wealth. Policymakers should support this momentum by removing barriers, embracing innovation and empowering more Europeans to become confident, long-term investors.



SERGIU CRISTIAN MANEA

Chief Executive Officer &
Chairman of Management
Board – Banca Comercială
Română (BCR)

Europe has the tools. Now it needs execution

The Commission has put forward a range of targeted initiatives in the context of the Savings and Investments Union (SIU), which have the potential to transform, in a positive way, citizens' engagement with capital markets.

What remains insufficient – at least for now – are the level of dedication and pace of implementation. While there are frequent and unequivocal political commitments to rapidly advance the SIU, these strong words have yet to become reality. Let me elaborate.

First of all, many national budgets are under significant pressure, and pension spending often represents one of their largest expenditure items, given that many EU citizens rely predominantly on state pensions. Against this backdrop, one would expect the Commission's pensions package from last autumn to come along just at the right moment.

However, we unfortunately see a response, which, to say the least, is not very enthusiastic, from many Member States to the suggestion of

introducing automatic enrolment in second pillar pension schemes, which could be a genuine game-changer in familiarizing citizens with capital markets. Furthermore, the revision of the legal framework for the Pan-European Personal Pension Product (PEPP) presents a much-needed opportunity to revive this financial product. However, progress remains uneven across Member States. This is evident, for example, in their rejection of the Commission's proposal to grant PEPPs a favorable tax treatment, as was proposed by the Commission.

Moreover, the role and importance of funded pensions cannot be overrated in societies of increasing life expectancy, low birth rates, and a shrinking working-age population. These trends place intense pressure on public pension systems and budgets. However, funded pensions are capable of diversifying sources of retirement income, and they help improve the sustainability of pension systems overall.

Additionally, funded pension systems create large pools of 'patient capital' - funds can be invested with a long-term horizon. Such investments are crucial to support Europe's oftentimes weak economic growth and productivity, and they are essential in helping deliver on the EU's strategic objectives, such as digitalization, energy transition, defence sovereignty and infrastructure modernization.

**Design gets the
headlines, delivery
the results - the SIU's
real test is execution,
not architecture.**

Second, in my view, simple and well-incentivized investment accounts (SIAs), such as those envisaged in the Commission's blueprint, are essential to encourage a greater number of EU citizens to invest part of their savings. While SIAs already exist in several Member States, it is disappointing to see that others still have no (or no ambitious) plans to establish a dedicated framework for such accounts within their respective jurisdictions.

The policy initiatives proposed in recent months and years have been the right ones to address the persistently low level of retail investors in the EU. What is now needed is a strong commitment to implement the

measures already on the table urgently, properly, and in full.

Moreover, we should bear in mind that other jurisdictions outside Europe have also recognized the value of well-designed, incentive-based SIAs. This is an important reality that should not be overlooked in the ongoing debate about Europe's global competitiveness.

To mention an example, Japan had its first, rather modest, SIA model as of 2014. It was fundamentally reformed in 2024 by, inter alia, making the tax-exemption period permanent and significantly increasing lifetime investment limits. The numbers speak for themselves: the Japanese SIAs surged from approximately EUR 118 billion at the end of 2023 to about EUR 210 billion by the end of 2024. Japan was determined to move on from a time-limited tax incentive to a lifetime wealth-building tool.

What's more, the United States have also introduced an additional SIA-type vehicle. The so-called 530A Account is a tax-advantaged investment account for US citizens under the age of 18, under which US Department of the Treasury will contribute USD 1,000 to investment accounts established for children born between 2025 and 2028.

There are quite a few matching elements between the 530A Account and ERSTE's 'Zukunftsdepot' idea (= securities account as a 'welcome package' for each newborn; we would provide the accounts for free), which we have been advocating for years and well before the US account was initiated.

All of these recent initiatives are even more important given that the Retail Investment Strategy (RIS) is unlikely to live up to the high expectations that accompanied its launch. The legislative process has not necessarily resulted in a simpler framework, quite the contrary. Hence, it is questionable whether the RIS will be able to serve as a major engine for bringing more EU citizens into capital markets.

Europe does not suffer from a lack of savings. It suffers from a lack of mechanisms that help citizens transform savings into long-term investment. The policy tools are increasingly available. The challenge now is implementation.



MICHAEL TAE

Group President of Funds,
Issuer, and Data-Driven
Solutions – Broadridge

Financial literacy: building on- ramps to long- term investing

Financial literacy empowers retail investors to make better long-term investment decisions with their assets. Financial literacy is more than just education, it's empowering European citizens with information. Broadridge strongly supports efforts by regulators and the investment industry to increase retail investing, as this will be key to funding secure retirements for individuals and fuelling growth in the European economy. But to do so successfully, Europe's retail sector needs "on-ramps" to investing successfully for the long-term. Clear information, coupled with tools that build financial literacy, provides such an on-ramp.

Building "on-ramps" to investing

Broadridge is proud to be an industry leader in financial literacy and retail empowerment. At our annual Symposium in Brussels, we convene regulators and industry executives to discuss how to operationalize on-ramps that help households enter investment markets. Those on-ramps include better information about investment options and decisions as well as enhanced access to appropriate investment products. Technology and investor

communications also have an important role to play. Broadridge works closely with fund providers and distributors to operationalize their digital tools, data analytics and production techniques to deliver the types of digestible, plain-language communications that enhance retail investor comprehension, trust and long-term participation in capital markets.

There are currently several EU policy initiatives underway aimed at growing retail participation in capital markets. The European Commission's Financial Literacy Strategy is designed to help citizens make sound financial decisions and improve their well-being, financial security and independence. The Retail Investment Strategy aims to deliver better information to investors. And the Markets Integration and Supervision Package includes proposals for data harmonization and simplification that may improve disclosures.

Essential life skill

In its 2025 Financial Literacy Strategy, the European Commission described financial literacy as an essential life skill that combines the "financial awareness, knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions."

At its core, financial literacy is about empowering retail investors to make good investing decisions and take the types of educated risks needed to fund secure retirements and build capital

**High-quality investor
communications correlate
with higher levels of retail
investor empowerment.**

for home buying and other major life milestones.

By nearly every possible measure, financial literacy and retail empowerment is lagging among Europeans. The 2023 edition of the E.U.'s Eurobarometer Survey showed that only 18% of E.U. citizens are highly financially literate. When Broadridge replicated this survey in the United States, we found that U.S. citizens significantly outperformed European citizens and generally had higher levels of financial literacy across the board. Given those results, it's no coincidence that U.S. households have far fewer assets sitting in bank savings

accounts and a far bigger share of wealth invested in capital markets.

Regulators and the investment industry have recognized the problem and are joining forces to promote financial literacy and retail empowerment. There is ample evidence in support of this approach. Studies have demonstrated the direct link between higher levels of financial literacy and retirement preparedness.

Clarity of investment disclosures as a foundation to better investing

Broadridge analysed investment policy descriptions from UCITS KIIDs from each of the 50 largest U.K. asset managers. Only five of these disclosures came in at a readability level appropriate for a retail audience with limited financial expertise. Nearly half the disclosures were written at an academic or college level that would be difficult for most retail investors to understand. Presenting that information at a lower and more easily comprehensible reading level would significantly improve accessibility.

There is ample research documenting that high-quality investor communications correlate with higher levels of retail investor empowerment. To be considered high-quality, investor information and disclosures should be:

- Easy to view and understand,
- Pushed directly to physical or electronic addresses of the investor's choosing,
- Offer evidence of delivery and owner-initiated activity,
- Include layering and linking in digital formats, and
- Leave no investors behind.

Europe cannot afford to leave trillions in household savings idle while retirement gaps widen and the economy's need for growth capital remains unmet. Financial literacy is the foundation that helps individuals move from saving to investing with confidence and purpose. By building better on-ramps through education, technology and more effective investor communications, Europe can help millions of citizens participate more fully in capital markets while unlocking the investment needed to support innovation, growth and long-term economic resilience.

We thank the **Irish Presidency of the Council of the EU** and the **partner institutions** for their support in organizing the Eurofi Dublin Financial Forum



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Chomhairle an Aontais Eorpaigh 2026
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NEW RETAIL INVESTMENT MODELS



**DAMIAN
JAWORSKI**

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

AI, digital platforms and the future of insurance distribution

From an insurance perspective, the emergence of digital investment platforms and AI-enabled investment journeys raises an important question: is the EU regulatory framework still organised around the way consumers invest today, or around the legal labels attached to products? Increasingly, similar customer journeys can fall under different regulatory regimes depending on whether they involve an insurance wrapper, a financial instrument or a crypto-asset, even though consumers may expect equivalent protection.

Digital platforms illustrate this challenge well. A platform may begin by offering ETF savings plans or investment accounts, but later integrate life insurance, retirement products or protection features. At that point, the Insurance Distribution Directive (IDD) becomes relevant, raising questions about when a digital platform or

algorithm is carrying out insurance distribution, whether personalised recommendations amount to advice, who is responsible for suitability or demands-and-needs assessments, and how product governance obligations apply where insurers, technology providers and platforms all play different roles. Looking further ahead, another significant development is the emergence of agentic AI, with AI agents increasingly acting autonomously at the behest of customers to support decision-making and execute actions.

As retail investment models become increasingly digital and embedded, supervisory attention is likely to shift from individual firms towards the governance of the entire customer journey. Digital platforms and AI present similar opportunities and challenges. Digital advice and automated investment journeys can make financial services more accessible and affordable, but insurance products often require considerations that go beyond investment risk alone.

Recent market developments already illustrate how distribution models are evolving. Some digital insurers are moving insurance distribution into AI-driven customer journeys, allowing consumers to obtain personalised insurance quotes through conversational AI rather than traditional websites or intermediaries. This represents a shift from consumers actively searching for products towards insurance being offered at the point of digital discovery, with AI acting as the interface between customers and regulated insurers.

While such models have the potential to significantly reduce friction and improve accessibility, they also raise important regulatory questions about when AI platforms are carrying out insurance distribution, who is responsible for complying with the IDD, and how supervisory responsibilities should be allocated across insurers, technology providers and digital platforms.

In addition, questions have been raised to EIOPA about whether AI chatbots that collect personal data, filter products or provide recommendations are carrying out an insurance distribution activity under the IDD. If so, the entity deploying or providing the chatbot may need to meet IDD rules, including registration, information obligations and conduct rules. The distinction between information and distribution is therefore

essential. While chatbots providing general explanations may fall outside the scope of the IDD, those assisting consumers with personalised product choices may trigger its rules.

More broadly, new digital investment models challenge existing approaches to fair, clear and not misleading communication and product governance. Online platforms increasingly use behavioural design to influence consumer decisions. While these technologies can improve customer experience, they also create risks if they embed “dark patterns” and steer consumers towards products that generate higher remuneration or are not aligned with their long-term objectives. The existing IDD “best interests” requirement and product governance framework, including value for money assessments, provide a strong foundation, but it will need to evolve so that supervision focuses not only on the insurance product itself, but also on the digital customer journey.

Supervisory focus may need to expand from individual products to entire customer journeys.

Overall, the EU framework remains broadly capable of accommodating innovation because its core principles – consumer protection, suitability, product governance, operational resilience and disclosure – are largely technology-neutral. The greater challenge lies in ensuring that these principles are applied consistently across different distribution models and technologies. As investment journeys increasingly span insurance, investment and digital services, the regulatory framework may need to evolve to allow the supervisory focus to shift from individual products to customer journeys, ensuring consistent consumer protection regardless of the distribution channel or product wrapper.



MARIE-ANNE BARBAT-LAYANI

Chair – Autorité des
Marchés Financiers (AMF)

Retail investment innovation in France and Europe: a regulatory perspective

Retail investment in France, and in Europe, is evolving rapidly, driven by demographic changes, digital distribution channels, innovative financial products and technological change. Retail investors are younger and more digitally connected, but they are also increasingly aware of the need to invest for their future retirement. While technological developments broaden investment opportunities and strategies, they also create new vulnerabilities, and challenge traditional regulatory frameworks. It is not always easy to stick to the traditional “technology neutral” approach, since in some cases, new technologies create specific risks and/or need regulatory adaptations.

In response, both the French Autorité des Marchés Financiers (AMF) and the European Securities and Markets Authority (ESMA) have adopted a pragmatic approach: encouraging innovation while ensuring that investor protection and market integrity remain at the core of regulation.

ELTIFs (European Long-Term Investment Funds) illustrate this trend. ELTIF is a label accessible to Alternative

Investment Funds (AIFs) that aims to channel European savings into the real economy. The label also allows AIFs for benefiting from the European marketing passport. This label was first introduced in 2015 and was reviewed in 2023 (ELTIF 2) in order to favor retail participation by relaxing ELTIF rules without compromising investor protection (e.g. enhanced liquidity management). Fractional shares also help democratize access to capital markets by allowing retail investors to invest small amounts, although it is essential that investors clearly understand the nature of what they own and the rights and limitations associated with holding fractional shares.

The evolution of the French approach to crypto-asset-linked products also shows this regulatory philosophy. Following the entry into force of the Markets in Crypto-Assets Regulation (MiCA), the AMF has updated its position considering cryptos as “unusual assets”, to allow the marketing to retail investors of certain crypto ETNs. Such ETNs must be based on the most established crypto-assets under specific conditions, such as delta-one exposure and physical backing. At the same time, the crypto-asset ecosystem is not only expanding through traditional financial instruments such as ETN. Tokenisation of assets is also creating a new way to trade financial instruments. It could notably enable faster, or even near-instant, settlement, disintermediation and simplification of the market value chain, as well as the automation of operations through smart contracts.

Retail investment is increasingly shaped by digital technologies as well. Digital platforms, distributed ledger technologies and artificial intelligence are transforming the retail investment ecosystem by improving accessibility and reducing transaction costs. At the same time, they increase risks of scams and frauds. This technological transformation raises challenges extending well beyond product regulation as it also offers an opportunity to foster competition in the distribution space and to streamline regulatory requirements in this area as part of the simplification and burden reduction effort.

Artificial Intelligence (AI) further illustrates this evolution. AI is increasingly used by retail investors to obtain information, understand products and prepare investment decisions. AI recent survey¹ conducted by the AMF shows that 11% of French investors are using it already, in a manner that somewhat resembles its use in the health area: they tend to gather information before they go to a traditional financial advisor. However, there is a clear generational divide

(people under 35 are significantly more likely to use AI (19% vs. 4% among those aged over 55)). Regulators, particularly the ESMA, therefore promote a risk-based approach, by which investment firms remain responsible for AI-assisted services. Beyond conduct issues, AI also raises operational and cybersecurity concerns, suggesting that future regulatory discussions may increasingly focus on governance frameworks comparable to those already developed under the Digital Operational Resilience Act (DORA).

... to foster competition in
the distribution space and
to streamline regulatory
requirements...

The challenge ahead will be to maintain a proportionate framework that supports innovation and facilitates investor journey without compromising investor protection, market integrity or operational resilience. Whether addressing crypto-assets, prediction markets or AI-enabled investment services, the common objective remains the same: fostering confidence as the foundation for deeper retail participation in European capital markets.

1. https://www.amf-france.org/sites/institutionnel/files/private/2026-06/Investissement%20et%20intelligence%20artificielle%20tendances%20usages%20et%20perceptions_o.pdf



LUÍS LAGINHA DE SOUSA

Chair – Portuguese Securities
Market Commission (CMVM)

Calibrating regulation for innovation and competitiveness

Digitalisation and the cross-border nature of financial activity are eroding traditional regulatory and geographical boundaries, challenging the suitability of existing regulatory frameworks.

When assessing whether financial regulation remains fit for purpose, it is important to recognise that European and national policymakers are increasingly focused on competitiveness.

Ensuring that financial markets fulfil this role amid rapid transformation is both strategic and complex. While innovation has always shaped capital markets, digitalisation is accelerating change, requiring regulators and market participants alike to understand new technologies, emerging practices and the risks they may create.

Portugal is seeing significant developments, including the growth of pan-European digital brokers and neobanks offering low-minimum ETF investment plans. These models may contribute to the democratisation of capital markets, but they also blur distinctions between products, services and market participants.

Automated model portfolios and robo-advisory services may provide an attractive alternative to traditional portfolio management and investment advice, but investors may not always understand the nature of the service provided.

AI and tokenisation are also reshaping investment services, operations and investor decision-making. These developments may also shift economic and informational power towards new actors that fall partially or entirely outside the traditional regulatory perimeter, potentially increasing opacity.

A further layer of complexity stems from social media platforms and the growing role of influencers.

A defining feature of this evolution is the blurring of boundaries between simple and complex products, regulated and unregulated products, financial services and social media content, and investment and gamified behaviours.

Many of these business models are designed to increase participation in capital markets, particularly among younger investors, by lowering entry barriers. New investors mean more savings potentially flowing into the productive sector. However, if inexperienced investors are nudged towards complex, high-risk products through behavioural biases and limited financial literacy, participation may rise while outcomes and confidence deteriorate.

Regulation and supervision must keep pace with innovation, supporting competitiveness and investor protection.

In some cases, the existence of regulation may even create a false sense of security. MiCAR undoubtedly expands the regulatory perimeter, but it does not place crypto-assets on an equal footing with financial instruments regulated under MiFID, either in terms of their role in financing the economy or the level of investor protection attached to them.

These developments also give rise to operational resilience and market integrity risks, including cybersecurity threats, outages, third-party dependencies, manipulation,

misleading recommendations and new forms of market abuse.

Europe's regulatory framework is built on a comprehensive set of regimes and the principle that firms must act in the best interests of their clients. The challenge is to ensure that simplified regulation addresses emerging risks while promoting innovation, competitiveness and efficiency.

In addition, three specific challenges deserve particular attention.

First, investors increasingly encounter ETFs, crypto-assets, tokenised assets, fractional shares, structured products and turbo certificates through the same digital interfaces, despite the different regulatory frameworks and levels of protection that apply to each. Ensuring access to clear and reliable information is therefore essential, as is equipping investors with the skills needed to assess it critically.

Second, the increasingly cross-border nature of distribution reinforces the need for supervisory convergence. It also raises questions about the ability of smaller market participants to compete effectively, particularly those outside larger groups.

Third, investor protection tools may prove insufficient if digital interfaces nudge investors towards riskier behaviour or if AI-generated explanations foster unwarranted confidence. Ensuring that AI systems and interface designs are properly tested and monitored is therefore becoming a supervisory priority.

Our role is not only to ensure that markets remain fair, transparent and orderly, but also to foster an environment in which responsible innovation can flourish while supporting investor confidence and efficient capital markets.

Achieving this outcome requires regulation and supervision to be appropriately calibrated. This, in turn, demands a common understanding of the applicable frameworks, continuous monitoring of their implementation, effective information sharing among supervisors and policymakers, and ongoing dialogue with market participants.

Such calibration should ultimately support deeper integration of European capital markets, enabling them to finance innovative and globally competitive companies while offering investors attractive opportunities for long-term wealth creation.



CHLOE BARZ

Senior Director of International Government and External Affairs – Robinhood

Unlock investing through innovation

Robinhood exists to make investing more accessible. That mission is moving up the EU's political agenda, and rightly so: pension gaps are widening, and AI is reshaping the balance between labour and capital. In that world, access to investment cannot remain a privilege of the few. Broader participation is part of the new social contract.

Good policy should therefore do one thing above all: help people start earlier, with better tools, and fewer unnecessary barriers. The biggest mistake policymakers can make is to treat time as neutral. It is not: every single year spent out of markets is a year of lost compounding that no downside protection can restore.

That is why the EU's retail investment debate should begin with a practical question: what stops potential investors from actually starting to invest? The answer is not abstract: cost, price, and access.

Recent Robinhood research across 6,811 people in 14 EU member states found that 60% of current investors have wanted to buy a share but found the price unaffordable, 47% have abandoned a trade because of fees, and 48% have been unable to trade because the exchange was closed. The same research also shows what would help: 40% cite

fractional investing, 45% lower fees, and 49% the ability to trade at any time. In other words, people are held back by market design, not lack of interest.

That is where tokenisation can expand participation. In simple terms, tokenisation means turning financial instruments into digital tokens exchanged more efficiently on blockchain infrastructure. Done well, it addresses each of these barriers directly: fractionalisation lowers the entry price, on-chain settlement can cut trading costs, and always-on markets remove the exchange-hours constraint. The EU deserves credit here: it is among the first major jurisdictions to allow tokenised equities through a licensed, regulated structure.

The next step is straightforward: make that framework usable at scale. Today, the legal basis exists, but practical frictions still blunt the benefit. The clearest example is MiFID's appropriateness test: it treats a fully backed, non-leveraged stock token like a complex product because of its legal wrapper rather than its actual risk, recreating the barrier tokenisation is meant to remove. That approach should be reviewed for products backed 1:1 by traditional listed equities that give investors recourse to those shares.

Tokenisation is not just a technical upgrade. It also widens access to investment opportunities that have historically been out of reach for ordinary retail investors.

Tokenisation can create more accessible and frictionless financial services for all.

Robinhood's SpaceX Stock Token giveaway shows how tokenisation can open earlier access to assets that have historically been limited to a wealthy few. In June 2025, Robinhood gave eligible EU customers a small promotional Stock Token tracking SpaceX's value before listing, at a reported \$425 billion valuation. When it listed in June 2026 at roughly \$1.75 trillion, those customers had already accrued much of that increase in value, growth they would otherwise have had no way to access. That is the point of tokenisation: creating more accessible and frictionless financial services for all.

But reform should not stop with tokenisation. The EU should also make room for better tools to help people

participate once access exists. That is where agentic investing matters.

For many people, the barrier is not willingness but confidence, time, and financial fluency. Agentic investing, where AI agents can act within investor-set guardrails or a specific strategy, has the potential to close that gap. It could help more people move from intention to action, especially those who are intimidated by complexity or do not have the time to manage their portfolios without assistance.

If the EU wants innovation that helps more people invest, it needs regulatory clarity: a route to authorisation for automated guidance and execution, a clear liability framework when an agent acts within investor-set limits, and disclosure standards designed for how agentic systems communicate.

Another important lever is tax, and over time it may be the most powerful of all. If compounding is the engine of long-term wealth creation, policy should help people start that engine as early as possible. A children's tax-efficient wrapper, or better still, a newborn investment account, would do exactly that.

The effect of timing is not marginal: it is decisive. Invest €1,000 at the start, add €1,000 each year at a 7% return, and the outcome at 18 (EU legal age) depends overwhelmingly on when investing begins: about €37,400 from birth, €17,900 from age 7, €5,750 from age 14. Same habit, same return, radically different results.

None of this requires the EU to reinvent retail investment policy from scratch. The building blocks already exist. What is missing is the willingness to use them with more urgency and practical focus.



MARC ROBERTS

General Counsel – Raisin GmbH

Making the Savings and Investment Union real for retail savers

Europe does not have a savings problem. Households hold more than EUR 9 trillion in bank deposits, much of it earning little or nothing in real terms. What Europe has is an intermediation problem: too much of that capital stays trapped in low-yielding accounts at a single domestic bank, and too little of it reaches the investments – and the returns – that could fund both retirement and the EU's competitiveness agenda. The Savings and Investment Union (SIU) is the right diagnosis. The question is whether the regulatory framework will let new distribution models deliver on it.

Cross-border savings marketplaces already allow a saver in one Member State to open, in minutes and fully digitally, a deposit or investment account with an institution in another. At Raisin we connect savers with banks and asset managers across Europe; the client keeps one interface while capital flows to wherever it is best remunerated. This model is mainstream in the making because it solves a concrete problem: it raises returns for savers and channels idle deposits into productive use.

Consider a practical example. A saver in Dublin should be able to place funds with a well-capitalised bank in another Member State as easily as with a local one, confident that the same deposit protection and disclosure rules apply.

Today that experience is possible, but only because platforms absorb the legal complexity that fragmentation creates. Reducing that complexity, rather than adding to it, is the surest test of whether the framework truly serves savers.

ETF savings plans deserve particular mention. By turning investing into a small, automatic monthly habit, they have become the most effective on-ramp yet for first-time retail investors – low-cost, diversified and easy to understand. They are also increasingly tax-favoured: Germany's recent pension reform steers incentives towards exactly this kind of long-term, fund-based saving. Extending comparable, portable tax treatment EU-wide would be a welcome lever for broader participation.

Tokenised investing and crypto-asset-linked products attract more attention, and MiCA Regulation has given the EU a genuine first-mover framework. But for the median retail saver, tokenisation is today a promise about market plumbing – settlement, fractionalisation, custody – rather than a mass-market product. It will matter, but the near-term gains in retail participation will come from making conventional, well-regulated deposits and funds frictionlessly available across borders.

Harmonised rules will turn dormant European deposits into yield.

Prediction markets are the newest arrival, and they test the framework's coherence directly. A contract that pays out on a real-world event can be read as a derivative, as gambling, or as neither – and each reading triggers a different regime, or none at all. For savers the ambiguity is the whole risk: they deserve to know whether they are investing or wagering. A clear, common test for when an event contract is a financial instrument would protect consumers in this regard.

Here the current framework is only partly fit for purpose. The single market for retail financial services still behaves like 27 markets. Passporting works well on paper, yet divergent national implementation of consumer-protection rules, gold-plating, inconsistent tax procedures, and fragmented identity and AML onboarding create real friction that raises cost and deters entrants. The Deposit Guarantee Schemes Directive is the quiet success story – harmonised

EUR 100,000 protection is precisely what makes a saver comfortable placing money with a bank they had never heard of in another country. That is the template: strong, harmonised, portable protection paired with genuine freedom to distribute.

Supervisory convergence matters as much as the rules themselves. Where the same instrument is treated differently by different national authorities, the cost of operating one European service multiplies. A genuine single rulebook, applied consistently, would let compliant platforms scale across the Union and pass the resulting efficiencies back to savers as higher net returns.

The prize is large and measurable. If even a fraction of Europe's dormant deposits earned competitive, cross-border returns or moved into diversified, low-cost investment products, the effect on household wealth and on the depth of EU capital markets would be significant. The platforms to do this exist and are regulated today. What they need is a supervisory framework that trusts harmonised protection, embraces technology neutrality, and treats the single market as genuinely single. Get that right, and the Savings and Investment Union becomes something savers actually experience – not a policy aspiration, but a better account, opened in minutes, anywhere in Europe.



DANIEL KAPFFER

Chief Financial Officer & Chief Operating Officer – DekaBank Deutsche Girozentrale

Investor education as the foundation for effective long term investing

The European asset management sector is undergoing rapid transformation, as technology and innovation create new retail investment models.

Notable developments include the growth of digital platforms, ETF savings plans, AI-powered investment services, tokenized investing, and crypto-asset-linked products.

Retail investors now enjoy unprecedented access to financial markets, often requiring only a few clicks on a mobile device. While these innovations have enormous potential to broaden retail participation in EU capital markets, they also introduce significant challenges—especially whether retail investors are given the means to invest in those assets that fit their goals.

The advent of ETF savings plans has been especially impactful, allowing investors - even those with modest means - to build diversified portfolios in a cost-effective manner. In Germany, the surge in ETF savings plans and automated regular investment products has democratized investing, especially among younger generations. Still ETF are only a wrapper.

Often investors have limited knowledge about the composition of the index and might therefore be surprised by its volatility (i.e. MSCI World).

AI-enabled services are also gaining traction, offering robo-advisory, personalized alerts, and portfolio optimization tools. Still most professionals realize that AI is only as good as the context it is been given. General training data does not contain any information about the client nor about his current holdings.

At the same time, tokenization is set to revolutionize asset access by enabling fractional ownership of assets such as real estate or art, while blockchain technology supports the emergence of new crypto-asset-linked products.

Technology is not merely an efficiency driver, but a behavioral framework

Which of these innovations are likely to become mainstream? ETF savings plans and automated investment products have already proven their viability and appeal, lowering entry barriers and mitigating market timing risk through regular, automated contributions. Digital platforms further streamline the process for end users, minimizing procedural complexity.

Investing requires skills and advice not just easy access to markets.

Although tokenization offers great promise, its widespread adoption depends on robust regulation and harmonized infrastructure. Crypto-assets, meanwhile, remain a niche: their volatility and regulatory ambiguity limit their suitability for broad retail uptake. Conversely, AI-powered decision support is set to become mainstream, enhancing user experience and supporting better risk-adjusted investment choices.

It is thus increasingly evident that technology is not merely an efficiency driver, but a behavioral framework with the power to facilitate mainstream adoption.

To ensure that the average retail client truly understands their investments, financial education is critical. The goal should not be to maximize the number of retail investors at any cost, but rather to promote wise, goal-aligned investing and curb speculative, short-term behaviors. In this context, access

to professional advice is indispensable. The shift toward self-directed investing should not compromise informed decision-making. If professional advice becomes too complex or inaccessible, retail investors are pushed toward self-directed platforms, where the risk of suboptimal outcomes is higher.

Studies already show that self-directed portfolios show significant weaknesses in terms of diversification (industries, geographies, portion held in cash).

Moreover, new investment models must be regulated equitably. Regulatory discrepancies - particularly in emerging areas such as financial influencers or prediction markets - create systemic vulnerabilities. Influencers wield significant influence, especially among young investors, but are often minimally regulated, and their partnerships with product providers can blur the boundaries of transparency and inducement.

Additionally, following the ban on Payment for Order Flow (PFOF), some platforms have moved to structures in which brokers and exchanges may share common ownership, introducing possible conflicts of interest.

Germany exemplifies how structural improvements—such as ETF savings plans and streamlined digital onboarding—can substantially broaden market participation. But this expansion must be aligned with investor education and accessible professional advice, ensuring that retail clients make decisions in line with their objectives and risk tolerance.

The future of retail investing in the EU is unequivocally digital, but it also requires rigorous safeguards. Success will not be measured solely by participation rates, but by the extent to which retail investors achieve their long-term financial goals.

DEVELOPING SUPPLEMENTARY PENSIONS



PETRA
HIELKEMA

Chair – European Insurance
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Pensions Authority

From patchwork to progress: the future of EU pension systems

Europe is entering a critical phase in preventing old-age poverty. The share of people aged 65 and over is expected to rise from 21.6% in 2024 to nearly 29% by 2050. This will place further pressure on pay-as-you-go systems and increase the importance of supplementary pensions in preserving retirement adequacy. EIOPA's Eurobarometer shows that confidence in retirement adequacy is uneven across age groups – with the group 40 to 54 being the least confident – underlining the need for both short-to medium-term measures to close the gap for those who will retire in the 2050 onwards and longer-term structural reforms to ensure pensions adequacy for younger generations.

In practice, this means addressing Europe's patchwork of pension systems, which still creates barriers to scale, efficiency, and adequacy. The most effective path is likely to combine

common European solutions with national measures closely aligned with labour, social and tax law. This can help achieve the scale needed for stronger returns while preserving national flexibility.

Member States need to modernize fragmented pension systems while expanding access for groups that remain underserved. Those Member States developing new systems have a unique opportunity to establish more integrated and coherent frameworks from the outset.

This in practice needs a set of national reforms – with EU coordination – such as:

- **Majority-rule participation models like auto-enrolment with opt-out options** – a smart way to boost participation while preserving individual choice, ensuring more people benefit from pension savings;
- **Gradual transition to funded systems** – a balanced approach that partially shifts social security contributions from pay-as-you-go models to funded pensions, preventing unfair financial burdens on current generations;
- **Portable and flexible arrangements for part-time workers**, the self-employed and those with interrupted careers, so that supplementary pensions reflect today's labour market rather than yesterday's.

At the same time, EU-level initiatives are needed to ensure savers have credible options to supplement Pillar I pensions and to help Member States free public resources for those unable to save. The EU role is especially important where scale, portability and consumer trust cannot be achieved efficiently at national level alone. EIOPA's Eurobarometer survey shows that limited confidence in retirement reflects broader concerns about the sustainability of public pensions, the erosion of savings through inflation and uncertainty about future needs. Importantly, distrust in private savings and pensions has also risen, showing that expanding supplementary systems will require not only wider access but also better returns and lower costs.

Adaptable pension frameworks should allow employer contributions into

personal pensions, continued saving after employment, and flexible participation for part-time workers, career breakers and the self-employed. The Pan-European Personal Pension Product (PEPP), or a stronger "EuroPension" model as proposed by EIOPA, could help fill gaps where occupational coverage remains limited and could use its European scale to improve outcomes.

The shift to defined contribution (DC) pensions also requires careful design of both accumulation and decumulation defaults. Investment defaults should align with time horizons and risk tolerances, while decumulation pathways must provide clear income projections and withdrawal options to ensure financial security in retirement.

Transparency tools – such as pension dashboards, tracking systems, and cost and performance benchmarking – are critical for measuring reform impact, closing pension gaps, and empowering citizens. With digitalisation making complex information more accessible, transparency tools will enhance public awareness on pension matters while enabling regulators and supervisors spot problems more promptly.

Successful implementations will create unified frameworks such as improved design of DC schemes or the PEPP which can immediately address the issues of ensuring good returns for consumers who will retire 'tomorrow'. These approaches can ensure that scale is reached with costs being controlled and good returns being achieved. These European solutions should be coupled with solutions allowing for national flexibility particularly to address the gap in the longer term.

As the debate moves from EU proposals to national implementation, these choices will determine which Member States succeed in expanding coverage and improving adequacy. EIOPA's forthcoming DC toolkit should help policymakers navigate design choices and trade-offs, while a well-implemented PEPP could help successful national third pillar products scale across borders under a credible EU registration framework.

Ultimately, true success will be measured not by institutional mandates or jurisdictional boundaries, but by our collective ability to bring everyone along – especially supporting those who need it most now and, in the future.



ANNA JEGNELL

Director General, Financial
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Sweden's pension model: lessons learned

The Savings and Investment Union (SIU) seeks to mobilise long-term household savings to help finance the investment needs while strengthening supplementary pensions and addressing the growing pension gap across Europe. Sweden already demonstrates the effectiveness of this approach, combining long-term, return-oriented investment strategies with a pension framework that supports both adequate retirement incomes and the system's long-term sustainability.

Sweden's occupational pension system combines near-universal coverage, strong social partner governance, and solid long-term returns. Its success is underpinned by public trust and legitimacy, consumer protection, cost-efficient administration, and low fees. These features have enabled occupational pensions to play a central role in retirement provision while channelling long-term capital into productive investments. Looking ahead, the domestic reform most likely to expand supplementary pension coverage across Europe is automatic enrolment into workplace pension schemes. Evidence from Sweden shows that making pension saving the default option significantly increases coverage, particularly among younger and lower-

income workers. The auto-enrolment as identified by the Commission is a key policy tool for Member States seeking to strengthen occupational pension participation.

A second priority is improving pension transparency through dashboards and tracking systems. Giving citizens an overview of their pension entitlements can improve financial awareness, encourage saving and support retirement planning. Member States that combine transparency with tax incentives, broad coverage for self-employed and platform workers, and efficient pension institutions are likely to see the greatest improvements in retirement adequacy over the coming years. Ultimately, while the EU can provide the regulatory framework, national implementation choices will determine whether supplementary pensions become a stronger pillar of retirement security and a larger source of long-term investment capital for Europe's economy.

Sweden's pension reform succeeded because it combined long-term sustainability with broad political consensus. The reform linked lifetime earnings to pension benefits and introduced automatic balancing mechanisms. Another key factor was the combination of public and occupational pensions. Near-universal occupational pension coverage, strong governance, low administrative costs and professional asset management have helped deliver both adequate pensions, relatively fair replacement rate and solid long-term returns.

Occupational pensions: stronger retirement incomes and long- term investment.

Several elements of the Swedish model are transferable: clear and stable governance rules with involvement of the social partners; scale and consolidation, which enable lower costs and professional investment management; and transparent pension tracking systems. Retail participation in equity markets takes time to develop, but it is possible for other countries to replicate with the right policies and incentives. Other elements, however, depend heavily on Sweden's unique institutional and social context and are therefore more difficult to replicate. These include the high density of collective bargaining and the strong trust between employer and employee organisations, which are

the result of long-standing social partner structures. Cultural acceptance of high equity exposure and long term funded savings also support strong returns, which enjoys broad support in Sweden but may encounter resistance elsewhere. And Sweden's governance model, which relies on mutual principles institutions with responsible owners and decades of accumulated credibility—something that cannot easily be recreated through legislation. Finally, it is important to recognise that a well-developed capital market infrastructure takes time to build.

Despite its overall success, the Swedish pension system faces some challenges. Pension adequacy remains a concern for people with low lifetime earnings or interrupted careers, while rising life expectancy means that longer working lives will often be needed to secure adequate pensions. Improving public understanding of the interaction between public, occupational and private pensions also remain important. Sweden shows that even successful pension systems require continuous adaptation.



PHILIPPE BLANCHOT

Director of Institutional,
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Complementary pensions: strengthening retirement security and Europe's investment capacity

Europe's ageing population is making pension sustainability one of the defining economic and social challenges of the coming decades. By 2050, one European in four will be over 65 years old, while the ratio of active workers to retirees will continue to decline.

Public pay-as-you-go pension systems will remain the backbone of European social protection, but demographic trends inevitably increase pressure on their long-term sustainability and on the adequacy of retirement incomes.

As the French public financial institution, entrusted by the French State with managing approximately seventy mandatory complementary public-sector pension schemes, Caisse des Dépôts has a unique vantage point on Europe's pension challenges. Our longstanding experience in administering complementary retirement schemes and investing over long horizons gives us a practical

perspective on the contribution that supplementary pensions can make both to citizens' retirement security and to Europe's long-term financing needs.

Strengthening complementary pension savings

Across Europe, funded complementary pension schemes remain relatively underdeveloped compared with other major economies. They represent only a limited share of available long-term savings, and their investment portfolios often maintain a cautious allocation, with relatively modest exposure to equities and venture capital.

Developing complementary pension savings alongside basic public pension schemes is therefore an important component of sustainable pension systems. Complementary schemes help diversify retirement income, reduce dependence on public pay-as-you-go systems and contribute to maintaining an adequate standard of living for future retirees. Properly designed funding mechanisms and long-term asset management also allow these schemes to deliver sustainable returns while managing demographic and financial risks.

Complementary pension savings can reinforce retirement adequacy while supporting long-term investment in Europe.

Mobilising long-term savings for productive investment

Complementary pension funds also represent an important source of patient capital for the European economy. By investing over long horizons, they can contribute to financing innovation, infrastructure, industrial transformation and the ecological transition while seeking appropriate long-term returns for future pensioners.

Better channelling household savings towards complementary pension products and other long-term investment vehicles should therefore become a shared objective. This requires strengthening financial education so that citizens better understand the benefits of long-term retirement saving, while creating attractive investment solutions capable of delivering competitive long-term performance.

Building attractive and efficient supplementary pension products

The development of supplementary pensions also depends on creating products that meet citizens' expectations while remaining efficient for providers. This requires greater portability of pension rights, increased cross-border attractiveness and coordinated tax incentives that encourage long-term saving.

In France, the Retirement Savings Plan (PER) has become an important supplementary retirement savings vehicle based on capitalisation. The evolution of the Pan-European Personal Pension Product (PEPP) offers an opportunity to build on successful national experiences. Better alignment between European and domestic frameworks would help create products that are attractive both for savers and providers while supporting greater labour mobility across the European Union.

Drawing on its expertise in managing complementary pension schemes such as Ircantec and RAFF, Caisse des Dépôts could contribute to the development of future cross-border supplementary pension solutions, including for civil servants pursuing careers in several Member States.

The contribution of long-term public investors

Long-term institutional investors have a central role to play in developing Europe's capital markets. Larger and more diversified collective pension funds can reduce costs, improve long-term investment performance and increase the resources available to finance productive investment.

National Promotional Banks and Institutions such as Caisse des Dépôts combine a public policy mandate with recognised expertise in long-term investment. They are therefore well placed to support the development of complementary pension solutions that reinforce retirement security while mobilising additional capital to finance Europe's sustainable growth, innovation and competitiveness.

Strengthening complementary pensions is therefore not only about preparing for demographic change. It is also an opportunity to reinforce Europe's long-term investment capacity by connecting citizens' savings with the financing needs of tomorrow's economy.



JOSÉ ANTONIO ÁLVAREZ

Vice Chair – Santander

Europe has the savings. Now it needs the right incentives

A famous quote, often attributed to Albert Einstein, describes compound interest as “the eighth wonder of the world”. Whether or not he said it, the principle remains true. Time is the greatest driver of long-term wealth creation. Yet Europe still underuses one of its greatest assets: its citizens' savings.

Europe does not suffer from a shortage of savings but from a shortage of long-term investment. It faces unprecedented investment needs for the green transition, digitalisation, defence and strategic autonomy. Yet European households already save substantial sums. The challenge is not generating more savings but ensuring a larger share is channelled into productive long-term investment. Supplementary pensions should be viewed not only as retirement policy but also as investment policy.

Better pension systems improve retirement adequacy while providing the patient capital needed to finance innovation, infrastructure and Europe's future growth. Pension assets represent around 32% of EU GDP, compared with 142% in the United States and 100% in the United Kingdom. More revealing, 62% of EU private pension assets are concentrated in just three Member States: the Netherlands, Denmark and Sweden.

Though they represent only a small share of the EU population, they have built highly successful supplementary pension systems. The lesson is clear: the challenge is not European; it is primarily national. Rather than inventing new models, Europe should replicate what already works.

Retirement savings are well suited to financing long-term assets because their investment horizon is measured in decades, not months. Long-term liabilities naturally match long-term assets, while Europe's future investment needs increasingly lie in infrastructure, innovation, energy and defence. These investments need patient capital.

Promoting them requires the right incentives. Behavioural economics shows that people tend to procrastinate, avoid complexity and postpone decisions whose benefits lie years ahead. Europe often focuses on designing better financial products, but the design of the choices people face may matter even more.

Automatic enrolment schemes show participation can increase dramatically without restricting choice. Stable tax incentives are equally important. Long-term retirement saving benefits society by reducing future fiscal pressures while increasing the pool of long-term capital available for productive investment. Employers also have a crucial role to play. Expanding occupational pension schemes should remain a European priority.

The challenge is no longer encouraging Europeans to save more but helping them invest better.

Financial literacy is another essential ingredient. Improving financial capability is not simply about teaching financial concepts but helping citizens make better long-term decisions. Making future retirement outcomes more visible would help turn an abstract challenge into a concrete financial decision. Santander's global study, “The Currency of Learning”, based on almost 20,000 interviews across ten countries, revealed a striking gap between confidence and knowledge. Most respondents considered themselves financially knowledgeable, yet only a minority answered basic questions on inflation, diversification and compound interest. Behavioural economists would recognise the Dunning-Kruger effect: people who overestimate their financial

knowledge are often the least likely to seek information or professional advice. Improving financial literacy should help citizens recognise the limits of their understanding and make better long-term financial decisions.

This is where banks play a particularly important role. They already enjoy trusted relationships with millions of European households and are well placed to combine financial education, personalised advice and access to long-term savings products. Together with appropriate tax incentives and simpler products, this trusted distribution network can become a key driver of Europe's Savings and Investments Union.

Against this background, the Commission's proposals to develop the supplementary pension sector are welcome. A simpler and more attractive Pan-European Personal Pension Product, together with auto-enrollment, pension tracking systems and pension dashboards can foster a genuine European market for supplementary pensions. However, no pan-European product will succeed alone. Its long-term success will depend on complementary national reforms, particularly tax incentives, stronger occupational pension systems and behavioural policies that make long-term saving the easy and natural choice.

Europe already possesses one of its greatest strategic assets: its citizens' savings. The challenge is no longer encouraging Europeans to save more but helping them save and invest better. If Europe creates the right incentives, institutions and confidence, time itself will become one of its greatest allies. The power of compound returns has transformed retirement systems elsewhere. There is no reason it cannot do the same for Europe.



AGATHI PAFILI

Vice President, Head of
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Europe – Capital Group

Turning Europe's savings into retirement security and growth

Europe's retirement challenge is about more than pensions. The most visible pressure is on pay-as-you-go (PAYG) public pension systems, where ageing populations leave fewer workers supporting a growing number of retirees. But this challenge is linked to broader gaps: too much household wealth remains in low-yield bank deposits, financial literacy and confidence in long-term investing remain limited, and insufficient investment is weighing on productivity and competitiveness. Therefore, pension reform is not only about retirement adequacy, but also about growth, capital formation and stronger, more integrated European markets.

Closing these gaps requires a coordinated approach: expanding long-term investment opportunities, creating incentives for participation, and developing capital markets with the scale to deliver access, affordability and value. No single reform will be sufficient. To complement PAYG systems already under demographic strain, Europe needs additional retirement savings solutions built around long-term goals, diversification and strong retirement

outcomes. Global experience points to three essentials:

- **Well-designed default investment options built around life-cycle strategies.** Regulation should give providers the certainty to offer fit-for-purpose defaults supported by strong fiduciary standards and, where appropriate, safe-harbour guidance. Professionally managed life-cycle or target-date strategies can gradually reduce risk over time, shifting from higher equity allocations in early years to more conservative fixed income approaches nearer retirement. Importantly, these solutions should support investors throughout retirement, not simply up to retirement.
- **A broad investment universe that enables genuine diversification.** Delivering stronger long-term outcomes requires the flexibility to invest across global markets and asset classes. Avoiding excessive geographic or sector concentration can reduce volatility, improve returns and help build citizens' confidence in EU capital markets.
- **Measured access to private assets.** An EU-wide passport for retail investment strategies that combines limited private-asset exposure with a core allocation to liquid assets, supported by strong liquidity, investor protection and risk-management safeguards, could broaden investment opportunities for citizens. Well-designed products could also fit within savings and investment accounts.

Well-designed schemes are necessary, but not sufficient. Building a stronger savings and investment culture also requires **targeted incentives** that make long-term investing easier and more attractive.

- **Auto-enrolment in occupational pension schemes can be transformational.** When saving requires an active choice, many people delay or never participate. Auto-enrolment changes the default by automatically enrolling workers while preserving the right to opt out. Auto-escalation can then gradually increase contributions over time, helping savers build meaningful retirement balances without creating a sudden affordability burden.
- **Pension tracking systems and dashboards are equally important.** Citizens need a single, clear view of their public, occupational and personal pension entitlements to understand whether they are on

track and act early if gaps emerge. Greater transparency would also help policymakers identify weaknesses in coverage, adequacy and sustainability across Member States.

- **Tax policy is critical.** Effective tax incentives for personal savings and investment products are needed to encourage households to move assets from idle bank deposits into productive capital markets. The PEPP experience demonstrates that a pan-European framework alone is insufficient if national tax regimes remain fragmented or provide less favourable treatment than domestic pension products.

Finally, Europe needs greater scale in personal savings products to improve outcomes for citizens and realise the full potential of the single market. Recent PEPP reforms appropriately shift the focus away from restrictive fee caps toward net returns, diversification and quality advice. But scale will not come from an EU label alone. Products must be simple, easy to distribute, digitally accessible and genuinely portable across borders.

**Pension reform is not
only about retirement
adequacy, but also
about growth and
capital formation.**

The Savings and Investment Union provides a timely opportunity to place pension reform at the centre of Europe's competitiveness agenda. The EU pension package rightly focuses on strengthening supplementary pensions, improving private savings products and promoting savings and investment accounts across Member States. Done well, these reforms can achieve two urgent objectives at once: helping citizens build more secure retirements while directing long-term savings into productive investment that supports economic growth.



ALEKSANDRA MACZYNSKA

Managing Director –
BETTER FINANCE

Europe's pension challenge is outcomes, value and trust

Europe's supplementary pension reforms should be judged by a simple test: will they improve retirement income for future pensioners? That is the objective of the European Commission's Supplementary Pensions Package, and one that BETTER FINANCE strongly supports. Achieving it, however, requires focusing not simply on expanding participation or assets under management, but on ensuring that supplementary pension schemes consistently deliver higher long-term net real returns after costs and inflation.

What remains the main obstacle to scaling long-term retail savings products in Europe? The answer is neither regulation alone nor consumer behaviour in isolation. From BETTER FINANCE's perspective, the greatest barriers are poor product quality, insufficient transparency, excessive costs and the weak investor trust that inevitably follows when pension products fail to deliver value for money over the long term. Concerns about financial literacy and participation matter, but they cannot be addressed sustainably unless pension products themselves consistently produce attractive outcomes for savers. And better pension outcomes require better products.

This challenge has become increasingly pressing. Europe's ageing population places growing pressure on public pension systems while households are expected to save more for retirement and provide long-term capital to finance Europe's economic priorities. Supplementary pensions therefore have a critical role to play, but success should be measured by pension adequacy.

Occupational pensions are central to achieving this objective. Institutions for Occupational Retirement Provision (IORPs) already manage around €2.7 trillion in assets across Europe. Yet EIOPA statistics show that only around 33% of those assets were invested in equities in 2024, while approximately 43% were invested in investment funds and debt securities, much of it in government debt. While such allocations may reduce short-term volatility, they can also limit the long-term capital growth needed to generate sustainable positive real returns for pension savers.

For this reason, reform of the IORP framework is the cornerstone of the Commission's package. BETTER FINANCE strongly supports introducing an explicit duty of care requiring pension managers to pursue adequate, risk-adjusted and cost-efficient long-term returns for members. Equally important is replacing prescriptive investment restrictions with a genuine Prudent Person Principle, allowing pension managers greater flexibility to diversify investments while remaining fully accountable for the outcomes delivered to participants.

And better pension outcomes require better products.

Greater flexibility must, however, be accompanied by stronger governance and supervision. BETTER FINANCE therefore supports enhanced supervisory powers, value-for-money assessments combining costs and returns, greater transparency on long-term performance, stronger participant rights and more effective mechanisms for complaints and redress. Pension savers should be treated as active stakeholders whose long-term interests shape investment decisions, not merely passive beneficiaries.

The same principle applies to automatic enrolment. BETTER FINANCE supports automatic enrolment in principle, but only where eligible occupational pension schemes have demonstrated their capacity to generate substantially positive

real returns after costs and inflation, are subject to robust supervision and preserve meaningful opt-out rights. Expanding participation before improving product quality risks locking more savers into underperforming schemes rather than improving retirement outcomes.

Where does this leave the proposed PEPP reform? Simplifying PEPP and improving its investment framework are welcome steps, but reforming PEPP alone will not create a genuine pan-European pension market if comparable national pension products continue to receive preferable (tax) treatment across Member States (see the 2024 EIOPA's Occupational Pensions Stakeholder Group's Position Paper on PEPP). Comparable products should compete on long-term performance, costs and service quality, not on fiscal and other advantages created by national tax regimes.

The short-term priorities are therefore clear. Europe should first improve the value delivered by supplementary pensions through stronger governance, better supervision, greater transparency and investment frameworks capable of generating higher long-term net real returns. At the same time, Member States should ensure tax neutrality across comparable pension products so that competition rewards efficiency and performance rather than regulatory fragmentation. By improving VfM and rebuilding investor trust will broader participation translate into stronger retirement income for European citizens.

REVIVING EUROPEAN SECURITISATION



**CHRISTIAN
NOYER**

Honorary Governor –
Banque de France

Making European securitization work for investment and growth

Europe's underinvestment challenge has been clearly diagnosed. The question is now whether the Savings and Investments Union can mobilise the right instruments to channel Europe's abundant savings towards productive investment. By enabling banks to transfer risk and free up capital for new lending, securitization creates an essential bridge between Europe's abundant savings and the investment needs of its economy. Against this background, relaunching the securitization market has rightly emerged as a priority track within the SIU agenda, in order to be able to finance Europe's priorities.

The European Commission's reform package presented in June 2025 represents more than a technical revision of the existing framework. It adopts a genuinely holistic approach, combining prudential recalibration with regulatory simplification. It pulls both demand and supply levers, with

measures aimed at banks, insurers and all types of market participants.

The level of ambition of the package should not be underestimated. In many respects, it acknowledges that post-crisis reforms, while instrumental in ensuring financial stability, gradually resulted in an overly conservative framework that no longer adequately reflects the actual risk profile of European securitizations, and seeks to correct this imbalance. In this regard, a good illustration is the new treatment of risk weight floors, which determine the prudential weight of senior tranches retained by banks, and thus the attractiveness of securitisation transactions for issuers to transfer risk while keeping most of the value. Moving from fixed to genuinely risk-sensitive risk-weight floors better aligns capital requirements with underlying risks while preserving robust safeguards.

Of course, this does not mean that the Commission proposal is beyond improvement. Important challenges remain if securitization is to become economically viable across a wider range of asset classes.

On the prudential side, the proposed calibration still remained too conservative for certain low-risk securitizations, particularly where historical performance has consistently demonstrated strong resilience. If capital requirements remain disconnected from actual risk, many transactions will simply remain economically non-viable.

On the regulatory side, the Commission proposal also contained some inconsistencies. While welcome simplifications were introduced, certain precautionary measures were simultaneously integrated. This includes, for example, the broader definition of public securitisations, which risks increasing legal uncertainty and inadvertently subjecting transactions that are private by nature to disproportionate transparency obligations. The same can be said of the explicit extension of administrative sanctions to investors in case of due diligence breaches, which could discourage market participation.

The legislative process has fortunately demonstrated the value of European co-decision. Within the Council, Member States introduced a number of pragmatic adjustments, particularly on the regulatory framework, restoring greater proportionality while preserving

investor protection. The European Parliament, for its part, has made useful progress on the prudential dimension by proposing a more appropriate treatment for certain categories of securitizations. Taken together, these improvements provide solid grounds for confidence that trilogue negotiations can deliver a balanced and effective final framework.

The immediate priority should now be to conclude these negotiations swiftly, in order to provide clarity to market participants. A rapid adoption would allow them to capitalise on the renewed momentum already visible in European securitization markets.

Beyond implementation, policymakers should closely monitor the market's response over the coming months. Issuance volumes, investor participation and diversity of transactions will provide the best indicators of whether the reforms have successfully addressed the structural obstacles facing the market. Should activity nevertheless remain significantly below potential, a second wave of evidence-based recalibration should of course not be excluded.

**Relaunching the
securitization market
has rightly emerged as
a priority track within
the SIU agenda.**

Not all remaining barriers are, however, regulatory or prudential in nature. European securitization continues to suffer from structural market fragmentation and limited standardisation compared with larger jurisdictions. Addressing these obstacles requires complementary market infrastructure initiatives. In this respect, the European securitization platform currently being developed within the Competitiveness Lab, under Spanish leadership, deserves particular attention. By promoting greater standardisation, reducing fixed issuance costs and facilitating cross-border investor participation, such a platform could become an important catalyst for market development without requiring further regulatory intervention.



SIRPA PIETIKÄINEN

MEP, Committee on Economic
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Growth with resilience: Europe's securitisation debate must not forget history

Europe is once again debating how to unlock more capital for growth. We need to mobilise private investment, build a true Savings and Investments Union and improve financing opportunities for European businesses. Securitisation has an important role to play. But our objective cannot simply be more securitisation. It must be better securitisation.

Financial markets have an uncomfortable habit of forgetting their own history. Research by the Bank for International Settlements and the ECB suggests that financial cycles are typically much longer than business cycles, often lasting around 15–20 years. As memories of the previous crisis fade, periods of stability create confidence, confidence encourages leverage and leverage eventually creates new vulnerabilities. The next crisis rarely resembles the previous one, making systemic risks exceptionally difficult to identify in advance.

This is precisely why policymakers should remain humble. We face not

only known risks but also unknown unknowns. Every financial innovation promises efficiency. Yet every innovation also changes incentives and creates new interconnections that are impossible to fully anticipate. As markets become more complex and less transparent, we might gradually lose visibility over where risks ultimately reside.

The reputational legacy of the global financial crisis therefore cannot simply be dismissed as yesterday's problem. Europe was right to respond with a robust regulatory framework that restored confidence and improved underwriting standards, transparency and risk retention. Those safeguards are not obstacles to growth; they are what make sustainable growth possible.

This does not mean Europe should reject securitisation. On the contrary, high-quality securitisation can free up bank balance sheets, diversify funding sources and help channel capital towards productive investment. But we should also ask ourselves a broader strategic question: what kind of growth are we trying to create?

Today, Europe broadly faces two paths.

One path is to pursue long-term productivity through innovation, industrial renewal and the green transition. Financing decarbonisation, digitalisation and technological leadership strengthens Europe's economic foundations while addressing strategic challenges. One cannot both finance the old economically and environmentally unsustainable fields of business and industry – while trying to fully boost up the new ones. Resources should be allocated from the recessive sectors to financing the twin transition of decarbonisation and digitalisation.

The second path is easier. We can seek growth primarily by increasing the volume of financial assets and leveraging products that already exist. That may support market activity in the short term, but without corresponding gains in productivity it risks building growth on increasingly fragile foundations. History reminds us that leverage can amplify prosperity during expansions, but it also amplifies losses when financial cycles inevitably turn.

This is why the discussion around securitisation cannot be separated from the wider structure of European capital markets. We should ask whether our financial system consistently rewards investments that genuinely enhance long-term productivity, or whether quarterly reporting cycles and short-term return expectations continue

to favour financial engineering over entrepreneurial innovation.

Success should therefore not be measured by issuance volumes alone. If, after implementation, Europe simply produces more transactions without improving the allocation of capital, we will have missed the opportunity.

**The reputational legacy of
the financial crisis cannot
simply be dismissed as
yesterday's problem.**

The decisive test will instead be whether we achieve a healthier balance across our financing ecosystem. That means a deeper and more diversified investor base with greater participation from long-term institutional investors. It means maintaining the strength of Europe's covered bond market while allowing high-quality securitisation to complement, rather than replace, traditional bank lending. It also requires ensuring that the rapid expansion of private credit does not create new pockets of opacity outside the regulatory perimeter.

Ultimately, resilient capital markets are built on diversity, transparency and trust. Europe does not need to choose between competitiveness and stability. Our competitive advantage can be precisely that we deliver both. Sustainable growth is not created by taking ever greater risks. It is created by allocating capital efficiently, managing risk intelligently with the sustainable transition in mind and remembering that financial stability is itself a prerequisite for long-term prosperity.



STEFANO CAPPIELLO

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Facilitating risk-sharing across the European financial system

Too often, securitisation is viewed as just a funding tool. However, one of its main added values is enhancing risk-sharing. By transferring credit risk from banks to a broader investor base, securitisation improves risk allocation, capital efficiency and the flow of credit to households and businesses.

This is especially relevant in Europe, where financial fragmentation still limits private risk-sharing and shock absorption across Member States.

The European securitisation market is recovering, but it remains below its pre-crisis depth. Issuance reached € 252.3 bn in 2025 (€ 244.9 bn in 2024), with placed issuance at € 156.3 bn (€ 144 bn in 2024), while outstanding volumes stood at around € 1,294.2 bn (€ 1,217.6 bn in 2024)¹. The figures confirm renewed momentum, but also the need for greater scale and liquidity.

Importantly, the issue is clearly framed within the current political debate. The issue is no longer whether Europe needs securitisation, but whether it is willing to make the

reforms needed for the market to scale up. Key principles of the new regulatory approach to securitisation include greater risk sensitivity, avoiding unnecessary complexity and conservatism, preserving robust safeguards and ensuring that capital relief appropriately reflects effective risk transfer.

Most of all, securitisation is a pillar of the Savings and Investments Union (SIU) agenda, in particular if we want a competitive SIU. It is clear to all that strengthening the European securitisation market is a necessary element to create a deeper and more integrated European financial system.

In light of these goals, the aim of the ongoing review should not be deregulation, but a more balanced and proportionate regulation to stimulate both supply and demand: banks should be able to issue more securitisations, and investors should not face unnecessary barriers to investment.

On the demand side, key priorities include mobilising insurers' balance sheets, facilitating greater participation by investment funds, reviewing prudential barriers (e.g. those linked to Solvency II and UCITS rules), enhancing secondary market liquidity and broadening the range of long-term investors.

The ongoing legislative process is therefore a test of whether the EU can move towards a more efficient and risk-sensitive regime, while preserving financial stability and without weakening core safeguards for both originators and investors.

However, regulation is not enough, complementary market-building initiatives are needed to remove structural barriers. Regulatory initiatives alone will not allow for the creation of a genuinely integrated European securitisation market. Structural obstacles remain, such as national fragmentation, concentration of issuance in few Member States, operational complexity for smaller originators, and limited standardisation and scale.

The debate should therefore also focus on complementary market underpinnings that could widen participation across Europe.

Possible avenues include: (i) greater standardisation of market practices; (ii) securitisation platforms, capable of aggregating assets across jurisdictions; (iii) greater involvement of European institutions in co-financing or guaranteeing public-private platforms.

On the last point, one option would be to introduce targeted European guarantees or backstops that catalyse, rather than replace, private capital. The Italian GACS experience shows how a targeted public guarantee at market terms can address a temporary market failure and operate as an accelerator to support the creation of a secondary market: its main value was not only to narrow the gap between ask and bid prices in secondary market of NPLs, but rather to accelerate the build-up of the capabilities and infrastructure needed for the market to function. This meant supporting investments in professional skills, data quality and standardised reporting, due diligence processes, digital servicing infrastructure and governance frameworks capable of giving investors greater transparency and confidence. Once the secondary market had become sufficiently mature and able to stand on its own, the support was phased out.

**A stronger EU
securitisation market
needs proportionate
rules and market
enhancing tools.**

The policy lesson once again is that public support can be most effective when it is temporary, targeted and conditional on market-building outcomes. A stronger European securitisation market requires not only proportionate regulation, but also targeted initiatives that build market capacity, broaden investor participation and support common infrastructures. Public intervention should therefore be designed as a temporary catalyst for private market development.

1. AFME – *European Securitisation Data Report*, 2025.



JANUŠ KIZENEVIČ

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Securitisation in smaller EU markets: Unlocking new opportunities for growth

Smaller EU markets, such as the Baltic countries, are well positioned to shape the next phase of Europe's capital markets by developing securitisation ecosystems tailored to their needs. While these markets are still emerging, this presents a unique opportunity to build modern, efficient frameworks. As Europe increases investment in defence, technological innovation and energy security, expanding securitisation can strengthen financial resilience, diversify funding sources and support more sustainable economic growth. It also supports the broader objectives of the EU's Savings and Investments Union by improving access to market-based finance and reducing reliance on bank lending. A well-designed securitisation market can also improve the allocation of capital across the economy, enabling savings to be channelled more efficiently towards productive investment while strengthening the resilience of the broader financial system.

Securitisation has a significant potential to support key regional priorities, including housing, SME financing and

the green transition. By enabling banks to free up capital, it can facilitate additional mortgage lending and create greater financing opportunities for businesses. It can also help channel investment into renewable energy, energy efficiency and building renovation by combining numerous smaller projects into diversified investment portfolios that appeal to institutional investors.

Evidence shows that mortgage and SME loan portfolios in smaller markets are often too limited to achieve cost-efficient securitisation, making regional cooperation essential. Expanding participation from international asset managers, insurers and pension funds would further deepen market liquidity, enhance competitiveness and increase investment opportunities throughout the region. This collaborative approach would also encourage cross-border investment flows, strengthen investor confidence, and promote more integrated regional capital markets.

Creating an environment where the benefits of securitisation would be obtainable across all Member States, requires a regulatory framework that reflects the diversity of Europe's financial markets. Greater regulatory harmonisation would reduce fragmentation, provide legal certainty and enable smaller issuers to operate under common standards. Building on the current framework, particularly the Simple, Transparent and Standardised (STS) regime, there is an opportunity to introduce more proportionate and accessible approaches that reduce legal, advisory and structuring costs while maintaining high standards.

Reviving securitisation in smaller markets is an opportunity to strengthen Europe's capital markets.

An EU-wide package of standardised documentation, reporting templates and risk assessment methodologies could be a practical solution that smaller markets could adopt without significant additional costs. By reducing complexity and lowering implementation costs, such tools would allow banks and issuers to participate more efficiently while ensuring greater consistency across Europe. Building institutional expertise is equally important. EU-level training programmes, technical assistance and regional knowledge-sharing platforms can help build strong capabilities, which would contribute to sustainable

market development and increase the capacity of local financial institutions. Stronger cooperation between public authorities, financial institutions and market participants can accelerate implementation, encourage innovation and improve long-term market resilience across Europe.

Digitalisation also offers an important opportunity to make securitisation more efficient and accessible. Standardised data systems, enhanced transparency and streamlined reporting processes can reduce administrative costs and improve confidence among market participants. Together with regulatory alignment and regional cooperation, digital innovation can make securitisation more attractive for smaller economies seeking to participate more actively in European capital markets.

Regional cooperation can become a powerful catalyst for market development. Joint securitisation platforms would create opportunities for larger and more diversified transactions that benefit from economies of scale. Reviving securitisation in smaller markets is an opportunity to strengthen Europe's capital markets, improve access to investment and promote balanced economic development across the Union. By combining proportionate regulation, regional cooperation and digital innovation, smaller economies can become active contributors to the success of the Savings and Investment Union.



DAMIAN JAWORSKI

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Reviving securitisation requires more than lower capital charges

Europe's ambition to deepen its capital markets has placed securitisation at the centre of the policy debate. The Commission presented its reform package in June 2025. The Council and Parliament have since adopted their positions, and trilogue negotiations moved into full swing in June 2026. There could hardly be a better moment to ask what would make securitisation a credible asset class for insurers.

Insurers have long been seen as natural anchors of a deeper market. As large institutional investors with long-dated liabilities, they can provide stable funding across market cycles. An active debate is underway over whether capital requirements are holding back their investment in securitisation. Yet, participation remains limited for reasons beyond capital requirements.

EIOPA's analysis found that investment decisions are driven mainly by risk-return profiles, asset-liability management and product complexity. Many securitisations have short duration and prepayment risk and thus cash flows that are difficult to

match against long-term obligations. Fragmented issuance, limited liquidity and specialised expertise reduce their appeal. For these reasons, rather than because of capital requirements, the securitisation investments of insurers are low.

The Solvency II regulatory framework for European (re)insurers has recently been reviewed, with the revised framework taking effect in January 2027. One important change is a reduction in the capital requirements for investments in securitisations. While this may support the European Commission's broader objective of revitalising the EU securitisation market, EIOPA does not expect the Solvency II revisions, on their own, to be a significant driver of insurers' investment into securitisations. Among other reasons, the amendments to the standard formula will not directly affect large insurers that use internal models to calculate their capital requirements.

Other factors, however, could support insurers' investments in securitisations. Data quality and product design are at least as important as prudential calibration. Simplifying due diligence and transparency requirements can reduce costs, but must not weaken investors' ability to understand underlying exposures. Reliable loan-level data, consistent definitions and clear documentation are prerequisites for sound pricing and risk management. The Simple, Transparent and Standardised (STS) label should support standardisation, not replace investors' own assessment or dilute the originator's responsibility.

Products also need to reflect long-term investors' needs. More predictable cash flows, transparent prepayment assumptions, diversified pools and greater standardisation would help. European or national platforms could aggregate granular assets and create issuance at scale, particularly for SME, infrastructure or transition financing. But a platform cannot substitute for robust underwriting, pricing or risk retention. Public involvement should help catalyse market developments while maintaining transparent risk allocation.

In this context, the most sensitive question concerns unfunded credit protection for synthetic securitisations. Broadening eligible providers could increase risk-sharing and reduce costs. However, for insurers, the exposure is a contingent liability that may crystallise when credit conditions deteriorate. This creates counterparty and concentration risks and may strengthen interconnectedness between banks and insurers. Thus, it may increase the systemic risk and could be detrimental to

policyholder protection. The monoline experience during the global financial crisis remains relevant: guarantees that appeared profitable generated severe losses when securitised portfolios deteriorated and aggravated the crisis. In EIOPA's view, the safeguards currently under discussion do not adequately address these concerns.

A durable market needs investable products, trustworthy data and genuine risk transfer.

Better alignment across the Securitisation Regulation, Solvency II and bank prudential rules should mean coherent incentives, not identical treatment. Risk retention must preserve alignment between originators and investors. Due diligence should be proportionate but substantive. Common data standards and coordinated supervision should reduce duplication and regulatory arbitrage. The final calibration should promote sound risk allocation to institutions best equipped to manage it, and limit incentives driven solely by prudential differences.

Europe can revive securitisation, but the objective should be a market built on investable products, trustworthy data and genuine risk transfer. Capital treatment is an important element of that ecosystem, but not its only foundation. A successful reform can expand funding for the real economy while keeping policyholder protection and financial stability non-negotiable.



ALEXANDER BATCHVAROV

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EUSR amendments: right direction, wrong destination?

EU securitisation regulatory framework (EUSR) is undergoing amendments to make it risk sensitive, proportionate and competitive. This is a commendable objective, but to what degree can it be achieved?

To answer this question, we must start from the EUSR - a panoply of multiple Level 1 and 2 regulations, overlaid by EU-level and member-state supervision. To achieve an overall risk-sensitive and proportionate regulatory framework, the above characteristics must be achieved at each level of regulation and supervision: these are the inputs. In some cases, the EU inputs are better (e.g. bank capital charges for senior tranches) than in other countries; in other cases, they are worse (e.g. insurers' capital charges for all tranches). But all inputs must be considered in their cumulative effect on the EU issuers' and investors'.

Competitiveness is the outcome: is the EU securitisation market attractive to both domestic and foreign issuers and investors, is it a major part of the EU capital markets, and does it act as a conduit to channel EU domestic savings to finance EU economy and strategic priorities? We do not believe this is the case at present. And, depending on the

final EUSR amendments, it may only be marginally better in the future.

If we consider competitiveness as inputs in the regulatory frameworks, we may come to the wrong conclusions. For example, unlike other jurisdictions: A/ the EU STS regulation/ treatment allows for lower regulatory capital for senior tranches and higher capital for non-senior tranches, B/ the EU regulation allows for STS tranche eligibility in EU banks' LCR. But in both cases, securitisation is not present in the respective investor portfolios because: a/ for EU standard model insurers the STS tranche RAROC is much lower relative to other investments, and b/ for EU banks the LCR haircut is too high to make economic sense to include STS in LCR.

To add to these examples: C/ EU regulation imposes securitisation specific penalties on investors beyond the sector-specific penalties for, say, non-compliance with due diligence requirements; such penalties do not exist for any other investment or in any other jurisdiction. D/ EU regulation imposes on issuers centralised loan-by-loan reporting templates and repositories, which may differ from the ones investors use daily.

We believe that the proposed EUSR changes do not decisively stimulate EU supply and demand for securitisation.

The proposed EUSR changes do not decisively stimulate EU supply and demand for securitisation.

As far as issuers are concerned, they are likely to maintain the barriers to third-country issuers and discourage the participation of EU investors in third-country securitisations. While they may be helpful to third-country investors, the latter are return-dependent and have access to other markets, beyond the EU. By limiting domestic demand and favouring foreign investors the EUSR may effectively maintain high and uncompetitive cost of funding and risk transfer for EU regulated institutions.

The current proposals encourage synthetic securitisations. They create a large trough between IRB and Standardised bank. The resilient treatment favours senior tranche retention in synthetic securitisations by banks. Solvency 2, already adopted, will

stimulate only marginally, we think, the demand for senior AAA and AA tranches. The secondary market liquidity may be helped somewhat, but not decisively, by the delay of due diligence filing by a couple of weeks.

We do not see major changes that equalize the treatment of cash instruments: CB and MBS, ESN and ABS. We see changes, which encourage the use of synthetic securitisation, but that, in our view, does not create a market transparency or expand the universe of large, safe, investible instruments. Private credit is ... private and likely to remain so; it is only indirectly captured by the proposed amendments to the EUSR and is flexible and creative enough to shift activities away from the securitisation market if need be. The definition and application of the sole-purpose test can have a big impact on who and how much can securitise. By targeting one product the wrong way, policymakers can easily, albeit inadvertently, undermine other products that they strive to encourage or vice versa.

The dialogue on the EUSR is entering its final stage. We understand that the co-legislators are focusing on the trees, i.e. are the proposals of the three co-legislators similar, marginally or radically different?, and how can a given tree be reshaped, i.e. what is the acceptable compromise for each amendment? We are concerned that the policymakers and the markets are losing sight of the forest, i.e. will there be a viable securitisation market in the EU?, what shape it will take? will it contribute to the EU big political and existential initiatives: the EU savings and investment union, the EU banking union, the capital markets and the financing of the EU economy and geopolitical priorities, and EU's global competitiveness. Some of the answers will be found in the final text of the EUSR amendments.



ANSGAR WEST

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From Dublin to deep markets: making SRT reform real

When Eurofi meets in Ireland in September 2026, the location will be more than symbolic. Dublin is a centre of insurance and reinsurance capacity. It is the right place to ask whether securitisation reform will unlock risk transfer, or merely produce a Potemkin reform: impressive, but too narrow or uncertain to be used at scale.

Europe's problem is not a shortage of mortgages, savings or regulated balance sheets. Banks hold roughly €8 trillion of residential mortgage exposures, yet less than €30 billion of mortgage risk has been mobilised through synthetic significant risk transfer (SRT). In the US, more than 40 insurer and reinsurer balance sheets support mortgage credit risk transfer. Europe need not copy the US model, but should learn the lesson: mortgage risk transfer works only when safeguards are combined with a workable provider base.

The July 7 trilogue confirmed a shared objective among the Council under the Irish Presidency, the European Parliament and the Commission: to ensure the STS unfunded credit protection (UFCP) market works in practice, that group support arrangements are operational, and that sufficient insurers and insurance groups can meet the eligibility criteria.

This shared objective must now survive the drafting. A reform open to insurers, but accessible to only a handful of balance sheets, will not build a market.

Three points are decisive. First, STS Resilient must be economically viable for originator banks. For mortgages, this depends above all on the senior risk-weight floor. If the floor is too high, banks will rely mainly on covered bonds, leaving credit risk on balance sheet. The floor should be calibrated as low as prudentially possible for granular, well-enhanced transactions. Otherwise the framework will be symbolic where Europe needs scale: housing finance and first-time buyers.

Second, the SECR eligibility improvements for insurers must be mirrored in CRR. Where a synthetic securitisation qualifies as STS and uses UFCP from an eligible EU-authorised insurer or reinsurer under Article 26e(8) (aa), it should be capable of accessing STS Resilient treatment under CRR Article 243(3). Without that link, insurer capacity will not translate into usable bank balance-sheet capacity.

Third, the eligible insurer and reinsurer base must be broad enough to matter. Parliament was right to insist that reinsurers should not be excluded from eligibility. This matters because insurers and reinsurers can support securitisation differently. Life insurers can be natural funded investors in senior and selected mezzanine tranches where assets match long-term liabilities. Reinsurers, by contrast, often add most value through unfunded protection: their comparative advantage lies in modelling correlated portfolio risk and providing robust UFCP backed by regulated claims-paying capacity. A workable reform should recognise both roles.

A reform that excludes real capacity is only a Potemkin reform.

Eligibility should therefore look at substance: risk-management capability, credit strength, diversification and appropriately calibrated size. If thresholds are set too high, credible EU-authorised undertakings should be able, where appropriate, to rely on the scale and support of their parent group. The objective is not to dilute safeguards, but to recognise real capital behind EU-supervised undertakings. In this context, reliance on Solvency II-equivalent third-country group

supervision for parental support is not a loophole; it is a market capacity condition.

Beyond STS, such as for the Non-STS Resilient segment, reform should expand risk-transfer capacity, not shrink the existing market.

The need for legal certainty and workability applies to timing. Key criteria should be assessed at origination. A transaction should not automatically lose STS treatment because of a temporary change in Solvency II assets or a later rating movement, where counterparty risk is already managed under CRR and the insurer remains supervised. If an ongoing test is retained, targeted grace periods and transfer options are needed to avoid cliff effects.

A coherent framework for banks, private credit, insurance and reinsurance should follow one principle: risk should sit where it can be originated, supervised and managed most transparently. For SRT, this favours bank-originated portfolios, where underwriting, servicing and capital relief can be assessed within the prudential banking framework. Non-leveraged private credit can provide junior-risk capacity, while insurers and reinsurers take risk matching their liabilities, capital model and underwriting expertise.

At Eurofi Dublin, the choice facing policymakers is practical, not philosophical. Europe can adopt a reform that looks prudent because it is narrow, but fails because it is unusable. Or it can adopt one that is robust because it is workable: calibrated floors, explicit CRR recognition of eligible UFCP, assessment at origination, and a competitive insurer and reinsurer base. Only then will securitisation place risk where capital, expertise and incentives are aligned.



CHRISTIAN CASTRO

Head of Public Affairs
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Making securitisation a strategic financing tool for Europe

The Commission's securitisation package is a very much welcome and necessary step. For the Savings and Investments Union to deliver meaningful results, Europe should be able to revive the securitization activity and establish securitization as a strategic instrument to finance the European economy, supporting bank lending capacity and strengthening EU capital markets.

The SIU needs a deeper and more efficient securitization market. European banks are a primary source of financing for households and SMEs. Well-designed securitization allows banks to transfer risk, release capital and originate additional credit to support investment and growth. The debate should therefore move beyond treating securitization as a niche product and recognize it as a pillar of the SIU architecture.

The post-crisis regulatory framework was designed for a different environment. So, it should now be updated to reflect the profound structural changes in the European economy and its financial system, and to better align it with Europe's competitiveness and investment objectives. While it contributed to financial stability, it also created a framework that is not fully

consistent with the actual performance of European securitization. The EU market remains significantly smaller than other major jurisdictions and is not fulfilling its potential as funding and risk-transfer channel for the real economy. The time has come to adjust its design and recalibrate the framework.

The Commission proposal rightly recognizes that inadequate capital requirements can be a barrier to market development. Prudential rules should remain robust, but they should also be proportionate to the actual risk profile of these exposures. In this sense, a more risk-sensitive calibration for high-quality senior securitisation positions would better reflect their underlying risk characteristics.

A successful securitisation market requires a balanced framework that creates incentives for both originators and investors. In this regard, prudential treatment should be aligned whenever possible between originators and investors when they are exposed to equivalent risks.

Similarly, any new reporting obligations should remain proportionate and avoid imposing unnecessary operational burdens, particularly for private securitisations. Additional reporting, repository submission requirements or compliance costs that do not generate clear supervisory or market benefits could ultimately reduce market activity and work against the objectives pursued by the Commission.

A balanced regulatory framework is key to unlocking Europe's securitisation potential.

A limitation of the current framework is the stark regulatory divide in the treatment of STS and non-STs transactions. While STS remains an important quality label, regulatory treatment should increasingly reflect the underlying resilience and risk characteristics of transactions rather than relying on binary categorisations. A broader recognition of resilient securitisations could expand the investor base and increase the market's capacity to support economic financing.

The Commission's proposal to improve the treatment of securitisations under the Liquidity Coverage Ratio is particularly relevant. Eligibility beyond STS securitisation could be further explored, with haircut calibrations

reflecting the underlying performance of high-quality EU securitisations. A more active role for securitisations within liquidity buffers would help to deepen secondary market activity.

Beyond banking regulation, securitization contributes directly to several EU priorities: supporting housing investment, increasing SME financing and strengthening European competitiveness. At a time when Europe seeks to mobilise private capital on an unprecedented scale, policymakers should view securitisation as part of the solution rather than as a residual legacy topic from the financial crisis.

The success of the reform will depend not only on the level of ambition but also on the predictability of the framework. Investors and originators require certainty when making long-term decisions. Europe should therefore avoid creating unnecessary review mechanisms, disproportionate enforcement measures or supervisory complexities that could undermine confidence just as the market begins to recover.

In conclusion, Europe has a unique opportunity to reposition securitisation as a strategic enabler of the SIU. The Commission's proposal moves in the right direction, but some further enhancements would help to ensure that its objectives are fully achieved.

A more proportionate prudential framework, broader recognition of resilient securitisations, improved liquidity treatment and greater supervisory convergence would help unlock the full potential of securitisation to support investment, competitiveness and economic growth across the European Union.

If Europe wants securitisation to become a strategic financing tool rather than a niche market, the regulatory framework must support both issuance and investment in a balanced, proportionate and predictable manner.

3

BANKING AND INSURANCE REGULATION

INTERVIEW 144

Clotilde l'Angevin - Crédit Agricole S.A. / **Anna Dunn** - JPMorgan Chase & Co.

EU BANKING COMPETITIVENESS 148

John Berrigan - European Commission / **François-Louis Michaud** - European Banking Authority / **Bertrand Dumont** - Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France / **Jurand Drop** - Ministry of Finance, Poland / **Philippe Bordenave** - BNP Paribas / **Antony Jancic** - Bank of America Europe DAC

BREAKING THE BANKING UNION DEADLOCK 154

Oliver Schütz - Austrian Financial Market Authority / **Dominique Laboureix** - Single Resolution Board / **Peter Palus** - Permanent Representation of the Slovak Republic to the EU / **Johanneke Weitjens** - ING Group / **Pier Mario Satta** - UniCredit S.p.A. / **Karolin Schriever** - Deutscher Sparkassen- und Giroverband / **Rimantas Šadžius**

REDUCING CUMULATIVE COMPLEXITY IN EU BANKING REGULATION AND SUPERVISION 162

Harald Waiglein - Federal Ministry of Finance, Austria / **Sharon Donnery** - Single Supervisory Mechanism / **Jonathan Overett Somnier** - European Banking Authority / **Emmanuelle Assouan** - Autorité de Contrôle Prudentiel et de Résolution / **Jacek Jastrzębski** - Polish Financial Supervision Authority / **László Bencsik** - Otp Bank / **Harm Bots** - MUFG / **Denise Bauer-Weiler** - UBS / **Francis Donnat** - Société Générale

BANKING DIVERSITY AND DIGITALIZATION 172

François-Louis Michaud - European Banking Authority / **Emmanuelle Assouan** - Autorité de Contrôle Prudentiel et de Résolution / **Daniel Quinten** - National Association of German Cooperative Banks / **Matthew Elderfield** - Rabobank / **Giuseppina Marra** - Desjardins Group / **Jacques Beyssade** - Groupe BPCE

BASEL III DIVERGENCE IMPACTS 178

Fernando Restoy - Financial Stability Institute / **Stefan Walter** - Swiss Financial Market Supervisory Authority / **Philip Evans** - Bank of England / **Jonathan Overett Somnier** - European Banking Authority / **Michael Theurer** - Deutsche Bundesbank / **Mandy Defilippo** - Standard Chartered Bank / **Hiroshi Ibaraki** - SMBC Bank International plc / **Frédéric Jacob Peron** - Société Générale

SIMPLIFYING THE EU MACROPRUDENTIAL FRAMEWORK 186

Sharon Donnery - Single Supervisory Mechanism / **Soledad Nuñez** - Banco de España / **Riina Salpakari** - Nordea / **Eline Skramstad** - DNB Bank ASA

THE ROLE OF INSURANCE IN THE EU ECONOMY 190

Philippe Guyonnet-Dupérat - Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France / **Petra Hielkema** - European Insurance and Occupational Pensions Authority / **Stavros Konstantas** - Bank of Greece / **Sarah Bouquerel** - CNP Assurances / **Adrien Couret** - Aéma Groupe / **Jean-Jacques Bonnaud** - EUROFI

INSURANCE IN A POLYCRISIS WORLD 196

Gerry Cross - International Association of Insurance Supervisors / **Tim Temple** - National Association of Insurance Commission / **Petra Hielkema** - European Insurance and Occupational Pensions Authority / **Rita Laura D'Ecclesia** - Italian Insurance Supervisory Authority / **Cristina Mihai** - Swiss Re / **Hiroataka Hideshima** - Dai-ichi Life Holdings, Inc.



Q&A

CLOTILDE L'ANGEVIN

Deputy General Manager – Crédit Agricole S.A.

Europe's banks are strong. Let them lend.

Which elements of the Commission's reform agenda would deliver the greatest competitiveness gains for EU banks, in a context of US banking deregulation, weaker macroeconomic conditions and intensifying competition from digital players?

The real issue is not the competitiveness of banks per se, but that of the European economy.

European SMEs and corporates need strong and competitive banks to finance innovation and growth. As investment needs could reach €1.2–1.4 trillion annually, upwards of Draghi's €800 billion estimate, slowing growth, limited fiscal space and rising public debt make private financing essential. Indeed, 80% of euro area corporate debt depends on banks' balance sheets. Banks provide €2.6 trillion outstanding loans to EU SMEs, which represent the vast majority of EU businesses. Moreover, European banks remain among the most resilient worldwide, with a capacity to withstand negative shocks demonstrated through the latest EBA stress test.

European banks have faced a persisting profitability gap relative to their US counterparts of around 4 percentage points on average over the last decade. Assuming a 50% payout rate, this gap could represent €330 billion euros additional lending capacity. More profitable banks are not only more resilient, they are better able to support growth. And Crédit Agricole Group, as a leading actor in Europe, fully intends to play its role in the financing of the EU's competitiveness goals.

But banks in Europe face a growing regulatory burden that weighs on both competitiveness and lending capacity for businesses, infrastructure and housing. The priority should be to reconnect capital requirements to observed risk, starting with the Basel III output floor, which would, if implemented, reduce financing capacity for EU G-SIBS by as much as €400–600 billion.

At the same time, Europe cannot rely on banks alone. It also needs more integrated capital markets to finance innovation, defence, and green and digital transitions, and to strengthen its economic sovereignty.

Building a genuine Savings and Investments Union is therefore important to deepen capital markets, mobilise private capital and diversify sources of financing. The securitisation reform is a key building block of the SIU, but the criteria remain too restrictive for residential mortgages, despite Europe lacking both a deep mortgage securitisation market. We need deeper and more integrated capital markets, larger long-term liquidity pools and stronger institutional investors. Pension reforms across Member States would help to develop investment offering. Unlike the US, where pension funds channel a larger share of household savings into productive investment, Europe still lacks sufficient long-term saving vehicles.

To what extent are long-standing industry concerns regarding the Basel treatment of unrated corporates, mortgage lending, trade finance and infrastructure finance justified? What targeted adjustments could be made quickly without weakening resilience?

These concerns are justified. When capital requirements become less risk-sensitive, they unnecessarily constrain lending and economic financing.

The output floor is one of the main Basel III measures. Its initial objective was to limit excessive reductions in capital requirements generated by internal models. However, in practice, rather than applying a constraint solely to capital requirements generated by these internal models, the final formula also incorporates capital requirements calculated under the Standardised Approaches. As a result, the impact of the output floor depends not only on underlying risk but also on the regulatory composition of banks' balance sheets,

which is contrary to the Basel principle “same risk, same capital requirements”. Mortgage lending is a clear example. Banks with riskier portfolios may be barely affected by the output floor, while lower-risk portfolios can see their capital requirements increase significantly. By weakening the relationship between capital requirements and underlying risk, the output floor reduces the informational value and credibility of prudential capital ratios.

Transitional measures recognise, on the other hand, the low-risk nature of certain mortgage exposures through a lower risk-weight, but they are due to expire by 2032. And this will inevitably impact access to housing. Housing affordability is primarily a supply-side issue that should be addressed through planning reform and increased construction while maintaining access to credit and home ownership, not through increased prudential requirements.

Freezing the output floor at 65%, its planned 2028 level, and making the current transitional measures permanent for banks using internal models would be a pragmatic way to keep capital requirements aligned with risk, avoid unnecessary capital burdens and maintain banks’ ability to finance the real economy.

Beyond this, the Commission should consider necessary targeted adjustments on trade finance and specialised lending. These exposures support sectors that are critical to Europe’s economic and strategic interests, from energy and transport infrastructure to globally competitive industries such as aerospace.

Naturally, efforts must be consistent across the entire framework: any adjustments to Pillar 1 should not be offset by higher supervisory expectations.

The Commission now has an important opportunity to translate the ambitions of its July 2026 Communication into concrete measures, precisely at a time when we are competing with a US sector moving towards lower requirements and a UK system operating under an explicit competitiveness mandate.

How can Europe simultaneously achieve a genuine Banking Union, a truly integrated Single Market for banking, and a simpler banking regulatory and supervisory framework? Are these objectives compatible?

The current Banking Union remains incomplete. Capital and liquidity continue to be trapped at national level. Ring-fencing practices fragment the single market, reduce balance-sheet efficiency and create permanent costs for cross-border banking groups. This fragmentation contributes to regulatory complexity.

As a result, simplification and integration are complementary. A genuinely integrated banking market would naturally allow part of today’s complexity to be removed.

Ultimately, Europe cannot expect globally competitive banks in the long-term while maintaining a fragmented internal market. The EU should deepen integration by reducing capital and liquidity trapping and expanding the use of waivers. Trust has already been built through the SSM, SRM and common backstops. The remaining obstacle is political, not institutional. The home-host dilemma should therefore not be a precondition for reform.

Yet, this is a long-term objective while the major impact will come now from the prudential adjustments and first the output floor. That is why, most importantly, policymakers should act on the prudential framework in priority.

The simplification agenda, as in removing overlapping requirements, duplicative reporting, is also welcome to remove administrative burden but less likely to lead to a massive positive impact on the EU competitiveness goals.

How should Europe manage the tension between reducing dependency on non-European payment infrastructures and preserving the benefits of global schemes? What is the expected role of the digital euro?

Europe should avoid framing this as a choice between sovereignty and openness. The objective should be strategic autonomy, not strategic isolation.

Global card schemes and payment platforms have delivered efficiency, innovation and international acceptance but it may have increased our dependence on non-European infrastructures. The appropriate response is to strengthen European capabilities while maintaining interoperability with global solutions.

Banks should play a central role in this strategy, but the framework must allow them to issue and distribute innovative digital forms of money, including tokenised deposits and euro-denominated digital payment instruments, under clear and proportionate rules. Otherwise, the EU’s long-term strategic autonomy in digital finance could be weakened.

The digital euro should be managed very carefully. If not well designed, it could weaken incentives to invest in and scale up private payment solutions, thereby undermining already operational, innovative, private-sector initiatives. Wero, for instance, provides a European sovereign payment solution, with a larger geographical scope and additional functionalities planned over the coming years. Through interoperability agreements with other European payment schemes, it could reach more than 135 million users across 14 markets by 2027.

The EU’s objective should be a diversified European payments ecosystem combining global reach, European resilience and technological innovation. In the same way that Europe’s competitiveness agenda requires competitive banks, its digital sovereignty agenda requires strong European payment systems operating alongside global platforms.



Q&A

ANNA DUNN

EMEA CFO & UK CEO – JPMorgan Chase & Co.

European competitiveness: the who, what, why, and how

As the EU advances the Market Integration & Supervision Package (MISP), how should policymakers think about selecting initiatives to pursue for the EU competitiveness agenda?

The MISP legislative file, aimed at further integrating EU capital markets, can be a catalyst for the EU's competitiveness agenda. Better-integrated markets can help channel savings more efficiently across borders, broaden liquidity, and ultimately lower the cost of capital for EU companies and reduce the costs of investing for citizens.

Delivering these objectives and furthering EU competitiveness should therefore be thought about relative to EU companies and consumers. Policymakers' limited bandwidth should be focused on reforms with a clear, evidence-backed impact on end-user outcomes.

There is a risk of mis-characterizing competitiveness to hijack the competitiveness agenda. For example, there is a proposal to reopen old arguments on equity market structure – with the ink barely dry on the latest update of the trading rulebook and no indication that these changes have worsened market functioning. Claims that price formation is broken or weakened require robust evidence and nothing today points in that direction. A one-size-fits-all approach to equity market structure is not the answer to investors' needs, which differ by size, urgency and liquidity. Regulation should not narrow the set of execution options available to achieve best execution for end investors – an oligopoly is not competitive because it is large, and removing investor options manifestly does not encourage competition.

On the other hand, reforms to the post-trade framework is a good example of where there is a clear opportunity for improvement to further European competitiveness. The EU post-trade landscape remains structurally fragmented across jurisdictions – creating operational complexity and avoidable expense. AFME has highlighted that settlement fees in

European central securities depositories (CSDs) are, on average, 65% higher than in North America. The current regulatory framework is highly fragmented and structured along national lines. Progress in harmonising settlement rules and facilitating connectivity and interoperability will materially lower costs and improve investor outcomes.

In summary, 'cui bono?' is the principal filter through which the MISP policymakers should set the EU competitiveness agenda.

Would giving the European Supervisory Authorities (ESAs) a competitiveness mandate enhance the attractiveness of EU capital markets?

'Competitiveness' is a banner under which policy is pursued rather than being a policy itself, and many different strategic actions could be taken under its aegis. Some of these actions are poor strategy. For example, competitiveness should not mean lowering prudential standards to a level which raises financial stability concerns. Equally, 'competitiveness' should not become a guise for introducing protectionist measures that do not benefit markets or investors. 'Competitiveness' should instead focus on adopting a more risk-based approach, streamlining rules and reducing bureaucracy.

So let us say there is a clearly defined objective of making regulation and supervision more efficient whilst retaining their effectiveness, a definition of competitiveness that would have broad support. Accountability then becomes critical because without accountability, there is no mechanism to ensure that the mandate is executed in a manner aligned with the intent.

How will the ESAs report on their delivery against a competitiveness mandate? To whom would the ESAs report their delivery, and would there be any obligation on the ESAs to respond to feedback? How would the financial sector be involved and what would be measures of ESA success? Would there be a template submission for the agencies against

defined metrics, or would that be viewed as too intrusive and bureaucratic?

To return to the original question, a competitiveness mandate will not enhance the attractiveness of EU capital markets. However actions taken by the agencies that are inspired by a competitiveness mandate may enhance the attractiveness of EU capital markets. It is all about the execution, and I would recommend that the execution of any competitiveness mandate is not left to blind trust and faith.

Will supervision play an important role in improving the competitiveness of the EU banking sector?

Yes, supervision is an essential component of delivering the ambitious enhancements to competitiveness envisaged by the European Commission in its recent banking competitiveness report. As the report highlights, many of the benefits of the forthcoming changes to the banking framework will hinge on supervisory authorities changing their culture to focus on risks that matter most for financial stability, rather than continuing a zero risk tolerance culture. Without this change, supervision will continue to stifle banks' ability to deploy financing efficiently to the real economy.

The supervisory authorities can do much of the work to deliver cultural change unilaterally. Adopting a more tailored supervisory model, with greater regard to banks' specific risk profiles and operating models, and refraining from prescriptive supervisory expectations that exceed prudential requirements, are actions that they can take now. Similarly, authorities can prioritise staff training and adopt new recruitment criteria to ensure that staff are equipped with the right skillsets to conduct risk-based supervision and make judgement calls about risk materiality.

However, as with all well-run public bodies, the best way to ensure that the supervisory authorities deliver this culture change will be through clear legal mandates and accountability. Accordingly, the SSM Regulation should be reviewed and the European Commission should publicly consult on the legislative changes to be made to deliver a risk-based, transparent, and

more accountable supervisory framework. Key aspects of this review and consultation would be embedding restrictions on the SSM's ability to promulgate "soft law" through its supervisory guidance, requiring thorough consultation and cost-benefit analyses when designing essential guidance, and creating a clear and less onerous process for challenging SSM supervisory decisions.

The EU has acknowledged that its regulatory framework has become too burdensome. Is the current reform push the right way to genuinely simplify it?

It is encouraging that the EU acknowledges its regulatory framework has become overly burdensome. However, there is a risk that reforms will focus primarily on easing the burden on smaller institutions while leaving larger firms with essentially unchanged requirements. Rather than an appropriate adjustment to scope, this would implicitly recognise that the burden on the whole system is overly complex and costly without actually addressing it. Proportionality decisions in banking should reflect not only size and complexity, but also the underlying risk profile and nature of activities performed.

Applying proportionality to supervising smaller entities without sufficient regard to their risk profile may inadvertently increase financial stability risks. The United States has a bifurcated regulatory regime based on the size of banks, and its recent experience offers a cautionary lesson. Rollbacks of post-crisis rules eased requirements for smaller institutions, softening annual stress tests and the penalties for poor performance. This lighter oversight left such banks more vulnerable, and in 2023 Silicon Valley Bank collapsed abruptly after a rapid deposit outflow, triggering broader turmoil and several other bank failures—an episode regulators later characterised as a failure of both supervision and management.

The lesson: reducing requirements based on the size of the institution without sufficient regard to risk can become a source of systemic instability. The corollary is that a burdensome regulatory environment should be tackled for all, instead of creating a two-tier compliance framework that provides incentive for European banks to stay small.

EU BANKING COMPETITIVENESS



JOHN BERRIGAN

Director General, DG for Financial Stability, Financial Services and Capital Markets Union – European Commission

A single market for banking and advancing the Banking Union - prerequisites of the competitiveness agenda

Advancing the Banking Union and creating a genuine Single Market in banking that facilitates cross-border integration are two necessary elements of the competitiveness agenda. Integration drives competitiveness, and credible safeguards make deeper integration possible. When complemented by a less complex and even more proportionality-driven regulatory framework that respects the diversity of the EU banking sector, this can strengthen the efficiency, capacity and global competitiveness of European banks. At a time of demanding geopolitical environment, it is essential that European banks have the ability to mobilise resources efficiently to finance the EU strategic priorities: such as sustainable growth, innovation, defence and security.

The debate around further advancing the Banking Union should start by taking stock of the achievements and the existing safety nets and tools to protect deposits as we move away from a narrow focus on risk mutualisation and positions formed a decade ago. Europe's banking sector has become more resilient and profitable, yet it remains highly fragmented along national borders. This requires a shift in perspective. The Banking Union should be viewed as the foundation for removing fragmentation that prevents European banks from competing globally and financing Europe's investment needs. It is not a mechanism to mutualise risks accumulated in the past. Euro area banks are now all equally resilient and well supervised.

We need to build a framework in which cross-border banking groups can manage resources more effectively across the Union, while being subject to appropriate consolidated requirements. This will help reduce funding costs by enhancing diversification and achieving greater scale, while increasing lending capacity and improving return on equity through enhanced operational efficiency. The framework should consider the diversity of cross-border groups. Banks and supervisors should also ensure resilience at individual entity level.

Integration also supports resilience: geographically diversified banks are less exposed to country-specific shocks, and a more connected European banking system is better equipped to absorb stress, including local stress.

Effective allocation of funds must be matched by credible safeguards for Member States' economies and resources in the event of deteriorating conditions. The SSM and SRM, supported by the single rulebook, already provide strong guarantees. Large cross-border banks under their direct remit, holding three

quarters of the covered deposits in the Banking Union, have appropriate loss-absorbing capacity and potential access to the Single Resolution Fund. This already ensures a high degree of loss mutualisation within the banking sector. However, additional measures, including a common deposit insurance mechanism, that builds on this progress and on the fact that deposits are always protected up to 100 000 EUR, are still needed. It is necessary to improve the predictability of group resolution strategies, provide credible and predictable backstop funding mechanisms for liquidity in resolution, and ensure that the failure of a cross-border group would not create distortions in individual Member States or liabilities to DGSs and national budgets.

A genuine Single Market in banking is about a further connected banking system, not a more uniform one. Europe's diverse banking landscape must be preserved, with all banks and their clients benefiting from the Single Market, regardless of their size, risk and business model. Small and non-complex banks should benefit from less burdensome and more proportionate rules that reflect their specificities while maintaining financial stability. To ensure that the different nature and role of smaller domestically focused banks are considered also in times of crisis, any common deposit protection mechanism should recognise the existing arrangements for protecting their depositors and build on the fully funded and well-functioning deposit guarantee schemes, while reinforcing their firepower.

A strong competitiveness agenda also requires tackling unnecessary regulatory complexity. In many cases, this complexity is itself a product of fragmentation: divergent national requirements, duplicated reporting, differing supervisory practices and overlapping requirements all impose extra costs on banks and reduce efficiency. Simplification and integration should therefore be seen as complementary objectives. A more integrated market can support a simpler and more coherent framework, just as a less complex regulatory environment can facilitate cross-border banking.

Conclusion

Europe needs a banking market in which fragmentation and complexity are reduced, cross-border integration is matched by credible safeguards and proportionality, especially for small and non-complex banks, is enhanced. If this balance is achieved, the result will not simply be a more profitable banking sector, but a more innovative, resilient and competitive European economy.



FRANÇOIS-LOUIS MICHAUD

Chairperson – European Banking Authority (EBA)

Competitiveness: finding the right path

The competitiveness of European banks is a strategic priority. In a context marked by geopolitical uncertainty, weaker macroeconomic conditions, rising digital, environmental and demographic challenges, Europe must ensure its banking sector supports sustainable economic growth.

Competitiveness and resilience strengthen each other. The regulatory reforms introduced after the global financial crisis have greatly reinforced EU banks and built a solid base of confidence. Yet resilience now needs to extend beyond traditional financial indicators. While strong capital and liquidity buffers remain vital, banks also need to strengthen their operational capacities to meet the challenges brought by digital transformation.

The competitiveness agenda should allow European banks to operate more efficiently while maintaining financial stability. Streamlining regulation, improving supervisory convergence, supporting supervisory judgement, and completing the Single Market will bring real benefits.

The EBA is actively working on this. We have deprioritized 15% of our own mandates and published consultations on critical areas such as own funds, credit risk, governance and remuneration, ESG and resolution. In April, we proposed to reduce the datapoints in harmonised reporting by 50% and are building a comprehensive repository of EU national data collections to foster transparency by the end of the year. Last June, we announced a simplified approach for the 2027 EU-wide stress-test, and proposed simplifications to the micro, macro and resolution capital stacks.

The goal is not to reduce prudential standards or weaken safeguards. Rather, it is to avoid duplication, improve proportionality, ensure consistent application, and make rules easier to understand and apply.

The EBA is committed to international standards and the final implementation of Basel III. As required by EU legislators, the EBA monitors regulatory and supervisory developments in 26 non-EU jurisdictions, including shifts in prudential approaches and possible differences in Basel III implementation. The competitiveness of European banking depends on consistent, transparent, and internationally recognised rules. At the same time, implementation should remain proportionate and sensitive to the specific features of the European banking model, to avoid unintended impacts on the financing of the economy.

A competitive European banking sector also needs a regulatory framework that supports innovation. Digital transformation is reshaping financial services, with artificial intelligence, cloud computing and advanced data analytics opening new paths for efficiency and customer value. European banks are investing in these technologies. Regulation must ensure that innovation

goes hand in hand with proper management of risks linked to cybersecurity, operational resilience and governance.

The diversity of the European banking sector is another key strength. Institutions vary in size, geography and business models, and this diversity helps sustain a stable financial ecosystem. A competitive framework must apply proportionality effectively while keeping a fair playing field for all institutions.

**The EBA is actively working on
improving the efficiency of bank rules.**

Looking forward, the competitiveness of the EU economy and of EU banks will benefit from prudential rules which are strong enough to preserve trust, yet flexible enough to encourage innovation and growth. Now, there is so much banking regulation can do: competitiveness also hinges on completing a single market which remains very fragmented in many areas that are beyond the remit of bank regulators and supervisors.



BERTRAND DUMONT

Director General of the Treasury – Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France

An ambitious European package for banking competitiveness

Europe's banks are entering a new phase of competition. US institutions benefit from a vast and integrated home market, while regulatory easing across the Atlantic may widen existing gaps. At the same time, neobanks, payment platforms, crypto-asset firms and BigTech companies are expanding into financial services. This competition is welcome when it promotes innovation. But it also exposes a structural weakness: European banks still operate in a fragmented market and under a complex framework, while remaining central to financing Europe's economy and strategic priorities.

The European Commission's recent report on banking competitiveness provides a useful basis for action. Its message is clear: banks are more resilient, but the Single Market remains incomplete and the prudential and regulatory framework is not sufficiently adapted to the specific characteristics and financing needs of the EU. The question is not only about improving the competitiveness of the banking sector, but how to build a banking sector that is resilient and strong enough to support growth and fill the European competitiveness gap. In the past years, despite the implementation of the Banking Union, consolidation has taken place largely within national borders, cross-border activity remains limited, and European groups cannot freely allocate capital and liquidity across the Banking Union as efficiently as their international competitors. The challenge is therefore to overcome fragmentation without weakening financial stability. Europe needs an ambitious political package combining integration of the European banking market, simplification of the framework and a genuine international level playing field.

First, cross-border banking groups should be able to manage capital and liquidity more effectively at consolidated level. Solo requirements and national ring-fencing should be reduced for sound groups subject to consolidated European supervision and intragroup support arrangements. This would support diversification, scale and a better allocation of financing. But greater mobility must be matched by adequate safeguards for host Member States. Intragroup support arrangements should ensure that subsidiaries can meet their obligations. European authorities must also be able to act early and provide liquidity in resolution. This is the political bargain Europe must now strike: greater capital and liquidity mobility in exchange for robust group-support mechanisms, stronger crisis-management tools and credible European deposit protection. Mutualisation cannot precede risk control, but national safeguards cannot indefinitely justify fragmentation.

Second, the EU should ensure a credible international level playing field, avoid unnecessary increases in overall requirements and make targeted adjustments where its rules penalise low-risk or strategically important activities. Basel III international implementation is increasingly uneven,

while European banks face global competition in investment banking, market-making, trade finance and specialised lending. Priority areas to work on include the treatment of unrated corporates and low-risk mortgages under the output floor, market and counterparty credit risks, as well as infrastructure, project and trade finance. Europe should remain committed to international cooperation, but it cannot ignore divergences that weaken European banks' capacity to finance the economy.

Third, the prudential and resolution framework must be simplified without compromising financial stability. The objective is not deregulation. It is to remove overlaps and gold-plating, improve the predictability of Pillar 2 and macroprudential requirements, streamline the interaction between capital and resolution buffers, and strengthen oversight of Level 2 and Level 3 rules. A simpler framework should remain risk-based, preserve the Single Rulebook and avoid creating a separate regime for smaller banks that would fragment the market.

Europe needs an ambitious package combining integration, simplification and level playing field.

The Commission has delivered an in-depth diagnosis; it must now convert it into a comprehensive legislative package with a clear architecture and timetable. Member States and the European Parliament must then negotiate it with the level of ambition required. Banking competitiveness will not be restored by lowering standards or maintaining national barriers. Instead, it will be strengthened by building a European market in which resilience, integration and fair competition reinforce one another – ultimately benefiting of the broader European economy.



JURAND DROP

Undersecretary of State
– Ministry of Finance, Poland

Political realities of risk reduction

Adapting European regulatory frameworks to economic reality is an urgent imperative. As demonstrated during the COVID-19 crisis, EU decision-making can move swiftly when aligned around shared goals. Today, Poland is actively working to accelerate private capital flows into the real economy. Together with five fellow Member States we take part in discussion on how to inject new momentum into stalled EU decision-making around the joint goals as set in the Savings and Investment Union.

The European banking sector is part of the challenge. Banks supply roughly 80% of European companies' external financing needs. Though it is necessary to increase the non-banking flows of capital into the economy, banks will remain the primary engine of economic growth. Therefore, the European banking sector needs to be operating at a genuine European scale.

Completing the Banking Union, anchored by a Single Rulebook, unified supervision under the Single Supervisory Mechanism, and resolution via the Single Resolution Mechanism is a vital structural lever. Yet the architecture remains incomplete without equal depositor protection. While a European Deposit Insurance Scheme (EDIS) would reinforce trust, political realities however demand that common insurance progress through consensual risk reduction rather than unconditional risk-sharing.

Nonregulatory friction

Historically, integration debates focused too heavily on prudential rules as the chief cause of fragmentation. In practice, the main bottlenecks stem from non-prudential friction: divergent national insolvency procedures, varied mortgage and contract laws, collateral enforcement frameworks, and consumer protection rules.

European Central Bank (ECB) statistics reveal that direct cross-border corporate lending remains stuck at roughly 8%, with cross-border retail loans hovering near a negligible 1%. Overcoming these non-prudential barriers will allow the Single Market to integrate organically, as demonstrated by pan-European digital neobanks scaling across borders.

Among other relevant questions is the host-country perspective. Maintaining capital and liquidity requirements at the individual legal entity level remains a non-negotiable safeguard for financial stability.

Pre-positioned local loss-absorbing capacity is essential to protect depositors and investors locally. Discarding this established home-host balance through cross-border waivers would grant parent entities discretionary freedom to reallocate resources away from subsidiaries during stress, exposing host

economies. Capital held in local subsidiaries is neither "trapped" nor non-productive; localized buffers function as vital shock absorbers that sustained credit flows during the COVID-19 shock far better than a hyper-centralized model.

Moreover, enhancing competitiveness must not serve as a pretext for deregulation or dismantling essential prudential safeguards. European institutions navigated recent periods of global macro-volatility with remarkable resilience precisely because the EU's post-2008 prudential framework held firm. High standards are not a burden; they are a competitive asset and a shield for the real economy.

Enhancing competitiveness must not serve as a pretext for dismantling essential prudential safeguard.

Rather than eroding safety nets, Europe's agenda must deliver decisive administrative reform. The complexity of the regulatory stack—where Level 2 and Level 3 technical acts create redundant mandates—generates severe operational burdens. European co-legislators should deliver on the European Commission's target of a 25% reduction in administrative and reporting weights. Smart simplification must make proportionality rules genuinely operable for small institutions, streamline redundant Pillar 3 disclosures, eliminate risk double-counting, and revise the punitive prudential capital treatment of software investments under the Capital Requirements Regulation (CRR), which currently handicaps European digital innovation relative to global peers.

Unlocking capital requires confronting obstacles beyond EU legislative mandates, including cultural risk aversion and deeply rooted national tax, administrative, and judicial systems. Jointly focusing on redundancy, cooperation of conduct authorities and legal clarity is needed more than grand strategies.



PHILIPPE BORDENAVE

Senior Executive Advisor to General Management
and the Chair of the Board – BNP Paribas

EU banking sector: getting the diagnosis right and acting accordingly

The European Commission's recent communication on the Competitiveness of the Banking Sector is encouraging. It contains many elements of diagnosis with which EU banks can agree and which have long featured in our advocacy.

The banking industry's role and importance for the EU economy are recognised. As banks structurally provide about 75% of financing in the EU, a strong banking system is key to effectively finance the EU priorities of economic growth and strategic autonomy across the energy transition, defence and innovation. These essential areas will require an increase of about €1.2bn in annual funding flows compared to historical figures in the EU. In this context, the Commission clearly endorses the need for a dynamic banking sector that champions growth.

EU banks' strength and resilience are acknowledged: the structural regulatory and institutional reforms implemented since the Global Financial Crisis have resulted in a banking sector with historically high capital and liquidity positions as well as solid asset quality, and which is closely supervised and equipped with actionable crisis management mechanisms. So much so that faced with several real-world stress events, "banks acted as shock absorbers rather than amplifiers of economic stress".

Building on this, the Commission opens the way for a comprehensive legislative package to address the competitiveness challenges identified. Several relevant and welcome directions are outlined. However, something is still missing to enable us to uphold Commissioner Albuquerque's words: *"We need to acknowledge that resilience without economic growth is not sustainable, that risk-taking is an essential ingredient to innovation and growth"*.

What we need is for EU policymakers to admit that preserving resilience and financial stability does not mean further accumulation of prudential capital in the banking system, whether through regulatory rules, supervisory discretion or national macroprudential measures. Although more capital always sounds reassuring in case extreme scenarios should unfold, there is no point in continuing to enhance the unprecedented levels of safety already achieved. Growth requires the best use of banks' capital resources: they must be deployed to serve the economy rather than sterilized for the sake of further increasing prudential ratios. As a matter of common sense, this is also why the spurious principle enshrined by the ECB that better-capitalised banks will lend more to the economy must be discarded once and for all when considering the way forward.

There seems to be some acknowledgment of this, as the Commission says in its report that EU implementation of

international standards may have disproportionate effects on certain activities or banks and suggests reassessing some capital requirements (e.g. functioning of the output floor, market risk requirements, treatment of specialized lending and proprietary software), admitting the link between ill-calibrated EU requirements and limitations in banks' ability to develop financing activities. But the Commission remains wary of the idea that pressure on capital requirements should cease across the board and presents any potential reduction as an incidental by-product of simplification measures rather than as an acceptable lever to achieve growth.

EU policymakers and regulators miss the point when they dismiss initiatives taken by their US or UK counterparts as risky deregulation. What matters is how those countries choose to optimise the right levers to meet their objectives in terms of both financial stability and the financing of their economies. This direction (which relies on the relaxation of unwarranted capital requirements and refocusing of supervisory priorities, underpinned by endorsed secondary mandates in competitiveness and growth) is the one the EU should now decisively embrace, notwithstanding the reluctance of backward-looking and conservative forces persistently stalling growth.

Addressing unnecessary complexities in the prudential framework, supporting a more integrated EU banking market and cross-border activities as well as reducing the reporting burden are commendable ideas. But as long as there is no clear admission that deployment of banks' capital is a key driver of its own competitiveness, the EU will fall short of the urgent and necessary reforms.

We need a clear admission that deployment of banks' capital is a key driver of EU competitiveness.

The Commission's diagnosis that Europe requires a "culture change" is useful but must now be boldly translated into actions. Giving the EBA a formal growth and competitiveness mandate and framing the discretion of supervisory authorities through Level 1 rules combined with enhanced accountability mechanisms are prerequisites to meeting this challenge.



ANTONY JANCIC

Chief Executive Officer
– Bank of America Europe DAC

Scale without borders: completing Europe's Banking Union

Europe's banking sector is resilient, and this we have seen demonstrated in many ways over the past decade. However, resilience is not the same as competitive. The post-crisis reforms were necessary and have served Europe well. Banks are better capitalised, supervision is stronger and resolution planning is more credible than before 2008. Yet the framework that has helped to protect the wider financial system must also help it finance Europe's future.

The competitiveness debate should not be reduced to a choice between stability and growth. Europe needs both. The better question is whether capital, liquidity, technology and talent can be deployed efficiently across the Union. Too often, the answer remains no.

Completing the Banking Union and creating a genuine Single Market in Banking would not remove every obstacle. Consumer protection rules, tax, insolvency regimes and other national frameworks still create friction for cross-border activity. These reforms will take time, but that should not delay progress where it is already possible: prudential barriers, national ring-fencing and unnecessary regulatory frictions should be addressed as a priority.

The reason is simple. Scale matters. Banks face rising fixed costs from technology, cyber resilience, operational resilience, data, reporting and regulatory change. They also compete with large global institutions and increasingly sophisticated digital players. In a fragmented market, those costs are duplicated across entities, jurisdictions and supervisory processes. In an integrated market, they can be spread across a larger customer base.

This is not only a question for shareholders. Scale benefits society too. More efficient banks can invest in new services, support cross-border firms, and share some efficiency gains through more competitive pricing and broader product choice. A Single Market in Banking should be seen as part of Europe's growth agenda and a necessary complement to the Savings and Investment Union, not as a narrow sectoral project.

The unfinished Banking Union is the central obstacle. The Single Supervisory Mechanism and Single Resolution Mechanism created common institutions, but national boundaries still matter in practice. Capital and liquidity can remain trapped within subsidiaries, when they could be used more productively elsewhere. This weakens the economic logic of cross-border consolidation and limits the emergence of genuinely pan-European banks.

A complete Banking Union would change that calculation. A credible common framework, including a lasting solution on deposit insurance, would strengthen trust between Member

States and supervisors. It would also support greater capital and liquidity mobility within well-managed banking groups. Without that trust, national authorities will continue to protect local resources. With it, Europe can begin to treat cross-border groups as European institutions rather than collections of national balance sheets.

This is where the Banking Union and the Single Market must interact. The Banking Union supplies the institutional architecture: common supervision, credible resolution and shared confidence. The Single Market supplies the economic outcome: banks able to operate, allocate resources and serve customers across borders with fewer artificial constraints. **The Banking Union is the platform; the Single Market is the prize.**

Prudential simplification should support the same objective. Europe's capital framework has accumulated layers of buffers, add-ons and requirements over time. European Banking Authority analysis has highlighted the complexity created by overlapping going-concern and gone-concern capital stacks, national buffers and interaction of risk-based and leverage-based measures. Simplifying these layers, without weakening resilience, would improve transparency and free management capacity for lending, investment and innovation.

The point is not deregulation for its own sake. Europe should preserve the resilience it has built. But resilience is strongest when rules are coherent, predictable and risk-based. If capital cannot move efficiently within banking groups, if buffers are duplicated, and if supervision rewards local containment over European efficiency, the system becomes safer in appearance but less capable in practice.

**The Banking Union is the platform;
the Single Market is the prize.**

Europe has the ingredients for a globally competitive banking sector: large markets, deep savings, strong institutions and sophisticated customers. What it lacks is a sufficiently integrated operating environment. If the European Union wants banks to finance its strategic ambitions, compete internationally and serve customers better, it must enable them to scale beyond borders.

BREAKING THE BANKING UNION DEADLOCK



OLIVER SCHÜTZ

Managing Director, Resolution,
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Austrian Financial Market
Authority (FMA)

From achievements to next steps: completing the vision of the Banking Union

Over a decade since its creation, Europe's Banking Union remains a cornerstone of its financial architecture, increasing in stature amid geopolitical uncertainty. Rising systemic risks and global competition reinforce the need for further European financial consolidation and integration. Completing the Banking Union and progress on the Savings and Investment Union are essential to enhance sustainable growth and resilience across Europe. Instead of celebrating past achievements, attention must shift to reaching our original destination: a fully integrated banking market.

The Banking Union was conceived to break the vicious circle between sovereign and banking risk, and creating a more integrated and resilient financial system. Two of its three pillars are operational. SSM and SRM heralded

an unprecedented transfer of authority from national to European institutions. The SSM provides consistent, risk-based supervision of significant institutions, while the SRM enables the orderly resolution of large, cross-border banking groups. A central ambition was to allow pan-European banking groups to emerge, while reducing the link between national fiscal positions and domestic banking sectors.

The Banking Union has yet to realise its full potential. Cross-border integration could bring further efficiency gains. Freer capital and liquidity movement within banking groups would allow resources to flow where needed most and enhance competitiveness and resilience. Existing rules already permit cross-border capital and liquidity flows, but broader application of such waivers remains politically sensitive. National authorities still prioritise domestic considerations, driven by concerns about crisis management responsibilities and the lack of a fully mutualised safety net. Nevertheless, the SRM has strengthened confidence in effective, consistent and appropriate resolution of European cross-border banks, irrespective of national self-interests. The broad consensus is that the European banking system is sounder than before the Banking Union: supervisory standards are more consistent, resolution planning has matured, and market confidence in systemic resilience has improved.

Continued commitment to a common goal brings the EU closer to completing the Banking Union.

Despite direct ECB supervision of significant institutions and the SRB's responsibility for resolution in the Banking Union, substantial obstacles, which increase in times of crisis, remain over the free flow of capital and liquidity. Is this due to the existing regulatory framework, or a lack of mutual trust? If so, the core issue is one of confidence rather than of regulation: the Banking Union provides a robust basis for a greater mutual trust among member states and authorities. Its institutional framework boasts many tools required for deeper

integration. Strengthening mutual trust among member states through open, transparent and cooperative discussions in college settings remains a challenge. Trust must be established in normal times to ensure cooperation, timely decision-making, and a truly European approach as crises emerge.

Full integration remains a work in progress. The missing third pillar, EDIS, will be decisive in transitioning from national fragmentation to a real European banking market and completing the Banking Union. The recent CMDI reform highlighted deposit insurance, especially EDIS, as political stumbling blocks: the Commission's proposal was a significant step forward, while the final political agreement was substantially more modest. National deposit guarantee schemes and resolution tools are more closely aligned, albeit with numerous safeguards and complex conditions. Progress has been incremental, rather than the transformative leap envisaged.

EDIS' continuing absence fuels national concerns about cross-border institutions converting subsidiaries into branches. "Branchification" shifts responsibility for guaranteeing eligible deposits from the host country's national deposit guarantee scheme to that of the home country, albeit without fully transferring contributions previously paid into the host's DGS. This reflects the gap between the ambition of a unified banking market and the reality of national constraints. A fully operational EDIS would help address these concerns by distributing burdens and responsibilities more evenly.

The Banking Union has undeniably strengthened financial stability, supervision, and crisis management in Europe. However, stability alone is no longer sufficient in a more fragmented geopolitical environment amid rising global competition. A seamlessly integrated banking landscape, with free intra-group capital and liquidity movement, consistent supervision, and a joint European deposit insurance framework, remains a vision. Continued political commitment, combined with pragmatic progress, will move the EU closer to that goal. But ultimately, only decisive political steps toward completing the Banking Union will unlock its full potential, strengthen stability, enhance competitiveness, and enable a truly integrated European banking market.



DOMINIQUE LABOUREIX

Chair – Single Resolution Board (SRB)

Competitiveness, Simplification and the Next Step for the Banking Union

The European Commission's Communication on the competitiveness of the EU banking sector provides a solid analysis of the challenges faced by European banks while setting out a sensible agenda to address them, from simplification and reducing unnecessary burdens to deepening integration and completing the Banking Union.

The Single Resolution Board strongly supports these objectives. In fact, within our remit, we continue to simplify our processes while preserving resilience and strengthening cooperation within the Single Resolution Mechanism and other stakeholders. For example, we have streamlined procedures for approving early redemptions of MREL instruments and simplified resolution planning to help authorities and banks focus on what matters most.

As policymakers consider the next phase of reforms, four principles should guide the debate.

First, simplification that does not come at the expense of resilience requires a holistic approach. Financial regulation is an ecosystem in which every element is interconnected.

Take MREL. Some argue that requirements should be reduced to lower costs for banks. Yet MREL exists for a fundamental reason. It ensures that resolution can be financed using investors' money and, where necessary, the Single Resolution Fund. It also enables a bank emerging from resolution to meet its prudential requirements from day one. Reviewing MREL in isolation from capital requirements, supervisory expectations and the broader micro and macro-prudential framework would therefore be counterproductive. If Europe wants meaningful simplification, these elements need to be considered together.

The same logic applies to liquidity. Banks would be more competitive if liquidity could move more freely across subsidiaries within the Banking Union. However, subsidiary-level liquidity requirements reflect that Europe still lacks the common safeguards needed for such integration. Completing the Banking Union therefore remains essential. A more integrated deposit insurance scheme would ensure that, in the extremely unlikely scenario that a subsidiary of a bank in resolution is unexpectedly left behind despite the single point of entry strategy, the cost of protecting depositors is ultimately shared through a common European framework rather than falling solely on the local Deposit Guarantee Scheme. Likewise, a robust Liquidity in Resolution framework would provide confidence that liquidity support can be mobilised for a banking group in resolution whenever needed, regardless of its size. Enhanced intra-group support arrangements could further strengthen trust through credible commitments to support subsidiaries in times of stress. Building that confidence is ultimately what will enable a more integrated and competitive Banking Union.

Simplification, integration and resilience must advance together.

Second, competitiveness should not come at the cost of an even more complex governance. Coordination between authorities can improve, but clear responsibilities remain essential for effective crisis management. The independence of the Single Resolution Mechanism should therefore be preserved. Simplification should reduce unnecessary complexity, not create additional layers of decision-making.

Third, while predictability is an important objective, resolution authorities must retain sufficient flexibility to respond to each crisis. Many features of today's framework reflected understandable caution when the Banking Union was created. After a decade of institution-building, extensive resolution planning and repeated testing, it is legitimate to ask whether all those constraints remain necessary. Simplification should therefore also mean giving authorities the flexibility to deploy the resolution toolkit effectively when it is needed most.

Fourth, Europe should not lose sight of the international dimension. Financial stability is inherently cross-border, and the credibility of the European resolution framework depends on an appropriate framework, recognized and understood by authorities around the world. As Europe embarks on this reform agenda, preserving the effectiveness and international credibility of its resolution framework should remain a guiding principle.

The Commission's report rightly recognises that competitiveness, simplification and integration are mutually reinforcing objectives. Europe should therefore resist the temptation to cherry-pick individual reforms. Simplifying MREL without considering the broader prudential framework, easing liquidity constraints without completing the Banking Union, or changing governance by blurring institutional responsibilities would deliver only partial—and potentially counterproductive—results. Let's trust the framework we have collectively built. Lasting competitiveness requires a coherent reform package in which simplification, integration, resilience and ultimately Europe's global credibility advance together.



PETER PALUS

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Three-legged stool and the single market in banking

Negotiating the completion of the Banking Union requires a careful balancing act. The core challenge lies in fostering deeper cross-border market integration while ensuring that local bank subsidiaries can fully perform their vital and irreplaceable role in financing the domestic economy.

The **architecture of the Banking Union** relies on a magic triangle of mutually reinforcing pillars as a three-legged stool:

- **European safety net:** Building on the EU harmonised depositor protection framework and establishing a fully mutualised European deposit insurance mechanism, including a public European backstop.
- **Single Market in Banking:** A market for banking services that allows free cross-border provision of all banking services and capital and liquidity to flow efficiently and freely where they are needed.
- **Europeanisation of sovereign bond holdings:** Addressing the so-called home bias and overcoming the negative feedback loop between EU banks and public finances by diversifying banks' sovereign bond portfolios.

For host countries, a fully realized European common safety net is the only reliable way to break this deadlock. Without robust European deposit insurance, host countries are naturally demanding prudential requirements to be met also at the solo level to protect the resilience of their subsidiaries and mitigate negative impacts on the domestic economy. Deepening the single banking market cannot be achieved by merely deregulating the prudential requirements of subsidiaries that, compared to branches, are separate legal entities; it demands a collective mechanism that provides a fair balancing of responsibilities and builds genuine institutional trust.

**Progress in complex
regulatory frameworks
is rarely an "all or
nothing" proposition.**

Clear diagnosis

The Savings and Investments Union does not suffer from a lack of analysis. The technical diagnosis regarding the complexity of the single regulatory framework is clear, evidenced by the broad alignments between the European Commission's recent Communication and the data-driven findings of the Oliver Wyman Report commissioned by the European Banking Federation. Both documents clearly illustrate that the status quo of regulatory burden stifles the profitability and global competitiveness of European banks. The immediate priority must be the fast-tracking of regulatory simplification and overcoming non-prudential fragmentation. Eliminating bureaucratic overlaps is a technical necessity that all parties support. The critical hurdle is ensuring that complex institutional debates do not unnecessarily stall this momentum. Ultimately, creating European banking champions cannot come at the expense of local financial stability. For host countries, the final metric of success for any banking reform is simple: it must protect the irreplaceable role of banks in financing local businesses, households, and infrastructure, regardless of whether they provide their services locally or on a cross-border basis.

The realism of a gradual approach with long transitional provisions

When a sweeping institutional reform proves politically or economically impossible, a gradual approach becomes the only viable path forward. Progress in

complex regulatory frameworks is rarely an "all or nothing" proposition. Instead of waiting for a revolutionary legislative overhaul that may never find consensus, the EU could move forward in balanced and structured phases to continuously establish stable, new equilibriums. An example of this pragmatic step-by-step approach involves finding a middle ground on regulatory compromises:

- **Cross-border waivers:** Introduction of partial, phased implementation of cross-border capital and liquidity waivers and safeguards for host markets from sudden capital flight. Moreover, in line with the local responsibility for financial stability and its critical role for credit supply, systemically important subsidiaries should be excluded from such a regime.
- **Mutualisation:** Accepting a partial, phased mutualisation of deposit guarantee schemes into a common safety net, rather than demanding full pooling of resources.
- **Sovereign exposures:** Phased introduction of concentration limits or other regulatory incentives effectively diversifying sovereign bond holdings, thereby preventing possible volatility in EU sovereign debt markets.

Parallel progress with the work towards the European single capital market

The completion of the Banking Union is deeply interdependent with the current progress on capital markets integration. Market-based financing and traditional bank lending are the two engines of the European economy. The more successful and integrated the capital markets become, the more room it creates for the banking sector. Stronger capital markets alleviate localised pressures on banks, giving the stability required to advance further on the Banking Union. Ultimately, the Banking Union and the Capital Markets Union are not alternative paths; they are mutually reinforcing and complement each other for the benefit of the EU economy.



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Banking Union will make the EU economy more competitive

In its 17 July 2026 Communication on bank competitiveness and single market, the European Commission rightly identifies the lack of cross-border integration as a key obstacle to competitiveness of the banking sector. Some European banks are large in a national context, but all are small at European scale. A more integrated banking sector will be better placed to play its role in financing the EU's large investment needs, now estimated to be EUR 1.4 trillion annually. A recent report commissioned by the EBF estimates the need for bank lending will grow at 20% every year.

The main obstacles to banking sector integration are relatively clear. EU bank regulation creates specific barriers to integration that can be addressed by policy makers.

(Aspiring) cross-border banking groups are today not able to deploy their balance sheet on a pan European basis. In its communication, the EC observes that *“unlike in other jurisdictions, the EU regulatory framework requires cross-border banking groups to comply with capital and liquidity requirements at both consolidated*

level and at the level of subsidiaries.” This should be seen in a broader picture where, in the EU, all prudential measures are applied at each level of a banking group, including MREL, P2R, output floor, leverage ratio, large exposure limits and the plethora of macro-prudential measures imposed nationally. The potential gains in terms of simplification are substantial.

Changing this situation within the Banking Union, where the SSM and the SRB can ensure appropriate resource allocation within cross-border banking groups under their purview based on binding EU legislation, would constitute real progress. The idea of a specific, ad-hoc, regime for large cross-border banks could be explored in this regard.

On capital requirements, the current practice of forcing subsidiaries to hold capital locally can lead to “trapped capital” and numerous smaller locally held capital buffers (instead of central buffer) that cannot easily be redeployed elsewhere within the Banking Union or the EU. This may limit a bank's ability to absorb losses across entities, allocate capital towards growth opportunities and could potentially increase the amount of capital overall. A purely consolidated approach would allow banks to manage capital as a single pool, enabling banks to deploy capital where it's most needed to support lending growth or to absorb losses in stress.

**EU bank regulation
creates specific barriers
to integration that
can be addressed
by policy makers.**

On liquidity requirements, the mechanism is similar. To illustrate the potential financial impact, based on ING balance sheet dynamics over 2023-2025, we believe EUR 15bn could have been unlocked even if we assume that all Banking Union subsidiaries would have maintained a 100% domestic LCR level. The exact pricing impact of unlocking this liquidity will depend on the balance sheet dynamics of the different entities within a group and can vary over time and depend on specific circumstances.

In this hypothetical scenario, the unlocked funds could have been used by a bank to do one of, or a combination, of the following:

The freed-up liquidity could have been used to fund additional lending, roughly

the equivalent amount of the liquidity that is unlocked.

Should credit demand have been weak, it could have been used to reduce the need to raise external funding, thereby also reducing lending costs.

So the free flow of funds within banking groups can have tangible benefits for the European economy. The effect of unlocking liquidity will be particularly strong in a situation of growing credit demand combined with more constrained liquidity in the system (e.g. due to slower deposit growth as Europeans invest more; monetary policy normalisation).

Our example illustrates that focusing even on excess liquidity alone, where subsidiaries maintain a 100% LCR, would already bring substantial benefits. Changing the regulatory paradigm to applying the prudential rules at consolidated level only as the starting point would unlock further economic benefits, regulatory simplification, and facilitate cross-border consolidation in the European banking sector.

Ultimately, the Banking Union cannot be completed without EDIS. Whether for all banks or a subset of banks (e.g. SSM-supervised), a definitive attempt should be made to create an EDIS. In-between options, such as liquidity support or reinsurance only, run the risk of a clear not being significant for EU banking sector integration to really take off.

Banking Union should not be considered in isolation. Whilst integration is an important catalyst, the normalisation of capital requirements in the European context would also help make EU banks more competitive. In particular, the EU urgently needs to provide a clear path forward on mitigating the foreseen impact of the output floor. The current trajectory of fully phasing-in the output floor by 2033 could trigger a significant price increase of loans for both corporates and households, which can put a break on European growth.



PIER MARIO SATTA

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Management – UniCredit S.p.A.

Europe's banks are resilient. Now let them support Europe's ambitions

In a rapidly evolving and uncertain geopolitical environment, Europe's banks are well positioned to contribute to mobilize critical investments in defence, energy security, digital infrastructure and the green transition. Following post-crisis reforms, the sector is significantly more resilient, well capitalised, highly liquid and profitable. Nonetheless, Europe still lacks banking groups with the scale, flexibility and cross-border integration needed to support a more unified and competitive economy.

As highlighted by the Commission, Europe's banking system is not constrained by a lack of capital or liquidity. Rather, in a stress scenario, resources held at group level may not be available in a timely and enforceable manner to support local entities. Consequently, supervisors continue to favour ring-fencing measures that restrict the mobility of capital and liquidity across borders. The issue is less the quantity of available resources than the framework governing their use.

Capital and liquidity requirements are calibrated not only at consolidated but also at subsidiary level, thus reducing the ability of cross-border banking groups

to deploy resources where they are most needed and imposing a significant cost.

The industry has long advocated for a framework that empowers the Single Supervisor to set prudential requirements for cross-border banking groups while extending harmonised exemptions for intragroup exposures and removing remaining national discretions.

The ECB has estimated that removing constraints on liquidity held in cross-border subsidiaries could release around EUR 230 billion of high-quality liquid assets. Industry estimates that more than EUR 225 billion of capital remains trapped within EU banking groups because of prudential fragmentation. Assuming CET1 requirements in the range of 12–13%, making this capital fully fungible could theoretically support between EUR 1.7 and 1.9 trillion of additional risk-weighted assets, significantly increasing banks' capacity to finance strategic investments across the EU.

The effects would go well beyond lending capacity. Cross-border groups are required to maintain duplicative liquidity buffers, governance structures, funding arrangements and operational infrastructures across multiple jurisdictions. These costs ultimately weigh on profitability, reduce returns on equity and limit the competitiveness of European banks relative to peers operating in more integrated markets.

**Europe has built a
resilient banking
system - now it must
ensure it can deliver
for the real economy.**

Large US banking groups operate under a single federal framework that allows capital and liquidity to move far more freely across states contributing to their greater scale, profitability and capacity to support large corporate clients.

The Commission rightly recognises that any move towards greater reliance on consolidated supervision can only succeed if the legitimate concerns of host authorities are addressed. Completing the Banking Union therefore requires a framework that allows supervisors to rely on group-wide resources with confidence. This includes strengthening the deposit guarantee framework, establishing credible parental support obligations

and ensuring predictable liquidity provision in resolution.

In this context, the joint non-paper by Italy, France and Spain provides a concrete basis for discussion. A key element is the creation of a voluntary "28th regime" for cross-border banking groups i.e. complementing the existing 27 national banking frameworks with an optional EU-wide regime under which participating groups would be supervised and managed more consistently as integrated European banking groups. The proposal combines greater capital and liquidity mobility with legally enforceable intragroup support obligations, a progressive approach towards a common deposit insurance framework and stronger arrangements for liquidity-in-resolution replacing national fragmentation with credible European safeguards.

As the Commission prepares its 2027 legislative proposals, the forthcoming legislative review provides an opportunity to address the drivers of fragmentation more directly. Completing the Banking Union is not the only determinant of competitiveness. Macroeconomic conditions, capital market development, scale, business models and regulatory simplification also matter. A more coherent interaction between micro-, macroprudential and resolution frameworks would make a significant contribution to improving efficiency and competitiveness of the sector.

Nevertheless, Banking Union is the only reform which can deliver the same degree of cross-border capital and liquidity mobility within the European banking system.

EU banks have the capital, liquidity and expertise to support the Union's long-term priorities. Does the institutional framework allow those resources to be deployed efficiently across the Single Market? As Europe's financing needs increase, maintaining national barriers within a system built around common supervision and resolution is becoming increasingly difficult to justify.



KAROLIN SCHRIEVER

Executive Member of the Board – Deutscher Sparkassen- und Giroverband (DSGV)

A competitive European banking sector builds on diversity

The debate on the Banking Union has entered a new phase. Over the past decade, Europe has strengthened the resilience of its banking sector through common supervision, a common resolution framework and a harmonised framework for deposit guarantee schemes. Its robustness has been demonstrated not only by supervisory stress tests but also by real-world crises. The challenge is no longer to maximise resilience, but to ensure that European banks can finance the investment needed for innovation, decarbonisation, digitalisation and defence. As the Commission's Communication on the competitiveness of the EU banking sector highlights, competitiveness matters because banks finance businesses, support households and enable municipalities to invest. A Banking Union should therefore be judged by how well it enables this. Ahead of the announced Banking Package 2027, the recent Communication rightly places competitiveness at the center of the Banking Union debate.

Greater mobility of capital and liquidity and stronger cross-border banking groups can generate economic benefits.

But market integration is a means, not an end in itself. The objective is a banking system that meets the diverse financing needs of Europe's economy. This requires both internationally active banking groups providing cross-border financing, investment banking and access to capital markets, and regional savings banks, cooperative institutions and other domestic retail banks financing households, SMEs and municipalities through relationship banking. Europe's strength lies not in uniformity, but in the complementarity of these different business models.

This is particularly relevant for the debate on potential improvements to deposit insurance, where EDIS is frequently presented as the missing element that would finally unlock the Banking Union. However, it is neither the only nor a sufficient solution. Deposit insurance remains one of the most politically sensitive elements because it mutualises risks shaped by different legal frameworks, insolvency regimes and banking structures across Member States.

A Banking Union that enables the best financing solutions across Europe's economy.

As a general principle, Europe should avoid making progress on Banking Union, banking competitiveness and much-needed regulatory simplification conditional upon agreement on a project that has remained politically divisive for more than a decade. Therefore, the DSGV welcomes the Commission's announcement that it intends to replace the 2015 EDIS proposal. That proposal failed to recognise the specific role of Institutional Protection Schemes and treated full mutualisation as the only acceptable model. Both assumptions were misguided. The objectives now outlined by the European Commission leave scope for different approaches to the design of deposit protection arrangements in Europe, which should be subject to a substantive discussion. In this context, the role of Institutional Protection Schemes must be fully recognised, and any duplication of financial burdens on their member institutions must be avoided. The DSGV therefore continues to advocate a structural exemption (carve-out) for Institutional Protection Schemes that are recognised as deposit guarantee schemes – and for their affiliated institutions – from any potential mutualisation process.

A differentiated approach would also make a political agreement considerably more realistic. Institutions wishing to pursue deeper integration through a European deposit insurance should be able to do so. Successful national and sectoral protection schemes should remain fully respected. Europe has always been strongest when integration has respected different institutional models rather than replacing them.

The same logic should guide the broader Banking Union agenda. Banks with domestic business models should not bear the costs of integration that primarily benefit internationally active groups. Banking Union progress must therefore go hand in hand with genuine proportionality. As the Commission recognizes, competitiveness also requires simpler and more proportionate rules that reflect different sizes, risk profiles and business models. This means introducing meaningful simplifications for low-risk; non-complex and regionally focussed institutions, streamlining supervisory expectations, reducing reporting requirements, applying proportionate resolution planning and preserving institutional protection schemes. This would strengthen competitiveness without compromising Europe's banking sector resilience.

Europe should build on the diversity of its banking landscape rather than seek to homogenise it. As the Commission prepares its Banking Package 2027, a balanced political compromise combining deeper integration with full respect for successful decentralised banking structures offers the most credible path forward. Such an agreement would not only overcome the longstanding deadlock in the Banking Union debate but also strengthen Europe's competitiveness, financial stability and capacity to finance its future.



RIMANTAS ŠADŽIUS

Former Minister of Finance of Lithuania, former Member of the European Court of Auditors

Banking Union benefits and constraints for host countries: some more aspects

The debate on completing the Banking Union entered a new stage with the important Commission Communication of July 2026, legislative proposals promised next year. It is now more diverse, not mere development of EDIS, general size and/or competitiveness of the EU banking compared to peers notably in the US. Indeed, the diversity of the EU banking landscape comprising institutions of different size, corporate structure and ownership, is our cultural heritage and, I dare say, our strength, given persistence of bank financing of our businesses. It needs to be preserved but refurbished.

Reducing fragmentation, a “natural sin” of our banking sector, supporting cross-boarder banking, combined with more proportional approach to “small and non-complex” institutions are now central issues. In this context home-host relations are often framed as a clash between integration-minded home countries and cautious host countries, but that is misleading.

Host countries recognise the well-known benefits of a more integrated European

banking market: in particular, stronger competition, wider choice of financial services, new technology, improved digital services, more competitive prices. More efficient allocation of capital and liquidity within banking groups could also expand lending capacity, especially in smaller markets where domestic capital is limited, particularly in small countries for improving infrastructure and financing defence capacities. Their concern is not integration itself, but integration without a credible European safety net to replace actual national ring-fencing.

This is why host countries stress safeguards, be it in further strengthening BU regulatory and supervisory network, progress in common European deposit insurance, refining crisis management mechanisms, ensuring liquidity in case of resolution, proper treatment of mid-size or small institutions. This should not be dismissed as simple protectionism.

A few more aspects from the host-country position.

The risk environment has changed significantly. Europe now faces geopolitical confrontation, hybrid and cyber threats, foreign interference, climate-related shocks. Severe disruptions can no longer be treated as remote. The existing legal and supervisory framework for cross-border banking was largely designed for a different more “financial” risk environment, as the above was neglected or seen unlikely. We should reassess, whether we are still fully equipped to address today's more complex world. For instance, minimum offer of everyday banking, like payments, cash supply, should be ensured even in extreme events of power outage, forced evacuation, natural or man-made disasters – a very real concern for the eastern boarder EU member states.

**Host countries:
credible integration,
shared responsibility,
enforceable support,
equal protection.**

Another underexplored issue is the systemic importance (or relevance) of smaller banking institutions or divisions of large banks for financial and economic stability of a host member state. One quite practical example is an adequate retail and ATM network in rural areas that any government needs to preserve from disappearing with “branchification” or complete

retirement of a foreign bank subsidiary from the country.

Many more banks now operate across borders through subsidiaries or branches, and in some host countries they provide a major share of essential financial services. The solo approach is fit for a subsidiary, but a branch would pose trouble, especially if its parents come from outside the Eurozone, off ECB remit. Stress affecting systemically important branches can have consequences well beyond the host member state. If a crisis originates in the home jurisdiction, or affects several jurisdictions simultaneously, branches may struggle to access the liquidity, and potentially later the capital, needed to maintain critical functions in the host country.

Moreover, because branches lack operational and decision-making autonomy, they may be unable to respond rapidly and effectively to local liquidity pressures. The disruption could seriously undermine financial stability, trigger loss of confidence, and spread contagion across both domestic and EU financial systems.

These issues must be addressed in further Banking Union negotiations. In any case, parent institutions should face enforceable obligations, set in a European regulation, not an intra-group statute, to support host-country operations be it in normal or crisis conditions.

In conclusion, host countries are not asking Europe to choose between integration and stability, but for credible integration backed by shared responsibility, enforceable support and equal protection. The key is not whether capital and liquidity move more freely across borders, but under what conditions this can happen without weakening financial stability in countries that depend heavily on foreign-owned banks.

Important too: for the wide public, the reforms proposed should in no way create any impression of compromised customer protection or regulation strictness weakened for banks' benefit. This might lead to failure.

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REDUCING CUMULATIVE COMPLEXITY IN EU BANKING REGULATION AND SUPERVISION



HARALD WAIGLEIN

Director General for
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Financing Europe's rearmament: A new public- private compact

Europe's rearmament is not only a defence challenge but also a financing challenge. Decades of underinvestment, fragmented procurement and limited industrial cooperation have weakened the European Defence Technological and Industrial Base. At a time of growing geopolitical uncertainty, Europe must mobilise both public and private capital to expand production capacity, foster innovation and strengthen strategic autonomy. Existing European instruments provide a strong foundation, but they must be scaled up and better coordinated to deliver the required impact.

Public authorities will remain the central actors. Defence is a public good and only governments can provide the long-term demand that enables industry to invest. National defence budgets, joint procurement programmes and

EU initiatives such as SAFE and EDIP should establish predictable multi-year procurement plans and clear capability priorities. Private financial actors, meanwhile, should provide growth capital, project financing and risk-sharing mechanisms to accelerate industrial expansion and technological innovation. The objective is not to replace public funding with private investment but to use public resources to crowd in significantly larger volumes of private capital.

To achieve this, public-private financing models have to be adapted to the specific characteristics of defence. Unlike most sectors, defence projects involve long development cycles, a limited customer base, export restrictions and substantial political risk. Traditional commercial lending is therefore often insufficient. Governments and EU institutions should expand the use of guarantees, advance purchase commitments, blended finance structures and long-term framework contracts. By reducing uncertainty and improving revenue prospects, these instruments can make defence investments more attractive for banks, institutional investors and private-equity funds.

A particular focus should be placed on SMEs and mid-sized companies, which form the backbone of Europe's defence supply chain. These firms often face difficulties accessing working capital, growth financing and equity despite being critical suppliers of advanced technologies and components. Supply-chain financing programmes linked to major defence contractors can improve liquidity, while public guarantees can reduce lending risks for commercial banks. Dedicated defence-focused investment funds and EIB-supported equity platforms should help innovative SMEs finance capacity expansion, digitalisation and research activities.

The challenges are not identical across Member States. Larger countries such as France, Germany, Italy and Spain benefit from established industrial champions, deeper capital markets and stronger national financing capabilities. Smaller and Eastern European Member States often face greater financing constraints despite rapidly growing defence requirements. The priority should therefore be to ensure equal access to European financing instruments and to facilitate the integration of smaller firms into cross-border supply chains. A

genuinely integrated European market requires that competitiveness, rather than geography, determines access to capital.

At the same time, Europe must strengthen industrial cooperation without undermining national strategic interests. This requires a pragmatic balance between sovereignty and integration. Member States should jointly develop and procure capabilities where requirements converge, while retaining control over genuinely sovereign technologies and operational decisions. Cross-border industrial partnerships, common standards and coordinated procurement can reduce duplication and increase efficiency, while allowing each country to preserve strategic competencies and sustain domestic industrial participation.

European financing instruments also need to keep evolving. The European Defence Fund (EDF) should provide greater continuity between research, development and procurement, ensuring that successful projects reach industrial scale. EDIP should focus on incentivising collaborative procurement and expanding production capacity across Europe. SAFE, with its large-scale loan facility, can increase long term demand which is a prerequisite for major industrial investments. InvestEU should develop dedicated defence windows, while guarantee schemes should be expanded to mobilise institutional investors.

Finally, the European Investment Bank has become a critical enabler of Europe's defence ambitions. Recent changes to its lending policy and expanded support for security, defence, dual-use technologies, SMEs and innovative companies are important steps forward. Further expansion of EIB-backed financing, combined with national promotional banks and private-sector participation, could create a powerful European defence investment ecosystem.

Europe's rearmament will succeed only if financing, industrial policy and defence planning are aligned. By combining public leadership, private capital and stronger European cooperation, the EU can build a more resilient, innovative and competitive defence industrial base capable of meeting future security challenges.



SHARON DONNERY

Member of the Supervisory Board, ECB Representative – Single Supervisory Mechanism (SSM)

One market, one rulebook: integration is Europe's best simplification strategy

The debate on simplification and competitiveness starts from a position of strength: Europe's banks are better capitalised, more liquid and more profitable than in the past. What many still lack, however, is scale. A bank seeking to serve customers from Rome to Riga must still navigate national variations in what is intended to be a single European rulebook.

Capital and liquidity cannot yet move freely across borders within banking groups, and directives are still transposed differently across Member States. The European Commission's report on the competitiveness of the European banking sector points to the same conclusion: fragmentation prevents Europe's banks from reaching the scale of their global peers. We share this diagnosis: Europe's complexity problem is, at its root, a fragmentation problem. The single greatest simplification measure available to Europe is therefore integration itself. And this matters all the

more in an environment of heightened geopolitical, cyber and operational risk, where complexity may draw resources away from good governance and risk management.

Important parts of the regulatory framework – including governance, licensing and fit and proper assessments – still take the form of directives that are transposed nationally and sometimes supplemented in different ways. National and regulatory constraints keep capital and liquidity within subsidiaries of cross-border groups rather than allowing them to be managed more efficiently at group level. Around 80% of banks' loan portfolios are still national, with cross-border deposits accounting for only 2%. Together, these barriers force banks to operate parallel structures, duplicate processes and navigate a patchwork of local rules. Some of these arrangements may reflect prudential concerns, but taken together they add complexity and limit the benefits of a more integrated banking market.

Simplification through integration would have benefits well beyond large cross-border banking groups. For example, extending the small and non-complex institutions regime would embed proportionality more firmly within the single rulebook.

Three integration measures would deliver the greatest simplification gains.

First, the single rulebook should become truly single. A structured review of options and discretions, together with a shift from directives to directly applicable regulations wherever divergence serves no prudential purpose, would reduce complexity at its legal source. A simpler framework is one that is applied consistently across Member States.

Resilience trapped in national silos cannot fund the investment Europe now needs.

Second, the banking union should be treated as a single jurisdiction. Cross-border capital and liquidity waivers within groups, and the lifting of ring-fencing measures, would allow banks to manage their resources on a European scale. This requires trust, and trust requires the architecture to be completed: a European deposit insurance scheme with a clear implementation timetable and a European framework for liquidity in resolution. Depositors should be able

to rely on the same level of protection across the banking union.

Third, banks should be able to report the same information once, instead of reporting similar data several times to different authorities. A more integrated European reporting framework, shared by statistical, prudential and resolution authorities, would reduce overlap and duplication and make reporting more efficient. That would save time and resources for banks and improve the consistency of the information authorities receive.

Supervisors should apply the same discipline they ask of others. ECB Banking Supervision is therefore also simplifying. In practice, this means simpler procedures, more delegated decisions, more streamlined reporting, more targeted inspections and clearer supervisory guidance. The result is supervision that is more risk-focused, faster and easier for banks to navigate.

Rules for the single market should, wherever possible, be written once at European level, as regulations. But simplification must not stop in Brussels or Frankfurt. Complexity should not reappear through national add-ons, parallel requirements or unnecessary internal complexity within firms. In this context, banks also have a role to play by simplifying their structures, rationalising their use of internal models and improving the quality of their data.

The bar stays where it is: simpler requirements, not lower requirements. Resilience is what enabled European banks to continue financing households and firms through a pandemic, an energy crisis and a trade shock. But resilience trapped in national silos cannot fund the investment Europe now needs. Fragmentation is both a complexity problem and a competitiveness problem, and the answer to both is the same: more Europe, not less.



JONATHAN OVERETT SOMNIER

Acting Executive Director
– European Banking
Authority (EBA)

From complexity to resilience: Simplifying the Single Rulebook

Since 2011, the EU banking system has successfully strengthened resilience through successive reforms. The framework we helped shape proved resilient through COVID-19, the Ukraine war and the 2023 turbulences, following the collapse of Silicon Valley Bank. The challenge now is different: retaining resilience while ensuring that the way these cumulative reforms interact is efficient, proportionate and understandable to those involved. Europe's banking framework must become more agile and the EBA is playing its part, delivering on its 2025 report on the efficiency of the framework.

A key aim is to reduce complexity through a simpler but robust Single Rulebook. One part is looking at the flow of new regulatory mandates. But the EBA is also tackling the stock: looking at the prudential framework section by section to identify efficiencies. Initial priorities have been credit risk and reporting where we have consulted on simplifications we can deliver ourselves. In other priority areas legislative change will also be needed.

The capital stack is one such priority. 15 years of reforms resulted in 10 different capital stacks for large banks, with multiple layers and interactions. In the CET1 stack alone, beyond Pillar 1, there may be six layers of different Pillar 2 and buffer requirements. Overlapping tools, repeated treatment of similar risks and differences in implementation across authorities add to the burden.

The EBA's June report on stacking orders weighed where this complexity outweighs the prudential benefits. It set out recommendations across micro-, macro-prudential and resolution areas, targeting constraints that add complexity without a corresponding gain in resilience.

Our core message is that complexity can be reduced through cleaner and more focused measures, without weakening resilience. Existing instruments should be used more consistently: microprudential tools to focus on micro risks, removing macroprudential adjustments, while being more rigorous so that Pillar 2 requirements (P2R) address only risks not captured elsewhere and Pillar 2 Guidance (P2G) returns to its original purpose of non-binding guidance which supervisors can opt not to set where banks are well-capitalised after stress and have sound capital planning.

Many of these capital framework changes require legislation, but our recently updated EBA SREP guidelines advance some of these simplifications through more consistent supervisory implementation. The guidelines are 30% shorter, reflect the strengthened Pillar 1 including the output floor, place greater emphasis on emerging or residual risks and the supervisory measures they warrant.

**Complexity can be
tackled through cleaner
and more focused
measures, without
reducing resilience.**

We see room for legislative simplification for the leverage ratio stack. Rare P2G uses could be addressed in the risk-based stack. Leverage ratio P2R could also be reshaped as a buffer, improving buffer usability.

Similarly in macroprudential policy legislation combining the countercyclical and systemic risk buffers into a single releasable buffer would reduce layers and simplify the MREL stack. We also

see room for a more harmonised O-SII buffer framework much of which could be advanced at regulatory level.

While in resolution, we propose greater legislative alignment between TLAC and MREL eligibility, a simpler calibration of subordination requirements, and more standardisation within MREL. An ad hoc prudential regime may also create scope for further simplification.

This work continues. The next priorities include home-host balance, waivers and governance and remuneration. Each responds to the need for a holistic reassessment of how the EU framework operates. While completing the Banking Union and establishing the economic needs of a more autonomous EU remain political tasks, the EBA contributes to ensuring that we have a regulatory framework best able to support a competitive Single Market while preserving resilience.

Simplification is not limited to regulation. It also concerns how Europe's network of prudential, resolution, conduct, payments and cryptoasset authorities at both EU and national level work together. As the place where these authorities come together, the EBA is exploring with them whether, and where, greater coordination could improve efficiency. This could open the way to reducing burdens for banks while enhancing authorities' ability to carry out their tasks with a more holistic and shared view of risks and measures.

Simplification isn't about removing regulation or supervising less. We want to ensure that the tools contribute efficiently to resilience and the Single Market while eliminating unnecessary duplication, ensuring that authorities and institutions can focus resources where they provide most value. This is how we should take the Single Rulebook forward.



EMMANUELLE ASSOUAN

Secretary General – Autorité de Contrôle Prudentiel et de Résolution (ACPR)

A closer Banking Union for a stronger banking system

During the last 15 years, the EU has taken major regulatory and supervisory steps to enhance the resilience of its banking sector. However, despite significant progress, the Banking Union (BU) remains incomplete, constraining the banking sector's ability to enhance its competitiveness, finance the digital and climate transitions and support economic growth on a Union-wide basis. Integration of the banking sector has fallen short of what could have been expected. Cross-border business remains limited and only a small number of banks have a truly pan-European approach. Cross-border groups continue to be managed and supervised largely as collections of national entities rather than consolidated EU firms, which is a source of inefficiencies and vulnerabilities. Further integration would deliver three benefits: resilience, competition and simplification.

First, integration would strengthen financial stability and the resilience of the sector by enhancing risk diversification at system level, reducing vulnerability to localised shocks through swift mobilisation of financial support. In this regard, it is necessary to unlock the current 230bn euros of liquid resources trapped in BU subsidiaries, as reported by the ECB.

Second, it would reinforce the banking sector's competitiveness and ability to finance the EU's strategic investments by channelling excess savings towards productive uses. Fragmentation limits economies of scale and efficient resource allocation, reinforcing structural disadvantage in activities where scale and technology investments are decisive. The EU economy benefits from a diversity of business models, which must include large, cross-border banks active across the Single Market and competing globally with peers, especially in activities such as investment banking where "playing the size card" is crucial.

Finally, it would be a source of simplification for supervisors and stakeholders, and would improve access to financial services for clients, in particular corporates operating in multiple Member States. Genuine simplification will become a reality when supervisors in the EU no longer need to consider a bank's nationality, and when a client can readily borrow from a bank based in another Member State.

The current lack of integration can be explained by multiple factors that prevent banking groups from operating seamlessly across borders including non-prudential ones. This is however largely compounded by prudential and supervisory requirements that act as "ring-fencing" measures and disincentivize cross-border activities, constraining the circulation of capital and liquidity within groups as recognized by the ECB HLTF report. It is thus decisive to bolster the BU by implementing a truly integrated economic framework that will ensure a more efficient allocation of means.

After over a decade of efficient and unified risk monitoring by the SSM and its well-integrated cross-border teams, the framework is sufficiently mature to finally implement cross-border liquidity waivers and allow for cross-border capital and internal MREL waivers. In addition, intragroup exposures within the BU should be permanently excluded from the large exposure framework, reflecting the effectiveness of our common supervision and resolution systems.

To avoid the pitfall of supervisory gold-plating, such waivers should be granted by right if conditions are met. To answer possible concerns on the capacity of local subsidiaries to withstand shocks, additional safeguards should be considered to ensure that there are no doubts on the parent's obligation to support them when necessary. Powers of supervisory and resolution authorities could be enhanced to further ensure intra-group support and allow

for supervision and resolution to be conducted on a genuinely consolidated and holistic basis, thereby improving the protection of depositors and creditors, as advocated by the Commission. In parallel, efforts could also be pursued to improve EU crisis management framework by enhancing cooperation between national deposit guarantee schemes and developing liquidity support mechanisms ensuring an equivalent protection of all depositors across the EU.

It is high time to move forward to reap the full benefits of the Banking Union.

Shifting the focus of supervision from the individual to the consolidated level is one of the key aspects of a broader, fundamental debate on our capacity to trust each other and assume shared responsibility, rather than keeping siloed prerogatives. In particular, there is a need for a holistic assessment of the adequacy of overall requirements and interactions between micro, macroprudential and resolution frameworks, which could take the form of a regular conference of the four heads of ECB, EBA, SRB and Commission. This assessment should also involve the Governors of national central banks to ensure an extensive view of financial stability matters.

Only by implementing such decisive simplification can we reap the full benefits of the BU and ensure that the banking sector plays its part in supporting EU broader goals.



JACEK JASTRZĘBSKI

Chair of the Board – Polish
Financial Supervision Authority

How to simplify EU banking regulation without weakening it?

Working in both academia and supervision helps me see the debate on simplifying and deregulating EU banking regulation not as a technical task, but as a question for regulators: which parts of the framework still serve a prudential purpose, and which are merely accumulated rules from the past?

It is widely recognised in institutional economics that rules often evolve more slowly than market challenges. Pressures can push institutions in different directions, making formerly complementary arrangements increasingly inefficient. Therefore, a necessary condition for institutions' efficiency is their ability to adapt to changing circumstances, and the role of policymakers is to facilitate and catalyse that adaptation.

Before going further, one crucial distinction - often blurred in the current debate - must be made: simplification is not deregulation. Deregulation removes rules and it can be driven either by a desire to ease standard or because a rule's rationale no longer exists. Deregulation of the second kind is generally desirable. Deregulation of the first kind belongs to the craft of supervision, such as calibrating capital

and liquidity requirements to limit failures without harming profitability. Simplification, by contrast, means the same standards but expressing them through fewer, clearer, better-organised rules. It is usually less demanding than deregulation, yet both processes often become entangled, making their practical separation difficult.

Referring now directly to EU banking regulation. A high cumulative regulatory burden relative to its prudential value may arise, first, from supervisory standard and ad hoc reporting. Are all these reporting requirements necessary for supervisors to perform their tasks effectively? Second, a set of capital and liquidity rules continues to grow. Do all these rules provide a coherent framework adequate to the current risk landscape? Third, it is worth examining whether disclosure obligations, such as Pillar 3 and ESG reporting, have not expanded faster than investors' capacity to absorb them. Fourth, another question is whether procedural and legislative complexity - with its many regulatory and technical standards - imposes administrative costs disproportionate to their prudential content.

What should be the most important guiding rules in changing EU banking regulation? First, the resilience of the sector should always be preserved. The focus should be on changing the form of the requirements (simplification) rather than their substance (deregulation). It does not mean that we should not think about deregulation, since we definitively should. We should also use a regulatory version of Ockham's razor: remove unnecessary complexity where the prudential rationale for a rule is no longer present, while preserving risk-based minimum requirements essential for financial resilience.

**Challenge lies in the
purposeful, coherent, and
restrained evolution of
rules, not rewriting them.**

A number of initiatives aimed, among other goals, at simplifying EU banking rules were presented in 2025-2026, in particular the ECB High-Level Task Force report on simplification from December 2025, the EBA's 2025 efficiency report, and the April 2026 reporting consultation. It lies beyond the scope of this short essay to address the many points and proposals raised in these documents. What is needed, however,

is to build a coherent plan - a roadmap - based on them.

Now, coming back to some fundamental rules that should guide us in reforming EU banking regulation, let me conclude this short essay with the following warnings. First, regulatory changes framed in terms of simplification or deregulation may be more likely to gain support, even when they do not actually deliver simplification or deregulation. Second, one must always ask whether the element being simplified or deregulated is genuinely unnecessary (or poorly designed) in terms of its purpose - such as reducing system risk - or whether it is simply costly for the industry. Third, market-based or self-regulatory solutions often provide benefits comparable to regulation but at lower cost, which makes counterfactual analysis essential: how the market would operate without regulation. Fourth, harmonizing regulation at the EU level is not automatically a form of simplification or deregulation; it must always be assessed whether the lack of harmonization in a given area is itself a key source of regulatory inefficiency.

I believe that the simplification (and wise deregulation also) of the EU banking rules is worth undertaking and we should not avoid it by referring to one of the philosophers who said that stillness is the most refined form of movement.



LÁSZLÓ
BENCSEK

Deputy Chief Executive
Officer – OTP Bank

Euro adoption as a driver of European financial integration

Simplification and deeper integration have been central objectives of both the Banking Union and the Single Banking Market. While regulatory and supervisory integration receives most attention, monetary integration remains equally important. For OTP Group, operating across diverse European markets, the recent euro adoptions in Croatia and Bulgaria have provided valuable insights into the economic and financial effects of joining the common currency. At the same time, Hungary's renewed commitment to eventual euro adoption has brought the Eurozone back to the forefront of policy debate. This article assesses the case for euro adoption through the lens of economic convergence, financial development and European integration.

From a macroeconomic perspective, the experience of the past two decades does not suggest that euro adoption has entailed a measurable growth sacrifice, nor that it has consistently delivered markedly higher economic growth. Controlling for initial income levels, countries that adopted the euro have exhibited divergent convergence paths. Lithuania and Malta outperformed the trend in terms of convergence towards the EU average level of GDP per capita in PPS, while Estonia, Slovakia, and Slovenia converged more slowly than

the trend would suggest. Outside the monetary union Poland and Romania achieved above-trend convergence, whereas Hungary and - to some extent - the Czech Republic underperformed relative to the trend.

Although the growth effects of euro adoption are not unambiguous, the balance is tilted in favour of the common currency by the fact that the Central and Eastern European countries using the euro have generally experienced lower and less volatile inflation. Since 2008, the difference between the average inflation rates of euro area and non-euro area member (changing composition) CEE and SE(E) countries has reached 0.8 percentage points, with the gap widening significantly during periods of inflationary shocks.

Experience also suggests that euro adoption is associated with higher banking market penetration. Average penetration rates of non-financial corporation and retail loans are 5 and 10 percentage points higher, respectively, in new euro area member states than in non-euro countries. This reflects lower interest rates, greater policy credibility and stronger fiscal discipline, as compliance with euro area fiscal rules can support higher-quality economic governance and reduce procyclicality.

The most common findings of euro adoption were: credit rating upgrade shortly after the decision to adopt the euro, significant deposit inflows just before the euro conversion and a substantial increase in housing loan penetration.

Euro adoption can reduce fragmentation and deepen integration.

Regarding Hungary, roughly 70% of external trade is conducted with EU member states, meaning that the country could benefit substantially from lower transaction costs. Hungary's business cycle is broadly synchronized with Germany's which reduces the probability of asymmetric shocks reducing the potential costs of giving up an independent monetary policy. The credibility gains stemming from euro area's fiscal governance framework could raise the manoeuvring room of the domestic fiscal policy to stabilize the economy. The experience of countries that joined earlier to the euro area shows that a substantial part of yield convergence typically takes place already during the year preceding

entry into ERM II. The Hungarian example of recent months reinforces this observation as Hungarian 10-year government bond yields have declined below their Polish counterpart and clearly diverged from their Romanian counterpart with which it previously moved closely together. Beyond its direct economic implications, euro adoption would signal a commitment to deeper European integration and could help secure Hungary's place in the EU's core should the Union evolve further towards a multi-speed Europe.

In summary, the macroeconomic arguments tend to favour euro adoption, albeit with the important caveat that the introduction of the euro is not without risks and side effects. Slovakia's frequently cited experience of stalled convergence illustrates that euro adoption is not a remedy for all structural economic challenges. The Slovak case also highlights the importance of the conversion rate chosen at entry. During its participation in ERM II alone - in which the Slovak economy was experiencing strong signs of overheating -, the Slovak koruna appreciated by roughly 30% against the euro. While this appreciation undoubtedly facilitated compliance with the inflation criterion required for euro adoption, it may subsequently have created a competitiveness disadvantage that potentially contributed to the slowdown in the country's convergence process. Another important side effect experienced by some countries was that the measures that artificially suppressed inflation in order to meet the inflation criteria for euro adoption proved unsustainable and later caused excess inflation.



HARM BOTS

President and CEO –
MUFG Bank Europe NV
& Head of EU – MUFG

Coordination, trust and risk- based approach should drive EU banking reforms

In the context of accelerating global competition for capital, rapidly diverging regulatory frameworks in other major jurisdictions, and the EU's own financing needs, actions to enhance the EU banking sector have become increasingly important. The current review of the regulatory and supervisory framework represents an opportunity to strengthen both resilience and competitiveness. These initiatives have the potential to enhance the effectiveness of the regulatory framework and to unlock capital and liquidity for productive use, support the real economy, as well as improve the EU's attractiveness as a destination for international banking activity. At the same time, some of the potential changes are still too incremental. Bigger steps and greater speed are needed.

International banks play an important role in financing European corporates, facilitating cross-border investment flows, supporting capital markets, and providing access to global liquidity pools. At the same time, they increasingly face the challenge of managing multiple versions of what was originally intended to be a common global framework.

Regulatory fragmentation creates added complexity and does not add to prudential benefits.

This is why it is so important that the EU review takes these factors into account. The proposals outlined in the European Commission's recent report are directionally the right ones. Collectively, these measures would make a significant contribution to the further integration of the European financial market and enhance its overall attractiveness. However, these changes risk not being sufficient.

Firstly, regarding the implementation of Basel standards, we observe that many jurisdictions are introducing national specificities or deviations from the agreed framework. Although targeted simplifications or adjustments to the original standards may be justified, an increasingly fragmented implementation of Basel standards across jurisdictions risks creating additional barriers for international banking groups. A coordinated discussion at the Basel Committee level would therefore be beneficial, with a view to evaluating whether certain aspects of the standards should be revisited and harmonised globally.

Secondly, important frictions remain within the European Union itself. National gold-plating, restrictions on the free allocation of capital and liquidity, divergent regulatory expectations, differences in insolvency regimes, and other national divergences continue to generate considerable administrative burdens for cross-border banking groups. These inconsistencies not only increase compliance costs and regulatory risk but also reduce operational efficiency.

**Less regulatory
fragmentation and
more balanced
supervision should be
the focus of reforms.**

Thirdly, greater emphasis should be placed on proportionality in both regulation and supervision. The current framework relies heavily on fixed thresholds to determine whether an institution is considered significant, while meaningful simplifications tend to be reserved for only the smallest institutions. In both regulatory and supervisory discussions, insufficient attention is often paid to important factors beyond size, such as business models, membership of a larger banking

group, the nature of local activities, and the regulatory environment of the parent institution's home jurisdiction. These factors are highly relevant when assessing the actual risk profile of a European entity. Incorporating them more systematically within the framework, and adopting a more genuinely risk-based approach, would be an important step forward.

Fourthly, a key objective of future reforms should also be to strengthen supervisory trust. The EU already possesses several mechanisms that can support such trust and cooperation, including equivalence frameworks, supervisory colleges, crisis management groups and extensive information sharing arrangements between authorities. This would allow for more proportionate supervision and for European subsidiaries of foreign banking groups to be assessed within the broader context of their group-wide risk management and regulatory oversight, resulting in a reduction of unnecessary duplication and inefficiencies.

In conclusion, the next phase of EU regulatory reform should focus on reducing unnecessary complexity, fragmentation and layering additional standards to global frameworks. Achieving this objective requires brave action and speed at the European and international level. A key aspect is a more risk-based and trust-based approach to the supervision of internationally banking groups. Special attention should be given to the role of third-country banking groups, whose continued participation contributes to competition, investment and financial integration within the EU. A framework that is proportionate, internationally coordinated and open to global banking activity will ultimately strengthen both the attractiveness and the resilience of the European financial system.



DENISE BAUER-WEILER

Member of the Management
Board – UBS Europe SE &
Head EMEA CORC – UBS

Europe needs outcome-based banking simplification

The post crisis regulatory reforms achieved what they set out to do. European banks absorbed the shocks associated with the pandemic and the market stress of 2023, and that resilience is a huge achievement. Yet, while each reform may have been justified in its own terms, the cumulative burden of successive reforms has become very significant. It is important now to take stock of how the accumulated layers work together. We welcome the European Commission's report on the competitiveness of the EU banking sector as an important starting point, but further work is now needed to simplify the regulatory regime, address the cumulative burden and ensure Europe remains competitive internationally.

The complexity of the EU banking framework lies less in individual requirements than in the way they interact. The interplay between the leverage ratio and the output floor is a good example: both are intended to act as backstops, yet in practice their impacts build on each other and they can increasingly become binding constraints rather than mere safeguards. When that happens, the framework is no longer

operating as intended, and the burden it imposes is no longer ensuring additional safety. The test for simplification should therefore be cumulative: do the requirements as a whole remain proportionate to the risks they were designed to address?

The same logic applies to reporting. Rationalising reporting around the information supervisors genuinely need would meaningfully reduce complexity without harming resilience. The EBA's initiative to simplify EU supervisory reporting, for example, is an important step in exactly this direction, and we support it as long as it delivers concrete operational relief. This should also be accompanied by restraint in additional supervisory data requests, whether from national competent authorities or European bodies such as the ECB.

A simpler rulebook accompanied by an ever more granular supervisory approach would not amount to genuine simplification. Meaningful change requires supervision that is substantive, proportionate and risk sensitive, with a clear line between binding requirements and guidance. Objectives and incentives shape culture, which is why we support a secondary competitiveness mandate, on the model the UK adopted for its regulators in 2023. Financial stability, market integrity and consumer protection would unambiguously remain the primary mandate. But competitiveness and proportionality objectives need to be translated into practical incentives for the institutions and supervisory teams responsible for implementation. The corollary is that banks must accept more responsibility for interpreting and implementing requirements themselves, instead of seeking supervisory cover for every judgement. The goal is a system in which boards and supervisors spend their time on key and emerging risks, not compliance mechanics.

without weakening resilience. Neither is a race to the bottom. Both are mature jurisdictions testing their frameworks against outcomes and the EU could benefit from similar scrutiny. The experience of the market risk rules shows what happens otherwise: implementing ahead of others created a level playing field issue that has since required repeated postponements and mitigating measures. Fundamentally, delivery of a level playing field is the foundation on which the original Basel standards were built. Alignment with Basel standards and with major jurisdictions is thus not a concession to industry; it is the condition on which European banks compete for global business on equal terms. The same principle should apply to market access. Maintaining open and internationally connected financial markets is an important path for the European economy to secure urgently needed investment and should remain a key consideration. Policymakers should remain aware of the impact that barriers to cross-border financial activity can have on European competitiveness and resiliency.

Policymakers are not being asked to choose between stability and competitiveness. Rather, the ask is for an alignment of the European Commission, the ECB and the EBA behind the simplification agenda to examine the framework as a whole, embed the right guiding principles in the institutions that run it, and calibrate with open eyes to the world outside. Given the importance of the banking sector in funding Europe's strategic priorities, this is a significant opportunity to enable Europe to thrive and one we cannot afford to miss.

**Simplification should
address cumulative
effects, not just
individual rules.**

Finally, we must keep the rest of the world front of mind. The United States has re-proposed its final Basel III implementation package on terms considerably more proportionate than first envisaged, and the Bank of England's Financial Policy Committee has re-examined the overall level of capital in the UK system against a decade of evidence and concluded it could be more flexible



FRANCIS DONNAT

Group Secretary General
– Société Générale

Safe but shackled: Europe needs to unlock the competitiveness of its banks

Since the 2008 financial crisis, Europe has fundamentally transformed its prudential framework. This evolution was necessary, and the results are undeniable: European banks are now among the most resilient in the world.

At the same time, growing complexity has increased capital requirements, weighing on competitiveness and financing capacity of European banks. The need to reassess how prudential requirements affect banks' financing capacity was a key takeaway from the Draghi Report and is reflected in the European Commission Communication on the Competitiveness of the Banking Sector, a welcome step towards greater regulatory efficiency in Europe.

Europe needs massive investment to finance the climate and energy transition, digital transformation and defense. Yet while lending by US GSIBs grew by around 10% in 2025, compared with only 1% in the European Union, European banks face rising capital requirements that risk constraining the financing capacity needed to support Europe's strategic ambitions.

- **De-complexifying is now vital**

Over the past decade, the European banking framework has accumulated layer upon layer of additional regulatory instruments. Alongside Level 1 regulations and directives, lawmakers and supervisors have progressively added delegated acts, technical standards and guidelines, but also various forms of soft law (Q&As, supervisory expectations, etc.).

It is legitimate to question the marginal value added of these successive layers of regulation. In that respect, we fully share the Communication's emphasis on reducing administrative burdens, improving regulatory coherence and making simplification a key lever for restoring growth and investment in Europe.

- **The evolution of supervisory practices**

Supervisory practices have expanded considerably. Every year, banks receive thousands of supervisory decisions, assessments, targeted reviews, information requests, and supervisory measures. Supervisors also make increasing use of guides, supervisory expectations, and other instruments that may not always be legally binding but are in practice.

- **The risk of accumulating capital requirements**

The continued accumulation of capital requirements has become a growing concern for European banks, as successive layers of prudential, macroprudential and resolution rules increasingly overlap and address similar risks. The combination of Pillar 1 requirements, Pillar 2 add-ons, macroprudential buffers, leverage ratio constraints and MREL obligations has contributed to a steady increase in effective capital requirements, often without a comprehensive assessment of their cumulative impact. Supervisory and model-related requirements have contributed to significant RWA inflation. The GARP-European Banking Federation study estimates that the resulting capital add-ons exceeded €100 billion over the past three years for the 15 largest European banks, equivalent to up to €1.5 trillion in financing capacity.

- **An incomplete Banking Union**

This complexity is amplified by the incomplete Banking Union, which forces cross-border banking groups to maintain trapped capital and liquidity, duplicative governance structures and multiple reporting frameworks across jurisdictions. This increases complexity, costs, limits cross-border integration and prevents European banks from devoting more resources to finance the needs of the European economy.

- **Delivering change without delay: four priorities for reform**

Europe needs a simpler, more predictable and coherent regulatory framework to strengthen European banks' ability to finance the economy.

Financial stability remains a priority, but Europe needs a simpler, more predictable, and coherent regulatory framework to strengthen banks' ability to finance the economy.

First, Europe should pursue a genuine regulatory simplification agenda aimed at limiting the proliferation of Level 2 and Level 3 texts, streamlining reporting obligations, and improving the consistency of prudential requirements.

Second, supervisory practices should evolve to incorporate competitiveness as a relevant consideration within the prudential mandate. Such an approach would make it possible to systematically assess the economic impact of new prudential measures and avoid an accumulation of constraints whose costs may exceed their expected benefits.

Third, the interaction between the different layers of capital requirements should be reviewed and simplified to eliminate overlaps and prevent certain risks from being double counted.

Fourth, completing the Banking Union is of the utmost importance to further strengthen financial integration and support the efficiency of the European banking market. Priority should be given to the removal of unjustified barriers to the movement of capital and liquidity within cross-border banking groups.

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BANKING DIVERSITY AND DIGITALIZATION



FRANÇOIS-
LOUIS
MICHAUD

Chairperson – European
Banking Authority (EBA)

Cooperative and mutual banks: let's be truly proportionate!

Cooperative and mutual banks constitute an important component of the European banking sector and contribute significantly to its diversity, stability and resilience. This is fully recognized by the EU prudential framework. The EBA strives to ensure that the specific characteristics of cooperative and mutual institutions are appropriately reflected in the development of EU banking regulation. This is supported by constructive dialogue with associations and industry stakeholders.

Discussions on proportionality are often framed around the legal form of institutions, such as listed banks versus cooperative institutions, or around their size, with distinctions drawn between large and smaller institutions. However, proportionality is more than this. It is a broader regulatory principle that encompasses the nature, scale and complexity of institutions' activities,

their organisational structure, and the risks arising from their business model. Proportionality should consider the full range of factors that may influence an institution's risk profile, as well as supervisory needs.

Cooperative and mutual banks have distinctive characteristics, particularly in the area of governance. Assessing independence within the management body needs to take into account their specific ownership arrangements, stakeholder representation, and organisational structures. On the other hand, the cooperative banking sector is diverse. It includes small local institutions operating in narrowly defined markets as well as large, sophisticated banking groups, some of which are systemically relevant and internationally active. This diversity calls for a proportionate approach based on an institution's characteristics rather than its sole legal form.

Like any bank, cooperative and mutual institutions are exposed to risks and must be capable of managing them effectively. Sound governance arrangements are key irrespective of an institution's size, ownership structure or business model. Effective governance promotes sound risk management, prudent management, operational resilience, consumer protection and compliance with prudential requirements. Long-term viability depends on the suitability of those who steer the institution. While a "one-size-fits-all" approach is neither appropriate nor desirable, the underlying supervisory objectives remain the same across all categories of institutions.

Proportionality should consider all factors influencing risk profiles and supervisory needs.

In this context, supervisors should give due consideration to the distinctive governance and business model features that characterise cooperative and mutual institutions. Supervisory assessments should therefore focus on whether governance arrangements support effective decision-making, appropriate challenge, prudent risk-taking and robust risk oversight, while recognising organisational features commonly found

within the cooperative sector, such as federated structures, central institutions and institutional protection schemes.

These considerations are already reflected in the EBA's regulatory framework and considered within the context of the simplification work EBA is currently performing. Risk-based supervision should be grounded in the principle that institutions are assessed according to the risks they generate and their capacity to identify, monitor, manage and mitigate those risks. This is not about conferring unwarranted preferential treatment. Rather, it is about applying true and justified proportionality within a risk-based supervisory framework. Differentiation should be justified by objective differences in governance arrangements and risk profiles, while prudential standards and supervisory outcomes remain proportionate to the risks posed by the institution.

Through this approach, risk-based supervision and proportionality can be reconciled in a manner that recognise the diversity of the European banking sector while preserving a level playing field and ensuring consistent prudential outcomes across all institutions.



EMMANUELLE ASSOUAN

Secretary General – Autorité de Contrôle Prudentiel et de Résolution (ACPR)

Risk-based supervision and banking diversity in Europe

Europe's banking sector is characterised by a diversity of ownership structures, governance arrangements and business models. In this landscape, shareholder-owned banks coexist with cooperative banks, which serve tens of millions of clients across the continent. This diversity reflects national histories and economic structures, and may lead banks to achieve resilience through different paths. In France specifically, the resilience of cooperative banks does not rely solely on financial solidarity mechanisms designed to support solvency and liquidity allocation within these banking groups, but also on a governance model that successfully combine decentralised and local customer relationships with a strong oversight of the central body.

At local level, cooperative banks are deeply embedded in the territories they serve. Their governance structures promote proximity to customers, knowledge of local economic conditions, and a long-term relationship with members and borrowers. At the same time, these institutions are not a collection of independent entities and should act as a banking group. Their architecture relies on central bodies that

define consistent risk policies within an approved risk appetite tolerance and coordinate liquidity and capital management decisions to ensure the financial soundness of the group. This combination of decentralised management and centralised risk control is a strength, enabling local responsiveness while ensuring risks are monitored through a consolidated view and managed in line with the subsidiarity principle.

For a supervisor, the value of a business model should neither be taken for granted nor challenged on the basis of its organisational form alone. What matters is whether it delivers effective governance and sound risk management outcomes. The key question is whether the articulation between local institutions and central bodies enables sound risk identification, timely decision-making and robust crisis management. A supervisory assessment should therefore focus on evidence of effectiveness rather than on conformity with a predefined governance structure.

The same principle applies when assessing the profitability and sustainability of banking groups. By design, the objective of cooperative banks is not to maximise short-term returns, but their member-based model encourages a longer-term perspective and supports a more stable commitment to financing households, SMEs, agriculture, local authorities and infrastructure projects. As a result, cooperative groups have become key actors in the financing of the real economy and play an important role in supporting investment over long horizons supporting the climate and demographic transitions' financing needs. This long-term orientation is particularly valuable during periods of economic uncertainty, and mutual banks have demonstrated a capacity to maintain credit provision throughout the economic cycle. This continuity contributes to economic growth, supports local development and helps avoiding the amplification of downturns through abrupt contractions in lending.

Different banking organisations require different assessments, not different standards.

For supervisors, the challenge is therefore not only to assess current profitability, but also to evaluate the sustainability of the institution's capacity to finance the economy over time. On these aspects,

the internal capital generation capacity of cooperative groups with low pay out dividend ratios is a key aspect that allows them to play an essential part in the financial ecosystem. Therefore, in addition to traditional indicators such as Return on Equity, supervisors should consider measures of organic capital generation, earnings stability, funding resilience and the capacity to invest in innovation, operational resilience and digital transformation. These indicators provide a more complete view of whether a business model can continue to support future financing needs while maintaining adequate financial strength.

More broadly, the diversity represented by mutual banking groups contributes to the resilience of the financial system as a whole. A banking system composed of a variety of business models and ownership structures is less likely to react uniformly to economic shocks and may therefore be better able to absorb stress. Diversity should not be regarded as an exception requiring special treatment or specific standards. Rather, it should be recognised as one of the factors that can enhance the resilience of the overall banking ecosystem.

Ultimately, effective supervision combines a common prudential framework with a deep understanding of institutional specificities. The objective is not to favour a particular model, but to ensure that each model is assessed on its ability to deliver robust governance and risk management, sustainable financing and long-term resilience.



DANIEL QUINTEN

Member of the Management
Board – National
Association of German
Cooperative Banks (BVR)

Banking diversity needs proportionate rules

European banking regulation and supervision are built on the “same risk, same regulation” principle; meaning that neither legal form nor group affiliation constitute grounds for special treatment. Applying this principle consistently does not mean treating all institutions identically, it means that supervisory assessments must accurately reflect actual risk. This contradicts the EU’s approach of a Single Rule book, which by definition treats everything equally.

The Commission’s 2026 Competitiveness Report rightly recognizes that the strength of Europe’s banking sector lies precisely in its diversity, from internationally active institutions to regionally anchored banks with close ties to the real economy. This diversity must be reflected in the regulatory framework. The principle of proportionality and the Supervisory Review and Evaluation Process (SREP) require that the individual characteristics of an institution - including business model, ownership structure, and risk profile - be duly considered. Regulatory diversity should not be limited to supervisory assessments. For smaller and non-complex institutions, the EU would benefit from a genuine “second single

rule book” in banking regulation — a simplified, proportionate prudential framework that reflects their lower risk profile, distinct ownership structures, and limited complexity. This would let them fulfil their distinct role serving local economies, complementary to larger institutions that serve different market segments. This is not a contradiction to the EU’s Single Market, as other advanced economies apply differentiated banking rules within a single domestic market, based on size and complexity.

Cooperative banks differ in their structure from capital-market-oriented commercial banks. Their purpose is member promotion, rather than shareholder value maximization, which leads to incentive structures distinct from those of listed banks. While the latter often operate under expectations to achieve short-term returns on equity, cooperative banks are geared toward sustainable earning power, solidity, and long-term member support. Their regional embeddedness and relationship-based lending further reinforce this low-risk orientation.

These differences should be reflected in supervision, e.g. when assessing the business model. The suitability of a business model cannot be assessed exclusively based on return on equity. Long-term viability, sustainability of earnings, adequacy of the risk strategy, and the capacity for capital generation are also relevant. Lower profitability may be consistent with a viable business model where it reflects a conscious, prudent approach rather than a structural weakness. Supervisors should thus interpret profitability metrics within the context of business strategy, risk appetite, and ownership structure.

**For smaller and non-
complex institutions,
the EU needs a genuine
“second single rule book”.**

Due to their legal form, cooperative banks build own funds predominantly through retained earnings and members’ contributions rather than capital market issuance. In assessing capital planning, supervisors should assess the sustainability of capital accumulation rather than its speed.

The Institutional Protection Scheme (IPS) is a further distinguishing feature of many cooperative banks in the EU. It identifies economic difficulties at an early stage and prevents insolvency

through targeted support, contributing significantly to sector stability. Irrespective of whether this should or should not result in a general lowering of regulatory requirements, the IPS represents a measurable risk-mitigating factor that must be considered. This applies, on the one hand, to the assessment of loss-absorption capacity, crisis management, and liquidity and contagion risks in day-to-day supervision. On the other hand, those characteristics must be reflected in regulatory proposals such as EDIS. Any possible future EDIS proposal needs to embrace the challenges the proposal from 2015 was falling short: It needs to address the home-host conundrum, the bank-state nexus, the fact that very heterogeneous banks in the EU operate successfully and stably under the current deposit protection, and last but not least the fundamental difference of IPS- vs deposit protection. One could argue that scarce resources would be better spent on other pressing priorities. Short of that, the elements above should serve as guiding principles for any future EDIS proposal.

It is not the cooperative legal form that justifies different treatment, but the objectively observable impact of ownership structure, business model, sustainable capital formation, and the stabilizing IPS on the actual risk profile. Differentiated assessments may be appropriate when they are based on empirically demonstrable differences in risk, e.g. capital retention ratios, historical loss and NPL trends; this secures financial stability and the diversity of Europe’s banking landscape without undermining the level playing field.



MATTHEW ELDERFIELD

Independent Non-Executive
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Banking diversity and digitalisation: time for a new supervisory mindset

Europe's banking sector stands at a crossroad as digitalisation and new forms of digital money are transforming financial services faster than at any time since the creation of the Banking Union. At the same time, Europe needs a diverse banking landscape where cooperative and savings banks should remain deeply rooted in their local communities as they have an important role to play in this changing landscape alongside traditional commercial banks and the new fintech players. The challenge for policymakers is to preserve this diversity while ensuring that banks remain competitive, innovative and resilient.

Recent initiatives by the Single Supervisory Mechanism (SSM) and the European Banking Authority (EBA) suggest that a shift is underway. After more than a decade of post-crisis rulemaking, banking supervisors increasingly voice the need for a more risk-based and proportionate approach. The objective is not to weaken resilience but to reduce unnecessary complexity and reporting burdens. This simplification is welcome and will allow banks, regardless of their structure or history, to better support customers,

promote innovation and help Europe navigate its geopolitical challenges.

This direction is reinforced by the European Commission's recent report on banking competitiveness. While European banks are resilient, they face challenges related to scaling up in the European Union due to fragmentation along national borders. The report advocates reducing regulatory complexity, removing overlapping supervisory requirements and better reflecting European specificities, including unrated corporates, specialised lending and low-risk mortgages.

We welcome the Commission's initiatives. Accelerating the change agenda now underway in European banking regulation and supervision is critical in light of the fundamental transformation that the banking industry is facing, like the emergence of new forms of digital money. The digital euro, stablecoins, tokenised deposits and the tokenisation of financial assets are creating a parallel ecosystem alongside traditional banking and payments infrastructure. This development extends far beyond payments innovation. It has the potential to reshape how banks are funded, how payments are processed and how financial assets are traded.

The implications for banks are profound. Participation in both traditional and emerging ecosystems require major investments in infrastructure, digital wallets, tokenisation capabilities, cybersecurity and specialised talent. Not every institution will be able to compete across all areas. Strategic choices by banks will therefore become unavoidable. Large banking groups may have the scale to develop broad digital capabilities, while smaller institutions may increasingly rely on shared platforms, partnerships, mergers or greater specialisation to remain competitive.

**A cultural shift is
now needed among
all stakeholders to
manage the profound
transformation and emer.**

These trends risk undermining the diversity of the banking sector unless handled carefully. Artificial intelligence adds another dimension. It can improve customer service, strengthen fraud detection and enhance operational efficiency. At the same time, it may create new risks by enabling vulnerabilities to be identified and exploited faster, more

effectively and more sophisticated than ever before. These developments will require significant investment if banks are to remain relevant, efficient and trusted. For smaller institutions, the costs to transform may prove particularly challenging, potentially accelerating consolidation. Larger banks can spread these costs across a broader customer base, giving them a natural advantage. Without careful policy choices, technological change could erode the diversity of business models.

This brings us to an equally important issue: culture. The ECB has embraced a welcome programme of reform to its supervisory practices, including its own culture. The time is right for this change agenda, as it takes place against the backdrop of a much stronger banking industry since the formation of the Banking Union and the Single Supervisory Mechanism. This has involved and - to be fair, sometimes required - intense and intrusive supervision. European banks have significantly strengthened their capital positions, liquidity, risk management frameworks and governance structures. However, as the ECB itself acknowledges, there is now scope for far-reaching reform of its current supervisory approach.

A cultural shift amongst all stakeholders will help Europe manage the profound transformation and emerging threats facing the financial sector. This does not mean lowering standards. It means adapting Europe's regulatory framework to the challenges of geopolitical competition and digital innovation. It means crafting a supervisory approach that is less burdensome and more efficient and effective. And it means that preserving the diversity of the European banking sector, with the important role played by cooperative and savings banks, must remain one of the guiding principles for the changes to come.



GIUSEPPINA MARRA

Head of Regulatory Affairs
– Desjardins Group

When digital transformation strengthens cooperative identity

Digitalisation has become a key driver of competition in banking, accelerated by the pandemic and changing customers' expectations. Neobanks and big tech firms have raised the bar for speed, convenience and user experience, challenging traditional banking models. For cooperative banks, the challenge is to meet evolving members' needs, attract a younger digital generation and remain competitive while preserving the member-focused values that define the cooperative model.

Banking diversity takes different forms across jurisdictions. Europe combines large banking groups, cooperative networks and digital challengers, with cooperative banks alone serving approximately 228 million customers through 2,400 local institutions¹. The United States blends banking giants, community banks and fintech leaders, while Canada is characterized by six major banks, a diversified credit union sector and Desjardins Group, Canada's largest financial cooperative, with more than 10 million members and clients, up to \$524 billion in assets, and a growing fintech sector. Regardless of the market structure, diversity remains essential to promoting innovation, resilience, financial inclusion and consumer choice.

At Desjardins Group, adaptation has always been guided by the evolving needs of our members. This philosophy has led to the launch of AccèsD back in 1996, making Desjardins an early pioneer of online transactional banking in Quebec. Since then, members' behaviour has steadily migrated from branches and ATMs to digital channels, with the pandemic and the Canada Post strike accelerating a broader transition toward online services and electronic communications.

As members' preferences have evolved, so has its branch network. For Desjardins, often one of the last financial institutions present in many Quebec communities, these decisions are never taken lightly. However, balancing accessibility with productivity is essential to reinvesting in innovation, technology and new services while preserving the long-term sustainability of the cooperative model.

Members' loyalty has also evolved. While they continue to value the cooperative difference, their expectations are increasingly shaped by the digital economy. Accustomed to one-click purchases, personalized recommendations and instant access to services, consumers now expect the same speed and simplicity from their financial institution. Financial institutions therefore compete not only with banks, fintechs and neobanks, but also with the standards set by global technology leaders. The challenge for cooperatives is to preserve the trust and values that define their model while delivering the seamless experience members increasingly expect.

**The future of cooperative
banking combines
human strengths
with technology and
regulatory innovation.**

Looking ahead, Desjardins' ambition is to become the Canadian leader in member and client experience. Achieving this objective requires simplifying processes, strengthening execution and leveraging data, analytics and artificial intelligence (AI). AI is already helping employees serve members more efficiently, improve productivity and support better decision-making. Over time, it will increasingly power more personalized products and services, enabling us to anticipate and better respond to members' needs.

Long-term sustainability also requires growth. As members become

increasingly mobile and conduct financial activities across provincial and national borders, regulatory frameworks must evolve accordingly. Canada's securities passport system streamlines access across provinces while preserving local oversight. Ontario's recent commitment to join the framework represents an important step toward greater harmonization, helping reduce regulatory burden, eliminate duplication and create a more efficient national market. Europe's passporting framework demonstrates how regulatory integration can support growth, competition and consumer choice while maintaining effective supervision through home-country oversight. Similar principles could help inspire greater regulatory cooperation across Canada, reducing unnecessary barriers and compliance costs while preserving provincial authority. Home-host supervisory approaches could also facilitate cross-jurisdictional activity, allowing institutions to better follow their members as they grow.

Ultimately, the future of cooperative banking depends on its ability to combine the human strengths of the cooperative model with the opportunities created by technology and regulatory innovation. By doing so, cooperative institutions can remain competitive, relevant and resilient while continuing to create long-term value for their members and communities.



JACQUES BEYSSADE

General Secretary –
Groupe BPCE

A more adequate European banking framework that preserves diversity

After more than a decade of European banking supervision, our EU banking sector appears sound, well-capitalised and resilient. Successive reforms, including setting up the Single Rulebook, the Single Supervisory Mechanism (SSM) and the Supervisory Review and Evaluation Process (SREP), have significantly strengthened financial stability since the 2008 crisis. While this framework has undoubtedly enhanced resilience, it has also anchored a one-size-fits-all approach in supervisory practices. This drive for harmonisation has put at stake the diversity of banking business models, creating requirements that may not reflect the realities of institutions operating under different business models.

This is particularly true for cooperative banks, whose long-term orientation, territorial anchoring and strong links with SMEs and households remain central to financing the real economy. These institutions account for a substantial share of SME lending in Europe. However, the cumulative effect of regulatory requirements, with the full Basel III implementation by 2032, will constrain their lending capacity and channeling resources

away from financing investment and growth. Uniform frameworks insufficiently capture differences in risk profiles, governance and business models. In this regard, using benchmarks for supervision leads naturally to a greater uniformisation of business models.

For Europe's retail and cooperative banking sector, the priority is not regulatory simplification but ensuring that prudential frameworks remain effective, efficient and compatible with our cooperative model and our capacity to finance households, SMEs and local economies. Some progress has been made in that direction :

- In the field of Governance : the ECB has decided to stop working on its planned guide on governance and risk culture, which was expected to define supervisory expectations and promote specific governance practices. Instead, it will release a non-binding report in Q1 2027 highlighting observed good practices.
- We have also noticed that, in its answer to the European Commission's consultation on the competitiveness of European banking sector, the ECB explicitly underlined that any *"initiatives should have full regard to the diversity of European banks, which the Eurosystem recognises as a source of systemic resilience."*
- There is also growing recognition among Member States that the diversity issue needs to be addressed: the joint French-Italian-Spanish non-paper recently called for *"a specific recognition- within the European banking framework- of the cooperative credit institutions with a predominantly mutualistic mission for SREP purposes"*.

Banking diversity is a key asset for financial stability, competitiveness and growth.

The challenge now is to make it real in the day-to-day supervision. It is not only a question of staff culture. This recognition should be encapsulated in the SREP revision process announced by Claudia Buch in 2024. In particular, Peer groups should reflect the governance and capital structure of cooperative groups, while performance indicators should be adapted for institutions sharing similar business models but different organisational structures.

But to address fully this challenge, we need to go beyond supervisory practices. A more adequate, simplified and forward-looking framework is needed to the benefit of the EU economy with :

The introduction of a "Financing the Economy Test" for all major regulatory and supervisory initiatives, assessing their potential impact on banks' capacity to finance households, SMEs and long-term investment.

The introduction of a "Cooperative Banking Model Test" for all major regulatory and supervisory initiatives, assessing their potential impact on the viability of cooperative banking groups, their governance structures, member-based ownership model, and their capacity to support local communities and regional economic development.

The simplification of the EU regulatory framework in order to ensure a fair international competition: Overlapping requirements should be reduced, and rules should become more stable and predictable, lowering compliance costs and allowing cooperative banks to focus more on financing the real economy rather than managing regulatory complexity. In this respect, we support the call by the President of the Commission for Member States to reduce the practice of gold plating (for instance on TLAC versus MREL).

The diversity of banking models is a core strength of the European Union. Preserving and promoting this diversity through adequate regulation, simpler rules and more tailored supervisory practices is essential to reconcile financial stability, economic competitiveness and banks' capacity to support Europe's digital, environmental and economic transitions.

BASEL III DIVERGENCE IMPACTS



FERNANDO RESTOY

Chair – Financial Stability
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The comparison of capital requirements: facts and policy implications

The current geopolitical context is not facilitating an environment of regulatory policy convergence and, in particular, a swift implementation of the Basel III framework. After the publication of the proposals by the US regulatory agencies in March 2026 (the US proposals hereafter), which would imply deviations from the Basel framework, a debate has emerged on how other jurisdictions, in particular the European Union, should react.

In order to facilitate an orderly reflection on that sensitive policy issue, a few facts should be taken into account.

First, the US proposals entail a significant reduction of capital requirements for US banks, mostly due to the removal or alleviation of jurisdiction-specific prudential requirements, such as the supplementary leverage ratio,

the stress-test capital buffer and the special calibration of the G-SIB (global systemically important bank) buffer.

Second, the US proposals affect the implementation of Basel standards relating to the computation of risk weights and the definition of capital. However, on average, the deviations do not imply by themselves an alleviation of capital requirements in relation to the pure Basel framework for banks which are considered internationally active. While deviations from the Basel standards relating to deductions from regulatory capital, market risk and some credit risk exposures would imply lower capital requirements, the effective ban on the use of internal models to measure credit risk would imply higher measures of risk-weighted assets (RWA) and, therefore, higher capital requirements for the same minimum capital ratio. Indeed, since the methodologies to measure RWA differ markedly, comparisons cannot be made only on the basis of capital ratios over RWA.

Third, the absence in the US proposal of an output floor to restrict the impact of internal models on RWA currently has no impact on any US bank. Since credit risk is, by far, the most relevant component of banks' risk exposure, the use of internal models only for market risk has a limited impact, even without the output floor, on aggregate RWA.

And fourth, based on the above, available evidence shows that the counterfactual application of US regulation to large internationally active European banks would not generally result in lower capital requirements, even after considering the recent US proposals.

Those facts do not therefore suggest a significant competitive disadvantage for large European banks in relation to their US counterparts stemming from tighter prudential requirements. In other words, it is far from clear that the US proposals alone would justify a reconsideration of the EU implementation of Basel standards, implying an across-the board relaxation of capital requirements. In particular, as the output floor is not binding in the United States, the absence of that constraint in the proposed US rules can hardly support a convincing case to remove or alleviate that restriction in the European Union. Unlike US banks, European banks can and do

deploy internal models intensively for both credit and market risk, and that significantly reduces their required capital.

A more complex issue involves the US proposal to significantly reduce the stringency of the market risk framework – the so-called fundamental review of the trading book (or FRTB). Market trading is not generally the main activity of commercial banks, but those which are more active compete with each other in highly integrated international capital markets. Therefore, deviations from the international standards for trading activity have a direct effect on the level playing field.

In any case, there continues to be scope to revise the EU-specific requirements. In addition to the welcomed proposal by the ECB to streamline macroprudential buffers, it would be important to ensure within the banking union a more coordinated approach among responsible authorities (whether European or national) for the calibration of the microprudential and macroprudential buffers. At the end of the day, the overall capital of the system – which depends on the aggregation of all different requirements and buffers – should meet both macroprudential and microprudential objectives.

More importantly, beyond the prudential framework, the area in which European banks are more clearly exposed to tougher requirements than in other jurisdictions is that of resolution. The internal loss-absorbency requirements implied by MREL are more stringent than international (TLAC) standards. There is therefore scope to reconsider the former. But, to avoid unduly constraining available funding in resolution, a commensurate increase in the availability of external (ideally mutualised) funds would be required.

The views expressed are the author's, and do not necessarily reflect the views of the Bank for International Settlements or its member central banks.



STEFAN WALTER

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Basel III: Preserving the credibility of the global minimum standard

Back to the roots of Basel

Discussions about Basel III often focus on differences in national implementations. While differences are part of a critical debate, they should be assessed against the original purpose, which has been in place since the original Basel I Capital Accord: level playing field and comparability of banks' capital ratios. Following the Global Financial Crisis, Basel III was designed to restore confidence in regulatory capital ratios by improving the quality of the capital ratio metrics (through better definition of capital and increased, more consistent risk capture by RWA, in particular). To restore confidence, the Basel Committee launched its RCAP to ensure full, timely and consistent implementation of Basel III.

Not all divergence matters equally

Implementation differences should be distinguished according to whether they concern areas that Basel intentionally harmonised (minimum standard for Pillar 1 and related Pillar 3 disclosures) or areas where national discretion was always envisaged.

Legitimate divergence: Basel deliberately leaves room for national discretion in areas such as:

- Pillar 2, including e.g. stress-testing frameworks;
- macroprudential measures reflecting domestic financial systems and credit cycles.

These differences may result in different overall capital requirements but are fully consistent with the Basel framework.

Material divergence: Closer attention should instead focus on differences affecting the agreed minimum standard, including:

- significant implementation delays;
- unjustified material deviations from Pillar 1 standards.

The RCAP aims at identifying material divergence. While no benchmarking exercise can fully capture all national specificities, it remains an essential transparency mechanism for preserving confidence in the Basel framework.

Consistency matters because credibility matters

Basel III derives its value not simply from harmonising rules, but from providing a credible common minimum standard against which banks operating under different supervisory frameworks can be meaningfully compared.

A national implementation consistent with the Basel Pillar 1 minimum standard still allows jurisdictions to pursue different supervisory philosophies, including different Pillar 2 frameworks and macroprudential policies, while preserving confidence that reported capital ratios remain broadly comparable across internationally active banks. Furthermore, this consistent implementation also facilitates a comparison of banks' actual capital levels and capital requirements (in % of RWA) even when developed under different supervisory philosophies.

Increasing complexity calls for proportionality

The Basel framework has become much more detailed over time. The first Basel I comprised only a few dozen pages, Basel II several hundred, and the current consolidated Basel framework comes very close to 2'000 pages. Against this background, however, greater complexity strengthens the case for more proportionate implementation. The appropriate response is not to dilute the international minimum standard, but to simplify its application for less

BASEL III DIVERGENCE IMPACTS

complex, non internationally active banks without compromising prudential objectives.

Switzerland illustrates that consistency and proportionality can coexist

Switzerland demonstrates that comprehensive implementation and proportionality are complementary. Basel III final has been implemented comprehensively while introducing proportionate implementation mechanisms, most notably the Small Banks Regime.

This regime allows smaller banks to avoid the complexity of the Basel III final RWA calculation if they in particular meet an 8% leverage ratio requirement. Importantly, this regime is not an exemption from Basel III final but a simplified implementation approach that preserves the capital adequacy objectives of the framework for smaller, less complex banks.

Basel III is more than a regulatory framework—it is a cornerstone of trust.

For mid-sized and smaller banks, the Swiss implementation of Basel III final has introduced a series of proportionate rules that avoid certain complexities of the Basel framework. Again, these simpler rules do not lead to lower RWA.

This spirit of simplification is even part of the Swiss banking regulation since Basel II: in order to avoid undue burden and costs, any bank may implement the rules in a simpler way if this does not lead to lower RWA.

Conclusion

Basel III remains the global benchmark for minimum capital standards for internationally active banks. National flexibility is both necessary and desirable where the framework provides for national discretion. At the same time, preserving a credible and consistently implemented Pillar 1 minimum standard remains essential for maintaining confidence in regulatory capital ratios and supporting meaningful cross-border comparisons.

For globally integrated financial centres such as Switzerland, long-term competitiveness is not supported by deviating from global minimum standards, but rather by the combination of credible implementation and proportionate implementation.



PHILIP EVANS

Director Prudential Policy
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Basel III divergence: A test for global prudential standards

How regulators balance resilience against efficiency, rules against judgement. Basel III emerged from the global financial crisis as a rare example of international regulatory consensus. Policymakers agreed that banks needed stronger capital, better risk measurement and a common framework that would support both resilience and a level international playing field.

Today, the challenge is no longer agreeing the standard but maintaining consistency in how it is applied.

As jurisdictions move towards implementing the final elements of Basel III, differences are emerging in areas such as market risk, internal models and output floors. Some variation is inevitable. Banking systems differ, economic structures vary and national authorities face different policy priorities.

At its heart, Basel III was designed to improve the accuracy of risk measurement and reduce excessive variability in risk-weighted assets. Following the crisis, supervisors became concerned that banks using internal models could produce materially different capital outcomes for similar risks, weakening comparability and

confidence. The final Basel package sought to address this through more risk-sensitive standardised approaches, tighter limits on internal models and the introduction of the output floor.

The implementation debate reflects different views on how those objectives should be achieved.

One perspective emphasises consistency and comparability. From this viewpoint, close adherence to international standards promotes a level playing field, limits opportunities for regulatory arbitrage and strengthens confidence in global banking markets. If banks face significantly different requirements across jurisdictions, comparisons become more difficult and the credibility of common standards begins to weaken.

A second perspective accepts the value of international standards but argues that implementation should remain sensitive to domestic evidence and market structures. Under this approach, regulators may adjust specific calibrations where local data suggests a different treatment better reflects underlying risks. The aim is not to depart from Basel's intent, but to ensure regulation remains proportionate and practical.

These distinctions may appear technical, but they reflect deeper differences in prudential philosophy. Increasingly, the debate is about how regulators balance resilience against efficiency, rules against judgement, and international consistency against domestic priorities.

**How regulators
balance resilience
against efficiency, rules
against judgement.**

The market risk framework provides a useful illustration. The Fundamental Review of the Trading Book was introduced to address weaknesses in the pre-crisis framework, including inadequate risk models and inconsistencies in the treatment of trading activities. The reforms established clearer boundaries between banking and trading books, more risk-sensitive standardised approaches and higher standards for model approval. The objective was straightforward: improve the accuracy and comparability of risk measurement.

Yet market risk also demonstrates why divergence matters. Trading activity is

inherently global. Banks operate across multiple jurisdictions and capital markets depend on a common understanding of risk and resilience. As implementation differences emerge, firms face greater complexity, higher compliance costs and reduced comparability of outcomes. Where standards diverge materially, achieving a genuinely level international playing field becomes more difficult.

The debate over competitiveness adds another dimension. Some argue that lighter requirements improve competitiveness by reducing costs and increasing banks' capacity to lend and invest. Others contend that prudential credibility is itself a competitive advantage. Strong and trusted regulatory frameworks can support investor confidence, lower funding costs and improve resilience during periods of stress. From this perspective, competitiveness and resilience are not opposing objectives but mutually reinforcing ones.

Moreover, sustained divergence may increase the importance of supervisory cooperation and international forums, as authorities seek to preserve mutual trust and a shared understanding of emerging risks even where regulatory frameworks evolve in different directions.

Ultimately, Basel divergence is about more than the calibration of individual rules. It reflects differing views on the purpose of prudential regulation and the role of supervision itself. The challenge for policymakers is therefore not eliminating all divergence, but ensuring that implementation differences do not become so significant that they undermine confidence in the global framework.



JONATHAN OVERETT SOMNIER

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– European Banking
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Resilience, competitiveness and Basel III in a fragmenting world

The finalisation of Basel III reforms marked the culmination of more than a decade of international cooperation focused on strengthening the resilience of the global banking system. They significantly bolstered the capital, liquidity, and risk management frameworks, ensuring that the financial sector can support growth and withstand periods of stress.

The EU has long been among the strongest supporters of the Basel framework, implementing the standards on schedule in a faithful and consistent manner. The EBA continues working on its Basel III roadmap to provide clarity and guidance on technical elements. This commitment produced clear benefits, with EU banks now being better capitalised, maintaining stronger leverage positions and steady profitability, evidenced in the last EBA EU-wide stress test. This resilience has itself become a source of competitiveness, reinforcing confidence among investors, depositors and market participants.

However, the global context is evolving. While most Basel Committee members have implemented the main elements of Basel III, notable differences persist in timing, scope, and national adjustments. In some jurisdictions, implementation has been delayed or selectively altered, raising the risk that the shared international framework could gradually fragment.

Therefore, the EU should continue to base its prudential framework on the long-term benefits of consistent application of international standards. A predictable and credible regulatory structure limits regulatory arbitrage, supports cross-border banking and strengthens financial stability. For these reasons, the EU has a strong strategic interest in maintaining the Basel framework as the global benchmark while continuing to lead convergence across jurisdictions through the Basel Committee and other international fora.

Although consistent implementation does not mean excessively rigid regulation, divergent application of Basel III may create growing challenges for internationally active banks. Larger banks operate within increasingly complex capital frameworks, with up to ten interacting capital layers. Combined with overlapping measures and inconsistent implementation, this complexity calls for a careful assessment of the regulatory burden against its prudential benefits, balancing efficiency and a level playing field with resilience, Basel compliance and proportionality.

**This resilience has
itself become a source
of competitiveness.**

Preserving a global level playing field built on consistent and faithful implementation therefore remains essential, especially in areas where fair international competition and cross-border activity are vital. But divergence elsewhere does not mean the EU needs to follow, instead we need to consider the benefits for resilience of the standards agreed to, and how the EU can preserve them while remaining alert to the impact of differences in implementation for market integration and competitiveness.

Much of the debate on competitiveness focuses on individual Basel standards. Yet for many institutions it is the cumulative impact of multiple

overlapping requirements that can be more significant than any individual Basel standard in isolation.

While the EU established a robust baseline of resilience, the prudential framework also became more complex due to the interaction of Pillar 1, Pillar 2, macroprudential buffers, MREL/TLAC requirements and national measures. Each serves a legitimate goal, but together can create unnecessary complexity for banks, supervisors, and investors. The EBA outlined several options for simplifying the capital stack in its recent report. This report represents an important milestone in the EBA's broader simplification agenda. It provides a foundation for further work through 2026 alongside the ongoing implementation of Basel III.

Given this, simplifying how these different prudential elements interact may bring greater benefits for competitiveness than revisiting specific Basel elements. We can build on this kind of holistic analysis, increasingly assessing requirements in aggregate to create an efficient framework which retains its effectiveness without reducing resilience.

Ultimately, the EU's comparative advantage has always relied on combining strong regulation with a consistent, rules-based framework. The question is not choosing between resilience and competitiveness. It is how to simplify an increasingly complex framework while preserving the credibility and financial stability that has become a competitive strength. This will keep the prudential framework proportionate, transparent and supportive of a competitive European banking sector capable of financing the green, digital, and strategic transitions of the economy.



MICHAEL THEURER

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Strong banks are competitive banks: The value of the Basel standard

Soundly capitalised banks are better banks. The evidence is clear.

European Central Bank calculations show that Basel III capital requirements have strengthened GDP growth by enabling banks to bear risk, create trust, and provide loans even in tough times. Initially, lending and thus growth could have slowed as banks adjusted to Basel III. However, the Financial Stability Board found that, while some banks did need to catch up, stronger banks stepped in, avoiding constraints to lending.

An analysis by Bundesbank furthermore examined loans by banks to non-financial counterparties and households from 2019 onwards. Loans by banks with higher CET1 ratios prior to the outbreak of the COVID-19 pandemic and the subsequent crises rose more sharply than those by banks with lower levels of capitalisation. All indications point in the same direction: capital does not seem to be a barrier to lending, but an essential foundation.

Likewise, higher levels of capital do not hamper banks' efficiency. Bundesbank and ECB research has found no evidence that higher capital requirements curtail profitability. On

the contrary, the researchers found that higher levels of capital lower both interest rate expenses and the volatility of earnings. This allows banks to reduce their funding premia, which drives up profitability.

Banking regulation has stabilized the sector, rebuilt confidence, reduced taxpayer risks and ensured more reliable lending. However, the framework, shaped by decades of negotiations, lacks full coherence. We at the Bundesbank have presented a proposal for simplifying capital and resolution requirements. We want to merge the various buffers where it makes sense to do so. It should be clear which buffers serve which purpose, so that they are actually available when they are needed.

Of course, beyond the proposals for simplifying the capital framework, other ideas are also under discussion. One such idea is the use of what are known as "waivers". This would mean that certain capital and liquidity requirements would no longer need to be applied to individual subsidiaries, but only to banking groups as a whole. That would make capital and liquidity planning easier for banks operating across borders and could also free up financial resources. In return, however, safeguards would be needed to ensure that the countries in which the subsidiaries are based are not overburdened.

The aim of these waivers is to advance the integration of the European banking market. Strengthening Europe's single market for banking would promote competition and create opportunities for growth and employment. There is indeed ground to make up here — and it is a good thing that market integration will be deepened.

**The evidence is clear:
Soundly capitalised
banks are better banks.**

However, we must not lose sight of proportionality. Measures to deepen market integration tend to benefit larger banks. Smaller banks already face higher regulatory costs relative to their balance sheet totals compared to large banks. They have fewer customers across whom they can spread the costs of regulation. If, in this discussion, we focus solely on European market integration and, in that context, on issues such as waivers, we will fail to give sufficient recognition to the

important role that small and medium-sized banks play in financing small and medium-sized enterprises.

We need a diverse and efficient banking market that can offer tailored financing solutions to an equally diverse economy. That is why, when simplifying our regulatory framework, we must also focus on smaller banks so that we can create favourable conditions for banks of all sizes. A separate regime for smaller banks could be a suitable option.

Lastly, we must acknowledge the elephant in the room – European capital markets.

As Enrico Letta recently pointed out in the "Financial Times": "The EU accounts for around 18 percent of global GDP, against about 25 per cent for the US. But in equity markets the gap is a yawning one. US companies make up more than 60 per cent of the world's investable equity; European companies account for only around 10 per cent." This is costing Europe dearly in terms of productivity and societal welfare. And it also represents a huge missed opportunity for banks. In fact, differences in fees and additional non-interest income, i.e. capital market-based income, can explain a substantial portion of the gap in profitability between large European and US banks. A fully fledged capital markets union is the only way forward here.

Europeans deserve stable banks they can trust and a common capital market that lets them put their savings to the most productive use possible. The coming months will offer a meaningful opportunity for making progress. We must not squander it.



MANDY DEFILIPPO

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Standard Chartered Bank

Reimagining EU bank regulation for today's global future

The US Basel Endgame debate, the UK's growth and competitiveness agenda, and the EU's Competitiveness Report all point to the same conclusion: in today's global environment, approaches to banking and markets regulation have changed. Past agreements are being reimagined. Regulation needs to do "double duty" preserving safety and soundness while also promoting competition across borders.

Against this backdrop, the Basel framework risks evolving from a push towards common regulatory standards into a source of fragmentation. For internationally active banks, this is challenging. Fragmentation means less efficient use of capital, greater operational complexity and higher costs, affecting the real economy.

While some divergences reflect political choices in policy design, jurisdictions remain committed to the core objective of ensuring financial resilience. Additionally, in several areas — including SA-CCR — authorities are addressing common concerns, albeit independently. This signals that jurisdictions are not

dismantling the global framework en masse and underscores the Basel Committee's continued role in promoting coordination and convergence.

The priority now should be to identify areas for coordinated recalibration in light of implementation experiences, while preserving the original policy objectives. FRTB is a clear candidate for such a coordinated re-assessment to identify common adjustments. Similarly, standards related to crypto assets need urgent reconsideration. Discussions on this are already under way, but they need to accelerate quickly, given the pace of change in this area.

In the EU, these global considerations are amplified by ongoing discussions on jurisdiction-specific complexities. Banks do not experience Basel in isolation but rather operate within a broader framework of supervisory, reporting and regulatory requirements. If improperly calibrated, these requirements can cumulatively constrain banks' capacity to support growth. That is why EU policymakers should treat banking competitiveness as a strategic priority in regulation and remove constraints that prevent banks from deploying capital efficiently across the Single Market.

We welcome the European Commission's commitment to explore all options to deliver regulatory reforms that create an operating environment more conducive to cross-border competition. If the EU wants a competitive banking industry, it needs a competitive banking framework. This requires simplification beyond improving individual rules. The broader challenge is cumulative complexity: overlapping rules create duplicative requirements, trap capital and reduce banks' ability to finance growth and innovation.

**A new approach
is required if the
EU's objective for a
competitive banking
sector is to be realized.**

This also requires a shift in regulatory culture away from a zero-risk tolerance mindset. Resilience remains essential, but excessive risk aversion can reduce banks' ability to finance the real economy, support growth and compete internationally.

Targeted recalibration should focus on areas where EU rules are clearly conservative relative to the underlying

risk. Trade finance is a good example: despite facilitating more than 90% of global trade and exhibiting historical default rates of just 0.14%, it continues to attract a capital treatment that is more conservative than the risk profile warrants, particularly compared with regimes such as the US and the UK.

In parallel, continued efforts to strengthen supervisory accountability are fundamental. How requirements are implemented can be as consequential as the rules themselves. Gold-plating, extensive reporting obligations, and a supervisory culture that is tilted towards non-materiality can hinder competitiveness.

It is also necessary to ensure that regulatory obligations are set through transparent rulemaking rather than the accumulation of supervisory opinions, and that supervisory guidance does not reintroduce requirements that have been removed through a clear political mandate.

It is important to note that pro-competition policy does not equal protectionism. Competitiveness depends on maintaining an open and well-functioning market in which both European and international institutions can serve clients effectively. This is not a zero-sum game: unnecessary barriers that limit international banks' ability to operate in the EU reduce competition, restrict client choice and increase costs for European businesses and consumers.

As the Commission prepares the legislative package to update the EU's banking framework, it has an opportunity to foster a more balanced regulatory approach that supports growth and competitiveness without compromising resilience. This matters as strengthening the operating environment in the EU is the most effective way to advance the EU's strategic autonomy.

At Standard Chartered, we welcome the European banking competitiveness agenda and stand ready to contribute to the debate drawing on our experience operating across jurisdictions, regulatory regimes and trade corridors that connect Europe with high-growth markets.



HIROSHI IBARAKI

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Fragmentations: internal EU barriers are more urgent than deviating from Basel

Europe and Japan have a shared interest in promoting and preserving a resilient banking system underpinned by credible international prudential standards. Basel III gave banks and supervisors a common basis for assessing risk after the financial crisis. That basis remains important, even as implementation of the final reforms follows different paths across major markets. While recent trends point to fragmentation in the global baseline, the issue is not so straightforward. Recent BIS and ECB studies suggest that simple comparisons based on capital levels can be difficult. A headline capital ratio does not capture differences in risk-weighted assets, firm-specific requirements, macroprudential buffers or local banking market structures, nor does it fully capture risk.

Indeed, where standards appear insufficiently risk-sensitive, it is reasonable to re-examine them. This is particularly relevant for exposures such as unrated corporates, trade finance, project finance and specialised lending, which matter for Europe's investment needs but may not always be captured

well by broad risk categories. Many European corporates also do not carry external ratings, even where their credit quality is sound. However, any review should take place at international level within the Basel Committee, supported by sound data and careful analysis, rather than through separate jurisdictional adjustments that fragment the global baseline.

As a Japanese-headquartered G-SIB operating across diverse jurisdictions, consistency in regulation supports planning, capital allocation and risk management. Basel alignment therefore remains a practical concern, not only a regulatory principle. At the same time, Europe has built a strong and resilient banking framework, with solid capital and liquidity outcomes across the system. That remains a strength for the European market. The challenge for banks and regulators is to preserve a global baseline and competitiveness at the same time so it caters to the financing needs of the real economy. Upcoming banking reforms should have the ambition to fix this issue to make sure competitiveness is aimed at funding the real economy.

**Comparability on
capital requirements
is only part of the
competitiveness debate.**

In the current geopolitical landscape, the EU (as well as Japan) has important financing needs that need private capital: defence, technology, infrastructure and energy transition, which all require more sustainable private finance over time. While the EU should keep its efforts to deepen its capital markets and encourage investments through pension reforms, bank lending will remain a key component, especially for companies that do not issue regularly in capital markets. While EU-based banks will play a leading role to meet those needs and serve the EU retail market, the EUR 800 billion a year funding gap identified by Mario Draghi implies that non-EU investment will also be needed. International banks can contribute by providing balance sheet capacity, sector knowledge and links to investors outside the EU, especially from established allies and aligned jurisdictions like Japan.

In order for international banks to contribute to the financial needs in the EU, other factors, in addition to the comparability on capital requirements, should be considered as part of the competitiveness debate. In particular, the EU still has some key internal barriers

that prevent it from being considered a truly unified jurisdiction. The Single Rulebook and Banking Union have improved consistency, but cross-border groups can still face limits on scale and capital allocation. Harmonising and simplifying divergences in supervisory expectations, macroprudential measures, and resolution requirements would offer more stable, even if more complicated to achieve, solutions to solidify the banking landscape. Ultimately, the goal is to create an environment, even beyond strict prudential requirements, that allow credit institutions to connect with and fund the real economy of the EU, removing the actual bottlenecks and frictions. This course of action benefits global institutions like SMBC and EU-headquartered banks alike. For third-country banks, removing these frictions gives more clarity on group requirements across jurisdictions. For European banks, they can enhance the benefits of the Single Market, expanding the client base within the EU.

Europe and Japan both benefit from open markets, resilient banks and predictable rules. The goal should be to maintain an international level-playing field while pursuing reforms that support the financing needs of the real economy.



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Banking sector competitiveness: let's be practical, not political

Basel III was designed after the global financial crisis to rebuild bank resilience and restore trust. That objective remains fully valid. But Europe now faces a very different environment: weaker growth, heightened geopolitical tensions, and unprecedented investment needs in energy, defence, digital infrastructure, industrial transformation and climate transition. Estimates point to annual strategic investment needs of around €1.2–1.4 trillion.

In this context, bank competitiveness is not an end in itself; it is a condition for Europe's competitiveness. Unlike the US, Europe remains largely bank financed, with banks providing around 70–80% of corporate financing. **Capital is therefore not a narrow technical issue: it is a strategic resource for the real economy.** Every euro of capital immobilised by overlapping requirements, excessive conservatism or poorly calibrated rules is a euro that cannot support defence suppliers, grids, SMEs, infrastructure, housing, trade or industrial innovation.

The challenge is not Basel III as such, but the cumulative effect of its European implementation. Jurisdictions apply common standards through different economic models, supervisory practices

and political choices. Europe combines Pillar 1, Pillar 2 requirements and guidance, macroprudential buffers, MREL/TLAC, model approvals, supervisory overlays and local capital or liquidity constraints. Each layer may be justified in isolation, but together they create double counting and inflate capital needs beyond actual risk.

The figures are significant. European banks hold around €600 billion more capital than in 2006. **In corporate lending, capital held by some banks can represent 40 to 50 years of actual annual cost of risk.** EBF/GARP estimates suggest that supervisory and modelling add-ons for the top 15 banks exceed €100 billion, potentially freezing up to €1.5 trillion financing capacity. Removing certain model overlays for European G-SIBs could alone unlock around €420 billion. This is not an argument against resilience, but for evidence-based proportionality.

**The way forward is
not deregulation, but
disciplined recalibration.**

Targeted action is therefore justified where capital is clearly excessive relative to risk. This includes trade finance, unrated corporates, infrastructure and project finance:

- Trade finance, which is short-term, self-liquidating and historically low-risk, is penalised by blunt standardised treatment reducing access to a critical enabler of EU trade, particularly for SMEs.
- 75% of the European corporates are unrated, not because they are risky, but because of Europe's market structure. Treating the absence of an external rating as high risk, even though banks have internal credit data, would penalise SMEs, mid-caps and the real economy.
- Infrastructure and project finance, essential for energy, digital, defence and critical assets, can also be burdened by standardised treatments and modelling constraints that fail to reflect actual risk. Modelling constraints for low-default portfolios, floors, and certain standardized calibrations can compress risk granularity and make financing more costly.

Action is even more necessary where capital rules may increase risk rather than reduce it:

- Software deductions are a clear example: capital does not prevent cyber-attacks; technology investment does. Penalising IT investment weakens resilience.
- SA-CCR, or Standardized Approach for Counterparty Credit Risk, raises a similar issue. For unmargined end-user portfolios, AFME/ISDA analysis shows exposures can be far higher than under the previous Internal Model Method (IMM) or Current Exposure Method (CEM), even where the underlying economic risk has not changed. If Europe keeps a more punitive approach, hedging becomes more expensive, SMEs and mid-caps may hedge less, and risk migrate from banks to the real economy.

The European Commission is right to open this debate. The solution is not deregulation, nor offsetting targeted relief with new capital elsewhere. **It is a practical review of specific and independent areas where requirements are disproportionate to risk,** together with simplification of EU-specific constraints such as overlapping Pillar 2 guidance, MREL interactions and national fragmentation.

Basel divergence is not a problem because Europe wants weaker rules. It is a problem if Europe applies to global standards in a way that ignores its financing model, strategic investment needs and competitors' choices. Resilience remains non-negotiable. But resilience without growth becomes stagnation. Europe must preserve strong banks — and allow them to finance a stronger Europe.

The way forward is not deregulation, but disciplined recalibration: capital should remain strong, risk-based and credible. The test should be practical: whether the framework allows banks to deploy capital at speed towards Europe's strategic priorities, from defence and energy to SMEs, infrastructure, innovation and resilience.

SIMPLIFYING THE EU MACROPRUDENTIAL FRAMEWORK



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A simpler, more usable macroprudential framework for Europe

Recent shocks have put Europe's capital framework to the test – and banks have proven resilient. They are better capitalised than 15 years ago, and the shocks they withstood have confirmed the value of their resilience. Any redesign of the buffer architecture should therefore build on this achievement rather than reopen settled gains.

The EU capital framework contains multiple layers of requirements and buffers, including various macroprudential buffers, each with its own legal basis, methodology and decision-maker. While macroprudential buffers are meant to be built up in good times and used in bad times, they may be only partly usable: banks may be reluctant to draw on buffers because of distribution restrictions, market concerns and

potential stigma. The presence of parallel constraints may also further exacerbate the issue of buffer usability.

The pandemic was a case in point. Where authorities released buffers, banks were better able to continue supplying credit than they would otherwise have been. At the same time, the evidence suggests that banks tried to preserve distance from buffer thresholds, especially where capital space was limited. Separate from that behavioural effect, actual buffer usability can also be reduced by interactions with other requirements, including the leverage ratio and the minimum requirement for own funds and eligible liabilities (MREL), which may limit the capital space available in practice.

This is why the simplification recommendations developed by the ECB's High-Level Task Force and endorsed by the Governing Council provide the right starting point: the various macroprudential buffers could be merged into two buffers. A non-releasable buffer would combine the capital conservation buffer with the higher of the buffers for global and other systemically important institutions. A releasable buffer would combine the countercyclical and systemic risk buffers, and it would already have a positive rate in the early phases of the financial cycle, when systemic risks are neither subdued nor elevated, so that capital is available for release in times of stress.

**A simpler framework
is easier to explain,
calibrate and use in
times of stress.**

This also requires clear communication, so that using buffers is understood as the system working as intended, not as a sign of weakness. Pillar 2 guidance would remain separate. The objective is not to reduce resilience, but to improve usability and coherence.

A more usable framework also requires closer coordination with microprudential policy. Micro- and macroprudential instruments serve different purposes but interact in ways that affect both the level and the usability of capital. Preserving a clear delineation is essential:

macroprudential buffers address systemic risks, while Pillar 2 captures bank-specific risks. At the same time, better coordination can avoid overlaps and keep the capital stack coherent.

Governance should therefore evolve through stronger coordination and convergence. To harmonise how macroprudential elements are set and avoid unwarranted overlaps or inconsistencies, clear common principles and methodologies should guide the calibration of all the elements.

This does not require a change in the current allocation of responsibilities in the area of macroprudential policy. But improved coordination does require a more holistic view of capital demand across the banking union. An enhanced Macroprudential Forum, bringing together the members of the Governing Council and the Supervisory Board, could play a stronger role in this respect by providing a system-wide assessment of how the different layers of capital requirements interact, helping to strengthen consistency and transparency. This would be fully in line with the broader simplification objective, building on existing governance rather than creating a new institutional layer. The Macroprudential Forum already exists, and leveraging it would avoid the multiplication of bureaucratic layers while keeping current competences unchanged. To reflect the full interaction between microprudential, macroprudential and resolution requirements, this discussion should also involve the Single Resolution Board, representing the second pillar of the banking union.

Over time, such an approach could support a broader shift in perspective. In an increasingly integrated banking market, financial stability is a public good and it will increasingly need a common policy – with European and national authorities acting as essential partners within a single framework.

A redesign along these lines would make macroprudential policy stronger. A simpler framework is easier to explain, calibrate and use in times of stress. Buffers should be built up in good times and credibly available for release in bad times. If simplification improves usability, consistency and transparency while preserving resilience, that is the right test of success.



**SOLEDAD
NUÑEZ**

Deputy Governor
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Streamlining Europe's macroprudential capital framework

The reforms introduced after the Great Financial Crisis – in particular, the Basel III regulatory framework and the establishment of the Banking Union – have significantly strengthened the resilience of the banking sector. However, they have also made Europe's microprudential, macroprudential and resolution frameworks more complex than those of other jurisdictions.

Although there are many proposals to simplify the capital framework, this article will focus on its macroprudential dimension.

Leaving aside the buffers for Global Systemically Important Institutions (G-SIIs) and Other Systemically Important Institutions (OSIIs), it may be useful to merge the remaining buffers – the countercyclical buffer (CCyB) and the systemic risk buffer (SyRB) – into a single instrument, redefined along the lines of the CCyB. In recent years, macroprudential authorities have set various buffer requirements under the SyRB umbrella to address several risks. At the same time, there has been a growing willingness/need to activate the CCyB to increase macroprudential policy space. The COVID-19 pandemic, Russia's war against Ukraine and the

conflict in Iran have all illustrated that crises can arise without being preceded by excessive credit growth.

This experience has prompted the development of new concepts, such as the positive neutral level of the CCyB, which enables macroprudential authorities to set a positive buffer in normal times. Meanwhile, the SyRB's flexibility has allowed it to be used as a means of raising capital. However, this is less than ideal, as it may lead to ambiguous interpretations regarding the buffer's role and the indicators that trigger its activation. These developments have blurred the line between objectives and tools (including in relation to reciprocation), with banks facing multiple requirements based on different rationales.

The new single buffer could expand macroprudential space and make it easier to accumulate capital in normal times, thereby strengthening ex ante solvency and providing greater flexibility than the current CCyB. It would also allow authorities to address emerging risks in each national banking system as needed. Our proposal is therefore to eliminate the SyRB, or subsume it into the CCyB, possibly redefining the latter so that it is fit for purpose and can be activated without having to stretch methodologies beyond their original intent.

As the SyRB is an EU-specific tool, its elimination would not pose problems in terms of Basel compliance. Reciprocating other countries' measures would also be easier than under the current framework. To ensure that the elimination of the SyRB does not create a gap in resilience to sectoral systemic risk, the redefined CCyB could include a sectoral component (sCCyB).

**Simplifying
macroprudential capital
framework while
providing national
authorities with flexibility.**

In this respect, we broadly agree with the European Central Bank's (ECB) proposal to simplify the regulatory framework, as set out in its response to the European Commission's consultation on the competitiveness of the European banking sector. In our view, simplification should help reduce unnecessary complexity and improve the predictability and effectiveness of the prudential framework, while preserving

the resilience achieved through post-crisis reforms.

Specifically, we support reducing the number of macroprudential tools and moving towards a single releasable buffer, which could be called the macroprudential buffer. We also favour the current distribution of powers between national authorities and the ECB, which clearly enshrines in legislation the latter's top-up power.

At this stage, however, we see no need to move towards strongly centralised methodologies or a single exercise defined in Level 1 legislation. Differences in economic and financial cycles across Monetary and Banking Union countries require a degree of flexibility for national authorities. National ownership of prudential policy must be methodological, not just executive. A case in point is the difficulties in activating the CCyB following the enshrinement of a credit-to-GDP gap methodology in legislation. Another example is the centralised methodology for setting fiscal rules in Europe, which weakened national ownership of the policies and ultimately required changing the system. We believe that trust between the ECB and national macroprudential authorities is stronger now, after ten years of effective cooperation. Once financial cycles become more homogeneous across Banking Union countries and the Banking Union itself is completed, the push for centralisation may be reconsidered.

In conclusion, we support simplifying the European macroprudential capital framework by merging existing buffers into a single releasable macroprudential buffer. Such a reform should preserve banks' resilience and continue to provide national authorities with sufficient flexibility, given the divergent financial cycles across the Banking Union.



RIINA SALPAKARI

Head of Public Affairs Finland
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Simplifying Europe's macroprudential framework to support stronger Single Market

Europe has made significant progress in strengthening the resilience of its banking sector. Banks entered recent periods of stress with robust capital and liquidity positions, and the framework built after the global financial crisis has proved its value. The next phase of reform should focus on making that framework simpler, more coherent and better suited to foster a genuine Single Market in banking.

The European Commission's competitiveness report correctly identifies undue complexity as a structural challenge for the EU banking sector. It points in particular to the way microprudential, macroprudential and resolution requirements have been developed in parallel, often with insufficient attention to their combined effect. The result is a capital stack that is difficult to understand, difficult to plan for and, in stress, difficult to use as intended.

The macroprudential framework is the key source for complexity and overlaps. The Countercyclical Capital Buffer (CCyB), the Systemic Risk Buffer (SyRB) and the O-SII buffer were created for different purposes,

but in practice their objectives and calibration increasingly overlap. National authorities apply them through different methodologies, different governance processes and different interpretations of systemic risk. This creates uncertainty for banks and weakens comparability across Member States.

Let's use the commercial real estate sector as an example. It is cyclical by nature, and managing this cyclical nature is a core part of banks' credit risk management, capitalized in Pillars 1 and 2. Nevertheless, developments in the sector are used to also justify the use of several macroprudential tools, including the aforementioned buffers and risk weight floors. In Nordea's case, commercial real estate exposures are used as a justification for 8 macroprudential measures set by 6 different authorities. None of these is Nordea's microprudential supervisor in charge of assessing Nordea's credit risk management practices. Not only is the setup complex; it is also prone to cause overlaps in the capital stack.

This complexity matters for Europe's competitiveness. Differing national macroprudential requirements affect capital planning, balance-sheet management and decisions on business models. They also contribute to the broader fragmentation that the Commission report identifies as a constraint on scale, efficiency and capital mobility in the EU banking market. A framework that is unpredictable across borders discourages the very integration Europe needs to finance investment, innovation, defence, energy transition and digitalisation.

**Unpredictable
framework across
borders discourages
the integration Europe
needs to finance itself.**

The EU should therefore redesign the macroprudential buffer architecture around three changes.

A. Reduce the number of buffers and clarify their purpose.

The SyRB should be removed as European gold-plating. The O-SII framework should be harmonised, including clearer common criteria for identification and calibration. Where authorities identify system-wide risks that cannot be covered by microprudential measures, these

should be addressed through a single releasable macroprudential buffer with a clear methodology.

B. Improve coordination and eliminate overlaps.

No authority currently has a sufficiently clear mandate to assess whether the overall capital requirement for a banking group is proportionate to its risk profile, and to remove overlaps. The home microprudential supervisor should be tasked with this role, coordinating between microprudential, macroprudential and resolution authorities in the context of an extended supervisory college.

C. Strengthen EU-level convergence.

Common metrics and methodologies with clearer accountability are needed to ensure that similar risks are treated consistently across Member States. Macroprudential buffers should be set in the context of the EBA stress test to ensure a common baseline to addressing risks. EU authorities need to ensure that convergence takes place, assigning symmetrical powers not only to increase requirements deemed too low but also to lower requirements deemed too high.

The EBA proposal for a single releasable macroprudential buffer is a valuable step in the right direction, but it needs to be implemented carefully. A single buffer should not simply become a new container for existing national add-ons. The SyRB should clearly be removed rather than merged with other tools, and metrics and methodologies should be fully harmonised.

Macroprudential policy remains an essential part of financial stability. The purpose of reform should be to make it more effective and understandable. Europe now needs to act decisively to deliver on this purpose with sufficient ambition and urgency.



ELINE SKRAMSTAD

Group Executive Vice
President of Risk Management
– DNB Bank ASA

Harmonisation, scalability and growth: impacts of better calibrated requirements

Simplification and cross-border harmonisation of the EU banking capital stack. Two steps that will foster stronger European market integration, scalability and strengthen banks ability to support European growth.

A simplified and coherent structure

Today, Europe has five distinct macroprudential buffer layers, the systemic risk buffer, the countercyclical capital buffer, the O-SII buffer, the G-SII buffer and the capital conservation buffer. They partly overlap and there is a clear risk of counting the same risk several times in the application of buffer requirements. The risk of overlaps is further increased by pillar 2 measures, national adjustments within the pillar 1 framework particularly related to IRB models, if applied by the supervisor to counter the same risk as the buffer requirements aims at. .

EBA and the ECB have separately recently recommended reducing the complexity of these layers. This is a welcome direction of travel, needed to

optimise the efficiency of the banking rulebook. A leaner structure would make it easier for banks to plan, simpler for markets to understand, and more effective for authorities to calibrate in a well harmonised way.

Simplification of the macroprudential buffers must be considered in the context of the overall capital regime. Pillar 1 sets the floor; pillar 2 requirements add further layers. The buffers come on top. When national authorities raise macroprudential buffers without taking into account that Pillar 2 requirements already capture many of the same risks, the actual capital burden increases without necessarily reflecting a similar increase in risk. A holistic review of the current application of the total capital requirements is necessary for the system to function as intended by the legislator, to create a truly integrated internal market for financial services, with cross-border level playing field. The review should not be isolated to a strict buffer reform.

National discretion needs clearer boundaries

National authorities can, within wide limits, apply the macro prudential tools based on their own methods, their own criteria and their own political priorities. This creates unpredictability for banks with cross-border operations and weakens the prospects for equal treatment of banks established within different European jurisdictions.

A stronger harmonisation, is the foundation for integration and scalability.

The solution is not to remove national discretion. Cyclical and structural risks vary between countries. Still, the room for national discretion needs clearer boundaries. For the banking rulebook to work as intended and with level playing field, clearly defined parameters for the application of macroprudential tools and an upper cap that prevents persistent and undocumented capital overbuilding, is needed. Without such boundaries, asymmetry in application will remain, and cross-border activity will continue to be penalised. A revision of the banking rulebook aimed at a stronger harmonisation across jurisdictions, is the foundation for integration and scalability.

More consistent application strengthens European growth

Cross-border banking activity in Europe remains limited. Around 80 percent of banks' lending takes place in their home country. This is due to more factors than the banking rulebook, but there is now strong data to evidence that unwarranted fragmentation of buffer levels is a barrier to integration in itself. Better harmonisation in the application of the rulebook would reduce friction and unpredictability and make it easier for European banks to allocate capital where it generates the highest return and support Europe in an era with stronger global competition. This is not a debate about compromising financial stability, it is about applying the rulebook in a more consistent and predictable way.

A secondary mandate will ensure that we take the whole picture into account

If the EU is to succeed in building a more efficient macroprudential regime, authorities should be given growth as an explicit secondary mandate to financial stability. A mandate that looks only at risk reduction without considering the consequences for capital allocation and growth leaves an incomplete picture.

Europe is now in the middle of deciding on reforms to modernise and increase the efficiency of the European economy. Banks will play an important role channeling debt and access to investor markets. Now is therefore the time to take the structural steps needed to ensure better proportionality and a more harmonised application of the banking rulebook.

THE ROLE OF INSURANCE IN THE EU ECONOMY



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Insurers and the Savings and Investments Union: turning savings into growth

Insurers build long-term investments through life insurance and pension plans. European insurance assets represent more than €10 trillion, among which c. 70 % are invested in the EU, with a duration of c. 12 years. This long-term liability allow insurers to fund a wide range of asset classes, listed or unlisted, domestically or in the EU. It also allows to go through market cycles, dampening shocks while providing capital for green and digital transitions, defence, and growth of innovative businesses.

Allocation of savings of European households is distorted: as of 2024 they hold over €39 trillion of financial assets

yet 31 % remain invested in currency and deposits, which is probably too high a proportion to fund the economy properly. In parallel, both Draghi and Noyer reports estimate investment needs in Europe at hundreds of billions of euros yearly. Insurers and pension funds are then the natural bridge to channel savings towards long-term, higher-yielding investments and the Savings and Investments Union's financing needs. And this role will only be growing with Europe's demographic ageing.

Life insurance's great strength lies in its ability to turn countless small, individual savings — the median French policy is worth around €10,000 — into vast reserves of long-term capital which are able to fund what they would not have been able to do individually. Initiatives like Tibi, which rally institutional investors to channel over €30 billion into French and European tech companies, or the 'Prêts Participatifs Relance', through which insurers backed SMEs and mid-caps post-Covid, illustrate how coordinated action can unlock institutional savings at scale, offering a blueprint for similar initiatives across Europe.

**Insurers and pension
funds contribute to
the SIU by channelling
savings from investors
to businesses.**

Recent changes to European legislation sought to facilitate long-term financing of the economy. The adjustments to Solvency II (most notably regarding the long-term equity investment and securitisation) reflect a clear intent to support long-term investment, without compromising the balance for a risk based prudential calibration. The efficiency of these modifications still needs to be measured, particularly in a context where prudential incentives are not the only guiding principle for insurers in their investment decisions.

We need to continue pushing for consistency with SIU objectives across ongoing negotiations, especially for the securitisation and pension packages. The reform of the EU securitisation framework — through lower capital charges and simplified due-diligence

and transparency requirements — should deliver on reviving the market for standardised, tradeable asset pools, thereby giving insurers the scale and liquidity of instruments needed to redeploy capital into the economy. The review of IORP 2 directive and PEPP regulation are opportunities for Member States without developed supplementary pensions to develop an ecosystem. In order to better finance European SMEs, we recommend to increase the share of unlisted assets in the Basic PEPP. Finally, while the Retail Investment Strategy aims to strengthen investor confidence in investment, its contribution to fostering retail investment will ultimately depend on the extent to which its implementation preserves efficient distribution channels and access to high-quality investment advice.

In France, our national pension products, notably the PER (Plan d'épargne retraite), contributes to SIU objectives. The PER has experienced remarkable growth (€150 billion of assets in 2025; +46% in two years) and channels savings towards long-term investment: its default life-cycle investment strategy allows for strong risk exposure for younger savers, including through minimum allocation in unlisted assets while more than 70 % of PER assets are invested in the European Union. Its success stems from a strong duty of advice from insurers to consumers, informing savers on how to invest pragmatically in riskier assets based on their financial situation. In addition, the "Finance Europe" label, launched in Paris in June 2025 by seven Member States, should entice retail savings in Europe. Labelled products must invest at least 70% of their assets in the European economic area with a minimum holding period. In France, the PER is one of the two products covered by the label.

Regulatory evolutions are not enough by themselves for transformative change. Ensuring the SIU is effective for savers and investment relies on enhancing two prerequisites. The quality of information and advice provided by insurance providers is key in practice and should be paired with efforts to improve savers' level of financial literacy. The available range of insurance and pension products and guarantees meetings the needs of savers encounter enough available investment options with adequate diversity, volume and liquidity to absorb capital flows and finance the European economy.



PETRA HIELKEMA

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Unlocking insurers' contribution to Europe's economy

The European insurance sector plays a central role in protecting citizens, supporting long-term savings, and contributing to the resilience and growth of the European economy.

The revised Solvency II framework, which applies from 30 January 2027, is expected to enhance the sector's long-term investment capacity. In particular, changes to the calculation of the risk margin for technical provisions are expected to release a significant amount of capital.

This expected capital relief comes with an explicit political expectation: that the released capital facilitates more productive investments that support Europe's strategic priorities, from infrastructure and defence to the green and digital transitions. Whether that capital will be used to invest in the European real economy remains to be seen. EIOPA will monitor its use closely, including changes in investment behaviour and distributions to shareholders, and will report for the first time by the end of 2028.

Other changes introduced by the updated prudential framework also matter for insurers' long-term investment activity.

First, more equity investments can be classified as long-term equity investments and thus benefit from lower capital charges. Clarifying and, in some respects, easing the conditions for the class of long-term equity investments should support insurers in holding equity investments over a long-term horizon.

Second, the review introduces a specific treatment for equity investments made under legislative programmes, i.e., schemes that combine public support with private financing to promote investment in strategic sectors such as clean technology, biotech, security and defence. Subject to supervisory approval, insurers using the standard formula may apply a reduced equity capital charge reflecting the extent to which the programme lowers the risk of the investment, in line with the approach already used in banking. The European Commission maintains a public register of eligible programmes.

Third, the review significantly reduces the standard formula capital charges for investments in securitisations, as part of the European Commission's efforts to revive the EU securitisation market. Where a securitisation is fully guaranteed by the EU's own investment institutions – the European Investment Bank or the European Investment Fund – insurers will not need to hold any capital against it. A procedural hurdle is also removed: for the simplest and most transparent category of securitisations, one credit rating is enough instead of two.

**Investment capacity,
consumer trust and
effective supervision
must reinforce
one another.**

These changes may enhance insurers' contribution to the economy. In isolation, however, they are certainly not enough. Whether insurers invest at scale also depends on much that lies outside the prudential framework, including the depth and liquidity of European capital markets, a pipeline of investable projects, and a genuinely integrated Single Market, supported by a supervisory system that is robust, efficient and agile.

It also depends on trust. As part of the Savings and Investments Union (SIU), households are encouraged to shift savings from deposits towards investment-based products, including insurance. People will only do so if

products offer good value for money; if they are understandable, fairly priced, well governed and aligned with their long-term needs.

Consumer trust will also be reinforced by clear and reliable protection in the event of insurer failure. Over the past decade, a stronger and more harmonised prudential framework under Solvency II, enhanced conduct rules and the recovery and resolution mechanisms introduced by the IRRD have strengthened the resilience of the sector and reduced both the likelihood and impact of insurer failures. But they cannot eliminate the risk of failure. Insurance is not, and cannot be, a zero-failure sector.

As the Single Market continues to deepen and cross-border insurance activity expands, policyholders should enjoy a consistent level of protection, regardless of where they live or where their insurance company is located. EIOPA has been therefore consistently advocating for a harmonised European framework for insurance guarantee schemes, based on a network of national schemes operating under common minimum standards. Such a framework is a necessary step towards a more integrated, resilient and consumer-oriented European insurance sector, and the successful delivery of the SIU.

Finally, regulatory simplification and burden reduction can help create a more streamlined environment in which businesses are better able to thrive, innovate, and compete – provided that consumer protection, financial stability, and a level playing field are preserved. Simplification should strengthen the effectiveness of the regulatory framework, rather than become an end in itself.



STAVROS KONSTANTAS

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Savings and Investments Union & Solvency II for Europe's capital markets

The Savings and Investments Union (SIU), together with the revised Solvency II framework, offers a unique opportunity to create a more integrated, efficient and competitive European capital market for the benefit of all Member States. As highlighted in the Draghi and Letta Reports (2024), Europe faces significant investment needs to finance innovation, the green and digital transitions, defense capabilities and strategic infrastructure. Achieving these objectives requires mobilizing the savings of European households and enabling institutional investors, including insurance undertakings, to allocate capital efficiently to long-term investments within well-supervised and integrated capital markets.

A key objective of the SIU is to address the fragmentation across European financial markets by strengthening cross-border investment opportunities. A common European framework can help narrow the gap between more developed and smaller capital markets while safeguarding financial stability and consumer protection.

The revised Solvency II framework contributes to this direction, since the updated prudential rules allow insurance undertakings to allocate more capital to long-term investments without undermining policyholder protection or financial resilience. This additional investment capacity can support strategic sectors such as energy infrastructure, digital networks, innovation, and climate transition. However, achieving these benefits across the European Union requires that insurance undertakings, irrespective of the size of their domestic markets, enjoy equal access to high-quality investment opportunities.

In this context, the development of pan-European investment vehicles would significantly contribute to market integration. Instruments such as European Long-Term Investment Funds (ELTIFs), infrastructure funds and private equity funds can provide insurance undertakings with diversified long-term investment opportunities across the European Union. Equally important is the simplification of investment procedures through standardized documentation aimed at reducing administrative costs and enabling smaller insurance undertakings to access cross-border investment opportunities more effectively.

Closer cooperation between public and private sectors is equally essential. Institutions such as the European Investment Bank (EIB) Group and the European Investment Fund (EIF) can leverage public resources to attract additional private capital.

Insurance undertakings play an important role by offering investment and pension products.

Alongside market integration, greater convergence of supervisory practices across Member States is critical for the effective functioning of the single insurance market. Attention should be given to the consistent application of proportionality, internal model approvals, valuation practices, supervisory reposting and governance expectations while ensuring a level playing field for insurance undertakings throughout the European Union.

The European Insurance and Occupational Pensions Authority (EIOPA) is central to achieving this objective, by promoting close supervisory practices and closer cooperation among

National Supervisory Authorities, contributing to the development of a more integrated single insurance market. Harmonized supervisory methodologies, data sharing and joint supervisory assessments reduce barriers to cross-border activity while ensuring robust policyholder protection. In addition, effective cooperation between home and host supervisors, supervisory colleges and wider use of digital supervisory tools, including shared data and platforms and supervisory technology (SupTech), can reduce administrative burdens and increase supervisory effectiveness.

At the same time, the success of the SIU is directly related to European citizens' participation in long-term savings and investment. Promoting supplementary pension schemes, Pan-European Personal Pension Product (PEPP), insurance undertakings can contribute by offering investment and pension products that channel savings into the real economy. Simplifying the rules governing the cross-border distribution of these products would enhance competition, expand consumer choice, and maintain a high level of policyholder protection across the European Union.

Insurance undertakings play an important role by offering investment and pension products that direct household savings towards the real economy. A more fully developed Savings and Investments Union (SIU) would facilitate the cross-border distribution of these products, increasing competition and consumer choice while maintaining a high level of policyholder protection.

At the same time, the implementation of the SIU should be firmly based on the principle of proportionality, ensuring that smaller insurance undertakings can participate on an equal footing. Ultimately, the success of the SIU will depend on its ability to create broader investment opportunities across all Member States, thereby strengthening the competitiveness, economic growth, and strategic autonomy of the European Union.



SARAH BOUQUEREL

Group Chief Financial Officer
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Investing over time: the insurers' perspective

Over the past two years, European debates have brought the need to develop patient capital back to the forefront. This ambition addresses a broader challenge: strengthening Europe's ability to finance its transitions and strategic autonomy by making better use of its long-term savings. Against this backdrop, the Savings and Investments Union represents a key opportunity to channel European household savings more effectively towards the financing needs of the real economy and Europe's strategic priorities.

To achieve this, savings must be mobilised through players capable of anchoring them over time, while preserving a protective and diversified framework for savers. Through life insurance, in particular multi-option products and retirement products, we have developed savings solutions suited to long-term horizons. The strength of our model lies in balancing euro-denominated funds and unit-linked products, combining capital protection, diversification and return potential. This balance builds savers' trust, a prerequisite for long-term investment.

This trust also depends heavily on the stability of the regulatory, tax and

financial framework. If citizens, insurers and investors are expected to commit over the long term, public authorities must also embrace this perspective. Capital cannot be patient in an unstable environment: long-term investment requires a clear, predictable and coherent legal framework.

This stability is crucial, as directing savings towards long-term investment means reassuring savers without giving up on diversification. For insurers, this requires simple and understandable products, distributed through channels adapted to savers' needs, including digital channels, to facilitate access to long-term savings. This accessibility must, however, remain closely linked to high-quality advice, which is essential to support investment decisions. Financial literacy remains indispensable, but it is not sufficient on its own: savers' attitudes to risk also depend on concrete realities, such as budgetary constraints, liquidity needs, different life horizons and limited risk appetite.

This balance nevertheless has a corollary. The guarantee provided by euro-denominated funds requires insurers to maintain liquidity reserves to meet potential full or partial surrenders. This mechanically reduces the room available for riskier or less liquid assets and increases the associated capital cost. Prudential requirements therefore naturally frame risk appetite.

Patient capital therefore cannot be considered solely from the perspective of products or savers. Once mobilised, savings must be matched with sufficiently diversified and attractive projects, as well as deep investment vehicles. Europe has abundant savings, amounting to close to €35,500 billion; it must now strengthen its supply of assets to absorb these flows at scale.

The strength of our model lies in balancing protection, diversification and returns.

Some initiatives already point the way. In France, the Tibi initiative, to which CNP Assurances has contributed €3 billion, has helped channel institutional savings towards innovation and growing technology companies. It illustrates the ability of public and private players to build vehicles suited to long-term financing.

This approach should be amplified at European level. The Finance Europe

label pursues the same ambition: to better channel savings towards European assets, while taking into account tax, regulatory and pricing specificities of Member States. This redirection will only be fully effective if accompanied by real incentives, or at least by the preservation of existing mechanisms that already encourage long-term investment.

Finally, Europe's financing ecosystem still needs to be strengthened. Europe still lacks asset managers of critical scale, while ratings and benchmarks remain too often focused outside the European Union. The consequence is twofold: part of allocations is directed towards non-European assets, and European start-ups, when they reach the critical scale-up phase, still struggle to find the financing they need on the continent.

The success of this ambition requires a comprehensive approach: strengthening savers' confidence and engagement, enabling long-term investors to fully play their intermediation role, and developing a sufficiently deep and attractive pool of European assets. This requires European funds of critical scale, greater use of European agencies and indices, stronger vehicles to support innovative companies, and a realignment of our benchmarks. Only under these conditions can patient capital become a driver of financing, competitiveness and sovereignty for Europe.



ADRIEN COURET

Managing Director
– Aéma Groupe

Insurance as an engine for the Savings and Investments Union

The Savings and Investments Union (SIU) is an economic necessity. As highlighted by the Letta and Draghi reports, Europe requires the mobilization of significant private capital to finance competitiveness, infrastructure, and the energy transition. The key challenge for the SIU lies in finding vehicles to effectively channel those savings into long-term investments. The good news is those channels exist. They just need to be promoted.

The Primacy of the Policyholder

Insurance-based investment products (IBIPs) are uniquely positioned to be this channel. Unlike purely market-driven instruments, they combine investment with protection against risk, directly addressing the real-world concerns of European households: preserving accumulated savings, preparing for retirement, and managing uncertainty.

A critical pillar of this debate, which has been one of the puzzles of the RiS discussions, is the definition of “Value for Money.” A narrow focus on cost is fundamentally flawed. Consumers do not choose to invest solely for the highest short-term return. They choose investment products for the protection

they offer and the overall quality of the investment experience, underpinned by professional advice. Good advice helps savers navigate market stress, protects against poor decisions, and ensures that investment horizons remain aligned with their long-term financial security.

The Value of Guarantees

During the financial turbulence associated with the COVID-19 crisis and the interest rate shock of 2022, guarantee mechanisms helped limit losses for households and reduced the risk of abrupt withdrawals from financial markets. In the French market alone, it is estimated that these mechanisms preserved approximately €124 billion of savings during the 2020 crisis and around €229 billion during the 2022 correction. Beyond the direct protection of households, this also contributed to broader financial stability by supporting confidence during periods of uncertainty.

As mutual insurers, Aéma Groupe’s primary responsibility is to the policyholder. Our role is grounded in the primacy of long-term outcomes. Value is assessed by determining whether protection is adequate, whether advice supports decision-making, and whether products help households achieve their financial objectives. This perspective aligns perfectly with the broader ambition of a more protective Europe that strengthens citizen trust.

The “Value for Money” framework should therefore assess the actual outcomes delivered to households and the economy, rather than focusing on cost minimization. Furthermore, regulatory frameworks must preserve the diversity of the European financial landscape, ensuring that value is understood not as a uniform metric, but as a commitment to the long-term financial security of citizens.

**Insurance capital
guarantees helped
protect €229bn during the
2022 interest rates shock.**

Long-term Investment Capacity

Crucially, insurance-based savings are not passive holdings. They are active instruments through which household wealth transforms into investment capacity. European insurers manage around €9.5 trillion, acting as massive institutional investors, in particular in “real assets”. Through initiatives

like Zencap Asset Management and SWEN CP, two subsidiaries of our asset management subsidiary OFI Invest focusing respectively on private debt and private equity, we actively channel savings into European infrastructure, corporate debt, and SMEs, while focusing on the green transition, restoring soil biodiversity or financing wind farms (to name but a few). These figures demonstrate that insurance capital is already powering the real economy.

First, channeling this capital effectively requires a genuine industrial strategy in Europe that would enable savings to be channelled in a practical way toward strategic long-term investments.

Second, turning the fast-growing demand for cyber and digital coverage into a European growth market requires an equally concerted strategic effort. The digital and climate transitions carry systemic risks that households and businesses cannot bear alone. By offering robust coverage, insurers facilitate these transitions, making them both insurable and investable. We act as the stewards of this risk, providing the stability necessary for long-term commitment. However, this capacity is often constrained by structural liquidity limits. The tension between the need for flexible, retail-facing unit-linked products and the illiquid nature of strategic private assets remains an obstacle. To unleash the full potential of these investments, public-private liquidity support mechanisms should be proposed at the European level.

The success of the SIU will depend on our ability to transform savings into long-term capital while strengthening the confidence that sustains it. By acknowledging the full value of protection, advice, and long-term investment, we can build a more resilient and sovereign European economy.



**JEAN-JACQUES
BONNAUD**

EUROFI

Reducing the traditional home and sovereign bias through greater public-private partnership

The European Union needs some €750 to €800 billion a year in additional investment — the Draghi Report's order of magnitude — to preserve its competitiveness, finance its climate transition and meet the defence spending called for by the threats on its eastern border. Mobilising long-term capital on that scale is Europe's challenge.

The insurance sector is well placed to play a decisive role within the Savings and Investments Union. With nearly €9.5 trillion of assets managed in Europe, 70% of it invested inside the Union, it acts at once as a protector of households and businesses and as a long-term institutional investor. Yet in 2025 those resources went 19% to sovereign bonds (against 6% in the United States), 18% to corporate bonds, 16% to listed equities and 36% to collective funds, but only 1% each to private equity and infrastructure. A clear home and sovereign bias persists, reinforced by the risk-averse instincts of retail savers.

Structural constraints nonetheless prevent European insurers from deploying the capital released by the

2027 Solvency II framework, which cuts the long-term equity charge to 22%: a shortage of bankable, reliable long-duration projects and a persistent deficit of venture capital at the scale-up stage. Several levers could nevertheless unlock a more productive mobilisation.

The IAIS GIMAR 2025 points to a likely acceleration in allocations to private credit — non-bank, non-public lending, encompassing direct loans, securitised products and infrastructure debt. The orders of magnitude are credible: global private credit assets reached \$2.1 trillion in 2023, growing around 20% a year in North America and 17% in Europe since 2018, whereas insurers' own exposures remain below 5% of sector assets in most jurisdictions — a low base from which to grow.

Such investments offer diversification, improved asset-liability matching and the illiquidity premiums they are expected to carry, particularly appealing to life insurers matching long-duration liabilities.

They also carry risks requiring robust governance and risk management. Credit risk is the foremost concern, particularly for smaller or highly leveraged borrowers, with elevated rates, geopolitical instability and slowing growth all amplifying default risk. Alongside this sit illiquidity, valuation uncertainty and the opacity of bespoke, multi-layered structures. Property and casualty companies, part of the wider non-life family, would consequently remain cautious: Cat Nat events lack predictability, raise reinsurance costs, capital needs and claims costs amid geoeconomic fragmentation.

**Guarantees address
the risk, but only
credible intermediation
addresses the opacity.**

The current direction of interest rates cuts both ways. A rising rate environment is in itself an opportunity for investors, since many private credit assets are floating rate and reprice upwards, with call protection or equity kickers often negotiable on top. That said, the higher net yields available elsewhere, notably in the United States, may discourage allocation within the European Union.

Both private debt and technology equity meet the same bottleneck: origination and trust. Insurers are institutional

investors, not credit analysts of unlisted mid-caps or assessors of early-stage technology, whilst project sponsors are rarely familiar with institutional capital. What is missing between them is a professional investor whose judgement carries credibility on both sides: guarantees address the risk, but only credible intermediation addresses the opacity.

Hence the case for public-private partnership: first-loss guarantees on projects associating public investment banks with insurers — a route the new Solvency II rules now reward with a reduced capital charge — or the structuring of a market for technology funds, along the lines of the Tibi initiative launched in France in 2019 by the Treasury with most French insurers. It addresses a financing gap identified in France but present across the EU: the modest role of insurers in financing technology. Neither route yet attracts private money on the required scale, public investors still supplying much of the commitment.

It consists in structuring a still immature market, attracting investors towards labelled funds specialising in technology equity, and fostering a cultural shift among investors who still mistrust the passage from research to market. Extending it across the Union could help build a more integrated innovation ecosystem, combining world-class research, patient capital and credible exit opportunities.

INSURANCE IN A POLYCRISIS WORLD



**GERRY
CROSS**

Secretary General

– International Association of
Insurance Supervisors (IAIS)

Interconnected risks, common standards: The IAIS agenda

In a time of significant change and complexity, the role of insurance as a cornerstone of economic stability and societal resilience has never been more critical. This is a period widely described as a polycrisis, characterised by coupled shocks that amplify one another across markets, sectors, and borders. The IAIS's 2026 mid-year Global Insurance Market Report (GIMAR), published in July 2026, highlighted the increasing interconnectedness of risks, from macroeconomic pressures impacting life insurers' balance sheets to the implications of advances in AI and technology for insurers' cyber resilience. In such an environment, fragmentation is a growing challenge, bringing with it the risk of regulatory divergence.

Risks with a cross-border and cross-sector character, especially in cyber and AI, as well as those arising from structural shifts in the global life

insurance market, demand a dynamic and forward-looking approach to insurance supervision. Within the IAIS, strong supervisory tools and a spirit of cooperation and trust across the global insurance supervisory community help to mitigate the risk of fragmentation.

As regards structural shifts in the life insurance sector - particularly increased investments in alternative assets such as private credit, as well as the growing use of asset intensive reinsurance (AIR) - the IAIS has been monitoring this closely. Since 2021, these developments have been captured as part of our Global Monitoring Exercise (GME), which forms the backbone of our risk assessment framework.

Our findings highlight several important trends. While the aggregate exposure of the life insurance sector to alternative assets remains modest, we are seeing rapid growth in some jurisdictions and among certain insurers. This shift is driven by the search for higher yields, diversification, illiquidity risk premiums and improved asset-liability matching. This asset class can be attractive to life insurers seeking stable, long-term cash flows to match their liabilities.

While these developments may present opportunities, alternative assets also can expose insurers to valuation uncertainty, illiquidity or complexity.

Considering the cross-border nature of these risks, robust global standards and supervisory cooperation are fundamental. The Insurance Capital Standard (ICS) is the common language for supervising internationally active insurance groups: a consolidated, group-wide capital standard that enables supervisors to discuss solvency in the same terms, promotes global convergence, encourages prudent risk management and improves transparency. It also helps home and host supervisors work together, evaluating group solvency using the same concepts and metrics.

The Holistic Framework for monitoring systemic risk, underpinned by its three key elements, the Global Monitoring Exercise (GME), an integrated set of enhanced macroprudential supervisory policy measures, and robust implementation assessment, provides a strong foundation for assessing and mitigating systemic risk in the global insurance sector.

Digital innovation, particularly the adoption of AI, is transforming the insurance sector, bringing both opportunities and challenges. The IAIS is well positioned for the changes that digital innovation is bringing to the sector. Through our GME, we have a well-established framework for analysing and responding to risks and trends in the global insurance sector. We have used this process to undertake analysis of cyber underwriting and the use of AI by insurers, and expanded our work on supervisory practices related to AI and operational resilience, publishing Application Papers and an AI question bank to support supervisors in their engagement with insurers on AI use cases. This year we are looking at cyber risks from frontier AI models. Frontier AI models pose new cyber risks and highlight the continued importance of operational resilience. The IAIS' Operational Resilience Working Group (ORWG) is exploring how patching processes may need to change as a result of developments with frontier AI models.

**Strong supervisory
tools and a spirit of
cooperation help to
mitigate the risk of
fragmentation.**

To conclude, international standards empower supervisors to respond to emerging risks, ensuring insurance markets remain fair, safe and stable for the benefit of policyholders and supporting financial stability. Over the past decade, the IAIS has built a strong global framework for cross-border supervisory convergence and collaboration, and for assessing and mitigating systemic risk. Our members are strongly committed to implementing these standards, supporting convergence in supervisory outcomes, and the IAIS remains committed to supporting supervisors to maintain resilience and protect policyholders in an uncertain environment.



TIM TEMPLE

Commissioner, Louisiana
Department of Insurance
and Vice Chair – National
Association of Insurance
Commission (NAIC)

Risk transfer and the U.S. regulatory response

The U.S. insurance market, especially the life and annuity sector, has experienced significant growth over the past 10 years of three distinct asset classes: private-equity ownership, “alternative” and illiquid asset exposure, and offshore asset-intensive reinsurance (AIR).

Private-equity-affiliated insurers now represent a notable share of the U.S. insurance market. Recent National Association of Insurance Commissioners (NAIC) analyses indicate that there are 139 private-equity-owned insurers, which hold hundreds of billions of dollars in invested assets. Relative to traditional life insurers, private-capital-sponsored firms tend to allocate more heavily to private credit, structured securities, asset-backed investments and other less-liquid holdings that offer incremental yield.

It is not only PE-backed insurers that are broadening their balance sheets, however, as many life insurers have expanded their invested assets from stocks and bonds to other forms of assets since the aftermath of the global financial crisis and a low-for-long interest rate environment.

One of the more visible trends is the growth of AIR. AIR often involves the transfer of life and annuity liabilities and their corresponding assets from U.S. insurers to affiliated offshore reinsurers. This movement can be attributed to an increase in the market for asset-intensive products, primarily retirement savings-related products like deferred annuities and pension risk transfers.

While all these strategies can provide economic benefits, improving returns and supporting retirement-product growth, they also introduce greater complexity in valuation, liquidity monitoring and risk management. **The challenge is to ensure risk is genuinely transferred and adequately capitalized**, not to prohibit such transfer. Supervisory processes and tools need to provide understanding of, and adequately capture, the risks associated with evolving insurer business and investment practices and increasingly bespoke and illiquid assets.

The response of U.S. state insurance regulators has centered on enhancing transparency, refining risk-based capital (RBC) measures and strengthening group supervision.

State insurance regulators have expanded their scrutiny of private credit, collateralized loan obligations, private letter ratings and affiliated investment structures. New analytical work by the NAIC’s RBC Model Governance Task Force and RBC working groups is intended to ensure that RBC factors better reflect underlying economic risk while minimizing opportunities for capital arbitrage.

Another key development is Actuarial Guideline 55 (AG 55), which requires enhanced asset-adequacy testing for certain offshore life and annuity reinsurance transactions. AG 55 seeks to ensure that ceding-company actuaries can demonstrate that the assets supporting ceded reserves remain sufficient under adverse scenarios. The focus is on transparency, cash-flow testing and evidence that policyholder obligations remain protected even when the risks are transferred outside the United States.

To that end, this trend is not just domestic to the U.S., but one that supervisors across the globe are examining, not just internally, but through the International Association of Insurance Supervisors and other multilateral organizations. To address this, group supervision is evolving in parallel. Supervisors increasingly assess insurers, reinsurers and affiliated asset managers as part of an integrated enterprise rather than as standalone legal entities. Concerns around affiliated

transactions, concentration risk, liquidity management and potential conflicts of interest are prompting a more holistic approach to oversight, requiring increased cross-border communication and collaboration between insurance supervisors.

The increase in AIR highlights the importance of having mechanisms in place to facilitate cross-border cooperation and collaboration amongst insurance supervisors in different jurisdictions. In the U.S., covered agreements with the European Union and the United Kingdom and the NAIC’s Qualified Jurisdiction (QJ) process help provide such mechanisms, ensuring strong regulatory processes and oversight are in place and reliable.

**The challenge is to
ensure risk is genuinely
transferred and
adequately capitalized.**

While the vast majority of insurer investments remain with traditionally stable assets such as bonds, these shifts towards alternative assets and more complex ownership structures are expected to continue given aging demographics and ongoing demand for retirement savings products.

The supervisory response in the U.S. is increasingly targeted and data-driven: refining RBC treatment, improving asset transparency, strengthening actuarial review and enhancing group-wide supervision. The objective of state insurance regulators is not to constrain legitimate risk transfer or private capital participation, but to ensure that innovation, capital efficiency and policyholder protection continue to advance together.



PETRA HIELKEMA

Chair – European Insurance
and Occupational
Pensions Authority

Beyond single-risk thinking: polycrisis consideration for the insurance sector

As insurers and financial institutions navigate a prolonged period of economic uncertainty, geopolitical fragmentation, market volatility, and rapid technological change, risks are increasingly interacting and amplifying one another. These interactions create vulnerabilities spanning business models, balance sheets, and operational infrastructures. It is this interaction and amplification of risks – not simply their simultaneous presence – that characterises a polycrisis.

In this context, three areas warrant particular attention:

- insurers' growing exposure to private credit and other illiquid assets,
- the expansion of Asset Intensive Reinsurance (AIR) or funded reinsurance arrangements across markets and jurisdictions; and
- financial institutions' growing dependence on complex digital ecosystems and third-party providers (ICT risks).

The nature and immediacy of these risks differ. Private credit exposures remain manageable in aggregate, and use of AIR remains relatively limited in Europe, although its cross-border nature creates

growing supervisory challenges. ICT and operational risks, by contrast, can disrupt multiple entities simultaneously and therefore represent the most immediate potential source of systemic operational stress.

1. Private credit

EIOPA's recently published factsheet shows that private credit accounted for around 5% of EEA (re)insurer's total assets at the end of 2025. While these investments can support diversification and liability matching, they require continued attention to valuation, liquidity, concentration and interconnectedness.

2. Asset Intensive Reinsurance

Asset-intensive reinsurance (AIR) or funded reinsurance can improve capital efficiency by transferring investment and insurance risks, providing capital relief and broadening access to investment opportunities. At the same time, AIR can increase counterparty exposures and insurers' links to financial markets, potentially amplifying procyclicality during periods of stress. AIR transactions can also create recapture risk, including operational, legal, and valuation challenges, particularly where assets are held through complex cross-border structures or under different regulatory regimes.

**Insurers' greatest risks
arise from the interaction
of risks across an
interconnected system.**

Building on its July 2021 **Opinion on the use of risk mitigation techniques by insurance undertakings**, EIOPA is currently working with national supervisors on potential risks and supervisory expectations on AIR transactions.

3. Digital ecosystems and third-party providers

ICT risk has meanwhile evolved from a largely technical concern into a potential systemic threat. In today's interconnected financial ecosystem, the failure of a single ICT provider can disrupt critical services across multiple entities, sectors and jurisdictions.

The shift toward this new reality was evidenced in a pre-DORA analysis conducted by the European Supervisory Authorities (ESAs) in 2023. This high-level exercise identified approximately

15,000 ICT third-party providers (TPPs) directly serving EU financial entities, with around 9,000 of those supporting critical or important functions (CIF). The analysis also revealed that many of these services are non-substitutable, creating clear single points of systemic failure.

The development and first full year of application of the Digital Operational Resilience Act (DORA) have acted as a powerful diagnostic tool, revealing the extent of the financial sector's co-dependence on a limited number of technology giants and of the overall cyber security maturity of the financial sector. The ESAs have also established an Oversight Framework as foreseen under DORA, for those ICT providers deemed critical (CTPPs).

EIOPA has elevated DORA implementation to a Union-wide Strategic Supervisory Priority for 2026. The relevance of this agenda is reinforced by rapid advances in AI-enabled cyber capabilities, which may shorten the time between the identification and exploitation of vulnerabilities. ICT risk management must therefore evolve as fast as the capabilities it guards against.

Further supervisory analysis of the new data on the Register of Information and incident reporting, benchmarking it across sectors and years, will allow the supervisory community to get a better understanding of the actual risk and inform actions that should be taken to improve the overall resilience of entities and the EU financial sector.

The way forward

The hallmark of a polycrisis is not the presence of multiple risks, but their capacity to interact and magnify one another. For instance, decline in private credit valuations could pressure insurers' capital and liquidity; AIR could transmit that pressure across counterparties and jurisdictions; and an ICT incident could impair the systems needed to value assets, manage collateral or execute recapture plans. Building resilience in the years ahead will depend not only on understanding each risk, but also on anticipating how multiple shocks may interact, amplify, and propagate across the insurance sector.



RITA LAURA D'ECCLESIA

Member of Board of
Directors – Italian Insurance
Supervisory Authority (IVASS)

Emerging insurance risks require better data and stronger supervision

European insurers remain resilient, but the sources of risk are evolving. Alongside traditional market and underwriting risks, supervisors are increasingly focusing on private credit and other illiquid assets, as well as on the complexity of cross-border group structures. While these developments support diversification and long-term investment, they also create risks that are not always fully visible through conventional solvency indicators and require more granular information and stronger supervisory cooperation.

Private credit has attracted increasing attention in recent years. EIOPA analysis based on Solvency II reporting shows that private assets represent around 11% of insurers' total assets at both solo and group level. Aggregate exposures do not currently point to a systemic concern. However, these figures conceal significant heterogeneity across undertakings and groups. A small number of large insurance groups account for approximately 37% of all private-asset investments, while concentration is particularly pronounced in private credit. These findings suggest that concentration risk may be a more

relevant supervisory concern than the overall volume of exposures.

From a supervisory perspective, the key issue is not merely the size of private credit investments but the complexity of the associated risks. Illiquidity, valuation uncertainty, concentration towards specific sectors, borrowers or asset managers, and the interaction between investment and liability strategies may become particularly relevant during periods of market stress. For life insurers, additional challenges may arise if policyholder behaviour generates unexpected liquidity needs. Since 2021, IVASS has encouraged undertakings to strengthen governance, valuation methodologies, risk management frameworks and the application of the prudent person principle. Increasingly, supervisory attention focuses on firms' ability to understand and manage these risks rather than on headline exposure figures alone.

Effective supervision in this area depends on access to sufficiently granular information. Current reporting frameworks still present important limitations, particularly for investments held through funds, where information on underlying assets, issuer sectors and geographical exposures may not always be readily available. These data gaps make it more difficult to assess concentration, liquidity and interconnectedness risks consistently across Europe. Better transparency would enhance both firm-level supervision and the monitoring of potential vulnerabilities across the sector.

Better data and stronger supervision are becoming as important as capital.

The concentration of private credit exposures among a limited number of large groups also highlights the importance of effective group supervision. Insurance groups generate important diversification benefits and support efficient capital allocation across jurisdictions. At the same time, they create interconnections that are not always visible from a purely national perspective. Investment strategies, reinsurance arrangements, treasury functions and other key activities are increasingly managed at group level, while risks often materialise locally within individual entities.

In this context, supervisory colleges remain a cornerstone of effective

supervision. Through information sharing, joint risk assessments and coordinated supervisory actions, home and host authorities can develop a common understanding of risks and identify vulnerabilities before they crystallise. As insurance business models become more integrated and increasingly transcend national borders, no single authority can fully assess all relevant risks in isolation. Effective supervision depends on both timely access to information and a shared view of emerging vulnerabilities across the group.

The experience gained from monitoring private credit provides a broader lesson for insurance supervision. In an increasingly interconnected financial system, risks may emerge through concentrations, interdependencies and common exposures that are not readily observable from balance-sheet information alone. Identifying such vulnerabilities requires supervisors to combine firm-specific assessments with a group-wide and cross-border perspective.

As insurance business models continue to evolve, the visibility of emerging risks will depend not only on capital metrics but also on supervisors' ability to access comparable data and cooperate across jurisdictions. Stronger supervisory colleges, closer home-host coordination and more granular reporting become essential building blocks of a forward-looking supervisory framework.

Better data and stronger supervisory cooperation should not be viewed as alternative solutions but as complementary pillars of effective supervision. Coordinated supervision provides the institutional framework, while granular information provides the tool to identify vulnerabilities early and address them consistently across Europe. In an increasingly complex insurance sector, both are becoming as important as capital itself.



CRISTINA MIHAI

Head of Regulatory Affairs
Global and EMEA – Swiss Re

Building resilience in a polycrisis: a re/insurance perspective

In August 2025, the insurance industry reflected on the Tianjin Port explosions, ten years after one of the largest man-made insured losses in history. The anniversary reminded us that catastrophes rarely remain confined to the event itself. An industrial accident disrupted global supply chains, generated claims across multiple jurisdictions and lines of business, and revealed hidden concentrations of risk that had previously gone unnoticed.

That is the essence of a polycrisis. Shocks no longer occur in isolation; they interact, amplify one another and cascade across increasingly interconnected economies. In such an environment, resilience is no longer simply about recovering from individual events. It is about strengthening the capacity of societies, economies and institutions to anticipate, absorb and adapt to interconnected shocks. Resilience itself is becoming a strategic objective—not because it replaces growth or competitiveness, but because both increasingly depend on it.

Insurers have long worked in this reality. Through risk modelling and claims analysis, they see how risks interact across sectors, jurisdictions and value

chains. Risk models anticipate the next shock; claims explain the last one. Re/insurance claims can be a lesson in interconnectedness. They repeatedly show that the largest economic losses often arise not from the triggering event itself, but from the chain of consequences it sets in motion.

Climate resilience. Recent Swiss Re Institute sigma research shows insured natural catastrophe losses exceeding USD 100 billion annually for six consecutive years, increasingly driven by floods, severe convective storms and wildfires. Claims increasingly show that the largest economic consequences often arise beyond the flooded area itself. Disruption to transport, energy infrastructure and suppliers can extend business interruption far beyond the initial physical damage, illustrating how climate events propagate through interconnected systems. Building resilience means reducing risk through prevention and adaptation, as well as ensuring that the risks that remain can be effectively insured. Together, risk reduction and risk transfer strengthen the resilience of economies, businesses and communities.

Goeconomic resilience. Geopolitical fragmentation is reshaping trade, investment and supply chains. The CRO Forum's Emerging Risk Radar 2026 likewise identifies geopolitical instability and supply-chain disruption as increasingly interconnected risks. Swiss Re's work on Emerging risks: hidden dependencies highlights that many organisations understand risks affecting their own assets, but far fewer understand the infrastructure and supplier networks on which they depend. Claims often reveal these hidden dependencies only after a disruption has occurred, showing that resilience begins with making them visible before the next shock.

Digital resilience. AI is accelerating investment in digital infrastructure while increasing dependence on a small number of cloud providers, energy networks and cyber resilience. Cyber risks illustrate the growing challenge of accumulation risk: an incident affecting a major cloud or managed service provider can generate correlated losses across thousands of organisations. Claims increasingly show that AI-enabled products blur the traditional boundaries between software and physical products. What begins as a technology issue can quickly become a product liability claim involving developers, manufacturers, distributors and other actors across the value chain. Technology is therefore reshaping not only risk, but also accountability.

Societal trust and liability resilience. Recent Swiss Re Claims Perspectives publications highlight litigation involving children's use of social media, illustrating how rapidly technological innovation can evolve into questions of duty of care, accountability and liability. At the same time, the growth of third-party litigation funding has the potential to result in enhanced claims inflation and legal uncertainty if left without appropriate transparency. As Insurance Europe's Reinsurance Advisory Board has argued, proportionate oversight is important to preserve a balanced and sustainable liability environment.

**Resilience begins
with understanding
interconnected risks.
Re/insurance claims
reveal connections.**

Europe is increasingly embedding resilience across its policy agenda. The Preparedness Union Strategy promotes an all-hazards, whole-of-government and whole-of-society approach, while the forthcoming European Integrated Framework for Climate Resilience and Risk Management is expected to strengthen the way climate risks are understood and managed across sectors.

In a polycrisis, resilience cannot eliminate risk. The better we understand how risks interact and materialise, the better equipped we will be to anticipate, absorb and recover from future shocks. Building resilience is therefore a shared endeavour. The insurance sector can contribute its risk expertise, practical experience and understanding of interconnected risks to support Europe's resilience journey.



HIROTAKA HIDESHIMA

Fellow, Global Intelligence Unit
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Insurance in a polycrisis: diversification needed?

The polycrisis

In the polycrisis we are facing, precedents do not seem helpful, conventional wisdom does not seem to apply, and it seems that we can no longer take for granted many of the things that we used to. Shocks will hit us in unprecedented ways, and risks will materialise in unexpected manners. In such a situation, the resiliency of the economy and the financial system may best be achieved through diversification: by not putting all eggs in one basket and by avoiding choke-points. We may want to focus on vulnerabilities for risk management, and clarity of the regulatory perimeter ex ante.

Diversification in the economy

In the real economy, we need to have multiple sources of growth, multiple sources of procuring necessary inputs including supply chains and funding channels/sources. We should avoid choke-points as much as possible. It is desirable for the real economy to be able to fund itself not only through traditional channels but also through private credit, private equity and other forms.

Implications of the increased use of AI

Increased use of AI also leads to complications for judging investment opportunities and risk management. How much of the rise in AI-related stock prices is a bubble? What is the overall impact of the use of AI for employment, potential growth, and inflation? Who will be the winners and losers? What is the efficiency gain that we can obtain from using AI? What are the risks associated with the use of AI? In trying to address these questions, we will probably need to listen to specialists, look at real life examples, and use our imagination. We probably need to diversify and hedge, consider worst cases, and have contingency plans in place.

Diversification in the financial system

We should welcome diversification of the financial system, such as alternative investment opportunities including private assets, alternative hedging possibilities including asset intensive reinsurance, and new entrants to the system, provided they can demonstrate sound risk management practices and governance. At the same time, the role of risk management may have become all the more important.

Risk management

It is true that in the face of growing private asset balances, asset intensive reinsurance, private equity funds acquiring reinsurance companies, and the increased use of AI and reliance on critical technology providers, we must consider the implications for liquidity risk, concentration risk, and conflicts of interest. However, we should also weight risks against the benefits, such as diversification, increased returns, and improved ALM matching. In addition, since extrapolation of historical data no longer seems to be the best way to prepare for what might be coming, we may need to make more use of stress testing and scenario analyses, while avoiding excessive burden in carrying out these exercises. We may need to use more qualitative judgements. Checking what kind of events could wipe out a financial institution's capital through reverse stress testing, and looking for signs of such events happening may have become an approach that is more useful.

Supervisory approach

Supervisors may need to become more comfortable with less reliance on quantitative calculations of risk metrics and more use of qualitative judgements. Supervisors should also welcome entry into the market by different types of financial institutions with different response patterns. What

supervisors should not pursue is for everybody to react in the same way in the face of a shock. Banks and insurance companies may react differently to changes in interest rates. Similarly, financial institutions headquartered in different geographical locations should react differently to different regional shocks. Supervisors should not push financial institutions to respond to shocks in particular ways. From a macro perspective, supervisors may be faced with the unenviable task of having to balance the benefits of increased resilience through diversification from increases in private assets and asset intensive reinsurance against the implications for systemic risk from the potential increase in concentration risk and interconnectivity.

**Diversification and
clarity over public
intervention seems key
in facing a polycrisis.**

Regulatory perimeter

Regulators may need to clarify the outer boundaries of their responsibilities. Apart from the often raised point that treating insurance, a heavily regulated sector, the same as other types of NBFIs is misleading, some part of what is being debated under the heading of NBFIs clearly falls outside of such boundary. However, the calls for more transparency in the overall NBFIs area may give the impression that regulators will be held responsible if there are any issues anywhere in the NBFIs space. Given that we are likely to be hit by unprecedented shocks, and that risks are likely to materialise in one way or another, we may want to clarify ex ante that losses and failures which do not lead to financial instability will be left without any public sector intervention.

4

EU AND GLOBAL SUSTAINABILITY AGENDA

SUSTAINABLE FINANCE: CHALLENGES IN THE GLOBAL CONTEXT 204

Sylvie Goulard / **Suzanne Lloyd** - International Sustainability Standards Board / **Stephen Nolan** - The United Nations Development Programme / **Rohan Lee** - HM Treasury / **Quentin Guérineau** - Crédit Agricole S.A. / **Julia Symon** - Finance Watch

EU CLIMATE RESILIENCE FRAMEWORK..... 210

Damian Jaworski - European Insurance and Occupational Pensions Authority / **Ugo Bassi** - European Commission / **Maria Sofia Mourtzini** - Ministry of Finance, Greece / **Shree Khare** - Moody's / **François Coste** - Groupama / **Anthony Brennan** - Zurich Insurance Ireland

SFDR 2.0: MAKING THE NEW PRODUCT TIMELINE AND PRIORITIES 216

Christophe Bories - Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France / **Shaneera Rasqué** - Commission de Surveillance du Secteur Financier / **Laurence Caron-Habib** - BNP Paribas Asset Management / **Julia Backmann** - Allianz Global Investors / **Stefano Giuliani** - Bancoposta SGR

SUSTAINABILITY RISK 222

Petra Hielkema - European Insurance and Occupational Pensions Authority / **Patrick Amis** - Single Supervisory Mechanism / **Rui Pinto** - Banco de Portugal / **Atsushi Yasutake** - Norinchukin Bank / **Francesca Monti** - Generali

SUSTAINABLE FINANCE: CHALLENGES IN THE GLOBAL CONTEXT



SYLVIE GOULARD

Professor of practice SDA Bocconi, Author of
Green or Greed, EGEA Editions, 2026

Nature protection is about business

Our forests hide a paradox. A felled tree provides its owner with income from selling the timber. A living tree, as such, provides none—even though it offers shade and coolness, hosts birds and insects in its branches, and, through its roots, supports countless fungi essential to soil health. A forested plot certainly has a higher asset value than a barren one, yet these functions are always considered "free." How did we get to this point?

The bias lies in our economic model, which, since the Industrial Revolution, has ignored nature. The three categories of ecosystem services that nature provides are ignored: provisioning (air, water, fish from the sea), regulation (of temperature or erosion), and contributions to our physical and mental well-being. While it may have made sense at that time - when the global population was smaller and vast territories remained unexplored and natural resources seemed limitless, today this approach is driving humanity to deplete nature.

British economist Sir Partha Dasgupta, author of the famous 2021 Dasgupta Review for the UK Treasury, believes the current estimate—that humanity already consumes the equivalent of 1.7 planets' worth of resources each year—is already unsustainable and underestimated. A 2023 PwC report calculated that "more than half of global GDP is exposed to nature-related risks, which, without immediate action, could materialize." Activities with high or moderate dependence on nature represent a value of about \$58 trillion. It is therefore in our interest to preserve nature: agricultural and forestry businesses need productive soils, industry needs raw materials, and tourism needs clean seas and corals to protect lagoons. Human health also depends on the conservation of wild animal habitats, which can be vectors for viruses.

Even if we want to remain "competitive", even if we need to invest in our defense, in AI and keep social systems alive in aging societies, treating dependence on nature as a secondary issue, is a major mistake. This is particularly ill-timed for Europeans, at a historical moment when other dependencies have become increasingly evident—on the United States for security, on Russia for gas supplies, and on China for industrial goods.

The problem also lies in how financial risks are traditionally measured, once again usually ignoring nature's role. A pioneer in this regard, the European Central Bank (ECB) demonstrated in a study that 75% of loans granted in the eurozone go to businesses that are dependent—or even highly dependent—

on ecosystem services. If these services were compromised, the impact on our banking system would be severe. The ECB has also shown that the European economy is not prepared to withstand droughts linked to rising temperatures in Europe. Corporates and financial institutions should realize that nature is "material" to all human activities.

Ecosystems are complex systems with surprising interactions. For example, the reintroduction of wolves in Yellowstone Park allowed certain plants, depleted by the proliferation of herbivores, to flourish again. And what is the intrinsic value of a species threatened with irreversible extinction? Do we want to calculate the marginal price of the last dolphin, the last bear or life itself? Romain Gary's novel "The roots of Heaven", published in 1956 already draw our attention on the anthropologic dimension of hunting elephants.

**This is not about ideology but
about responsibility—in the general
interest and that of business alike.**

Solutions exist: produce while regenerating soils, limit the use of phytosanitary products, save water, travel less by means using fossil fuels, consume more soberly. Short-term indifference will only increase the costs in the middle term. Prevention is better than cure. Restoring a degraded environment ex post is sometimes possible, but not always (e.g., in the case of pollution from "forever chemicals"). In any case, it is expensive, especially as climate change increases the vulnerability of ecosystems that can no longer regenerate as they once used to do. For all these reasons, policymakers should act, together with businesses and society as a whole. This is not about ideology but about responsibility—in the general interest and that of business alike.



SUZANNE LLOYD

Vice-Chair – International Sustainability Standards Board (ISSB)

Why high-quality sustainability information matters for capital markets

Generating high volumes of sustainability information does not, on its own, support investor decision-making. Capital movement relies on the quality, comparability and decision-usefulness of information.

Investors, companies and policymakers asked the International Sustainability Standards Board (ISSB) to develop globally applicable sustainability-related disclosure requirements that enable companies to meet this investor need.

Amid rising geopolitical tensions and extreme weather events, companies need to communicate how they are managing risks when their access to water, materials, markets and more is threatened and if they have identified opportunities.

The ISSB's Standards, which focus on sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects over the short, medium or long term, help companies communicate effectively.

The Standards are becoming the global language to help investors price risk accurately, providing relief to companies from the burden of meeting fragmented reporting requirements.

More than 45 jurisdictions—representing approximately 60% of global GDP—are using ISSB Standards. By 2027, companies in 18 jurisdictions will be issuing ISSB-aligned reports.

The ISSB's general requirements standard—IFRS S1—requires companies to disclose material information about all sustainability-related risks and opportunities. IFRS S2 supplements IFRS S1, setting out disclosure requirements specific to climate.

Currently, the ISSB is developing proposals to help companies to disclose information to investors about nature-related risks and opportunities in accordance with IFRS S1.

As was the case with IFRS S1 and IFRS S2, we are drawing on market-leading disclosure frameworks to develop our proposals—specifically, the work of the Taskforce on Nature-related Financial Disclosures (TNFD)—and bringing it into the ISSB's global language.

Nature and climate-related risks do not exist in silos. So our goal is to help companies prepare robust, comparable disclosures, grounded in the concepts of IFRS S1 and connected to climate and other sustainability-related factors, as well as to information in the financial statements.

We will consult on these proposals later this year including to understand if they meet investor needs.

As well as helping companies meet the requirements in IFRS S1 on nature, we are also focused on helping them meet the requirements in ISSB Standards to disclose industry-specific information.

We know investors need industry-specific information because sustainability-related risks and opportunities vary by industry and investors typically compare companies operating in the same industry.

Following two consultations, we are making good progress on enhancing the guidance for extractive companies, as well as food and beverage companies. Our next focus will be on technology and communications companies.

Of course, some jurisdictions have other needs for sustainability information, beyond investor needs, such as to meet domestic climate and sustainability objectives.

Although the information is used for different purposes, the content often overlaps. That is because a company's impacts and dependencies on resources and relationships—such as water or people—can give rise to risks and opportunities. Take, for example, information on greenhouse gas emissions or a company's climate-related transition plans.

We want to make sure that when a company needs or chooses to use ISSB Standards and is also required to disclose information for other purposes or for multiple jurisdictional requirements, it can do so as efficiently as possible.

In this regard we are facilitating discussions with jurisdictions to support cross-border efficiency.

A feature of the discussions is 'ISSB passporting', a regulatory option granted by jurisdictional authorities that allows a company to use the 'ISSB Standards as issued by the ISSB' to comply with jurisdictional disclosure requirements.

To this end, we are working with EFRAG to identify efficient pathways for roughly 1,200 non-EU parent companies to build on disclosures made using the ISSB Standards to then provide additional disclosures to meet the EU's incoming ESRS-40a requirements—an 'ISSB+' approach.

The ISSB's work will continue to be centred on helping companies deliver high-quality information to capital markets. Securing an efficient, cohesive disclosure landscape is a vital aspect of this work.



STEPHEN NOLAN

Global Head, Sustainable Financial Markets, SFH – The United Nations Development Programme (UNDP)

How insurance helps finance the fight against climate change

Insurance does more for the economy than most people realize. It is, first of all, a financial safety net. Without the confidence that comes from being able to transfer risk, many of the high-risk, high-return activities that drive growth would simply be too perilous to attempt. But insurers are also among the largest investors in the world, managing an estimated US\$42 trillion in assets globally¹. European insurers alone are the largest institutional investors in Europe, holding €9.3 trillion invested across the economy².

Insurance capacity to invest and to de-risk matters for the fight against climate change. One of the biggest obstacles to cutting greenhouse gas emissions is the perception of risk, which drives up the cost of capital for green infrastructure. Insurance can narrow that gap. By underwriting transition assets, the sector makes projects bankable for institutional investors and initiatives like the EU's Global Gateway.

Renewable energy is a case in point. Wind, solar and hydropower projects depend on specific climatic conditions to generate revenue, so their cashflows are inherently volatile. Parametric insurance that pays out when those conditions underperform can stabilize project revenues, turning otherwise volatile renewable investments into bankable assets for institutional investors.

Insurers, regulators and other stakeholders will grapple with exactly this at the UN Global Sustainable Insurance Summit in Dublin on 17 September, tackling the growing insurability challenge, catalyzing resilience and building momentum for climate action ahead of COP31 in Türkiye. Running alongside Climate Finance Week Ireland during Ireland's EU Presidency, the summit will bring market practice, supervision and public policy into conversation, while spotlighting how sustainable insurance can protect communities, steer capital toward resilience, consider nature, and support a just, orderly transition.

Meeting that agenda takes institutions willing to do unglamorous, patient work — and the United Nations Development Programme (UNDP) is one of them. Its insurance portfolio, active in over 55 countries, splits into two connected strands.

One is regulatory, focused on strengthening insurance rules, shaping public policy and building the local capacity that markets need to function at all. At global level, the Sustainable Insurance Forum, chaired by SARB deputy governor Ms Fundi Tshazibana and hosted by UNDP, plays a pivotal role. This year, it marks 10 years of embedding climate, nature and other sustainability-related risks and opportunities into insurance regulation and supervision. At national level, in 2025, UNDP has helped push through concrete regulatory and policy reforms in

13 countries, for example by aligning regulatory frameworks with international insurance standards, or developing inclusive insurance sector strategies and roadmaps. A functioning local market matters, because risk-mitigation guarantees are what draw foreign investment to emerging economies.

The second strand is more hands-on, focused on designing and delivering country-led insurance solutions. Last year alone, new products ranged from parametric crop insurance in Viet Nam to jaguar-protection insurance in Argentina, reaching more than 4.3 million beneficiaries across 13 countries. Among other notable initiatives, UNDP, BMZ, Generali and ICMIF Foundation are delivering the world's largest inclusive insurance innovation programme, powering a new generation of insurance solutions tailored to local contexts, and increasing financial protection where it is needed the most.

UNDP's insurance work extends to nature as well. It underpins National Nature Restoration Plans, protecting natural assets and safeguarding the investments made in restoring them. Reefs, mangroves and forests reduce risk and underpin economic resilience, which is why they are increasingly treated as macro-critical infrastructure. The bigger opportunity is to fold insurance into the wider architecture of transition finance, rather than treating it as something that only pays out once the damage is already done.

Insurance capacity to invest and to de-risk matters for the fight against climate change.

Better data, risk modelling and public-private partnerships help here, too, steering capital toward the markets that need resilience most. The payoff is lower uncertainty for investors, steadier public budgets and enough confidence for households, firms and governments to invest. For emerging economies in particular, that is what insurance ultimately offers: a way to turn risk into something investable.

1. 2025 *Global Insurance Market Report (GIMAR)*, IAIS, December 2025 (data to end-2024).
2. *Strength in Numbers, Insurance Europe*, June 2026.



ROHAN LEE

Director, Financial Services – HM Treasury

Sustainable finance: turning ambition into investable delivery

The question facing policymakers today is not whether climate change and nature loss are driving changes in the global economy. The question is how those changes can be managed - how our economies mitigate emerging risks, seize new opportunities, and remain competitive as this transformation unfolds. The transition to a lower-emissions and more climate-resilient economy is already reshaping energy systems, industries, and supply chains. At the same time, recent extreme heat events across Europe have brought the costs of physical climate impacts into sharp focus.

The climate transition is not happening in isolation. Geopolitical uncertainty, energy security, and emerging technologies such as AI are reshaping investment priorities across our economies. These do not diminish the case for prioritising sustainable finance but reinforce it. Energy price shocks have exposed the risks of reliance on volatile fossil fuel markets, while the growth of AI is creating new demands on energy systems and infrastructure.

Taken together, these developments are contributing to significant investment needs across infrastructure, industrial transformation, and economic resilience. Meeting those needs will require capital to be deployed at massive scale and directed towards activities that support long-term competitiveness and resilience.

In the UK, we typically think about sustainable finance as key to pursuing four real-world priorities:

- Clean energy, supporting investment in cleaner energy sources and infrastructure needed to deliver the transition to net zero.
- Transition finance, supporting companies and sectors as they decarbonise and transition to lower-emissions business models.
- Adaptation and resilience, supporting investment that helps businesses, infrastructure and economies withstand the physical impacts of climate change.
- Nature, supporting the protection and restoration of the natural assets and biodiversity that underpin economic growth and financial stability.

Together, these areas help economies manage risks, build resilience, and capture the growth opportunities associated with the transition to a net zero, climate-resilient and nature-positive economy.

The challenge is ensuring that capital reaches credible activities. This requires connecting investors with firms that are credibly decarbonising and managing sustainability risks effectively. That is why the UK Government, and regulators have focused on

strengthening the market infrastructure that underpins investor confidence, including UK Sustainability Reporting Standards, the regulation of ESG ratings and the Sustainability Disclosure Requirements regime for investment products.

We must continue to seek to create the conditions for capital to support the transition of high-emitting and hard-to-abate sectors. That is why in 2025 the UK Government and the City of London Corporation co-launched the Transition Finance Council. Earlier this year, the Council published its Transition Finance Guidelines, providing a practical framework for assessing credible company transition activity. This should help create more consistent expectations across sectors and institutions, deepen the experience of the market in delivering transition transactions, and help the market scale up to the size we need.

However, sustainable finance is more likely to scale effectively where investors can operate across markets. Capital moves across borders, but fragmentation of policy and regulatory frameworks raises costs both for firms and investors comparing opportunities.

The next phase of work on sustainable finance should be judged by whether it helps turn ambition into investable delivery.

That why the UK continues to collaborate with international partners on internationally interoperable sustainable finance frameworks and standards that reduce friction for firms and investors operating across borders. We also believe a more internationally consistent understanding of transition finance can create consistent expectations across industry and help the market scale.

Greater attention is also needed in emerging markets and developing economies (EMDEs), where investment needs are greatest but barriers to capital remain high. That is why, in May 2025, the UK established the Emerging Markets and Developing Economies (EMDE) Investor Taskforce, an industry-led initiative focused on mobilising long-term investment into sustainable opportunities across EMDEs.

The next phase of work on sustainable finance should be judged by whether it helps turn ambition into investable delivery. The UK will continue to work with domestic and international partners to make that happen.



QUENTIN GUERINEAU

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Stability and pragmatism: keeping Europe's climate transition on track

Europe is going through a period of profound questioning of its regulatory framework. Recently, calls for simplification have grown louder, driven by legitimate concerns about administrative burdens, reporting complexity and the need to strengthen European competitiveness.

While this debate is both necessary and healthy, one principle should remain unchanged: the long-term stability of climate commitments. This is essential for economic actors to continue investing, innovating and financing the transition. Renewable energy infrastructures, industrial decarbonisation projects or the deployment of clean mobility solutions require all decades-long planning horizons. Financial institutions play a central role in this transformation by allocating capital, supporting corporate investment strategies and helping households to finance sustainable choices. For these investments to materialise at scale, investors, corporates and consumers need clear and predictable signals.

In this context, many financial institutions continue to reaffirm their commitments despite a more challenging political and economic environment. Several major European banks, including Crédit Agricole, have maintained their decarbonisation objectives and their support to the transition. This persistent commitment reflects a growing understanding that climate considerations are no longer a peripheral issue but a core component of risk management, business strategy and long-term value creation.

Frequent regulatory shifts or uncertainty about policy direction may have the opposite effect. When economic actors lose visibility on future expectations, investment decisions are delayed, financing costs increase and innovation slows down. Stability does not mean rigidity, nor does it imply that existing frameworks cannot be improved. It simply means preserving a consistent direction of travel and maintaining confidence in the long-term objectives that Europe has collectively set.

Therefore, simplification, which has become indispensable, should aim at improving effectiveness, reducing unnecessary complexity and concentrating efforts on the most material information, while ensuring that we maintain our common environmental goals. Such an approach is not a retreat from sustainability objectives. On the contrary, it may be the best way to preserve them. This is especially important as financial institutions such as Crédit Agricole are expanding their focus beyond climate mitigation to areas such as adaptation, biodiversity, water and the circular economy. As geopolitical pressures are unlikely to disappear, simplifying the framework may be the most effective way to protect its underlying objectives over the long term and give financial institutions the flexibility they need to tackle new environmental challenges.

The relationship between competitiveness and environmental commitment should also be reconsidered. Too often, these objectives are presented as competing priorities. They can reinforce one another. Europe's ability to remain competitive and sovereign will increasingly depend on its capacity to innovate, reduce its dependence on imported fossil fuels and develop the technologies and infrastructure required by the low-carbon economy.

Banks already see numerous examples of this positive dynamic. Financing renewable energy projects contributes both to decarbonisation and to European sovereignty. Supporting building renovation programmes helps households reduce energy bills while stimulating local economic activity. Financing electric mobility accelerates emissions reductions while strengthening industrial ecosystems linked to batteries, charging infrastructure and new transport solutions. In each of these areas, environmental investment generates economic opportunities, enhances resilience and supports competitiveness.

The debate should move beyond the perceived opposition between sustainability and growth. The real challenge is to design a framework that enables both. Stable climate commitments provide the visibility needed for investment. Simplified regulations improve efficiency, implementation, and customer adoption. Together, they create the conditions for

Simplifying the framework may be the most effective way to protect its underlying objectives.

innovation, competitiveness and sustainable prosperity.

Europe has established a clear destination. The priority now is to focus on what is essential, to avoid unnecessary complexity and to preserve the long-term certainty that investors, financial institutions and citizens need. By doing so, Europe can continue to advance its climate objectives to the benefit of its economic sovereignty and competitiveness. Stability in ambition, combined with pragmatism in implementation, remains the most impactful path forward.



JULIA SYMON

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Sustainable finance must stay on course

Evaluating the impact of the sustainable finance agenda to-date will not be meaningful without considering the real economy transformations and the progress towards the global climate targets. The world is currently on track to overshoot the Paris Agreement target of 1.5°C warming by 2029. Only seven G20 members are on track to achieve their nationally determined contribution (NDC) targets, but few are on a clear trajectory towards their net-zero emission pledges, in accordance with the UN Global Emissions Gap Report 2025. In the meantime, financing flows into unsustainable activities continue at an unabated pace.

Further, it has to be taken into account that most sustainability initiatives - such as taxonomies, disclosure standards, sustainability risk management and transition planning - have not matured yet and have not even been adopted by all jurisdictions uniformly. Estimates of sustainable investments suffer from a lack of robust and harmonised definitions of what constitutes a sustainable investment. Funding and investment gap estimates also disregard the variable contribution of different financing instruments to the transition. Primary markets, which provide fresh capital, have far greater funding power than secondary markets, where securities merely change hands. Similarly, conditional financing - such as green bonds tied to specific projects - ensures greater directionality than general-purpose funding.

Given still incomplete transparency, underappreciated risks and the world being on track to significantly overshoot Paris targets, the logical response would be to continue refining disclosures, improve risk assessment and commit firms to green objectives. Instead, the EU has embarked on the rapid and underinformed deletion of parts of the sustainable finance framework, weakening disclosure requirements without addressing the underlying incentives driving corporate and investment decisions.

The narrowing of the scope of the Corporate Sustainability Reporting Directive, after market participants had already begun aligning with its requirements, introduced uncertainty. Information that firms had prepared to disclose will now reach the market through fragmented and duplicative requests. Obligations to translate information into action through credible transition plans have been removed from the Corporate Sustainability Due Diligence Directive before even being implemented. Undoing in one year what was developed over five has not resolved issues in the framework; it has introduced new problems. The EU competitiveness agenda in the banking sector, which started in the name of fostering growth, innovation and financing of the green and digital transition, lacks any links to the declared real economy objectives and risks undermining the resilience of the banking sector and its ability to lend sustainably.

Continued efforts on the sustainable finance agenda are more essential than ever - not only to address the challenge of climate change, but also to ensure legal certainty for companies to operate in the EU, the EU's energy independence, economic resilience and security. This relates to all countries of the world more broadly, where climate change triggers natural disasters, inequality, food and energy insecurity.

Measures to foster long-termism in financial decision-making should be further explored. Current financial rules largely reward short-term performance, discouraging investment in riskier, long-horizon projects central to climate mitigation and adaptation. Prudential frameworks such as Basel and Solvency II operate on one-year horizons, overlooking systemic, long-term climate risks. Hence, prudential regulation and supervision should evolve to incorporate forward-looking indicators and measures (such as macroprudential capital buffers) in order to price in the risks of delayed transition and the benefits of earlier mitigation. Transition plans should be further mainstreamed as strategic investment and risk management tools.

Maintaining momentum and international collaboration is a political imperative.

The limited bankability of certain green investments should be solved. Nascent technologies and large infrastructure projects often carry risks and long horizons that deter investors. Other initiatives - such as some protective infrastructure or biodiversity preservation - generate public goods without direct financial returns, making them unbankable by design. These are the areas where public initiatives and public finance must play a key role.

Maintaining momentum and international collaboration in the area of financial policymaking to address sustainability risks and reorient capital flows is not only major challenge, it is a political imperative.

EU CLIMATE RESILIENCE FRAMEWORK



**DAMIAN
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From payout to prevention: making insurance work for Europe's climate resilience

Europe is on the front line of climate change. Just recently, an exceptional heatwave gripped the continent, breaking temperature records in several countries. In June, France recorded its hottest day since national measurements began in 1947, while Spain and the United Kingdom set new June temperature records and Germany recorded a new all-time high. These events are among the latest reminders of the growing frequency, severity and unpredictability of climate-related extremes in a rapidly warming world.

As climate change intensifies not only heatwaves, but also floods, storms and wildfires, citizens face growing exposure to physical climate risks. In Europe, each of the past four years ranks among the five costliest for economic losses caused by weather- and climate-

related extremes since 1980. Historical data alone is therefore no longer a reliable predictor of future losses. The Network for Greening the Financial System (NGFS) estimates that, by 2050, worldwide losses from climate-related damages could reach up to 15% of GDP under a Current Policies scenario.

Yet, the share of losses that is insured is not keeping pace: only around 25% of natural catastrophe losses in the EU have been insured over recent decades. Take-up remains low, as consumers often misjudge their exposure, perceive coverage as too expensive or expect state compensation after disasters, while rising premiums in high-risk areas make cover harder to afford. As a result, many citizens are likely to bear a larger share of disaster-related costs themselves, and uninsured losses can delay recovery and increase pressure on public budgets.

Strengthening the resilience of European society against risks is one of EIOPA's strategic priorities. EIOPA therefore continues to develop work addressing sustainability risks and natural catastrophe insurance protection gaps as an integral part of its supervisory, regulatory and risk-monitoring activities.

Addressing the insurance protection gap is key to Europe's climate resilience.

A concrete example of this work is EIOPA's dashboard on insurance protection gaps for natural catastrophes. Available since 2022 and currently undergoing a review, the dashboard brings together economic and insured losses, current risk estimates and insurance coverage across 30 European countries, supporting evidence-based decisions on how to reduce losses and improve societal resilience. It is complemented by the Catastrophe Data Hub, which gathers insured exposure and loss data, supporting supervisory analysis, financial stability work and the calibration of capital requirements.

To improve awareness of both risks and prevention, EIOPA has also launched targeted initiatives. In this regard, it proposed the development of PROTECT – a tool to help citizens better understand

how vulnerable their properties are to natural hazards, how insurance works in their country and what steps they can take to prevent or reduce damage.

Looking ahead, EIOPA acknowledges the need to continue deploying harmonised, forward-looking tools and indicators for EU-wide climate risk assessments. The forthcoming European Integrated Framework for Climate Resilience offers a further opportunity in this respect: if it embeds insurance as an active instrument of prevention, risk reduction and adaptation, it can help improve risk awareness, incentivise resilience-enhancing investment and, with it, strengthen the resilience of Europe's economy and society.

Within such a framework, establishing a European Observatory on Insurability – as recommended by the Commission's Reflection Group on Mobilising Climate Resilience Financing – could improve the systematic monitoring of insurance coverage gaps and price evolution by peril and region and integrate early-warning indicators from cross-sectoral systemic resilience assessments. The Observatory could build on EIOPA's current work on insurance protection gaps, including the dashboard.

EIOPA could also make use of indicators that track access to insurance (and mortgages) and identify potential consumer detriment due to unavailability of insurance. EIOPA has developed a set of retail risk indicators that could be applied specifically to insurance products covering natural catastrophes to help detect areas or perils affected by increasing exclusions, reduced coverage, higher deductibles, rising premiums or lower availability of insurance.

To conclude, natural catastrophe resilience is a source of economic strength. Yet, the EU and its economy remain insufficiently protected against these risks, and the protection gap will not close on its own. No single sector can solve this challenge, nor can any single country. All stakeholders have a part to play, from citizens and businesses to insurers, reinsurers, national governments and EU institutions. As the insurance sector navigates the complexities of climate change, EIOPA will continue its work to address insurance protection gaps and strengthen resilience, for the benefit of EU citizens and businesses.



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Bridging the climate protection gap

We are establishing a toolkit to address the natural catastrophe protection gap. Currently only around 25% of European catastrophe losses are covered by insurance.

The first priority would be to improve insurance modelling capacity by consolidating climate related data sources. Once more climate data is publicly available, work can focus on innovative climate insurance and their financing. Innovative insurance products that are better attuned to actual consumer needs increases consumer awareness and the uptake of climate insurance.

Data. Data on natural catastrophe risks, loss determinations and hazard mapping are highly fragmented across the 27 Member States. This fragmentation prevents insurers from pricing climate risk appropriately. It also prevents policymakers from accurately identifying regional vulnerabilities.

We will examine how various local and national climate data repositories can contribute standardized data to a publicly accessible EU-wide hazard

map. This climate hazard map would be available to all homeowners, businesses, and municipal planners to identify their exposure to flooding, wildfires, and windstorms. It will also be available to innovative providers of climate insurance policies.

Innovative products and financing. Traditional indemnity insurance pays out only after a loss is individually assessed and verified. This process is often too slow and expensive for households and businesses that need immediate cash in the aftermath of a natural catastrophe. We will be focusing on innovative insurance cover and financing.

One priority is parametric climate insurance. Rather than compensating for actual physical damage, parametric insurance triggers automated, rapid payouts as soon as an objective pre-defined metric is met (e.g., wind speeds exceeding 120 km/h or rainfall surpassing a specific threshold). Currently, only about 10% of EU insurers offer parametric options.

But in some EU jurisdictions parametric insurance may be characterised as financial derivatives or gambling arrangements. We must make sure that parametric insurance is recognised as a genuine household insurance product that provides much needed immediate liquidity following natural disasters.

We are establishing a toolkit to address the natural catastrophe protection gap.

Indemnity-based insurance also does not contribute to strengthening climate resilience by, e.g., facilitating resilient reconstruction through Build Back Better (BBB) approaches. Rather than merely restoring damaged assets to their pre-disaster condition or value, BBB enables insurers to finance resilient reconstruction measures, such as elevating buildings, installing flood-resistant materials or improving fire resilience. We will have to make sure that such value enhancements can be offered as climate insurance.

Finally, we must take another look at the EU Cat Bond market. Compared to the US or Bermuda, the European Cat Bond market remains underdeveloped. In 2024, the primary market for the issuance catastrophe bond issued was the Bermuda Stock Exchange. Stakeholders signal that the low uptake of Cat Bonds

results from a lack of standardisation of issuances, and the burden of Member States' administrative procedures when approving the special purpose vehicles (SPVs) that issue Cat Bonds. Do EU rules on special purpose vehicles (SPVs) need a review with a view to streamline disclosures and approval processes for SPVs issuing Cat Bonds?

Consumer awareness. EIOPA's Eurobarometer surveys show that only 17% of EU households hold property coverage that comprise NatCat events. EIOPA's Eurobarometer surveys show that nearly 1 in 5 European consumers (20%) are highly uncertain about what their policies cover regarding natural disasters. Vague contractual policy terms create an expectation gap where households assume they are covered for "water damage" only to find localized flood exclusions post-loss.

We must improve consumer awareness and address this "insurance illusion". Ideally a revamped Insurance Product Information Document (IPID) would list covered natural hazards, excluded perils, and deductible structures in plain language.

Another important area of work is impact underwriting. There is currently no clear policy guidance on how to reward risk-reduction measures. If a homeowner installs floodproof doors or fire-resistant roofing, such guidance will set out standardized premium discounts, directly linking consumer awareness to physical climate adaptation.

By looking into all the above we hope to transform European catastrophe insurance from a patchwork of 27 national markets into a resilient, highly capitalized, and consumer-friendly European Climate Insurance Union.



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Strengthening climate resilience: insurance as part of a resilience architecture

Climate change is increasingly felt across national economies, public finance, businesses and households. It is reshaping the environment in which financial systems operate and can no longer be viewed solely through the lens of environmental or disaster-management policy. It has become an economic and financial concern, as well as an integral component of sustainable growth.

Across Europe, climate shocks, such as floods and wildfires, are generating significant economic losses and exposing structural vulnerabilities. The widening gap between economic and insured losses arising from natural catastrophes demonstrates this challenge. The question is how can these impacts be anticipated, managed and shared. Insurance contributes by providing financial protection, supporting recovery and enhancing economic continuity following adverse events. Insurers possess significant expertise in risk assessment, modelling, pricing, improving risk awareness and strengthening incentives for preventive action. So, the insurance

sector is not merely a provider of post-disaster compensation but an essential pillar of resilience. Through financial protection and expertise, it supports recovery, prevention and adaptation, while contributing to resilience before disasters occur.

Further, policymakers are moving towards an approach encompassing prevention, preparedness, adaptation and effective risk-sharing arrangements. Discussions on insurance protection gaps, catastrophe risk management and the long-term insurability of climate-related risks are becoming central to the European policy agenda. Commission initiatives on climate risk assessment, risk management and resilience all point in the same direction: preparedness, adaptation and risk management must become central elements of Europe's response.

Climate-related challenges cannot be addressed by the public or the private sector acting alone. The widening protection gap illustrates both the limits of relying exclusively on market mechanisms and the need to preserve incentives for sound risk management. Therefore, effective frameworks require a careful balance between private initiative and public intervention. The aim is not to replace market solutions, but to create an ecosystem in which public authorities, insurers, businesses and citizens contribute according to their respective roles.

Resilience depends on the alignment of incentives across stakeholders.

In this regard, national initiatives are vital. In Greece, recent developments, such as the Law 5116/2024 and its subsequent evolution, illustrate how national frameworks can support broader objectives. The Greek approach combines insurance obligations, conditionality and incentives that encourage wider insurance participation. The aim is to promote preparedness and structured catastrophe-risk management. Resilience depends on the alignment of incentives across stakeholders. Insurance coverage should not be understood as a contractual obligation, but as part of a broader culture of preparedness. Linking public support mechanisms to risk-management behavior can address moral hazard concerns, while clarifying the respective responsibilities of individuals, businesses, insurers and the state. Closing protection gaps is also a matter

of awareness, as citizens and businesses must understand risks and available mitigation tools. In this respect, climate-risk awareness has clear similarities with financial literacy. Educational and awareness initiatives help individuals make informed decisions on prevention, adaptation and insurance coverage. A culture of resilience is ultimately built not only through regulation and financial mechanisms, but also through informed and engaged citizens.

Affordability and availability are equally critical. In higher-risk areas, sustainable insurance coverage may require a balanced combination of prevention measures, risk-reduction policies, adequate insurance capacity, sustainable financing arrangements and, where appropriate, public support mechanisms that preserve incentives for adaptation.

National experiences should not be viewed in isolation. While implementation takes place primarily at local and national level, European cooperation can provide common direction, facilitate consistency and support mutual learning. The exchange of lessons and best practices is valuable, because no jurisdiction has all the answers. It helps identify effective approaches, avoid fragmented responses and keep resilience frameworks adaptable.

These elements point to the need for integrated resilience architecture. Public policy, insurance, sustainable finance, prevention, awareness and risk-sharing arrangements should not be treated as separate agendas. They are complementary components of the same objective: enabling societies and economies to anticipate risks, reduce their impact and recover effectively when adverse events occur.

The challenge is twofold. Combining effective national frameworks, European cooperation, well-functioning insurance markets, and informed citizens strengthens resilience and preparedness.



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Closing the protection gap: better data, better decisions

As the frequency and severity of weather-related catastrophes increase, more economic loss is falling outside insurance coverage. The result is a growing transfer of risk to individuals, companies and the public sector.

A recent EIOPA-ESM paper¹ put EU natural catastrophe economic losses at more than €900 billion between 1981 and 2024. Only a small share was insured, leaving an aggregate protection gap of 75% on a historical basis and roughly 50% on a modelled basis.

EIOPA and the ECB have noted² that as natural catastrophes become more frequent and severe, it may affect insurance affordability and further widen the sizeable insurance protection gap. Their proposed European approach, built around a public-private reinsurance scheme and a public disaster financing fund, reflects an important consideration: the scale of catastrophe risk now exceeds what markets or governments can manage on their own – a joint and coordinated response will be essential.

The numbers underline the scale of the challenge. Recent Moody's analysis³

finds that the United Kingdom's flood insurance protection gap is relatively narrow, at around 10% of total economic losses, supported in part by Flood Re. Yet this position is not guaranteed. Around seven million UK properties were estimated to be exposed to flood risk in 2025, and this is projected to rise by 40% by 2050 under a Paris agreement-aligned climate scenario. The UK's 2007 floods caused €5.6bn (GBP 4.8bn) of economic damage at 2025 prices, including an estimated €1.5bn (GBP 1.3bn) direct fiscal cost.

The protection gap is global and is a challenge for advanced and emerging economies alike. Recent catastrophe events show how quickly uninsured losses can pressure public finances. Germany's 2021 floods required a €30bn reconstruction fund, financed by federal and regional authorities. Pakistan's 2022 floods caused damages equivalent to around 10% of GDP, weighing on growth, inflation and fiscal pressures. Moody's flood research⁴ found the US is exposed to €330bn-€875bn (USD 375bn-1tn) in uninsured flood losses from a range of possible extreme events.

Government agencies play a central role shaping these developments. They set building standards, invest in flood defences and resilient infrastructure, design disaster financing arrangements and provide public backstops when losses exceed the capacity of private markets. But public resources are finite. Without robust measurement, pricing and mitigation of risk, the fiscal burden will continue to rise. The challenge may lie less in how losses are allocated between insurers, households and governments and more in how they can be reduced.

Catastrophe models can quantify how interventions would reduce losses.

Analytical capabilities from the private sector can complement the role of public authorities. Moody's catastrophe models, climate risk analytics and exposure data, can help identify where risk is concentrated and how it may evolve under future risk scenarios, and which interventions could reduce losses more effectively. These capabilities inform underwriting, capital allocation, stress testing, infrastructure planning and disaster-risk financing.

Adaptation and mitigation are central to any credible protection-gap strategy. More insurance is necessary, but is

not sufficient. Interventions can range from large-scale public infrastructure to property-level upgrades. Catastrophe models can quantify how such interventions may reduce losses by changing input assumptions. For example, advances in storm surge modelling now explicitly account for the effect of levees, helping public authorities and insurers direct resilience investment where it will most reduce expected loss. Flood defences, stronger building standards, improved land-use planning, resilient infrastructure and nature-based solutions can reduce the physical risk that drives losses. Analytics can help prioritise these investments, quantify their benefits and identify where each euro of resilience spending is likely to produce the greatest reduction in expected loss.

The opportunity for Europe is to build a model that combines public leadership, private capital and advanced risk intelligence. Done well, this can improve insurance availability, protect public finances and make communities more resilient. Closing the protection gap is not only about post-disaster recovery financing. It is also about robust risk assessments, resilience-building, informed decision-making and targeted interventions to reduce losses before they materialise.

1. *ESM/EIOPA Discussion Paper: Sharing Risk – European Approach to natural catastrophe risk management – April 2026*
2. *ECB/EIOPA Report: Towards a European system for natural catastrophe risk management – December 2024*
3. *Moody's Special Report: Credit risk of floods in the UK is contained. For now. – June 2026*
4. *Moody's Report: US Exposed to \$375 billion-\$1trillion in aggregated uninsured flood losses from a range of extreme events – May 2026*



FRANÇOIS COSTÉ

Group Sustainability
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Joint responsibilities for an effective country resilience to climate change

The **EU resilience framework** for climate change will be disclosed by EU Commission at the end of 2026, following the main expectations arising from the consultation: more EU funding for adaptation, harmonized risk-assessment standards with shared climatic scenarios around +3 degrees, resilience by design criteria for all public spending, nature-based solutions as first line of defense, systematic integration of health in all plans including heat-health.

Resilience to the increasing severity of climatic events is a joint responsibility: the asset owner for reducing its vulnerability and for retaining part of the risk, the insurance system being accountable for effective mutualization and solvency monitored by Authorities. Whilst the frequency and intensity of climatic events are increasing with global warming, the insurance premium will remain accessible under 2 conditions: forced mutualization (especially with PPP) and proactive reduction of vulnerability through prevention. **The climate risk should be transformed before it is transferred to insurance/reinsurance.**

Prevention measures to reduce vulnerability to climatic risks should be

practical and accessible; let me take the example of clay shrinkage and swelling, a risk to which 12 million individual homes are exposed in France, with 110.000 claims in 2025 for 3,5 billion €, now the more costly natural disaster. Whilst it is expensive to reinforce building foundations, a practical and easier prevention measure consists in avoiding worsening factors of humidity in the vicinity of building such as trees or leaking gutters.

Assets owners need help and incentives in managing their risks: risk-awareness, practical advice to reduce it (one of criteria for alignment to non-Life insurance taxonomy), insurance premium incentive, differentiation between insured and non-insured for the determination of the amount of public relief after a natural disaster (ex crops insurance in France, floods in Romania).

The insurer has specific accountabilities for resilience to the climate change:

- continued appetite for insuring climatic events although their severity is increasing
- economic sustainability of the insurance system, through: geolocalization, management of the exposures, adequate mutualization, healthy technical premium, adequate reinsurance, proper coverage of the SCR
- practical prevention advice to insured clients

Among the good practices in EU, **France resilience model offers a reference**, with 4 pillars:

1. **Legal obligations:** according to the natural disaster law from 1982, stemming from a principle of equality and solidarity in front of natural disasters stated by the Constitution of France, a mandatory flat 20% surcharge is added on top of fire related premium to fund the reserve for drought, floods and cyclones. Insurance against storm, hail, and snow is also mandatory in order to get insured for fire but the tariff is set commercially.
2. **State owned reinsurer CCR** gets ceded 50% of premium for natural disasters and of related claims.
3. **An observatory of the insurability** of climatic events: its first findings in June 2026 showed that out of 35.000 territorial collectivities, 1.000 have limited insurance offers, mostly in overseas.

4. **Public funding dedicated to adaptation** (Fonds Barnier): In 2025, 300 m€ of funding; each € invested helps avoid in average 3 € of damages, even more if we add to physical damages the indirect loss of business margin.

I could also mention another **good practice in an emerging EU insurance market, Romania:** a law in 2009 created a mandatory insurance against flood, landslide (and earthquake) up-to 20.000 € sum insured at a flat yearly premium of currently 26€, by a dedicated private insurer PADROM. But much remains to be done to grow penetration from the current 25% and to foster prevention.

Climatic risks to be transformed before being transferred to insurance/reinsurance.

The **EU resilience framework should set a few principles** but should respect the principle of subsidiarity for each 27 EU countries in establishing the right national solution (when not yet the case):

- The vulnerability to climatic events must be managed and mitigated/transformed by the risk owner before the risk is transferred to the insurance/reinsurance system
- The largest possible mutualization of the risks and affordable premium to be made possible by a PPP, such as in France or Romania,
- A law making mandatory the insurance against natural disaster
- Equal and affordable premium to all
- Effective sanction system to ensure the right penetration (natural link with real estate transactions, enforced by non-elected bodies...)
- The solvency of the insurance system to be ensured by consistent risk-modelling and effective reinsurance
- In each country governance for resilience, players should act in good complementarity: the risk owner, collectivities to incentivize an effective prevention, the insurer and reinsurer, the insurance supervisory Authority.



ANTHONY BRENNAN

Chief Executive Officer –
Zurich Insurance Ireland

Building resilience is key to closing Europe's climate insurance protection gap

Extreme weather is becoming more frequent and severe, and the impact on the economy and communities is rising. In Europe, estimated damages to infrastructure and physical assets reached an average of around €45 billion per year over the 2020-2024 period, a five-fold increase compared to the Eighties.¹ Only around one quarter of losses from extreme weather events are covered by insurance in the EU. Flooding in Valencia in 2024, for example, caused around € 11 billion damages, of which only 4.5 billion were covered.²

Preventing risks is the best way to address extreme weather events and should be the first step to building climate resilience. Investing in resilience pays off. To start with, it is more efficient than fixing damages. In a 2025 report, Zurich showed that without action to improve resilience, there could be over €270 billion losses related to energy generation and storage assets as a result of extreme weather events by 2050. Risk reduction measures, costing around 2% additional capital expenditure, could instead reduce the potential scale of losses by as much as 50%.³

EU institutions and national governments should adopt a prevention-first mindset in policymaking, nudging more responsible risk management in business decisions and local communities. Climate resilience policies, for instance, should offer clear, stable, predictable and long-term incentives for companies and local authorities to invest in risk prevention and adaptation measures. EU and national policymakers are also best placed to promote risk awareness and financial education, making risk data transparent to the public.

Insurers can help companies and public authorities to understand what perils they are most exposed to today, how these perils may evolve in the future, and how these patterns could affect their physical assets, operations and ability to deliver services.

Through risk engineering services, insurers can also help companies identify the most appropriate resilience interventions, as well as help them quantify the cost-benefit of individual adaptation actions to inform investment decisions.

For all damages that cannot be prevented, insurance policies offer the opportunity to transfer financial losses from individuals, companies and communities to insurers in exchange for annual premiums.

Leveraging expertise across the private sector is crucial for developing collective resilience.

To guarantee affordability and access to insurance, lessons could be drawn from successful government initiatives addressing related challenges, for example the energy transition. In Ireland, the Sustainable Energy Authority of Ireland (SEAI) has been instrumental in making the energy transition a just transition. In a just transition, vulnerable individuals and communities are not overly burdened by the necessary changes resulting for example from improving the energy efficiency of homes. Thanks to SEAI, those least able to afford to retrofit their homes are supported to decarbonizing their homes, and various grant supports are available to homeowners to upgrade their home's energy efficiency. Similar mechanisms could help incentivize investments in flood resilience in Ireland, and the

insurance industry is using its technical skills, data and experience to work with government and other key stakeholders to find a just solution for climate driven rising flood risk.

Governments should also encourage insurance uptake by removing misaligned incentives – such as flat-rate pricing that makes insurance feel like a tax. Premiums should always reflect actual exposures and vulnerabilities, as this is essential for signaling the true level of risk investments in adaptation.

Risk-sharing solutions, such as public-private partnerships and insurance pools, can support access to insurance at national level, if they are carefully designed to preserve risk-based pricing and incentives to invest in prevention. Schemes that prioritize affordability over prevention struggle to remain profitable over the long-run.

Finally, leveraging expertise across the private sector is crucial for building capacity and developing collective resilience across Europe. The upcoming debate on the European Commission's Climate Resilience and Risk Management Framework will require Ireland's leadership: during its Presidency of the EU Council, Ireland is well placed to steer discussions among Member States by drawing on the expertise of its vibrant financial sector – a unique opportunity to develop approaches that align public and private efforts and reduce protection gaps while maintaining a well-functioning insurance market.

1. *EIOPA Dashboard on insurance protection gap for natural catastrophes*
2. *EIOPA/ESM: Sharing the risk. 2026*
3. *Zurich Resilience Solutions: Safeguarding our energy future. 2025*

SFDR 2.0: MAKING THE NEW PRODUCT TIMELINE AND PRIORITIES



CHRISTOPHE BORIES

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SFDR: Delivering simplification while safeguarding the framework's ambition

The legislative proposal on the SFDR review is a timely and necessary evolution. While the SFDR significantly improved transparency and established a common disclosure framework, it introduced unnecessary complexity, particularly for retail investors. It also fell short of effectively reorienting financial flows toward the transition to a more sustainable economy.

The proposed three-category system marks a shift from a transparency-driven framework to one based on binding minimum criteria. This evolution is welcome, as it better aligns financial products with the different needs and preferences of investors. To ensure

coherence and prevent greenwashing, the requirements applicable to each category should reflect both its distinct objective and a meaningful level of ambition.

Regarding the categories, some criteria could be further refined. The ESG Basics category must strike a delicate balance: it should remain broad enough to ensure market coverage while being more selective than current Article 8 funds. The inclusion of meaningful selectivity criteria, drawing on established market practices, is essential to prevent the category from becoming overly broad and providing limited added value. At the same time, the requirements should not be so restrictive as to limit the role of this category as an entry point for investors seeking a broad ESG approach.

The Transition category deserves particular attention, as it addresses a long-standing gap in the sustainable finance framework. Its design should combine ambitious objectives with flexibility regarding the strategies used to achieve them. The Council's negotiating position clarifies the process-based assessment of "credible" transition plans and portfolio targets, which is a positive development. Another key consideration is the treatment of exclusions. Companies operating in high-emitting industries that are actively implementing decarbonization strategies should be able to qualify for this category, subject to transparent disclosure to investors on such exposures. This is consistent with the objective of supporting the transition of the real economy.

Categories' requirements should reflect their distinct objective and a meaningful level of ambition.

The focus on simplifying ESG reporting is welcome, provided it does not compromise the ambition of the framework. Streamlining pre-contractual and periodic disclosures will reduce the administrative burden on financial market participants without limiting investors' access to material information. However, simplification should not come at the expense of transparency on crucial information. Given the SFDR's

objective of supporting the transition to a more sustainable economy, the framework should require greater transparency on how engagement with investee companies and the exercise of voting rights contribute to achieving the sustainability objective pursued by the financial product. Such disclosures are particularly relevant for the Transition category. The debate on Principal Adverse Impact (PAI) indicators also reflects a persistent tension. While their complexity and compliance costs have been criticized, these indicators have played a crucial role in harmonizing disclosures. The flexibility introduced in the initial proposal risked weakening this progress. A balanced solution would consist of maintaining a limited but mandatory set of PAI indicators for all categorized products.

Despite the proposal's strengths, two key adjustments to the SFDR framework remain necessary to preserve its integrity. First, the catch-up provision for eligible investments will require a high degree of supervisory convergence among Member States. This is essential to enhance product comparability across the market and maintain an appropriate level of ambition. Second, if the SFDR is intended to provide a comprehensive framework for all financial products, its scope should ultimately be extended to structured products.

Beyond these adjustments, two broader legislative developments should be considered to fully realize the SFDR's objectives. Without further action on ESG data, the sustainable finance framework will remain incomplete. Pending the development of a dedicated regulatory framework, financial market participants should not bear sole responsibility for addressing shortcomings in ESG data quality. Finally, the SFDR review should be aligned with the revision of sustainability preferences. The current questionnaire remains overly complex for retail investors, who often struggle to express their sustainability preferences effectively. A simpler and more user-friendly approach, consistent with the new SFDR categories, is essential to ensure that sustainable finance remains both accessible and meaningful for all investors.



SHANEERA RASQUÉ

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Navigating the transition to SFDR 2.0: regulatory changes and market implication

SFDR as disclosure regulation, should enable investors to navigate the sustainability product offering and make an informed decision of the investments that are proposed to them. However, the current SFDR framework has been criticized for overwhelming (retail) investors with complex and extensive information, hindering product comparability and transparency. To address these shortcomings, the European Commission's November 2025 proposal for SFDR 2.0 introduces three product categories - sustainable, transition and an ESG basics - based on pre-defined criteria. The proposal aims to establish a common language around sustainability among stakeholders, helping to improve the comparability across products. It also aims eliminating the excessive flexibility currently offered under SFDR, while being part of the broader objectives of the European Commission of simplification and burden reduction. Since the publication of the proposal, the Council has adopted its negotiating position, while discussions remain ongoing in the European Parliament.

While the Level 1 proposal sets out the main features of the categorisation framework, a comprehensive assessment remains difficult without the Level 2 measures, which will provide the detailed rules and technical specifications needed to assess its practical implications. This is particularly relevant as key concepts, such as a credible transition plan and the parameters of the proposed impact theory, will only be defined at Level 2.

Among the strengths of the proposal, the criteria and minimum requirements for the categories under the proposed SFDR 2.0 framework are derived from the ESMA Guidelines on fund names using ESG- or sustainability-related terms, which could help towards reducing the market disruption for investment funds. The eligible assets under the different categories also build on concepts that are already familiar to market participants, such as portfolios meeting the criteria for the EU Paris-Aligned Benchmarks (PABs) or Climate Transition Benchmarks (CTBs), Taxonomy-aligned investments, European Green Bonds, and use-of-proceeds bonds. Notwithstanding these strengths, while SFDR 2.0 builds on established concepts and existing market practices, certain elements of the proposal may nevertheless pose implementation challenges for market participants and supervisory challenges for NCAs.

Once the rules are finalised, early preparation and anticipation will be key to ensuring a smooth transition to the revised SFDR regime.

The contribution threshold under the proposed SFDR 2.0 framework has been set at 70%, which is not aligned with the corresponding thresholds set out in the ESMA Guidelines. The same applies to the exclusion criteria.

Although the 70% threshold generally lowers the requirements established under the ESMA Guidelines, it could have important implications for funds using the term “sustainable” in their names and disclosing under Article 8 SFDR, as they are currently subject to a 50% contribution threshold. The proposal also introduces a catch-all provision for the sustainable and transition categories, allowing market participants to include investments that fall outside the prescribed eligibility criteria, provided that an appropriate justification is disclosed. While this approach may support innovation, it

appears difficult to reconcile with the objectives of a categorisation regime aimed at enhancing clarity, comparability and investor understanding. It also risks replicating one of the key shortcomings of the current SFDR framework—namely, excessive flexibility—and may not be conducive to supervisory convergence across the EU.

The Council further proposes that general-purpose issuances by public-sector bodies may count towards the contribution criterion only for products in the transition category, and that AIFs marketed exclusively to professional investors may opt out of the SFDR 2.0 categorisation regime. These provisions may undermine the framework's harmonisation objectives and weaken the level playing field across the EU. Finally, the proposal remains silent on the long-standing issue of the treatment of derivatives under the SFDR. Consequently, it provides no clarity on how the exclusion criteria would apply to derivative exposures, a question that has already posed significant challenges in the application of the ESMA Guidelines. While this question may appear to be a technical detail, it could have important implications in terms of addressing greenwashing risks.

SFDR 2.0 constitutes a major revamp of the existing framework. Although the proposal builds on well-established concepts, its implementation is likely to present implementation challenges. Adjustments to investment strategies and/or portfolio rebalancing will certainly be necessary. Once the rules are finalised, early preparation and anticipation will be key to ensuring a smooth transition to the revised SFDR regime.



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How the SFDR review can achieve the transition to a more sustainable economy?

Negotiations on the SFDR review accelerated at the end of the first half of 2026. The Council adopted its general approach in June 2026. Rapporteur Gerbrandy published his draft report in early May and other MEPs published their amendment proposals in early June. A vote in ECON, initially planned in mid-July, is now expected to take place in early September, with a Parliament Plenary vote shortly afterwards. Trilogue discussions could be finalised before end of 2026, under the Irish presidency.

These developments have come about despite divergent views on several aspects under review. Finally, the Council has agreed on a more flexible approach than the one proposed by the European Commission. In the European Parliament, uncertainty persists over what sort of compromise could be reached. However, it seems that more prescriptive measures than those of Member States in the Council could prevail in several important areas. If this is confirmed, trilogue discussions will be key to reaching a compromise acceptable to all parties.

At this stage of the negotiations, key points of attention include:

The ESG Basics category should not be too restrictive. It is important to have common minimum binding criteria to identify products eligible for this category and ensure it does not just replicate the current Article 8. At the same time, over-prescriptive criteria that would result in a very selective approach would exclude many products that integrate sustainability factors beyond the consideration of sustainability risks, while complying with robust criteria.

Engagement is very positive to build up a trustful relationship with companies and enhance long-term value creation. However, engagement is not in itself an investment strategy, so it should not be treated as a necessary precondition, nor as a standalone criterion, for product categorisation. Engagement strategy is most relevant to the transition category, when used in conjunction with another qualifying condition and with robust disclosure. Also, it should remain anchored at firm level while complying with Shareholder Rights Directive II, which already regulates these considerations and will be revised in the coming months.

Companies with a robust transition path should be eligible for the Transition category to ensure that this category will become a reality. This means having a balanced approach, based on both concrete criteria and the possibility for financial market participants to demonstrate that they can select the right companies and investments through the use of robust, documented and transparent methodologies. Over-complex conditions would not be practicable and would effectively result in something similar to exclusion.

**In this discussion, it
is crucial to clarify
the ultimate goal
of this review.**

Sustainable structured products are not included in the scope of the SFDR while they can channel capital towards sustainable companies and offer retail investors with ESG preferences access to capital-protected solutions. Their inclusion could be achieved by adding PRIIPs to the “financial products” definition under SFDR.

In this discussion, it is crucial to clarify the ultimate goal of this review. Is it to

increase the allocation of capital to a more sustainable economy, in a context where transition financing is considered as one of the most critical current challenges? Or is it to use the SFDR only as a tool to fight against greenwashing, with a highly selective approach? The answer to this question is crucial.

BNP Paribas Asset Management clearly favours the first option while also tackling greenwashing. The various reports released in the course of 2025 before the nomination of the new Commission clearly underline the strong need to finance the various transitions – the transition to a more sustainable economy being a major one – and the challenges of doing so. It is both necessary and urgent to attract private funding for ESG products categorised under the SFDR, as public funding will not be sufficient to address the identified needs.

For this to be efficient and so that the SFDR does not become only a tool to fight greenwashing, certain conditions must be fulfilled:

Common binding criteria for each category, including on exclusions;

Avoidance of empty categories by having balanced exclusions and permitting sufficiently large investment universes;

A modicum of flexibility to permit innovation and address specific asset classes and situations;

Clear and simple SFDR categories to facilitate end-investors’ investment decisions. This means that existing sustainability preferences must also be revised, with the same timing as the SFDR revision;

Disclosures limited to information that is truly useful for investors, while enabling comparability between products.

It is the combination of these conditions that should make the SFDR review successful and provide a real opportunity to attract more investors to sustainability financing with a simple, clear but also ambitious European framework.



**JULIA
BACKMANN**

General Counsel Europe –
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SFDR 2.0: less rules, more transition

SFDR 2.0 is a test. Can the EU simplify a framework that helped create a transparency culture in sustainable finance – without swapping one compliance burden for another? The answer matters: done right, SFDR 2.0 can channel capital into real-world transition; done badly, it will generate paperwork and misunderstanding, with little impact on outcomes.

The direction of travel is right. Clear product categories, shorter disclosures and the removal of entity-level requirements are genuine improvements. But the test of success is not regulatory comprehensiveness – it is investor understanding, market usability and capital mobilisation at the scale the transition actually requires.

The three **product categories** – sustainable, transition and ESG basics – can provide useful market orientation, but only if they are intuitive and consistent. A system that requires pages of legal explanation to distinguish one category from another will repeat the mistakes of Articles 8 and 9. Clarity is not a concession to simplicity; it is the precondition for investor trust.

The transition category is where the stakes are highest. The EU needs capital to flow to companies and sectors that are moving from brown

to green – not only to those that have already arrived.

A category weighed down by exclusion requirements that do not sufficiently reflect transition realities will drive capital away from exactly the issuers and projects that most need it. Instead, the framework should better support the financing of real-world transition and reward credible transition plans and measurable pathways, while avoiding carbon lock-in. Transition finance is not a lighter shade of green; it is the engine of decarbonisation in the real economy, and the category that will determine whether SFDR 2.0 delivers impact or merely optics.

Proportionality matters. An overabundance of granular criteria, such as non-material PAI indicators and DNSH sub-criteria that are not available for all asset classes, does not improve outcomes – it increases operational cost and narrows investment flexibility.

Beyond a certain point, precision becomes noise. Regulation should set clear, verifiable and enforceable requirements and leave professional judgement to asset managers and insurers. A framework that is too rigid will not improve the quality of investment decisions – it will constrain them.

SFDR 2.0 must work equally across all asset classes and product types – not just listed equities. Sustainable and transition products are built across equity, corporate credit, sovereign bonds, multi-asset strategies, private markets and insurance-based products. These differ fundamentally in data availability, liquidity and investment horizon. Designing the framework mainly around one of them is a structural flaw, not a simplification, and it risks excluding the very vehicles through which most European savings are actually invested.

from a different angle: approaches designed for listed markets cannot be transposed directly, yet private capital is indispensable for real-economy transition, from grid infrastructure to industrial decarbonisation. Both need a workable treatment in the final text, or the framework will end up steering capital away from where it is most needed.

Implementation must be designed around investors, not regulators. SFDR 2.0 should help individual investors understand what a product does, compare options and assess whether it matches their preferences. It should enable distributors to explain products clearly and manufacturers to implement requirements consistently across jurisdictions. If the end investor cannot grasp the core elements at a glance, the framework has failed its primary purpose – regardless of how technically elegant it looks on paper. Timing matters too: market participants need sufficient lead time to adapt systems, data processes and product documentation. Rushed implementation risks confusion and cost that ultimately fall on investors.

As co-legislators move toward the final text, one principle should guide every decision: will this make it easier or harder for capital to flow into sustainable and transitioning activities? SFDR 2.0 should mean fewer rules, clearer categories and a flexible framework that accommodates all asset classes and investor types – ultimately supporting broad market adoption and channelling capital into real-world transition. That is the only test that matters.

**Investor understanding
- not regulatory
comprehensiveness - is
the test of success.**

Sovereigns are a case in point. They are central to climate policy, public investment and infrastructure financing and play a critical role in long-term institutional portfolios – particularly for insurers matching long-dated liabilities. Excluding them from key product categories would materially reduce the framework's practical reach. Private assets present the same challenge



STEFANO GIULIANI

Chief Executive Officer
– Bancoposta SGR

SFDR 2.0: From a static to a dynamic approach?

As the “last mile” for retail investors and Italian citizens, Poste Italiane has a distinctive perspective on sustainable finance: regulation must be understandable, trustworthy and usable by ordinary savers, not only by specialists. For us, the revision of the Sustainable Finance Disclosure Regulation is therefore not a technical exercise only. It is a test of Europe’s ability to build a framework that is credible for investors, workable for asset managers and distributors, and effective in financing the transition of the real economy. From the perspective of BancoPosta Fondi SGR, the priority is clear: SFDR 2.0 should move from a compliance-led regime to an investor-centred, product-based architecture that works across asset classes.

SFDR 1.0 has delivered a common language for sustainability disclosures, but Articles 8 and 9 have become de facto labels, although they were never designed as such. This has created confusion for retail investors, uneven market practices and greenwashing risks. While the European Commission has now tabled a legislative proposal for SFDR 2.0, the regulation is not yet finalized and will still need to pass through the EU legislative process. In this context, it could be interesting to consider the proposals put forward in

November 2025 by the fund industry in response to the Commission’s call for evidence: simplification, legal certainty, proportionality and the avoidance of excessive operational burdens. These principles should guide the new framework.

First, the new categories must be intuitive, mutually exclusive and anchored in the real objective of the product. A “sustainable” category should be reserved for strategies with a clear contribution to environmental or social goals, supported by robust safeguards. A “transition” category should recognize products financing issuers, sectors or sovereigns moving credibly towards more sustainable models. A broader ESG category may be useful, but it must not be presented as equivalent to sustainability or transition. Investors should immediately understand whether a fund invests in sustainable assets, finances change, or integrates ESG factors to improve portfolio quality and risk management.

Second, the framework must be designed across asset classes from the outset. Listed equities, corporate bonds, sovereign debt, multi-asset funds, funds of funds and private assets cannot be judged through one mechanical threshold. Taxonomy alignment, transition plans, emissions trajectories and controversy screening may work for listed companies; sovereigns require different indicators, including national pathways and institutional quality; private markets need proportionate treatment of data gaps. Without this flexibility, SFDR 2.0 could penalize diversification and reduce access to credible sustainable solutions for mass-market savers.

A workable SFDR 2.0 would help Europe mobilise savings for sustainability while protecting investors from exaggerated claims. It should also recognise that what society defines as “sustainable” is not static.

This is consistent with Poste Italiane’s sustainable investment policy and BancoPosta Fondi SGR’s responsible investment framework, which integrate ESG analysis, exclusions, portfolio monitoring, attention to principal adverse impacts, engagement and disclosure. SFDR 2.0 should reward this disciplined process: not box-ticking,

but governance, accountability and measurable progress over time.

Third, SFDR should be aligned with MiFID sustainability preferences, the EU Taxonomy, CSRD data and benchmark rules, while reducing duplication. Disclosures should be shorter, comparable and useful for decision making. Product names and marketing claims should be linked to the chosen category, and supervision should focus on substance: objective, strategy, binding elements, indicators, stewardship and reporting.

Finally, implementation must be orderly. Existing products will need time to map strategies into the new categories, update disclosures, adapt distribution processes and communicate changes to clients. International institutions should support phased implementation, supervisory convergence and practical guidance on asset-class methodologies and data limitations. The goal is not to reduce ambition, but to make ambition investable.

A workable SFDR 2.0 would help Europe mobilize savings for sustainability while protecting investors from exaggerated claims. It should also recognize that what society defines as “sustainable” is not static. The recent debate on defense and security shows that sustainability frameworks must be able to adapt to real-time, pressing needs, while preserving clear safeguards and investor trust. Sustainable finance is not one single strategy, but a spectrum: investing in sustainable assets, financing transition and integrating ESG responsibly. For BancoPosta Fondi SGR, this is also a fiduciary duty. If the new framework combines clarity, flexibility, credibility and adaptability, it can become not merely a disclosure regime, but a practical engine for sustainable growth.



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PETRA
HIELKEMA

Chair – European Insurance
and Occupational
Pensions Authority

Strong and convergent supervision for a resilient (re) insurance sector

In line with its Strategy Towards 2030, EIOPA aims to support a resilient and thriving insurance sector in the Single Market, through the consistent implementation of regulatory requirements and the promotion of high-quality supervisory practices. To achieve these objectives, EIOPA fosters greater convergence in supervising sustainability risks across the EU and promotes the development of meaningful, forward-looking risk assessments that strengthen insurers' long-term resilience to sustainability risks.

This is an important area, given the increasing volume of insured losses and failures caused by natural catastrophes. Supervisory practices continue to evolve, and different maturities are observed across jurisdictions, therefore improvement of supervisory capacity

and further efforts towards supervisory convergence remain a priority.

EIOPA's objectives are achieved through supervisory activities.

First, in 2024, following up on its Opinion¹, EIOPA conducted a supervisory monitoring exercise focused on climate. It showed that most insurers include climate change scenarios in their Own Risk and Solvency Assessment (ORSA), considering both transition and physical risks. However, less than half consider climate risk material, primarily due to physical risks. Despite this result, EIOPA is of the view that managing transition risks, including through decarbonisation targets, is a core element in ensuring the insurance sector's contribution to the transition to a greener economy. Solvency II requires a clear plan to manage those risks – this can be done within the existing prudential framework.

Second, alongside climate change, biodiversity loss is a significant source of financial risk both on investments and underwriting. In 2025, EIOPA identified that 20% of insurers conduct biodiversity risk assessments, which are mostly qualitative in nature. This is related to the challenges in quantifying such risks because of their complexity and their interconnectedness with climate risk factors. The exposures may arise across a range of sectors, through emerging diseases and the degradation of ecosystem services, which can affect the frequency and severity of insured losses, and lower the value of investment portfolios. EIOPA analysis based on 2023 data shows that around 30% of insurers' direct corporate bond and equity exposures are highly dependent on at least one ecosystem service, such as freshwater availability.

Third, EIOPA recently launched a peer review to be finalised in 2027, as a powerful tool to seek convergence across supervisors and build capacity. It will focus on the integration of the sustainability risks in the governance in (re)insurers and the integration and application of sustainability risks into the prudent person principle.

Fourth, the risk-based approach requires that supervisors build a sufficient understanding of sustainability risks. EIOPA provides national supervisors with a framework for sharing experiences and methodologies and continues its

work on the integration of sustainability risks into the prudential framework or developing tools to support effective supervision. This involves leading capacity building activities, enhancing the availability and quality of climate change-related data and supporting risk-based and forward-looking approach to the supervision of sustainability risks.

Finally, due to the sector's interconnection with banking, cross-sectoral supervision builds upon sectoral supervisory convergence. Covering physical risks in the insurance sector is the foundation for sustainable banking activities, while the management of transition risks by banks provides a solid basis for insurers to cope with their own transition risk.

With regard to data quality and availability, challenges in quantifying sustainability risks remain despite improvements in the disclosure framework. Innovative solutions can support insurers and supervisors. For example, the collaboration between EIOPA and the EU Agency for the Space Programme (EUSPA), which is exploring how Copernicus data could be harnessed to enhance the supervision of natural catastrophes, showcases the value of innovation in addressing the challenges posed by climate-related disasters. Financial supervisors rapidly identify affected areas and exposed insurers using satellite imagery to map disaster-affected areas as events unfold. This granular geospatial data can be matched with Solvency II regulatory reporting to estimate the potential impact of natural catastrophe events on individual insurers (micro-prudential perspective); also, to estimate overall loss-magnitudes early on by scaling up to the sector (macro-level perspective); and improve benchmarking, model validation and scenario and stress test design.

To conclude, as sustainability risks are here to stay, supervision will remain essential to safeguarding insurers' resilience and protect consumers.

1. In 2021 EIOPA issued its Opinion on the supervision of the use of climate change risk scenarios in ORSA.



PATRICK AMIS

Director General, DG Horizontal Line Supervision – Single Supervisory Mechanism (SSM)

Maintaining momentum on climate and nature risks

“European integration is like riding a bike. You either keep moving forward or you fall off.” This quote attributed to Jacques Delors is displayed prominently on a wall at the ECB. It speaks of the importance of making progress on EU integration but can easily apply to our work on climate and nature risk supervision. In a world of rising physical risks and evolving transition dynamics, maintaining momentum helps us stay the course.

Progress in addressing climate and nature risk management is both necessary and happening. Since 2022, European banks have made significant progress in managing climate and nature risks, with the percentage of banks lacking foundational practices decreasing from 25% to 5% by the end of 2024, and those with leading practices increasing from 3% to 56%. And we observe this progress is self-sustaining, given that almost all banks now deem climate risks material and include them in their risk management frameworks.

But the story doesn't end here and more needs to be done. For one, sound practices are often only applied to a subset of

relevant exposures, geographical areas or risk categories. Additionally, some of the prudential transmission channels, such as operational or market risk, are not as well addressed as credit risk. Moreover, banks face persisting challenges regarding measuring and managing physical climate and nature-related risks while taking informed credit decisions requires reliable data. However, the needs to finance the green transition in the EU are estimated at around 1.2 trillion per year until 2030¹. And banks that are able to have a sophisticated risk management in place, which features climate and nature risks, are better able to support clients transitioning in sectors they know very well. Banks can capitalise on the dynamic market context by offering advisory services, lending or different financial products.

It is important to point out that the ECB is not a policy maker. The actions we take to address climate and nature-related risks are firmly anchored within our prudential mandate. In the EU, the current regulatory framework sets explicit requirements with respect to climate and nature-related risks for credit institutions and for competent authorities. Some of those requirements relate to prudential transition planning, setting out that banks should base strategic decisions on science-based transition pathways. Thus, they would be better placed to weather a variety of plausible scenarios, including a delayed and disorderly transition scenario, which may lead to higher losses for the financial system².

Progress on addressing climate and nature risks is both necessary and possible.

We are approaching the supervision of transition risks in this area in a gradual and targeted way, focusing on new expectations in the EBA Guidelines³ and maintaining a regular dialogue with supervised banks to understand their challenges. Working together with the banking industry, the ECB is supporting the emergence of a common understanding of implementation challenges and the identification of appropriate workarounds in the case of persisting information and data gaps. This will allow for a sound and gradual implementation of the EBA Guidelines over time.

Turning to nature-related risks, which are deeply intertwined with climate risks, we observe that banks are getting better

at including nature risks in their risk management approaches. We see that the growing materiality of nature-related risks, with water scarcity usually topping the list of most material nature-risk drivers⁴, is increasingly acknowledged. Banks also took steps to advance their risk quantification and risk management in this area, which remains more challenging than for climate risks, with some good practices already observed⁵. The ECB will continue engaging in structured dialogue with the financial sector to ensure continued progress in measuring and addressing nature-related risks by banks and supervisors alike.

1. European Commission, 2024
2. See ECB Occasional Paper “The Road to Paris: stress testing the transition towards a net-zero economy”, Emambakhsh et al., 2023
3. European Banking Authority’s Guidelines on the management of environmental, social and governance risks
4. See ECB Occasional paper Nature at risk: Implications for the euro area economy and financial stability
5. See the ECB Good practice for climate and nature risk management



RUI PINTO

Member of the Board of Directors – Banco de Portugal

Closing the gap between ambition and execution in climate related risks

Recent supervisory experience and climate-related events have confirmed a central lesson: climate and nature-related risks are no longer an exercise in regulatory anticipation, but a prudential reality.

As banks have developed governance arrangements and conducted materiality assessments, the challenge is to move from architecture to execution by translating these arrangements into day-to-day risk management: from policies and commitments to effective steering of exposures, counterparties, collateral, capital and business models under uncertainty.

The regulatory framework applicable to climate and nature-related risks continues to evolve. As such, and while relevant progress has been observed, banks' measurement of physical and nature-related risks remains less mature, and these risks are still likely to be underestimated. Accordingly, supervisory priorities continue to keep these risks within the prudential radar.

The urgency is increasing. 2024 was the warmest year on record globally and the first calendar year in which average temperatures exceeded 1.5°C above pre-

industrial levels. For banks, this is not an abstract threshold. A warmer climate increases the frequency and severity of extreme events, affecting credit risk, collateral values, business flows and operational resilience. The storms and floods observed in Portugal in early 2026 illustrate that physical risk is a present-day reality.

One important implementation gap therefore concerns the management of physical risk. Floods, droughts, heatwaves and wildfires are still too often treated as insurance or operational events, rather than as prudential risk drivers. This is particularly relevant for smaller banks or specific business models, with portfolios concentrated in certain geographies, sectors or collateral types.

Banks should continue to develop and refine their methodologies to identify, assess and manage the climate-related risks to which they are exposed. They should identify borrowers, exposures, collateral and infrastructures exposed to acute and chronic hazards, connect this information to credit files and valuations, and define escalation triggers when indicators deteriorate. Where internal data is weak, external hazard maps, emergency data and sectoral proxies should be used, with limitations documented. Granular data on location of counterparties, for example, can be of significant value in identifying vulnerabilities and transmission channels, as shown by the work of Banco de Portugal on rural fire risk.

Resilience will depend less on sophisticated narratives and more on the credibility of execution.

Another important gap is related to the monitoring of nature-related risk. Data, modelling and scenarios still lag behind the climate-risk framework. A layered approach should screen portfolios for sectors and geographies with high dependency or impact, identify counterparties where dependencies on water, soil, biodiversity, or supply chains may affect cash flows, collateral or licenses, and integrate material findings into due diligence, risk classification and capital adequacy.

An additional gap is transition execution risk. Many banks have climate strategies, but it is important to demonstrate how these translate into client engagement, portfolio decisions, risk appetite

and capital planning. A share of the Portuguese banking sector's corporate loan book remains carbon-intensive, even if there is no evidence of excessive concentration in transition-sensitive sectors. This underlines the need to assess not only sectoral exposure, but the credibility of borrowers' transition capacity and milestones.

These challenges are compounded by a more fragmented policy environment, a dominant simplification agenda and increasing climate backlash.

Prudential supervision, however, should not change course with political cycles and should remain anchored in materiality, sound governance and resilience. If floods, fire risk, heat stress, biodiversity loss or transition failures can impair repayment capacity, collateral values or operational continuity, they shall be considered material risks and must be managed as such.

This stance is compatible with proportionality. Smaller banks should not build the same models as global banks, but they should understand their exposures, use available tools, explore collaboration with peers and improve progressively. Shared data, common templates and collaboration with insurers, supervisors and climate agencies can reduce costs and strengthen consistency.

In conclusion, as methodologies and data continue to evolve, banks should progressively enhance their ability to identify, measure and manage climate and nature-related risks. The most resilient banks will be those embedding environmental risk into ordinary prudential management, acting proportionately and learning collectively. Ultimately, resilience will depend less on the sophistication of the narrative and more on the credibility of execution.



ATSUSHI YASUTAKE

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Member of the Board of
Directors – Norinchukin Bank

Managing the climate-nature nexus: data, engagement and transition

Under its Purpose, “Dedicated to sustaining all life,” Norinchukin Bank, a cooperative financial institution rooted in agriculture, forestry and fisheries, supports nature and local communities. In summer 2025, Japan’s average temperature was 2.36°C above the 1991–2020 norm. High temperatures may reduce yields and quality, increase heat stress and heighten water, pest and disease risks. Adaptation is advancing through heat-tolerant varieties, revised planting schedules and smart farming.

Agriculture, forestry and fisheries depend on natural capital, including climate, water, land and ecosystems. Its degradation affects the Bank’s business foundation, food systems and livelihoods. Despite policy uncertainty, changes on the ground continue. Japan continues to pursue carbon neutrality by 2050 and a nature-positive society by 2030. Mitigation remains essential, but adaptation is urgent as changes affect production and communities.

The climate-nature nexus helps unlock synergies and reduce trade-offs

Climate change, biodiversity loss and natural capital degradation affect entire supply chains. They pose risks, but also offer transition opportunities. We work with members and clients to develop pathways reflecting regional characteristics.

The Bank emphasizes the “nexus approach” and the “landscape/seascape approach.” The former considers interrelated issues such as climate, nature, biodiversity, water and food together to unlock synergies and minimize trade-offs. Based on this approach, the Bank is examining integrated climate-nature transition planning. It has also developed narrative scenarios for the food, agriculture and beverage sector that consider climate-nature interconnections and identify possible patterns through which transition risks may materialize, as a step toward integrated climate-nature scenario analysis.

The latter takes a regional view of economic activity and nature across regions, watersheds or seascapes. Through collaboration, the Bank supports ecosystem restoration and local resilience. Details are in the Climate & Nature Report.

Better data and client engagement are key to managing climate- nature risks and financing transition.

Better data and client engagement are key to managing climate-nature risks

Climate- and nature-related risks should not be standalone categories, but drivers of existing credit, market, liquidity and operational risks. Integrated assessment is needed because rising temperatures and ecosystem degradation are interdependent. Drawing on TCFD and TNFD concepts, the Bank is making these issues more visible. The challenge is to locate risks and reflect adaptation appropriately in credit assessments. We combine data and dialogue to strengthen risk analysis and management.

For example, even producers of the same crop face different climate, water, soil and ecosystem conditions. Resilience also varies with varieties, water management, planting periods,

facilities and sales channels. Financial institutions therefore need location-specific information, not only sector averages.

Adaptation investment may nevertheless increase short-term debt and costs and initially destabilize yields or quality. The mere existence of adaptation measures should not automatically be interpreted as evidence of lower risk. Assessment should consider investment size, technological maturity, local suitability, implementation capacity, insurance, public support and the ability to pass costs through to prices, weighing short-term burdens against longer-term resilience.

Data and practices remain insufficient. Engagement is essential to understand clients’ responses, adaptation effectiveness and support needs. Dialogue also distinguishes temporary pressure arising from credible transition investment from deterioration caused by weak implementation.

Conclusion

In light of the above, integrating climate and nature into financial practice requires accelerated public-private action. Particularly in sectors such as food, agriculture and energy, transition, physical and nature-related risks should be assessed together, reflecting sector characteristics and geographic granularity. This requires better data on asset locations, varieties, water, soil, land use, biodiversity and adaptation responses, as well as the accumulation of practical methods for linking these data to financing and investment decisions and engagement.

Supervisors can play an important role by providing clearer guidance on how sustainability-related factors should be incorporated into existing risk-management frameworks, while ensuring flexibility in light of each financial institution’s materiality assessments and data constraints. Closing data gaps through stronger data infrastructure, enhanced corporate disclosure and enhanced public-private collaboration is essential both to addressing climate- and nature-related risks and to continuously supporting the investment needed for a sustainable transition.



FRANCESCA MONTI

Group Head of Climate Hub – Generali

Insurability: the missing link in Europe's climate resilience

Climate-related losses are no longer an actuarial abstraction. Rating agencies have begun incorporating **physical climate risk into sovereign assessments of EU Member States**. Nat Cat events **erode fiscal headroom** and constrain governments' ability to service debt. A country repeatedly hit by floods or wildfires faces **structurally weakened creditworthiness** — and markets are beginning to price it. The loop between physical risk, public finance, and sovereign ratings is now a material consideration for European policymakers. According to EIOPA, **only around 20% of economic losses from Nat Cat in the EU are insured**. The retreat of private insurance from climate-exposed assets amplifies this dynamic.

When cover becomes unavailable or unaffordable, **uninsured physical risk migrates silently into governments and banks' balance sheets**, as governments and banks absorb disaster costs that insurance markets no longer intermediate. Insurability is therefore the missing link between physical climate risk and financial stability. **Closing the protection gap is thus a precondition for macro-financial resilience**, not an act of social policy alone.

The ECB-EIOPA two-pillar architecture is the right conceptual framing. Its calibration, however, requires sequencing. Pooling logic at European level can only function where national markets have achieved **minimum insurance penetration thresholds**. Mutualising risk across Member States with uneven coverage does not spread risk — it obscures it. The priority is **closing gaps at country level**, through 3 instruments:

1. **Fiscal incentives:** exempting nat cat premiums from taxation, as Italy has partially done for households, reduces price barriers; extending relief to business covers is the next step.
2. **Systematic coverage design:** in a context of nat cat mandatory scheme (as in France), embedding catastrophe cover in all property policies creates structural demand; indirect levers such as making nat cat cover a prerequisite for public procurement can complement it.
3. **Awareness:** as seatbelt campaigns shifted driving behaviour, structured risk communication reaches what lower pricing alone cannot.

Insurability is the missing link between physical risk and financial stability.

Closing the protection gap is only part of the solution; reducing the underlying risk is equally important. On loss prevention, the scale is quantified: the European Commission estimates the EU must invest around **EUR 70 billion per year in adaptation until 2050**. The EU has an underutilised instrument to finance it: issuing resilience-linked bonds at scale, channelling low-cost capital into infrastructure that reduces expected losses before events occur. This is a sovereign function. French experience shows that post-event funds fail when operational complexity prevents households from accessing them. The EU should also develop a harmonized methodology for **quantifying avoided losses**; without it, prevention investments remain economically invisible. The EU Solidarity Fund requires parallel reform: faster disbursement, capitalisation scaled to realistic loss scenarios, and clearer articulation with the Solidarity and Emergency Aid Reserve, so that support is predictable for populations and markets alike.

Solvency II should ensure that sustainability risks are appropriately reflected in insurers' risk management and supervisory frameworks. Enhanced scenario analysis and stress testing for physical and transition risks, calibrated to IPCC-consistent pathways, would help align risk assessment with evolving climate realities. The Own Risk and Solvency Assessment (ORSA) already provide a framework to identify and assess physical and transition risks, as increasingly done by industry. That said, prudential frameworks are necessary but not sufficient. Expectations exceeding supervisory mandates produce misplaced accountability and unmanaged vulnerabilities. The foundational work—closing the protection gap, financing prevention and increasing insurance penetration—should not be replaced by supervisory measures alone.

The **data foundation remains the binding constraint**. Granular, geocoded data, covering insured and uninsured assets, is a public good no single institution can produce alone. A shared EU infrastructure for physical risk data would lower underwriting costs, support supervisory stress-testing, and enable cross sector analysis.

Two layers matter most: local risk data details (e.g., construction materials for building) and high-resolution climate data of which platforms such as ECMWF's **climate services offer the scientific foundation**; what is needed is the institutional architecture to translate available data into relevant decisions.

The protection gap is a systemic vulnerability requiring sequenced action: national penetration first, EU-level prevention infrastructure second, and data architecture that makes risk visible across the financial system. **Closing the loop requires acting upstream—reducing risk before it materializes—rather than relying on financial shock absorbers once losses have occurred.**

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5

DIGITAL TRANSFORMATION AND DIGITAL ASSET INNOVATION

INTERVIEW 230

Mark Jopling - Amazon Web Services

DIGITAL FINANCE: IS THE EU KEEPING PACE? 232

Astrid Cousin - European Commission / **Vojtech Belling** - Czech National Bank / **Maria Staszkiwicz** - Ministry of Finance, Poland / **Michael Jefferson** - Amazon Web Services / **Joe Heneghan** - Revolut Holdings Europe

SCALING AI IN THE EU FINANCIAL SECTOR 238

Olivier Fliche - Autorité de Contrôle Prudentiel et de Résolution / **Marius Skuodis** - Bank of Lithuania / **Damian Jaworski** - European Insurance and Occupational Pensions Authority / **Stephen Martin** - Amazon Web Services / **Emily Prince** - LSEG / **Michal Paprocki** - Euroclear Group / **Dera McLoughlin** - Forvis Mazars / **Sebastian Gehrman** - Bloomberg / **Elie Farah** - Oliver Wyman

AGENTIC AI IN FINANCIAL SERVICES 248

Ondřej Kovařík / **Giuseppe Siani** - Banca d'Italia / **Jimmy Kvarnström** - Swedish Financial Supervisory Authority / **Gillian Hamilton** - Google Cloud / **Hedva Ber** - etoro / **Elena Alfaro** - BBVA / **Tomas Klenke** - Commerzbank AG / **Kelly Devine** - Mastercard Europe

TOKENISATION USE CASES 256

Januš Kizenevič - Ministry of Finance of the Republic of Lithuania / **Mel Gunewardena** - U.S. Commodity Futures Trading Commission / **George Theocharides** - Cyprus Securities and Exchange Commission / **Andrew Mulvenny** - Kraken/Payward Inc. / **Tom Sullivan** - The Depository Trust & Clearing Corporation / **Jane Heinrichs** - Federated Hermes UK LLP

SCALING TOKENIZATION TO SUPPORT SIU 262

Christopher P. Buttigieg - Malta Financial Services Authority / **Thomas Vlassopoulos** - European Central Bank / **Natasha Cazenave** - European Securities and Markets Authority / **Ivan Odonnat** - Banque de France / **Vasiliki Lazarakou** - Hellenic Capital Market Commission / **Scott Bauguess** - Coinbase / **Hein Tibosch** - Flow Traders / **Christopher Beck** - Boerse Stuttgart Digital

STABLECOINS: IMPLICATIONS FOR THE EU 270

Pierre Gramegna - European Stability Mechanism / **José Maria Brandão De Brito** - Ministry of Finance, Portugal / **Karlheinz Walch** - Deutsche Bundesbank / **Vathany Vijayaratna** - Deutsche Bank AG / **Laurent Bertonnaud** - BNP Paribas / **Jonah Crane** - Stripe

CRYPTOASSETS: POTENTIAL FRAMEWORK EVOLUTIONS 276

Christopher P. Buttigieg - Malta Financial Services Authority / **Beata Sivak** - Kraken/ Payward Inc. / **Avi Sela** - etoro / **Philipp Bohrn** - Bitpanda / **Hubert Grignon Dumoulin** - CACEIS



Q&A

MARK JOPLING

Director for Global Financial Services for Europe, Middle East and Africa (EMEA) and Asia-Pacific and Japan (APJ), Amazon Web Services.

AWS empowers financial sector to scale in secure, resilient, innovative ways

Digital transformation and cloud adoption: From AWS's perspective, is the digital transformation of the European financial sector moving from experimentation to broader deployment and scaling, and how does the pace of adoption compare with other major regions? What role are cloud services playing in enabling this shift? What are the main remaining bottlenecks in Europe?

The digital transformation of the European financial sector is well into deployment and scaling. Our customers are sharing that cloud has become their default foundation for building and running financial services. AWS is supporting this transformation via investments into our European infrastructure, including €33.7 billion in Spain to expand data center infrastructure and drive AI innovation across Europe.

The benefits of the cloud are well established: efficiency gains and cost reduction; greater staff productivity; improved energy efficiency; faster innovation; and improved resilience. Cloud also democratizes access: institutions of every size can reach compute and develop leading AI capabilities. A principle we hear consistently from customers is the importance of choice: the choice of providers enables competition, which in turn drives better, cheaper, more advanced services and faster adoption across public and private sectors. On pace, EU adoption scales more slowly than other markets — largely because of policy friction rather than lack of appetite.

Our customers have identified regulatory fragmentation and the lack of interoperability across jurisdictions as the key issue in the EU. These can raise costs and restrict access to data, compute and harm cross-border collaboration. In addition, sector-specific requirements layered on horizontal frameworks create the danger of parallel supervisory expectations that overlap with the Digital Operational Resilience Act ("DORA"), the primary legislation in this space in the EU. For example,

proposals to add operational resilience as a new assessment area within the Supervisory Review and Evaluation Process ("SREP"), or the proposed Cloud and AI Development Act ("CADA"). A harmonised, proportionate and outcomes-focused approach to regulation and supervision preserves choice, resilience and openness while enabling continued adoption.

Agentic AI in financial services: Could agentic AI play a significant role in financial services, and in which use cases is its added value likely to be clearest compared with previous AI tools? What technological, operational and governance conditions are needed to deploy agentic systems safely and at scale, and how can cloud providers support this development?

Agentic AI is key for financial services. Compelling use cases include automated compliance monitoring, where agents track regulatory change, translate it into controls and log every action; fraud detection and KYC; and internal audit and back-office operations, where every step can be replayed by a compliance function. The clearest uplift over previous AI tools is the combination of autonomy across multi-step tasks with observability and traceability — every step is documented and reviewable; which is exactly what a regulated sector like financial services needs.

From a regulatory perspective, governance frameworks should remain technology-agnostic and outcomes-focused — prescribing what agents must achieve (auditability, explainability, human oversight) rather than how they must be built. Existing financial services regulation — model validation, explainability, and governance under the Capital Requirements Directive, the Capital Requirements Regulation and Solvency II — already addresses many governance requirements for AI in the financial sector; the priority is clarifying interactions

between existing sectorial legislation and horizontal AI governance frameworks.

Europe should start by addressing the challenges to the deployment of agentic AI at scale. Our 2026 study with Strand Partners — surveying 17,000 businesses across 17 European markets — found that only 24% of them have heard of agentic AI and, of those familiar with the technology, only 3% have deployed it. 34% of the respondents cited that the reason is skill shortages, 29% cited insufficient financial resources, and 22% said that legal uncertainty arising from AI and digital regulation is a hurdle.

CADA and the European Tech Sovereignty Package: How do you expect the Cloud and AI Development Act, the AI Continent agenda and the broader European Tech Sovereignty Package to affect the cloud, data-centre, compute and AI capabilities available to financial institutions in Europe? Can these initiatives improve the conditions for scaling cloud and AI in finance while preserving choice, resilience and openness to global innovation?

We expect CADA and the broader Tech Sovereignty Package (the “Package”) to be among the defining legislative initiatives for the financial sector. The Package can expand data-centre capacity and AI capabilities; framed appropriately, it could strengthen European competitiveness.

However, that success will depend on the Package preserving three principles.

- **Choice:** customers must be able to select the models, services and providers best suited to their use case.
- **Resilience:** capacity-building should reinforce, not fragment, operational resilience. Resilience expectations should be proportionate to the risk profile of each workload. Interoperability lets financial institutions architect for the resilience and portability their business requires.
- **Openness:** Europe benefits from remaining open to foreign investment and partnership; measures that restrict investment, partnership or provider choice risk cutting the financial sector off from global innovation and investment.

There is a risk that sovereignty objectives shift from building European capacity toward mandating local ownership or restricting where services can be provided. Organisations want access to the best and most innovative technology and tools no

matter where they come from. The financial sector tells us they want auditable, technical and operational controls rather than access restrictions based on location. These packages should build European capability while preserving choice.

For customers who require additional sovereignty assurances, we offer the AWS European Sovereign Cloud (“ESC”), which is backed by a €7.8 billion investment. It is a new, independent cloud entirely located within the EU, and physically and logically separate from other AWS Regions. The ESC’s unique approach provides the only fully featured, independently operated sovereign cloud backed by strong technical controls, sovereignty assurances, and legal protections designed to meet the needs of European governments and enterprises for sensitive data. AWS also announced plans to extend the ESC footprint from Germany across the EU to support stringent isolation, in-country data residency, and low latency requirements.

DORA impacts and CTPP oversight: Is DORA delivering tangible improvements in ICT risk management and operational resilience? Are the specificities of cloud service providers adequately taken into account in the CTPP oversight framework?

More than 18 months on, DORA is raising the baseline for ICT risk management and ensuring the financial sector prioritises operational resilience. AWS is within scope following designation. The CTPP regime is being operationalised. But, 2026-2027 is the formative window, and the initial oversight activities will determine how effectively DORA manages risk in practice.

There are areas that need focus as we continue through implementation. These include ensuring that oversight reflects how cloud operates – the provider secures the infrastructure, while the customer controls its architectural choices – rather than treating the provider as solely accountable for outcomes that depend on customer decisions, and avoiding duplication with the UK CTP regime, NIS/Cybersecurity and Resilience requirements and other frameworks. We know that a review of DORA is scheduled for 2028, and this is an opportunity for an evidence-based look at how DORA is working in practice and identifying what areas can be streamlined rather than adding new layers and obligations.

DIGITAL FINANCE: IS THE EU KEEPING PACE?



ASTRID COUSIN

Director Horizontal Policies, DG for Financial Stability, Financial Services and Capital Markets Union – European Commission

Digital finance priorities: competitiveness, scale and EU strategic autonomy

The Commission's approach to digital finance rests on a clear ambition: an EU financial system that is innovative, competitive at scale, and able to act on its own terms. Delivering on that ambition takes predictable rules, support for innovation, and the scale to compete globally. Following up on the EU Digital Finance Strategy, we have built the foundations: the Markets in Crypto-Assets Regulation (MiCA), the Digital Operational Resilience Act (DORA), and the Distributed Ledger Technology (DLT) Pilot Regime.

MiCA is now fully in place and working broadly as designed, with around 21 licensed stablecoins and over 200 Crypto-Asset Service Providers (CASPs) authorised across a wide range of Member States. The DLT Pilot Regime, by contrast, has seen limited uptake, held back by restrictive scale and scope, perceived complexity, and uncertainty about its duration. DORA has established a common framework for technology risk, bringing the largest technology providers under EU oversight. None of this is an end-state: our objective is to keep the EU open to new technologies while containing risk and keeping Europe globally competitive. Artificial intelligence is set to reshape financial services, and our frameworks - from DORA/ICT risk management to the AI Act - need to stay fit for purpose as deployment of agentic AI accelerates and quantum computing moves onto the horizon.

Stablecoins illustrate why this matters. Rapid market developments mean the topic merits a broad reflection: we want MiCA to remain a predictable, proportionate framework that allows crypto-assets to develop while balancing innovation with investor protection and financial stability and guided by the principle of technology neutrality. We have launched a public consultation to check that MiCA's implementation is consistent, proportionate and still fit for purpose.

A second priority is the tokenisation of financial markets, which will become an important part of future financial markets infrastructure. Done well, it can support broader access to capital, cheaper issuance, easier transferability, and more efficient collateral management and securities settlement - in a market that today remains fragmented. The review of the DLT Pilot Regime is a strong step in that direction. We aim to increase its flexibility, scale and scope, alongside the interoperability and efficiency of trading and post-trading infrastructure. This is not a technical adjustment; it is a strategic lever to shift market conditions from experimentation to market-wide deployment,

supporting a competitive digital ecosystem with cross-border integration and deeper liquidity.

Without a wholesale central bank digital currency as the safest settlement asset, tokenisation will keep running up against its limits. We therefore fully support the ECB's Pontes and Appia projects, which chart the long-term direction of EU financial markets infrastructure and the digital asset ecosystem. Additionally, as a digital form of central bank money, the digital euro will give Europe a resilient, sovereign payment infrastructure of its own, while strengthening the international role of the euro.

There are other areas where the EU digital finance framework can work better. Digital innovation often cuts across sectoral regulation, creating overlapping requirements that call for simplification - a workstream we are actively pursuing.

The EU's next digital finance priorities must marry openness to innovation with strategic autonomy.

Finally, EU strategic autonomy is becoming an increasingly central thread running through all of this. We remain committed to openness, cooperation and international convergence. At the same time, Europe needs to be able to develop and scale digital solutions under its own rules and in line with its own public policy objectives. This is true in payments, digital assets and settlement, but just as much in the compute, cloud and AI infrastructure that increasingly underpin financial services.

Taken together, our priorities for the years ahead come down to three objectives: making sure our framework remains fit for purpose as technology and markets evolve; reaping the full benefits that digitalisation and innovation can bring to a genuine Savings and Investments Union and ensure EU strategic autonomy in digital finance.



VOJTECH BELLING

Executive Director, Financial Regulation and International Cooperation Department – Czech National Bank

Innovation first, regulation where it matters

Regulation is often described as being one step behind innovation. That is usually meant as criticism, but it need not be. Innovation requires space before it requires rules. It thrives where new ideas can be tested, challenged and refined without unnecessary barriers. That also means simplifying regulation and reducing compliance burdens. Most major technological innovation of recent decades emerged before dedicated regulatory framework existed for it. In fast-moving sectors, regulation is often reactive, responding once innovation reaches a scale that creates material risks for consumers, market integrity, financial stability or effective competition, not before. That is not a weakness of regulation, but the proper sequence. The purpose of regulation here is to address real risks, not to anticipate every possible technological development or win a race to regulate first.

The EU digital finance framework already provides a solid foundation. Nevertheless, debate too often begins with the question of how to regulate the next technology. It should begin one step earlier: whether new regulation is needed at all. Not every innovation creates a regulatory challenge, and not every uncertainty calls for an immediate legislative response. Rules may make markets safer and more predictable, but they do not invent technologies, attract investment or persuade firms to innovate in the EU: on the contrary, if introduced too early or applied too rigidly, they may encourage firms to develop and scale products in other, more welcoming jurisdictions. That distinction should guide any assessment of the EU digital finance framework. In other words, regulation is a means, not an objective.

For the EU, the challenge is thus not to regulate more, but to regulate better. The EU should focus on simplifying existing rules, reducing unnecessary compliance burdens and preserving Europe's competitiveness in global digital finance. Regulatory reform must not be treated as a one-way process in which every review produces new obligations. Any further adjustments should be based on a thorough impact assessment including whether existing rules are still fit for purpose.

Supervisors also have a key role to play. By providing regulatory clarity, encouraging early dialogue and applying rules consistently, they can reduce uncertainty for innovators without introducing new regulations. Various sandboxes, innovation hubs and dedicated contact points have already shown their value by helping firms test new ideas and move more quickly from pilot projects to market deployment. These practical tools should become a standard part of the European supervisory framework, supported by the exchange of best practices across Member States.

The EU also needs to look beyond its own borders. Closer cooperation with the United States and key Asian jurisdictions

is especially vital. Digital finance is global, and a regulatory perspective cannot stop at the edge of the Single Market. Tokenised securities offer a telling example of a broader problem: while many jurisdictions recognise similar concepts, there is no global consensus on what constitutes a security, and even within the EU, similar instruments may fall under different national regulatory regimes, creating unnecessary uncertainty while making cross-border innovation more difficult.

Recent developments in AI illustrates the limits of a purely regulatory response particularly well. The recent Anthropic Mythos case showed that, following a U.S. export control decision, the EU had little influence over access to one of the world's most advanced AI models. It also highlighted that regulation alone can neither guarantee access to frontier technologies nor eliminate the risk of their misuse. Europe's long-term competitiveness depends on ensuring that an innovation can emerge, scale and remain in Europe.

Innovation flourishes where regulation provides certainty without becoming a barrier to growth.

Regulation remains necessary to protect consumers and markets, yet Europe's technological leadership will ultimately depend on its capacity to innovate, invest and cooperate internationally. At the same time, Europe must recognise today's global reality: the world's leading centres of digital innovation are largely located outside the EU. Rather than trying to shape technological development through legislation alone, the EU should adapt to this environment, strengthen international cooperation and ensure that Europe becomes a place where innovative businesses choose to build and scale their products.



MARIA STASZKIEWICZ

Advisor to the Deputy Minister of Finance
– Ministry of Finance, Poland

Technology changes the core of finance

Digital transformation in financial services is an open-ended process with marked regional variations. Differences are rooted in historical development paths. Institutions introducing novel solutions find it far more difficult to adjust quickly to subsequent waves of innovation. Scrapping a complex system that absorbed a considerable amount of resources is a difficult business decision. From a commercial perspective, this was not a dramatic problem when technologies took years to evolve and financial institutions were not pushed by competitors to embrace new solutions on a constant basis. Today the business reality is much different.

With the exponential development of digital technologies, change arrives fast and everywhere.

Financial institutions, especially banks with long histories, must find a new modus operandi to exist under these conditions. The challenge goes much deeper than service provision, touching the core of how banks operate and structure their business models.

Technologies fundamentally alter how the financial world works across three key dimensions, and they have to be taken into consideration when establishing the new operating model.

First, automated operations and AI-based services drive marginal operating costs toward zero, creating intense competition not only for traditional institutions but also for digital-native platforms that must discover new ways of earning profits. Second, core technological infrastructure, algorithmic modeling, and AI cybersecurity are no longer back-office expenses, but serve as the primary competitive moat. Third, liquidity management must adapt rapidly. Digital banking and instant messaging enable hyper-fast capital flight, compressing liquidity crises into hours. Moreover, while regulations protect against cyclical credit downturns, they offer little defense against technological irrelevance of an organization that is not able to adapt to AI reality.

Is the European Union moving fast enough to address these issues? No country can keep pace with every vector of change. The EU's performance can nevertheless be evaluated against two factors: how the EU fares compared with other regions, and how it performs relative to its own purpose of change.

The simple answer to these questions is that the European financial sector is not moving fast enough in any regard. When seen as one region European financial institutions do not take sufficient advantage of technological possibilities or the regulatory push intended for the sector.

Open banking is a telling example. The second Payment Services Directive (PSD2), enacted to spur fintech innovation and foster

new services, suffered from fragmented implementation and poorly performing APIs. Incumbents' fear of competition from rival banks or rising fintechs was among the main culprits. While the new PSD3/PSR framework should amend its predecessor weaknesses, a decade has been lost to agile non-European competitors. Furthermore, the proposed Financial Data Access (FIDA) framework—conceived to make use of the abundant data troves sitting in the databases of traditional financial institutions—was again delayed and diluted, mainly by fears of the big techs capturing economic value.

AI challenge goes much deeper than service provision, it touches the core of how finance work.

Regulation built on the assumption that rules should primarily protect consumers or domestic companies is like shooting oneself in the foot. For the past decade, DG FISMA was set to establish competitive rules to further digitalization by promoting open data access, encouraging modern technologies, and reduction of foreign supplier dependence. Yet, single market rules cannot substitute for unified political will. The siloed national champions of digital payment solutions, such as BLIK, Bizum, or iDEAL, are a telling example of this limitation. Similarly, European payment sovereignty will be difficult to achieve if policy merely focuses on replacing non-EU services with local alternatives.

In a world where AI is the defining factor, European companies and regulators need to think ahead rather than reactively. Europe leads in user experience design, where consumers enjoy some of the most digitally advanced retail banking applications. Yet, the European financial sector cannot remain stuck at Level 1 AI. To yield net productivity gains, artificial intelligence and other technologies must be embedded directly into the core of financial operations.

This cannot happen entirely out of regulatory control, but many protective rules in finance are already present in the system and simply need to be extended to the AI world without writing entirely new laws. This could drastically reduce the time-to-market for digital legislation that is so urgently needed today.



MICHAEL JEFFERSON

Head of Financial Services Public Policy EMEA
– Amazon Web Services (AWS)

Accelerating digital finance in the EU: openness as the path to competitiveness

Cloud infrastructure, artificial intelligence (AI), secure data-sharing and the modernisation of legacy IT systems are reshaping the financial sector. These technologies are the practical foundations of a competitive, resilient and innovative EU financial sector and wider economy.

The drivers are tangible. Cloud allows firms to replace large, fixed capital outlays with flexible, pay-as-you-go capacity, delivering cost savings, scalability and faster innovation. It strengthens operational resilience, reducing unplanned downtime compared with legacy environments. It underpins sustainability and AWS infrastructure is up to 4.1 times more energy efficient than traditional on-premises data centres.

Cloud also unlocks business agility by shortening the time needed to launch new products. AI and machine learning sit at the heart of this transformation, powering fraud detection, market surveillance, customer personalisation, faster underwriting and the automation of manual processes, all made possible by the cost-effective compute that cloud provides.

Technology providers and how they work with the financial sector are central to this shift. The valuable role providers can play is to democratise access to advanced capability, offering a genuine choice including, when it comes to AI models, access to a secure infrastructure and the tools to customise them safely. Services such as Amazon Bedrock already gives the financial sector access to hundreds of models from multiple technology providers, so that no single model-level disruption can interrupt their AI capabilities. This works best when it combines the provider's engineering depth with the institution's domain expertise and regulatory accountability. With this collaboration comes scrutiny and AWS understands the rationale for frameworks such as the Digital Operational Resilience Act (DORA) – aiming to help Europe build a financial sector that is both dynamic and secure.

Against this backdrop, the recently announced European technological sovereignty package and the Cloud and AI Development Act (CADA) reflect a legitimate ambition: to strengthen the continent's computing capacity and reduce strategic vulnerabilities. The critical question is how they are pursued. Measures designed to build capability and expand infrastructure will leverage existing best practices; but measures that exclude technology providers based on where they are headquartered, rather what they deliver, risk raising costs, slowing innovation and undermining the competitiveness agenda they are meant to serve.

To be competitive on the global stage, organisations need the freedom to choose the best technology for a specific task, wherever it originates, and the ability to switch providers when needed. The EU's own competitiveness ambitions, from the

Savings and Investment Union (SIU) to its start-up and scale-up strategy, depend on remaining open to global innovation, investment and competition. Restrictions on non-European investments or infrastructure would deter the very capital and talent EU is working so hard to attract.

**Being able to choose the best
technology for the task will support
the EU's competitiveness ambition.**

There is a path that meets the mutual interests we all have in building a resilient, competitive and innovative EU. Investment in EU data-centre capacity, skills, and interoperable standards builds real choice and competitiveness. A proportionate, risk-based and internationally interoperable regulatory approach would ensure resilience without fragmentation. And a level playing field, open to global technology providers competing on merit, delivers the choice and innovation that EU financial institutions and their customers deserve.

By pairing investment in its own capabilities with the global investment already present, the EU can meet its goals of a secure, competitive and innovative economy. That path will accelerate the scaling of digital finance across the EU and ensure the benefits are felt right across the EU economy.



JOE HENEGHAN

Chief Executive Officer –
Revolut Holdings Europe

Europe's digital finance success depends on scale

Digital finance in Europe is often discussed as a race against other jurisdictions, yet the most consequential race is the one Europe runs against its own potential. The Union holds an asset no competitor can replicate: 450 million consumers under a common legal order, a common rulebook and a financial passporting system that allows firms to operate under a single banking licence. On those foundations, European financial markets have already digitised at remarkable speed, with tens of millions of Europeans now opening accounts, paying, saving and investing entirely digitally, often across borders, on terms that were unimaginable a decade ago. Europe's challenge is no longer inventing digital finance innovation, but scaling it.

What stands in the way is fragmentation. European rules on payments, data, AI and emerging technologies are among the most complete in the world, and robust European supervision makes the institutions subject to them stronger and safer. The difficulty begins where common rules stop meaning the same thing in practise: uneven enforcement of key EU rules and principles, supervisory expectations that shift at internal borders, long and divergent authorisation and notification procedures, national layers added in transposition, and persistent practices limiting the full realisation of the Single Market, such as IBAN discrimination. A bank serving the whole of the Union must absorb each of these frictions market by market. Therefore, these are a tax on scale, paid most heavily by the firms most committed to the single market, and refunded to no one.

The remedy lies less in new legislation than in regulatory consistency. A European rulebook that is recognised and applied consistently across all member states would do more to strengthen the competitiveness of European finance than any new regulatory framework, at essentially no fiscal cost. The potential is not theoretical: even in today's imperfect single market, European champions in financial services managed to grow and scale at global level. Consistent application of the EU rulebook would multiply that result. This is what the simplification agenda can usefully mean in finance: enforcing what exists before creating what is new, requirements justified by risk rather than by business model, and proportionality measurable in authorisation timelines. The arrival of EU supervisory bodies, such as AMLA, points in this direction: for activity that is genuinely cross-border, supervision at European level means one rulebook, one set of expectations and one communication channel.

Trust will determine how far any of these reaches. According to EBA and ECB fraud data from December 2025, annual payment fraud in the EEA has reached 4.2 billion euros, rising 17% year on year. Payer manipulation now drives over half of all fraudulent credit transfers, and users bear roughly 85% of those losses¹. Left to piecemeal national responses, fraud will not remain a

payments problem: it will erode confidence in the European financial system itself. Because most scams start upstream, through an ad, a message or a phone call, and they cannot be defeated at the final payment endpoint. Preventing this requires every actor in the digital value chain, platforms and telecom operators included, to carry responsibility proportionate to their ability to intervene, and it requires those defending consumers to share real-time intelligence across borders and sectors as fluidly as attackers already do. The forthcoming PSD3 and PSR framework will matter less for what it adds than for how consistently it is applied: if enforced as one market, with effective data-sharing mechanisms, it can restore consumers' trust in their financial providers; applied unevenly, it will hand fraudsters exactly the gaps they exploit today.

Europe's challenge is not creating digital finance innovation, but letting it scale.

None of this requires Europe to look beyond its own agenda. The Savings and Investments Union has already defined the prize: Europe is home to some 33 trillion euros in private savings, predominantly held in currency and deposits², and no channel can reach 450 million savers more affordably than except digital distribution.

A financial system built in Europe, for Europe, depends on no one else for what matters most: institutions licensed, supervised and competing from within the Union's own legal order. What is missing, beyond the innovation, the rulebook, and the supervisory architecture, is the scale the single market was created to provide. Unlocking this potential simply requires Europe to permit the market to deliver.

1. EBA and ECB, *2025 Report on Payment Fraud*, December 2025
2. E. Letta, "Much More Than a Market", April 2024

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SCALING AI IN THE EU FINANCIAL SECTOR



OLIVIER FLICHE

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From adoption to supervision: building trustworthy AI in the financial sector

Four years apart, in 2021 and 2025, the ACPR surveyed the main players in France's banking and insurance sectors regarding their adoption of artificial intelligence (AI). The finding was clear: whereas in 2021 AI remained largely an experimental field for many firms, it has now been adopted by almost all of the institutions surveyed.

This adoption concerns both "traditional" AI (machine learning) and generative AI, which emerged more recently but has spread more rapidly. The primary drivers are the expectation of operational efficiency gains through the automation of time-consuming processes and opportunities to improve the customer experience, which is an even more important factor in the adoption of generative AI technologies.

To a lesser extent, institutions also mention opportunities to strengthen risk management and generate new sources of revenue.

With regard to AI development strategies, all institutions have adopted a hybrid approach, combining in-house development, procurement of off-the-shelf solutions, and co-development with service providers depending on the specific use cases involved. Large Language Models (LLMs) are overwhelmingly purchased as off-the-shelf solutions. Financial-sector firms are now also beginning to explore the potential of agentic AI.

The key risks associated with this widespread adoption should not be underestimated: systemic risks arising from dependence on a small number of technology providers, heightened cyber threats, risks of loss of control by institutions, as well as risks of discrimination, privacy infringements, and customer manipulation. The opacity of algorithms, often referred to as the "black box" problem, represents a major concern both for customer protection and for financial institutions' ability to manage risks effectively. At present, the regulatory framework rests on two pillars: the European AI Act, which notably addresses two high-risk financial use cases, and the existing banking and insurance regulatory framework, which is technology-neutral and applies to AI in the same way as to any other process or tool used to provide financial services. The ACPR will become a Market Surveillance Authority under the AI Act as of 2 December 2027.

**Maintaining a close
dialogue with industry
while also strengthening
cooperation among
Authorities.**

The ACPR's supervisory approach to AI is risk-based and aims to identify the most risky AI systems and, where appropriate, subject them to in-depth technical review. As an initial step, the ACPR is developing assessment methodologies covering governance, robustness, fairness, explainability, and cybersecurity.

To support this work, the ACPR has developed a co-construction approach that allows it to draw both on industry best practices, through technical workshops involving volunteer institutions, and on ongoing academic research. In this context, on 1 July it published, for public consultation, a discussion paper on algorithmic fairness in the financial sector. The objective of this paper is to shed light on one of the main requirements applicable to high-risk AI systems under the AI Act, namely the obligation not to discriminate, in a sector where risk-based pricing segmentation is deeply embedded in risk management practices. The paper seeks to clarify the key issues and debates by bringing together legal requirements, data science techniques, and practices observed across the sector, and to provide financial stakeholders with practical benchmarks to help them move from reflection to implementation.

The AI Act is the cornerstone of AI regulation in Europe, but it may not represent the final or sole regulatory destination. The growing risks that AI poses to cybersecurity and sovereignty have prompted discussions on both sides of the Atlantic about new, complementary forms of AI regulation and oversight. In the financial sector alone, new questions are already emerging. For example, how can a payment transaction initiated and executed by an AI agent be secured in the future? Similarly, should investment recommendations generated by general-purpose AI assistants eventually be regulated, even if such tools do not currently fall within the scope of financial or insurance intermediation rules?

Building "trustworthy AI" in the financial sector is clearly no easy task, given the rapidly evolving nature of the technology. However, the regulatory foundations are now in place in Europe. It is therefore incumbent upon supervisory authorities to take ownership of this issue. Given the complexity of the challenges involved, authorities stand to benefit greatly from maintaining a close dialogue with industry while also strengthening cooperation among themselves at sectoral and cross-sectoral levels, both within Europe and internationally.



MARIUS SKUODIS

Board Member –
Bank of Lithuania

Why AI alone will not transform European finance?

Imagine the following scenario: One morning, you open your banking app to discover that your AI financial assistant has spent the night comparing every mortgage offer on the market, negotiated better terms with another lender and prepared all the necessary paperwork. It now recommends that you refinance, explaining why the new offer is superior and asking whether you would like to proceed.

Science fiction? Maybe. This scenario, however, shows how AI could become genuinely transformative. Today, many Europeans hold mortgages, insurance policies or investment products that are not necessarily the best fit for their needs. While better alternatives may exist, identifying, comparing and evaluating such choices takes time, effort and expertise. AI agents could reduce these costs to almost zero.

In a nutshell, this illustrates AI's potential to fundamentally reshape competition in financial services. Consumers would no longer need to monitor the market or possess deep financial expertise. Their AI assistant could continuously search for better products, negotiate improved terms and identify opportunities that would otherwise remain unnoticed.

Nonetheless, it would be a mistake to assume that technology alone will transform finance. **Technological breakthroughs deliver their greatest benefits when supported by the right institutions and accompanied by appropriate management of emerging risks. AI is no exception.**

Consider the institutional environment. Imagine that your AI identifies the best mortgage for you – not in your home country but elsewhere in the European Union. Can you seamlessly switch? The answer is no. While home-country switching can be costly and complicated, receiving financial services across borders entails still higher levels of expense and complexity. Differences in insolvency regimes, contract law, taxation and consumer protection continue to fragment Europe's financial markets.

The more effectively AI matches consumers with the best financial products across Europe, the greater the economic cost of the remaining barriers that prevent those opportunities from being realised. **By reducing information frictions, AI raises urgent need to return to the EU roots – European economic integration.** Completing the Single Market – particularly in financial services – thus becomes not merely a longstanding European objective but a necessary complement to Europe's AI ambitions. AI can identify enhanced opportunities but only an integrated market can ensure that consumers have access to them.

AI raises urgent need to return to the EU roots – European economic integration.

Managing AI-related risks will be equally important. The same AI capabilities that allow financial institutions to detect fraud or manage anti-money laundering and counter-terrorist financing risks can also be exploited by criminals to hide the movement of illicit funds or create convincing scams, impersonation attacks and cyber-enabled financial crime.

Yet perhaps the most fundamental risk lies elsewhere. A resilient financial system cannot rely exclusively on technology – regardless of how resourceful that technology becomes. Financial supervision ultimately requires judgement, accountability and the ability to respond to events that fall outside historical experience. AI is a good tool for information processing

and otherwise supporting supervisory judgement. However, it cannot bear responsibility for preserving financial stability. Especially during periods of financial stress, supervisory judgement cannot be outsourced to algorithms.

Last but not least, there is the question of how much these new AI tools will cost. AI will not become transformative simply because better models become available. Unlocking its potential requires substantial investment in data, computing infrastructure, cybersecurity, organisational change and, above all, people capable of deploying these tools effectively.

For these reasons, investing in AI must go hand in hand with investing in people to ensure the ultimate layer of resilience. Supervisors need the expertise to understand AI, challenge its outputs and intervene when models fail or circumstances change.

In summary, AI may be one of the most powerful technologies to reshape European finance in decades. Ultimately, however, its success hinges on more than the sophistication of its algorithms. Completing the Single Market, investing in data and people, and ensuring that AI remains a tool that strengthens – rather than replaces – human judgement will determine whether Europe merely adopts AI or truly harnesses its transformative potential.



DAMIAN JAWORSKI

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

Scaling AI in finance: systemic risks, resilience and European sovereignty

Artificial Intelligence (AI) is moving from experimentation towards established use across financial services in general, including in the insurance sector. EIOPA's 2025 Generative AI market survey, covering 347 insurers in 25 EEA countries, found that 65% were already using generative AI and another 23% planned to do so.

As AI is deployed across the insurance value chain, it creates both opportunities and new financial stability challenges. AI technologies are increasingly used in fraud detection, customer service, claims management and data analysis.

These technologies may improve efficiency and support innovation; however, they also amplify cyber and operational risks, increase reliance on external technology providers and may contribute to market concentration and interconnectedness.

Advanced AI systems may also increase the sophistication of cyberattacks, automated fraud and social engineering techniques, making cyber risk more

dynamic and potentially more difficult to model using traditional actuarial approaches.

Against this background, EIOPA, alongside the other two European Supervisory Authorities, has raised awareness about the ICT risks posed by the widespread adoption of advanced AI models and engaged with EU competent authorities to ensure that financial entities take appropriate mitigation measures. In their first annual report on major ICT-related incidents under DORA, the ESAs encouraged financial entities to strengthen cybersecurity measures to maintain their resilience amid the rapid evolution of highly capable AI-driven tools.

The ESAs also concur with the ESRB's recent warning on the systemic cyber risks stemming from frontier AI models, whose ability to identify and exploit high-severity vulnerabilities within very short timeframes has advanced significantly. Financial entities are encouraged to make appropriate arrangements to adapt their cybersecurity capabilities, and competent authorities to reflect these developments in their supervisory activities. They can also strengthen defence through faster detection and response.

These developments underline the importance of strong governance frameworks, effective risk management practices and robust supervisory oversight. They also expose Europe's dependence on non-European providers for critical IT infrastructure and AI technologies.

The safe scaling of AI requires effective supervision alongside a diversified European AI ecosystem.

A strong framework, with implementation as the priority

The EU already has a strong regulatory framework. DORA addresses ICT risk management, testing, incident reporting, contractual safeguards, concentration risk and exit strategies, and establishes oversight of critical ICT third-party providers. The AI Act complements it through requirements for AI systems and GPAI model providers, including additional obligations for models presenting systemic risks. In EIOPA's survey, 59% of respondents considered the AI Act's generative AI provisions

useful or very useful for improving provider reliability.

These instruments do not specifically identify correlated model behaviour, common dependencies across models and integrators, or simultaneous AI-driven market reactions, but they enable it. Therefore, effective implementation and coordinated supervision are more effective than another legislative layer. Financial entities and supervisors should map material dependencies, test provider or model failures, verify that exit plans work, and improve information-sharing. Financial entities should retain human expertise, fallback capacity and sufficient provider diversity.

CADA and the supply side

The Cloud and AI Development Act (CADA), the AI Continent agenda and the European Technological Sovereignty Package can complement these efforts by addressing the supply side. CADA aims to triple the EU's data-centre capacity within five to seven years, accelerate infrastructure deployment and establish an EU-wide framework for assessing cloud and AI sovereignty. Together with AI Factories, AI Gigafactories, investment support, skills initiatives and the EU Open-Source Strategy, these initiatives could broaden access to European computing infrastructure and AI models while fostering a more diverse and competitive ecosystem.

However, while sovereignty enhances resilience, the two are not synonymous. Reducing dependence on a handful of non-EU providers only to create dependence on a handful of EU providers would leave the underlying concentration risk largely unchanged. Sustained efforts to promote competition, interoperability and portability therefore remain essential to building long-term resilience.

To conclude, AI scaling is beneficial and should be enabled, but its dependencies must be visible and manageable. At this stage, the EU does not need another broad layer of AI regulation for finance. The priority is rigorous implementation of DORA and the AI Act, coordinated monitoring and targeted supervisory action wherever concrete gaps emerge.



STEPHEN MARTIN

Head of FSI Security and Compliance EMEA & APJ – Amazon Web Services (AWS)

Scaling AI in EU finance: the technology and policy conditions for success

Artificial intelligence is already transforming Europe's financial sector enhancing fraud detection, improving financial customers experience with personalisation, modernizing payments, and addressing legacy systems supporting legacy refactoring. The financial sector is using AI to streamline compliance, drive efficiencies and create a focus on customer experience and AWS is supporting this by providing access to the latest and most innovative AI models and services to its customers. AWS supports customers with the highest levels of security, data protection and resilience for their business services.

To do this there are four areas that our customers tell us are key.

The first is cloud infrastructure. Cloud-based AI enables institutions of every size — from fintech start-ups to global banks — reach sophisticated capabilities without building costly proprietary systems. A layered approach using purpose-built infrastructure to train models and run inference; tools and foundation models to build applications;

and ready-to-use applications requiring no machine-learning expertise levels the competitive field and accelerates innovation.

The second is data management. Data is what turns generic models into valuable applications. Institutions need access high-quality datasets, robust data-quality controls, and the ability to comply with data-residency rules, while allowing for the data to be moved across geographies where appropriate. Moreover, access to varied data reduces the risk of correlated models and herding behaviour, allowing for institutions drawing on different data to reach different conclusions. Data-localisation requirements and regulatory complexity can restrict access to the data, computing and cross-border collaboration that supports the innovation that AI depends on.

The third is model deployment, which rests on the shared responsibility model. AWS embeds significant security, safety and responsible-AI controls at the infrastructure and model layers; financial institutions add controls specific to their use case and regulatory context. This includes model evaluation, configurable guardrails, bias detection, and transparency documentation that set out intended uses and limitations. Institutions remain accountable as sophisticated and informed users who understand, test and monitor the technology they deploy.

The fourth is cybersecurity and resilience. AI is both a threat vector and a defensive capability: it can increase the ease and impact of cyberattacks, while materially strengthening detection, response and recovery. The practical implication is important — declining to adopt AI in cyber defence means facing AI-enabled adversaries without AI-enabled defences. For emerging agentic AI, security is most reliable when enforced through deterministic controls external to the agent — identity and access management, scoped permissions, complete audit trails and external override — rather than the model's own reasoning.

How can technology providers support responsible adoption at scale? By supplying the tools and guidance that translate responsible AI from theory to practice, by helping close the digital-skills gap that 61% of businesses say slows their performance, and by supporting sandboxes and public-private collaboration where risks are not yet fully understood.

Is the EU framework sufficiently clear, proportionate and innovation-friendly? The AI Act provides valuable risk-based guardrails, and its ambition to protect

rights while enabling innovation is welcome. However, AI is already covered by a broad body of law. The focus should be on high-risk applications rather than duplicating existing requirements or layering horizontal regulation onto sectoral rules. Where existing law falls short, we would recommend amending it rather than building a parallel regime.

Against other jurisdictions, the decisive factor is international coordination. Fragmented, conflicting requirements restrict access to data, computing and talent, and disproportionately burden smaller firms. Consistent, interoperable standards — technology-neutral, outcomes-focused and proportionate — will let Europe's financial sector innovate responsibly and compete globally.

The technology to scale AI in Europe's financial sector exists today. The task now is a policy framework proportionate enough to let it flourish.



EMILY PRINCE

Group Head of
Enterprise AI – LSEG

Scaling AI across financial services: trust, choice and resilience

AI is moving from experimentation to becoming part of the operating fabric of financial services. The opportunity is not just automating tasks but improving how professionals work end to end – from discovery of information, monitoring of risks to decision-making. In a sector where confidence rests on accuracy, resilience and accountability, scale will depend less on the novelty of a model than on the quality of the system around it: trusted data, clear governance, human judgement and infrastructure designed for continuity.

For LSEG, this starts with the combination of deep financial-services expertise, trusted data and critical market infrastructure. Our 'LSEG Everywhere' strategy has three priorities: making licensed, AI-ready data available where customers work; developing differentiated AI-enabled products; and using AI responsibly across our enterprise. Drawing on our financial markets experience, we are putting this into practice by designing AI in line with the requirements of regulated workflows—accurate, traceable data, effective controls, interoperability and choice.

For example, open standards such as Model Context Protocol (MCP) can help

make AI more useful and governable in regulated workflows by allowing models to connect securely and quickly to governed data. This supports more accurate, context-aware outputs while preserving controlled access, auditability and the ability to switch between models, applications or infrastructure providers. Such recognised standards point to a broader transformation: from AI as a stand-alone tool to AI effectively embedded in a live, flexible ecosystem of models, specialised datasets and technology environments that can be adapted to the intent of financial service professionals.

The next phase should be judged by whether AI delivers measurable improvements in real financial-services processes, across risk, compliance and operational outcomes. AI can synthesise information, identify anomalies, support surveillance and strengthen risk monitoring. However, decisions should not be delegated merely because a model is powerful. Model outputs may be probabilistic or difficult to validate, while accountability remains with regulated firms and their people.

**Diversification and
choice are key to avoid
overdependence, whether
it is defined at the level
of an individual company
or a jurisdiction.**

Adoption therefore requires the right system for the right task: deterministic controls where repeatability is essential and probabilistic models where uncertainty is intrinsic, explainability and assurance proportionate to risk, meaningful human oversight, and tested fallbacks. Model diversity and modular architecture can reduce concentration risk, common-mode failures, and single-provider dependence, if they do not obscure accountability or create unmanaged complexity.

Diversification and choice are key to avoid overdependence, whether it is defined at the level of an individual company or a jurisdiction. Europe is right to invest in data centres, domestic cloud and computing power, skills and AI capability. It is key to support choice and ensure operational resilience and we believe the proposed Cloud and AI Development Act and the wider AI Continent agenda can expand European capacity. Sovereignty should mean strengthening resilience and competitiveness. But requirements that narrow access to the best

available infrastructure could increase concentration in a small number of firms, raise costs, and make European firms less resilient and competitive.

Instead, firms should be required to operate based on principles of 'geopolitical resilience' and effective control: firms should understand critical dependencies, move data and workloads securely, test exit and recovery plans, and retain meaningful choice across models and cloud providers.

The EU already has a substantial framework. The AI Act governs AI-specific risks, while DORA addresses operational resilience and critical ICT dependencies; existing financial-services rules continue to apply to governance, outsourcing and accountability. The immediate priority should therefore be coherent implementation. Supervisors and the AI Office should clarify how horizontal and sectoral rules interact, coordinate interpretations across the EU and recognise existing financial-sector controls. International alignment is equally important because fragmented standards or restrictions on cross-border data flows would raise costs and weaken the evidence base on which reliable AI depends.

Europe can combine ambition with trust if it treats openness and resilience as complementary. Policy should remain technology-neutral and outcome-focused. Regulation should encourage diversification, portability, interoperability and multi-provider strategies to ensure 'geopolitical resilience' rather than prescribe provider location.

The goal should not be technological autonomy at any cost, but strategic capability with choice: an environment in which European financial services can scale AI responsibly, adopt the best technology when appropriate, switch when necessary and continue serving markets through disruption.



MICHAL PAPROCKI

Chief Technology Officer
– Euroclear Group

AI in post-trade: from experimentation to trusted transformation

Technology and FMI

Technology has always shaped financial services. From dematerialisation and real-time messaging to cloud, and distributed ledger technology, each new wave has changed how markets connect, settle and manage risk. For a financial market infrastructure, technology is never an end in itself. It must strengthen trust, resilience and efficiency at scale.

At Euroclear, this is how we approach artificial intelligence. We see it as a strategic capability that can help capital markets become more efficient and resilient, provided it is deployed with the same discipline that underpins our core infrastructure. Our ambition is not to add AI at the margins, but to become an AI-augmented FMI: one where human expertise, high-quality data and trusted technology combine to improve outcomes for clients and the wider market.

Euroclear and AI

This journey did not start with the current wave of generative AI. Euroclear has used advanced analytics and

machine learning for several years. More recently, generative AI has opened new possibilities for knowledge-intensive activities, software engineering and client service. To move from experimentation to industrialisation, we created an AI Centre of Excellence to identify use cases, define implementation standards and ensure that initiatives are assessed through a common governance framework.

The result is a growing portfolio of AI opportunities. More than one hundred potential use cases have been identified, with active initiatives spanning settlement efficiency, collateral optimisation, sanctions and AML processes, client service, finance and commercial engagement. This breadth matters: AI will create value not through isolated pilots, but by being embedded in processes where data, judgement and repeatability meet.

Promising applications

The most promising use cases are those that support the core mission of a post-trade infrastructure. In settlement, predictive analytics can foresee matching failures before they occur, identify their underlying causes, and enable proactive remediation. This is particularly relevant as Europe prepares for T+1 settlement where the time available to prevent fails will shrink materially. In collateral management, AI can help analyse constraints, eligibility, liquidity needs and optimisation opportunities, supporting better allocation decisions and more efficient use of assets.

Our ambition is not to add AI at the margins, but to become an AI-augmented FMI.

Other applications are equally important, even if less visible to the market. In compliance for instance, AI can support sanctions screening and AML controls, provided outputs remain explainable, traceable and subject to human oversight. This is a good example of where AI can strengthen risk management without weakening accountability.

Scaling AI in core processes

The lesson from our experience is clear: scaling AI in capital markets is primarily a question of trust. First, firms need AI-ready data: secure, high-quality, well-governed and accessible within clear boundaries. Second, AI must be

integrated into resilient technology architectures, with appropriate controls and monitoring. Third, governance must be designed in from the outset, including risk classification, cybersecurity, auditability and compliance with existing financial regulation. Fourth, the operating model must remain human-centric. AI can augment judgement and automate repetitive tasks, but accountability must stay with people.

More needs to be done to ensure these conditions are in place across the industry. Policymakers and supervisors have an important role in supporting responsible innovation without creating unnecessary overlaps between horizontal AI rules, financial services regulation, data protection, cyber resilience and outsourcing requirements. Greater supervisory convergence, clearer expectations on explainability and proportionate approaches to lower-risk use cases would help firms scale AI safely. Industry collaboration will also be essential, because many post-trade inefficiencies are shared across the market and cannot be solved by one institution alone.

The way forward

The human journey is just as important as the technology journey. AI will require literacy across the organisation, deeper collaboration, and a culture that is comfortable experimenting while remaining disciplined on risk. The unanswered questions are therefore not only technical. How do we measure the true value of AI in critical market processes? How do we preserve accountability as systems become more autonomous? How do we ensure that European capital markets remain innovative and competitive while staying anchored in trust?

For Euroclear, the answer is to proceed with ambition and prudence. AI can help financial market infrastructures improve efficiency, resilience and risk management. But its success will depend on the quality of our foundations: trusted data, robust governance, resilient technology and empowered people. If we get these foundations right, AI will not simply make post-trade faster; it will help make markets stronger.



DERA MCLOUGHLIN

Partner, Head of Consulting,
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Scaling AI: investment, regulation and the transformation challenge

AI is increasingly recognised as a transformative force within financial services. Across banking, insurance, and capital markets, AI is moving from experimentation to operational deployment. While the EU has made significant progress, the question remains as to whether EU financial institutions can successfully scale AI to deliver sustainable business value. This challenge sits at the intersection of investment, regulation and organisational capability.

Evidence suggests that AI adoption within European financial institutions is now widespread. The EBA reported in 2025 that 92% of EU banks had deployed AI, most commonly in AML, fraud detection, customer service, credit assessment, and operational automation. Similarly, the ECB has reported that more than 85% of significant institutions under its supervision utilise AI and GenAI.

The insurance sector demonstrates similar progress. EIOPA has reported that half of non-life and nearly one-quarter of life insurers have adopted AI to support underwriting, claims,

customer engagement, pricing optimisation, and actuarial modelling. These findings suggest that the EU is broadly comparable with other advanced economies in the practical deployment of AI across financial services.

Investment

However, a different picture emerges when investment is considered. Whilst European financial institutions are increasingly investing in AI-enabled transformation, the region lacks the concentration of venture capital, hyper-scale technology firms, and AI infrastructure that characterise other regions such as the USA, where private AI investment significantly surpasses EU levels. This disparity is important because value in AI increasingly depends not only on adoption but also on the ability to develop foundational models and access advanced computing capacity.

The distinction between adoption and innovation is critical. European financial institutions are becoming sophisticated consumers of AI, yet comparatively few are creators of frontier AI systems. Consequently, many rely on technologies developed by firms headquartered outside the EU. This dependence raises important questions of technological sovereignty, resilience, and long-term competitiveness.

**EU financial services
scale AI adoption,
but regulation, data
and investment
constrain value.**

Transformation

Among the most significant barriers to scaling AI effectively and responsibly is data. AI depends on high-quality, accessible, and well-governed data. Many financial institutions continue to operate with fragmented data architectures developed over decades of mergers, acquisitions, and regulatory change. While financial institutions possess vast quantities of data, the challenge is often not availability but usability as data may be distributed across systems, stored in incompatible formats, or be subject to differing governance arrangements. Without consistent data quality, lineage, and governance, AI models risk generating inaccurate outputs and unreliable decisions.

Closely linked to the data challenge is the persistence of legacy technology

infrastructure. Many organisations continue to rely on core systems designed long before the emergence of cloud computing, or generative AI. Replacing critical legacy systems remains expensive and complex. Consequently, institutions frequently find themselves attempting to deploy advanced AI capabilities on foundations that were not designed to support them.

Perhaps the most underestimated challenge is organisational change. AI adoption is frequently approached as a technology initiative when, in reality, it is a business transformation programme. Successful scaling requires changes to operating models, decision-making processes, workforce structures, and culture. Those that achieve the greatest value from AI are typically those that align technology investments with broader strategic objectives and foster a culture of experimentation, learning, and innovation.

Regulation

The USA and several Asia-Pacific markets, particularly Singapore, Japan, and South Korea, have moved more aggressively than the EU to support AI and autonomous systems in financial services. Their regulatory approaches have generally emphasised innovation and experimentation, while relying on existing legal frameworks to manage risk. By contrast, the EU has pursued a more structured approach with the AI Act, the world's first AI regulatory framework.

The framework provides a foundation for responsible AI deployment, and it is welcome but further clarification is required to support scaling. Financial institutions need greater certainty on the interaction between the AI Act, the Digital Operational Resilience Act (DORA), CADA and existing sectoral regulations. Greater supervisory consistency, clearer guidance on GenAI, and harmonised expectations would reduce implementation uncertainty while maintaining appropriate safeguards, and ultimately go some of the way to balancing the tension between innovation and regulation.



SEBASTIAN GEHRMANN

Head of Responsible AI, Office of the CTO – Bloomberg

Trust that scales with AI

Financial services is handing larger workloads to AI, and the workforce has already made the shift. In a recent survey of 500 London-based finance professionals conducted by Bloomberg, 88% shared that they use AI tools daily or weekly and 90% report productivity gains. Those gains are showing up as better work rather than less of it: 73% say their overall workload has not fallen, while around half are redirecting freed up time toward higher-value activities like strategy, decision-making, and client relationships. AI is changing work to one of judging and evaluating AI outputs, and the direction of travel is toward delegating more tasks to increasingly agentic systems.

Finance is a natural place to put AI to work, given the volume of data it generates, and one where the cost of error is amplified. The same practitioners adopting the technology are the ones asking for control: in the survey, 51% want human oversight prioritized in risk and compliance and 40% in investment and trading, while only 1% think oversight is unnecessary. Responsible deployment rests on the obligations of everyone involved: buy-side firms acting under fiduciary duties, sell-side firms bound by suitability and supervisory standards, and technology vendors whose systems increasingly support these activities.

At Bloomberg, trustworthiness has guided product development since 1981, long before the current wave of generative AI: a product should be accurate, resilient, and verifiable. Applying that standard to AI has exposed a gap in how content risk is defined. Content risk is whether a system's inputs and outputs meet the safety standards of whoever deploys it, and those standards differ by domain. In finance, safe content is shaped by disclosure obligations, advertising restrictions and suitability standards that generic guardrails know nothing about. That is why our Responsible AI team built and published the first AI content safety taxonomy designed for financial services, organized around where risk actually arises: provenance, where systems may touch confidential data or material non-public information; communication, where client-facing content must stay fair, balanced and accurate; and investment activities, where models may create exposure to manipulation, fraud or inadvertent insider trading (Gehrmann et al., 2025)¹.

We have built purpose-built AI for finance since 2009, treat responsible development as a live discipline, and contribute what we learn back to the research community. For instance, we found that retrieval-augmented generation (RAG), a now-standard way of grounding models in source documents, does not automatically make a system safer and can make it less reliable (An et al., 2025)². The lesson was to engineer around it, grounding answers in trusted data and giving users transparent attribution to verifiable sources. The wider lesson is that safety cannot be certified at the model or technique level or taken on faith from generic benchmarks. AI has to be evaluated in the specific context where a system is deployed.

As finance hands more work to AI, trust must scale with it.

That principle should shape regulation too, and here the ground is uneven. In the U.S., there is still no comprehensive federal AI statute, and the state picture is fragmented and unsettled. For any firm touching the EU market, the EU AI Act is binding, extraterritorial, risk-tiered and increasingly operative in 2026 (though not without its challenges and delays). Across APAC, approaches vary again. Products engineered to one authority's definitions can end up non-

compliant or outdated in another, and the ground may shift before they go live.

The answer is not lighter regulation. It is regulation that travels. Most of the risks AI raises in finance are already regulated: market manipulation, fraud, and insider dealing. AI changes the probability and surface of those violations more than it creates new categories of harm. What this calls for is common, principles-based and technology-neutral standards, with oversight proportional to the risk of each application, built on the sector rules that already exist rather than a parallel regime that dates as fast as this technology does.

Regardless of these challenges, financial services firms are rapidly adopting AI. Doing so in a trustworthy manner is critical for the entire industry. Responsible design choices are integral to our product development process at Bloomberg, and we will continue to adhere to them as we navigate the developing regulatory environments across the globe. Whatever shape the rules ultimately take, Bloomberg remains steadfast in its commitment to responsible AI, and to building products our clients can trust.

1. Gehrmann, S., Huang, C., Teng, X., Yurovski, S., Bhorkar, A., Thomas, N., Doucette, J., Rosenberg, D., Dredze, M., & Rabinowitz, D. (2025). *Understanding and mitigating risks of generative AI in financial services*. In Proceedings of the 2025 ACM Conference on Fairness, Accountability, and Transparency. <https://doi.org/10.1145/3715275.3732168>
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Beyond assistants: why scaling AI requires reinventing the bank

Over the past two years, financial institutions have made remarkable progress with artificial intelligence. Thousands of use cases have been identified. AI assistants are moving into customer service, software engineering, research and operations, where many banks are already seeing measurable productivity gains. Large institutions have established AI organizations, governance structures and growing portfolios of production deployments.

Despite that progress, many banks remain focused on the mechanics of adoption rather than what happens next.

Scaling AI is not simply a larger deployment exercise. Moving from 10 use cases to 100 or from one assistant to thousands of employees will not, by itself, produce a different institution. The larger shift comes when AI changes how the bank operates, how decisions are made and where competitive advantage comes from.

Most investment has focused on improving existing operating models. Yet the greater opportunity lies in redesigning them.

In conversations with banking executives over the past year, we've noticed a shift. The discussion has moved beyond copilots and toward questions like whether junior analyst programs still make sense and how relationship managers will supervise AI-generated advice. A year ago, many executives focused on where AI could improve productivity. Today they are thinking about how AI changes organizational design, talent development and competitive positioning. The discussion has become less about deploying tools and more about redesigning institutions around a different economic model.

These leaders see that AI offers much more than improved efficiency across existing processes; it can help a bank redesign client journeys, operations and control functions around AI to improve its entire cost structure and operating model. That allows people to spend less time on routine execution and more time exercising judgment, managing client relationships and supervising increasingly capable AI systems.

Technology alone cannot produce that outcome. The main obstacle is trust.

Customers have always expected banks to make decisions that are understandable, reliable and accountable. That expectation will only become more important as AI systems begin recommending products, comparing providers and, in some cases, acting on behalf of customers. Increasingly those decisions must also be legible to AI agents acting on behalf of customers. Explainability and transparency are becoming commercial capabilities alongside regulatory obligations because both people and machines will influence how financial products are selected and recommended.

**The next competitive
advantage in banking
will come not from
deploying more AI, but
from redesigning.**

The customer relationship is changing. Digital banking strengthened direct connections by making the bank's application the primary interface. AI assistants may weaken that advantage. If customers increasingly rely on intelligent agents to search, compare and execute financial decisions, advantage shifts toward institutions

those agents judge to be trustworthy and reliable.

The workforce presents another challenge. Banking has traditionally developed expertise through apprenticeship, with junior employees learning through repetitive analytical and operational work before taking on greater responsibility. AI is beginning to absorb many of those early-career tasks. Banks will need new ways to develop judgment, client skills and institutional knowledge when much of that training ground has changed. That may require rethinking career paths, performance management and even what qualifies someone to lead teams whose work is increasingly performed alongside AI.

Governance must evolve as well. Banks have spent decades refining governance for people, products and financial risk. AI introduces another operating layer that requires equally clear ownership and accountability. Frameworks designed for dozens of models will not be sufficient when banks manage thousands of AI agents across business functions. Ownership, permissions, accountability, monitoring and lifecycle management become operating disciplines rather than compliance exercises.

Investment may ultimately prove to be the greatest constraint. Building enterprise AI capabilities requires far more than foundation models. Data infrastructure, technology platforms, governance, process redesign, talent and organizational change all compete for capital. Institutions with stronger earnings can reinvest more aggressively, accelerating improvements that weaker competitors struggle to match. That creates a practical advantage: well-capitalized banks can test, learn and redesign faster, while others remain trapped in narrower, incremental programs.

The industry has spent the past two years learning where AI can improve productivity. The next phase will depend on whether banks are willing to rethink how the institution itself is designed. Those that make that transition are likely to build advantages that could shape the competitive landscape for years to come.

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the European Union 2026

AGENTIC AI IN FINANCIAL SERVICES



ONDŘEJ
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Agentic AI in European finance

Financial institutions have spent the past decade absorbing successive waves of artificial intelligence adoption. It has transformed various operations from credit-scoring models to chatbots or generative assistants. Agentic AI is different in kind. Agentic systems are able to autonomously decide and execute. They pursue a goal across multiple steps, invoke external tools and payment rails, they are able to initiate and complete transactions with minimal human involvement. That leap makes the technology commercially compelling, and very challenging from a regulatory point of view.

From assistance to execution: the value case

The specific value of agentic AI lies in closing the "last mile" that previous AI generations left open. For instance, a generative model can summarise a loan file. An agent can advance the process much more. It can assemble the file, verify documents, run affordability checks, price the loan and route only the exceptions to a human underwriter.

By performing those tasks, agents allow whole workflows to be redesigned around straight-through processing. It can generate value by following the entire process, starting with onboarding, KYC remediation, payments investigations, reconciliation, reporting and collections.

The second source of value is orchestration. Agents can synthesise unstructured inputs, such as calls or chats, with structured data to anticipate customer needs and act on them, something no single-purpose model could do. Among institutions already deploying agents at scale, roughly two-thirds expect to redesign their operating model, flattening hierarchies and shifting staff from repetitive execution to supervising workflows.

A revolution in operating models and distribution

Early experience and expectations suggest that agentic AI can reshape how financial institutions are organised or how their products are distributed. The approach to AI adoption differs across the market. Incumbents are concentrating investment in back-office efficiency. Digital-native fintechs are embedding agents throughout customer-facing journeys and product design. The strategic risk for incumbents is very often not the cost line but the customer interface.

Another aspect should be considered on the consumer side, when they start to delegate their financial decisions to personal AI agents. The agent advising on a better mortgage rate or insurance policy may become the main point of contact, not the bank's app. This can heavily impact customer preferences and brand loyalty. Banks or insurance companies would face a strategic challenge on how to address changes in customer behaviour driven by agentic AI advice. Distribution built around apps and branches could be disintermediated by an "agent layer" much as aggregators disrupted insurance.

Is the EU rulebook ready?

When it comes to a regulatory framework, Europe does not start from zero. The AI Act's high-risk regime, which captures most consequential financial-sector use cases, already mandates human oversight and auditability with the EBA and ESMA acting as AI Act supervisors within their sectors. DORA addresses operational

resilience and, since the designation of the first critical ICT third-party providers in late 2025, brings major cloud and AI infrastructure under direct oversight. GDPR governs the data agents consume; PSD2 and the forthcoming PSR govern the payments they may initiate.

Yet the framework was mainly designed for human-operated systems, and whether it fits the agentic era should be investigated. Generally speaking, there may be gaps in it. First, consent and authorisation. Payments law presumes a customer authorising each transaction, not a standing mandate delegated to an autonomous agent. The issue of liability when an agent transacts erroneously across a chain of agent providers, PSPs or merchants is not fully resolved. Second, the AI Act's classification is static, while agentic systems are dynamic and self-modifying and can change in nature over time. Third, the overlap risk falls on supervisors too. Interactions between the AI Act and sectoral financial legislation create legal uncertainty and duplicative compliance burdens. It will also be a challenge for all the supervisory authorities mandated for different rulebooks.

Early experience and expectations suggest that agentic AI can reshape how financial institutions are organized or how their products are distributed.

What is needed in the first place is clarification, such as guidance on human-oversight expectations for autonomous agents and explicit liability allocation for agent-initiated payments. The urgency also lies in closer supervisory cooperation and practice convergence so that different authorities' interpretations do not diverge and fragment the single market. Agentic AI will not wait for the guidance to arrive. Neither, on current evidence, will the businesses.



GIUSEPPE SIANI

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Agentic AI in finance: autonomy, resilience and trust

AI is moving from analytical support to operational agency. In financial institutions, agentic systems can observe data, formulate plans, trigger workflows and adapt actions with limited human input. This evolution can bring material benefits: faster fraud detection, more efficient compliance, better risk analytics and more personalised services. Yet the same features that make agentic AI valuable — autonomy, speed, scalability and reliance on complex data chains — can also amplify risks.

The right question is no longer whether finance should use AI but how to deploy it responsibly, and without weakening governance, accountability and trust.

At firm level, operational risks are the first line of concern. Agentic systems embedded in credit origination, payments, trading or cyber defense may act faster than internal controls can interpret. Errors in data, prompts or model configuration can propagate through multiple processes before they are detected. A model may hallucinate, misclassify a transaction, execute an inappropriate escalation or optimise a narrow objective at the expense of resilience. The more these systems rely on cloud infrastructures, external models, data providers and software libraries, the greater the exposure to

third-party concentration, supply-chain vulnerabilities and operational disruptions. Cyber risk also changes in nature: AI can strengthen detection and response, but malicious actors can use it to scale phishing, impersonation, malware development or vulnerability discovery.

Conduct risks are equally important. Agentic tools may shape customer interactions, product recommendations and credit decisions. If the data are incomplete or biased, outcomes may be unfair, discriminatory or difficult to explain. If customers interact with automated systems without clear information about their role, transparency may suffer. If staff rely excessively on AI outputs, human judgement may be weakened precisely where it is most needed.

Prudential risks arise when AI becomes embedded in core risk management and balance-sheet decisions. Credit scoring, early-warning indicators, liquidity forecasting, capital planning and market-risk models can benefit from richer data and faster processing. But if models are insufficiently validated, poorly governed or updated without effective oversight, they may produce correlated errors or understate risks in stress. Automation can also compress reaction times.

This is the bridge from micro risk to systemic risk. Market-wide effects may emerge through common dependencies and common behaviour. Similar models trained on similar data may generate similar trading signals, risk assessments or customer responses. In benign times

**Agentic AI is not a reason
to oppose innovation.
It is a reason to make
innovation governable.**

this may look like efficiency; in stress it may become herding. Feedback loops can arise if AI systems respond to market movements by in parallel actions, accelerating outflows or disorderly trading. Disinformation generated or amplified by AI could further affect market sentiment, especially when combined with high-speed trading and social media dynamics.

Supervisors should therefore look not only at models, but at systems of control. Existing tools remain relevant: governance reviews, model validation, outsourcing oversight, cyber-resilience testing, incident reporting and stress testing already address many of the

underlying vulnerabilities. But they need to evolve. Supervisors should push intermediaries to properly manage AI inventories, critical use cases, degrees of autonomy, human intervention points, data lineage, third-party dependencies and incidents. Testing should be improved, including scenarios in which several institutions react in the same way at the same time. Auditability must cover not only code and documentation, but decision logs, escalation paths and the ability to reconstruct why an agent acted. The adoption of AI must go hand in hand with accountability, including where systems are provided by third parties, as financial institutions remain fully responsible for their use.

The supervisory objective should be proportionate and technology-neutral, but not technology-blind. High-risk uses require stronger controls, clear accountability at board and senior-management level, and credible intervention mechanisms. “Human in the loop” should not be a slogan: humans must have the expertise, authority and time to challenge, override or stop automated actions. Public authorities also need to invest in skills and SupTech, cooperate across prudential, conduct, cyber, data protection and competition domains.

Agentic AI is not a reason to oppose innovation. It is a reason to make innovation governable. In finance, autonomy can be useful only if it remains anchored in responsibility, resilience and trust. These risks are not merely legal or reputational: a system that is efficient but opaque can undermine trust in institutions and in markets. Trust is both a public good and a competitive asset; as such, it remains our top priority.



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Autonomy can be delegated to AI agents — accountability cannot

When algorithmic trading transformed European equities, it changed speed and scale, but not responsibility. The firms using those algorithms remained responsible for their use and effects. Agentic AI raises this accountability question in a broader setting. The answer remains the same.

Most AI in finance today informs human decisions. It may score credit, flag transactions or draft analysis. AI agents do something different. They act. They pursue objectives across chains of tasks, interact with other systems and agents, and adapt as they go. They can support stronger risk monitoring, automated controls and better services. But as agents become embedded in trading, risk management, compliance and customer processes, more decisions will happen at machine speed, without a human in each loop.

This raises specific challenges for both firms and supervisors. Accountability can blur when outcomes emerge from chains of automated steps rather than identifiable decisions. Auditability

becomes harder when systems may not produce the same output every time and the basis for an action is difficult to reconstruct. When many agents interact, collective behaviour can emerge that no single firm designed. This may include correlated reactions, herding and, in markets, conduct that resembles coordination without agreement.

There is also a concentration and resilience risk. If many firms build agents on a small number of underlying models and providers, behaviour may correlate and operational dependencies may deepen — a systemic dimension that individual firms should assess and manage in their own model and provider choices. The same capabilities can also make it faster to find vulnerabilities and automate attacks, raising operational resilience risks. When agents are supplied by third parties, it is necessary to know before deployment who performs the regulated activity and who answers for it.

This is not without precedent. When algorithmic trading grew, MiFID II did not prohibit automation. It required firms to demonstrate control. Algorithms had to be tested before deployment, monitored in operation, capable of being stopped immediately, and documented so that behaviour could be reconstructed afterwards. The principle was simple. Autonomy is acceptable where control is demonstrable. This principle also applies to agentic AI. It enables rather than restrains. Firms that can demonstrate control can deploy with confidence.

For firms, these principles translate into practical safeguards, extending the logic of MiFID II's algorithmic-trading rules to a new setting. Every agent should have a clearly identified owner, meaning a function with senior accountability for its objectives, boundaries and conduct. Mandates should be explicit, with limits on what an agent may do and the resources it may commit. Testing should precede deployment, monitoring should be continuous, and intervention, including immediate shutdown, should always be possible. Logging should allow firms to reconstruct what an agent did on what inputs and on what basis. Safeguards should be proportionate. An agent drafting analysis should not be governed in the same way as an agent committing capital.

Human oversight must be meaningful rather than nominal. With autonomous agents, oversight of every action is neither possible nor the point. What matters is oversight of the system — its design, objectives, boundaries and performance — and clarity about who exercises it. A human approving

machine output faster than it can be read is not oversight. Governance should treat agents as the firm would treat anyone acting in its name, with defined authority and active supervision.

Supervision will also need to evolve. When decisions move into processes, supervisors must assess model governance, testing regimes, monitoring and controls, not only outcomes. This requires new capabilities and access to data that makes firm behaviour observable. It also requires supervisors to understand these systems from the inside, including by using them in their own work. The same technology that challenges supervision can strengthen it through sharper monitoring, faster analysis and earlier detection. This makes early dialogue between firms and supervisors important.

**Autonomy is acceptable
where control is
demonstrable.**

EU coordination would help before national practices diverge. The risks of agentic AI do not follow borders, and neither do the firms using it. Common expectations on accountability, auditability, testing, resilience and human oversight would give firms predictability and supervisors a shared baseline. This should build on technology-neutral rules and the AI Act, not duplicate them. Guidance can be common, while supervision should remain close to the firms and markets where agents operate.

The principle to uphold through all of this is well established. Firms may organise how they act through employees, systems or algorithms, but they cannot outsource responsibility for what is done in their name. Autonomy can be delegated to machines. Accountability cannot.



GILLIAN HAMILTON

Cloud Regulatory Response
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The agentic horizon: balancing innovation and safety in European finance

The European financial sector stands at a critical juncture, where long-term productivity and global competitiveness must be balanced with systemic safety. Unlike traditional generative AI, which processes inputs to generate static text, agentic AI systems act as autonomous digital entities capable of planning and utilizing external tools, and executing complex workflows. In finance, these "digital workers" can revolutionize operations.

In practice, financial institutions are already deploying agentic systems across three highly impactful domains:

Institutions like HSBC are utilizing the Gemini Enterprise platform to deliver automated, personalized wealth advisory services at scale, augmenting human advisors.

Platforms are integrating Google's Agents Payment Protocol (AP2) standard. For example, utilizing a mandate-based security architecture to let AI agents securely execute transactional payments across platforms, ensuring agent actions align strictly with user intent.

Chief Risk Officers are deploying agentic AI to combat threats like Authorized Push Payment (APP) fraud—which bypasses traditional multi-factor authentication—by deploying real-time behavioral analytics and safety-by-design threat modeling.

Yet, this autonomy expands the risk landscape. Google's research identifies two primary risk categories: rogue actions (unintended behaviors driven by prompt injection or reasoning errors) and sensitive data disclosures. Mitigating these risks requires a hybrid posture combining deterministic controls with dynamic, reasoning-based defenses.

Safe deployment requires alignment on three core principles for secure agent design. First, agents must have well-defined human controllers to ensure accountability and prevent unapproved autonomous actions in critical financial scenarios. Second, agent powers must be limited, enforcing robust guardrails, the principle of least privilege through sandboxing and strict credential management so capabilities cannot be escalated. Third, agent actions and planning must be fully observable, utilizing robust, tamper-evident logging and standardized APIs to ensure monitoring, compliance and auditability.

For European financial entities, deploying AI agents is guided by the complementary frameworks of DORA and the EU AI Act. Under DORA, the focus shifts to systemic operational resilience, where the official designation of major cloud providers as critical ICT third-party service providers (CTPPs) underscores their role in supporting financial services with secure, resilient infrastructure. Within this model, financial entities maintain oversight of cloud-hosted workloads—including AI agents—in alignment with the shared responsibility model. Simultaneously, the EU AI Act's risk-based classification ensures high-risk applications are subject to strict data governance, while provenance and labeling tools preserve trust in the financial ecosystem.

As financial institutions transition toward agentic architectures, cloud service providers play a vital role in providing the secure and modern infrastructure required for safe deployment. To operationalize this, Google Cloud offers a secure-by-design foundation tailored for agentic workflows. Through the Gemini Enterprise Agent Platform, Google Cloud treats agents as digital workers requiring the same oversight as any workforce member. Every agent is assigned a unique

identity to enable granular permissions, while a centralized registry and built-in observability tools provide a clear audit trail. Google Cloud published the Secure AI Framework (SAIF 2.0), which offers structured guidance on agentic risks and controls to help organizations have a global risk approach. Google Cloud will not use customer data to train or fine-tune any AI/ML models without the customer's prior permission or instruction. For highly sensitive workloads, customers can leverage Google's sovereign solutions, including Distributed Cloud (GDC) Air-gapped which provides a fully sovereign, isolated run-time environment. Finally, Google Cloud's "shared fate" approach includes generative AI copyright indemnification and the elimination of data egress fees to prevent vendor lock-in.

The successful governance of agentic AI requires a collective commitment to outcomes-based standards.

The successful governance of agentic AI requires a collective commitment to outcomes-based standards, rejecting overly prescriptive mandates in favor of a harmonized, risk and principles-based framework. Google Cloud is fully committed to supporting this transition, offering our Secure AI Framework (SAIF 2.0) and sovereign cloud capabilities to ensure that European financial innovators can safely scale agentic systems. By co-designing these boundaries as trusted partners, we can successfully build a secure, competitive, and highly resilient digital ecosystem.



HEDVA BER

Global Chief Operations
Officer & Deputy Chief
Executive Officer – etoro

The competitiveness test for Europe

Artificial intelligence is no longer a forward-looking experiment in financial services. It is already embedded in core operations. The real debate is not whether AI will scale, but how to scale it responsibly without undermining competitiveness.

AI is no longer a layer etoro adds on top of its platform, it is the platform. From etoro's AI assistant Tori's proactive intelligence supporting millions of investors, to the systems running underneath the business, AI now touches nearly every decision etoro makes and every product etoro ships. What started as experimentation has become the operating model. It's why the mobile app itself was rebuilt AI-first from the ground up. It's why sub-accounts let investors organize every goal separately, why etoro Edge brings professional-grade tools to active traders, and why agent-powered portfolios let investors build or copy agents that trade around the clock, all kept compliant and in check automatically. And it's why an entire App Store and builders' ecosystem has opened up, inviting developers, quants and everyday investors to build the next generation of AI-powered tools on top of the platform..

These are not incremental productivity tweaks. They are structural shifts in how a retail-facing financial institution operates. AI improves efficiency, strengthens oversight and enhances customer experience simultaneously. As I often say

internally, "The biggest risk today is not using AI." The competitive environment is moving too quickly for hesitation.

Across the financial sector, AI is already widely used in anti-money laundering and fraud detection, credit scoring, portfolio management and automated reporting. Generative AI is expanding these applications further, enabling personalized client communication, enhanced analytics and increasingly sophisticated risk modelling. Looking ahead, agentic AI systems capable of autonomous decision sequences may further streamline operational workflows and compliance monitoring.

Will this lead to fundamental change or primarily incremental improvement? The answer is both. In the short term, AI delivers measurable efficiency gains and better customer service. The most profound transformation will not necessarily be visible to customers, but in how institutions manage risk, compliance and product development at scale.

Europe's regulatory context is central to this evolution. The EU is refining its approach through the Digital Omnibus on AI, clarifications around the AI Act. The direction is clear: strengthen legal certainty, improve supervisory coordination and ensure sufficient infrastructure to support AI deployment.

The Digital Omnibus proposals signal a shift toward implementation flexibility by linking high-risk obligations to the availability of harmonised standards. At the same time, the integration of AI into the revised Product Liability Directive reflects a desire for liability clarity without regulatory overlap.

**Europe's ability to
scale AI responsibly
will define its global
financial leadership.**

In this context, the EU's framework provides a strong basis for responsible AI deployment in retail financial services. The AI Act's risk-tiered approach is conceptually sound. The priority now should be effective implementation, supervisory guidance and coordination rather than additional layers of sector-specific legislation.

The answer to AI risk is not prohibition; it is proportionate, risk-based governance. At etoro, AI deployment follows four steps: defining governance policies, classifying each use case by risk level,

establishing a risk-based approval process and implementing tailored controls and monitoring.

When AI is used on the front end to help clients make better decisions, even if it is technically a tool rather than a regulated advisory service, firms that host the ecosystem cannot externalise responsibility. Embedding AI directly into platforms allows supervision, monitoring and market surveillance to apply across the full client journey, rather than leaving users to navigate disconnected environments with no linked governance.

Europe now faces a strategic choice. The debate should not be framed as innovation versus safety. With a clear, proportionate and coordinated framework, AI can enhance competitiveness, reinforce compliance and deliver better consumer outcomes. Implemented too slowly, however, AI adoption could become a business model risk for European firms competing globally.

Scaling AI responsibly is therefore not just a technical or regulatory exercise. It is a competitiveness strategy. The institutions that succeed will be those that combine ambition with governance and say yes to AI, responsibly.



ELENA ALFARO

Head of Global AI
Adoption – BBVA

Agentic banking at scale: The case for governed self- service agents

From answering to acting

The defining shift in agentic AI is not conversational but operational. AI is moving from informing and recommending to using tools and data, coordinating steps and taking action. For banks, this creates new opportunities for productivity, personalisation and process redesign. It also shifts risk from systems that advise to systems that act.

At BBVA, we do not see this as a fresh start. Over the past 2.5 years, we have built a mature foundation for AI adoption. More than 125,000 employees have access to our general-purpose AI tools, OpenAI ChatGPT and Google Gemini. Around three quarters use them intensively, including across our branch network. Employees have created and shared over 16,000 assistants used monthly.

The impact is tangible and measurable. We have completed more than 60 impact assessments, showing savings of 60-90% on specific tasks. An internal survey (+10,000 responses) suggests average savings of 2.6 hours per employee/week, with a satisfaction score of 4.5 out of 5. Yet technology alone does not transform organisations. Adoption requires access, training, communities, governance and

time for people to redesign how work gets done. Agentic AI must build on that foundation.

A portfolio of agents

There will not be one type of agent or development model. The challenge is combining diversity, speed and control. Self-service agents, created on enterprise low-code platforms, can handle workflows such as reviewing documents, preparing reports, reconciling information or moving data between applications. Custom agents will remain essential for customer-facing, highly differentiated or high-volume cases, or when deep integration and precise control over coordination, response time and cost are required. Custom agents may deliver greater impact per case, while self-service agents can scale faster.

Strategic importance alone should not determine the technology choice, and self-service is not only for non-technical employees. A technical team may also find low-code the best solution. The key questions are risk, required control, workflow complexity and total cost and value, not just token consumption.

The first wave of agents is already supporting employees and coordinating internal work: research, document review, reporting, controls and reconciliations. The next wave will reshape customer journeys through faster service, more consistent decisions, fewer hand-offs and greater personalisation. As impact on customers, financial outcomes or regulated processes grows, controls and human accountability must grow with it.

**Banks should neither
centralise every agent nor
decentralise every risk.**

The self-service multiplier

A major opportunity to reshape companies lies in self-service agents. They put creation in the hands of people who know the process and see the opportunities, allowing business teams to test ideas in days. They can unlock thousands of small opportunities that, together, create significant value but would never justify separate software projects.

Self-service cannot mean that everyone builds and publishes whatever they want. We envision a distributed but

structured model: business areas own a prioritised portfolio; trained builders create and maintain agents; and a central team provides approved platforms, reusable skills, secure connectors, evaluations, monitoring and governance. Low-code agents can later move to custom development when volume, risk or optimisation justifies it.

Governed decentralisation is possible

Agent governance should be continuous and proportionate to risk. It should follow what an agent can do, not which product or area it belongs to. The key dimensions are autonomy, data sensitivity, potential impact, scale of exposure and whether the agent can read, write, transact or trigger actions without human supervision.

Banks should start with low-risk cases: read-only access, reversible actions and human approval for material decisions. Before deployment, agents need scenario-based evaluations, safe connector testing and evidence that they behave correctly in edge cases, not only expected situations. Testing must continue when models or platforms change.

Once deployed, agents should have only the minimum access required, approved actions, policy checks before execution and human approval for high-risk activity. Every execution should be traceable across the agent, user, data, tools and resulting action. Monitoring must cover quality, changes in behaviour, anomalies, cost and incidents, with reconciliation, suspension and decommissioning mechanisms.

The sustainable advantage will not come from any single model or tool, but from a common control layer that connects agents safely to the banking ecosystem and provides permissions, reusable skills, evaluations and monitoring. To make the most of this era, banks should neither centralise every agent nor decentralise every risk. Business-led creation, common infrastructure and proportionate controls can turn agentic AI from a portfolio of projects into a capability embedded across the bank.



TOMAS KLENKE

Managing Director and
Head of AI Solutions & Data
Insights – Commerzbank AG

Agentic AI in banking: advancing innovation with trust and responsibility

Artificial intelligence is becoming a strategic capability for Europe's financial sector. In a period marked by geopolitical uncertainty, demographic change and increasing demands on productivity, banks need to adapt fast. At the same time, trust remains the foundation of banking. This is particularly relevant as the industry moves from generative AI towards agentic AI.

For Commerzbank, AI is a core element of our Momentum 2030 strategy. We use it to improve customer experience, risk management and operational excellence. To this end, we have established a strategic AI program which drives the implementation of prominent AI use cases across the bank together with the technological and data foundation to scale them efficiently. Until 2030, we plan to invest around €600 million in AI and expect our initiatives to contribute around €500 million per year from 2030 onwards.

Commerzbank already started to explore and implement AI use cases ten years ago. Today, the bank uses artificial

intelligence across the entire value chain. Our virtual assistant Ava supports customers around the clock by answering everyday banking questions and ensuring a smooth digital banking experience. Internally, AI automates standard tasks, increasing efficiency and effectiveness while relieving employees of repetitive administrative work. In advisory centers, digital assistants support employees in real time by summarizing conversations and proposing suitable solutions. Throughout the organization, AI is expected to free up and partly redeploy around 10% of capacity.

Agentic AI is a particularly promising next step. While generative AI primarily creates content, agentic AI can execute complex workflows or manage entire problem-solving processes within defined guardrails. Today, it is still an emerging technology. Current applications therefore require realism and discipline. This includes case-by-case decisions as to which type of AI represents the best solution from a cost-benefit perspective.

The transformative potential of agentic AI lies in moving beyond single-task automation. Banking processes often involve multiple handovers across systems, documents, control functions and client interactions. Agentic AI can help orchestrate these steps, reduce breaks in the process and provide employees with better prepared outputs.

Our AI agents will essentially cover three areas of application:

Agile Delivery Agents will support our technology teams in software development, for example through code generation and testing.

The transformative potential of agentic AI lies in moving beyond single-task automation.

Business Support Agents will assist our employees with day-to-day tasks such as documentation, meeting preparation and follow-up, as well as research.

Operations and Process Agents will orchestrate and execute complex end-to-end processes, from Know-Your-Customer checks to document reviews and contract preparations.

However, in a regulated and trust-sensitive industry, the key question is not only what agentic AI can do, but under what conditions it should operate. The EU AI Act provides the central regulatory

framework, with a risk-based approach. Commerzbank's AI governance framework ensures compliance with applicable regulatory requirements and is continuously developed further to reflect latest AI innovations and regulatory updates alike.

At Commerzbank, the effective deployment of agentic AI is therefore ensured by a disciplined governance approach across the entire AI lifecycle, differentiating the treatment of use cases by risk level. Use cases are assessed by risk and purpose, with stronger validation and oversight for higher risk classes. Testing goes beyond technical performance and cover data quality, model risks, fairness, security and failure modes. Monitoring is continuous, because agentic systems interact dynamically with processes and systems. Above all, human accountability remains explicit: AI can automate and accelerate processes, but responsibility must remain under human control. At Commerzbank, humans therefore always define the boundaries.

Policy makers and supervisors can support responsible scaling in three ways:

First, the EU AI Act should be implemented in a risk-based and proportionate manner.

Second, supervisory expectations should allow controlled experimentation before scaling.

Third, requirements across AI governance, data protection and financial-sector regulation should be aligned to avoid overlapping documentation and control burdens. Similarly, inconsistencies and overlaps in supervision should be avoided. This could be achieved by coordinating responsibilities and consolidating supervisory activities wherever possible.

Agentic AI can make banking more efficient and more personal. But it will only succeed if innovation and governance develop together. The future of banking will be shaped by a thoughtful interaction between human and artificial intelligence – with AI deployed responsibly and in a way that benefits both our organisation and our clients.



KELLY DEVINE

President –
Mastercard Europe

Trust is Europe's advantage in an AI-powered payment ecosystem

Most of us are already getting used to AI helping us do things faster: summarising information, cutting through a crowded inbox, planning a trip or finding precisely the product we had in mind. It is not a big leap to imagine AI helping us shop and pay. Consumers will increasingly be able to ask AI-powered agents to search, compare and buy on their behalf. Businesses will use AI to improve customer experiences, reduce friction and find new ways to grow. As this happens, payments will sit at the centre of a more intelligent digital economy.

That creates a significant opportunity for Europe. It also raises a simple question: how do we encourage innovation while protecting consumers and earning public confidence?

The answer is not to slow innovation down. It is to build the trust that allows innovation to scale. If we treat trust only as a compliance obligation, we will miss the bigger opportunity. For AI-powered commerce to work, three things must be clear: who is acting, what has been authorised, and who is accountable.

Payments have always been built on trust. For decades, Mastercard has helped develop the infrastructure, standards and

security that underpin digital commerce. In an AI-powered economy, that means being able to verify identity, capture consent and understand responsibilities at every step.

Digital identity is therefore more than a technical requirement. It is one of the foundations of consumer confidence. It can help confirm that the right person or business – or their authorised agent – is taking the right action, while making digital experiences simpler and reducing fraud.

At Mastercard, we are developing the capabilities that will be required in the future: connected, multi-rail experiences that are ready for AI. Payments will not be defined by one technology, one rail or one provider. Consumers and businesses will continue to choose between cards, account-to-account payments, digital wallets and emerging payment models. What matters is that these choices work together securely and seamlessly. In a diverse European payments landscape, interoperability is not optional; it is essential.

Agentic commerce makes this even more important. Consumers may soon instruct AI agents to act within clear limits: finding the best travel option, reordering household items or comparing products before making a purchase. But AI should not blur responsibility. A consumer should never be left wondering whether they made a choice, or whether an algorithm made it for them.

AI will transform commerce. Trust is the foundation for scaling that transformation.

Through solutions such as Mastercard Agent Pay, and through our work with banks, merchants and technology partners, we are helping to develop secure ways for AI-enabled transactions to take place. The principle is straightforward: AI can make commerce faster and easier, but people should know what they have authorized, who is acting for them and how they can stay in control.

This is not theoretical. Payments already depend on real-time trust at significant scale. In 2025 alone, we proceed and secured 175 billion transactions, using advanced analytics and network intelligence to identify emerging treats. Over recent years, our fraud prevention solutions have helped prevent more than €9 billion in fraud across Europe.

Europe is well positioned to lead this transformation, not by choosing between innovation and protection, but by showing how the two can reinforce each other. The EU already has a strong foundation, from payments and data protection to cybersecurity, digital identity and the AI Act. As AI evolves, Europe should build on that foundation with rules that are technology-neutral, focused on outcomes and designed to avoid unnecessary fragmentation.

We continue to invest in that trust infrastructure. Since 2019, Mastercard has invested more than €10 billion globally in cybersecurity, anti-fraud and AI capabilities. The aim is not only to stop fraud, but to make legitimate commerce faster and easier.

Investment is necessary, but it is not enough. Public-private cooperation will be critical, because no single organization can solve these challenges alone. Fraud increasingly starts outside the traditional payments ecosystem: a fake advert, a fraudulent message or an impersonation call may all occur long before a payment is made. Protecting consumers will require faster intelligence sharing, trusted data-sharing and digital identity frameworks that work across borders and sectors. Cooperation needs to move from principle to practical execution.

Mastercard's role is to help turn that ambition into action: bringing trusted technology, secure infrastructure, open standards and strong partnerships together across Europe.

If we get this right, AI will not simply change the way people pay. It can help unlock growth, security and opportunity for consumers and businesses across Europe. But trust is built in the details: in the way identity is checked, consent is captured, risk is detected and responsibility is understood. That is where Europe can lead.

TOKENISATION USE CASES



**JANUŠ
KIZENEVIČ**

Vice Minister – Ministry
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Capital markets reconsidered. How tokenization can change the status quo

Nowadays, the EU is living inside of a paradox: despite having one of the world's largest economies and one of the deepest pools of household savings, the EU has yet to translate this economic scale into equally integrated and efficient capital markets. Capital markets remain fragmented along national lines, liquidity is dispersed, and post-trade processes are still more complex than they should be. Tokenisation is one of the few technologies that could provide the infrastructural element to close the fragmentation gap, together with enabling regulation and ambitious market reforms.

Unlike some of its global counterparts, the EU still cannot benefit from integrated and efficient capital market. Companies seeking capital need to navigate difficult national regimes, invest

time and money into understanding the difficult and different regulations of several jurisdictions when they were promised a Single Market. EU households keep much of their savings in low-yield deposits, and a significant share of their capital market investments flows outside the EU. Tokenization here provides a clear mechanism on how to reduce issuance and servicing costs, shorten settlement chains, enable more automated corporate actions through programmable assets, and facilitate cross-border distribution of financial instruments. It is not only a new technology, but a different market infrastructure that enables easier access to capital.

The strategic relevance of tokenisation extends beyond efficiency gains. At a time when Europe is seeking to strengthen its competitiveness and strategic autonomy, the ability to mobilise European savings for European investment has become increasingly important. More efficient capital markets can support the financing of sectors critical to Europe's future, including clean technologies, digital infrastructure, artificial intelligence and other strategic industries. Modern financial infrastructure is therefore not merely a question of market efficiency; it is also an element of economic resilience.

**Tokenisation's value
lies not in digitising
assets but integrating
EU capital markets.**

Thinking of the solutions, the DLT Pilot Regime represents an important step in translating the promise of tokenisation into practical market innovation. Rather than promoting technology for its own sake, it provides a controlled regulatory environment in which market participants can test distributed ledger technology for the trading and settlement of financial instruments while maintaining high standards of investor protection and financial stability. Although uptake has so far been gradual, the regime should be viewed as a regulatory laboratory rather than a measure of immediate market success. The experience gained by supervisors and market participants will help identify legal and operational barriers to wider adoption and inform future reforms

of the EU's financial rulebook. This is particularly relevant for the objectives of the Savings and Investments Union, as modernising market infrastructure can reduce cross-border frictions and lower the cost of raising capital. For smaller and less-developed capital markets, the ability to adopt innovative infrastructure without extensive legacy constraints could provide an opportunity to accelerate integration into the broader European capital market.

The greatest impact of tokenisation is likely to come from use cases that address existing weaknesses in European capital markets. Tokenised bonds and other securities are among the most promising applications, as they can improve issuance, settlement and lifecycle management while facilitating cross-border investment. Tokenisation could also support broader access to capital market financing for small and medium-sized enterprises by reducing issuance complexity and costs. In addition, the digitalisation of private market assets, including venture capital, infrastructure and other long-term investments, could help expand investor participation in areas that are essential for Europe's growth.

However, tokenisation should not be viewed as a substitute for the wider reforms required to deepen European capital markets. Differences in taxation, insolvency regimes, supervision and market practices remain important barriers to integration. Technology cannot resolve these challenges alone. Nevertheless, it can provide the infrastructure needed to make future reforms more effective by enabling more efficient, transparent and interconnected markets.

Ultimately, tokenisation will not create a Savings and Investments Union by itself. But if supported by appropriate regulation and broader market reforms, it can become an important enabler of deeper, more competitive and more integrated European capital markets. Tokenisation's value lies not in digitising assets but integrating EU capital markets.



MEL GUNewardena

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Tokenization and the digital transformation of financial markets

The United States has long led global financial markets by combining innovation with trust. From the era of the telegraph and ticker tape through the advent of electronic trading, digital technologies, and the internet, successive waves of innovation have continually strengthened U.S. markets, rendering them the deepest, most liquid, and most trusted in the world. Today, the U.S. is driving the next transformation through artificial intelligence, tokenization, and digital market infrastructure.

From the CFTC's perspective, tokenization is more than creating digital representations of financial instruments, it has the potential to transform both the infrastructure and contracts underpinning over \$600 trillion in U.S. regulated derivatives markets. These markets have evolved beyond traditional risk management to become the primary mechanisms for price discovery and risk transfer across capital markets, energy, agriculture, metals, foreign exchange, and crypto assets; influencing virtually every sector of the global economy.

As markets become increasingly continuous, digital, and automated, tokenization has the potential to modernize the movement of collateral, margin, liquidity, and risk. It can also support the development of tokenized derivatives and new digitally native products that will underpin the new frontier of financial markets.

Initial large-scale applications will likely emerge where tokenization improves market infrastructure. Tokenized cash, U.S. Treasuries, and other eligible collateral can enhance collateral mobility, reduce settlement friction, and support efficient liquidity management. Combined with programmable smart contracts, tokenization can automate margin management, collateral substitution, settlement, and lifecycle processing, each of which has the potential to strengthen operational resilience and potentially lower margin requirements. Greater automation will lead to faster collateral movement reducing the period of risk. In turn, that could lower margin requirements and improve capital efficiency.

Alongside tokenization, several other transformative developments are reshaping global market structure, including artificial intelligence, algorithmic execution, the evolution toward continuous 24x7 trading, and the growth of onchain finance platforms offering digitally native derivatives. Together, these innovations are transforming market microstructure in ways not seen since the transition from open outcry to electronic markets at the turn of the century.

**AI, Tokenization, 24x7
and Onchain Markets are
driving the next frontier
of capital markets.**

As these structural changes take shape, financial markets will become increasingly interconnected. Liquidity, price discovery, risk transfer, and volatility will be transmitted across traditional cash, derivatives, and onchain markets with unprecedented speed, creating a more integrated global market ecosystem. This means that effective regulatory supervision will depend on understanding how risk propagates across this ecosystem to identify vulnerabilities before disruptions become broader events.

These developments introduce new supervisory challenges. As financial market infrastructure becomes

increasingly digital and globally distributed, regulators must supervise interconnected ecosystems rather than individual institutions. Operational resilience, cybersecurity, governance, legal certainty, interoperability, data integrity, and cross-border cooperation will become increasingly important.

Regulation must remain grounded in the economic substance of financial activity. A tokenized security remains a security; a tokenized derivative remains a derivative. As SEC Commissioner Peirce has remarked, tokenization does not transform the nature of the underlying asset. Clear regulatory treatment is essential to support innovation, prevent arbitrage, and preserve confidence.

Under Chairman Michael Selig, the CFTC, as the world's largest derivatives market regulator, encourages responsible innovation while preserving principles that make U.S. derivatives markets the global benchmark. Innovation and regulation should not be viewed as competing objectives. Instead, effective regulation should provide confidence for responsible innovation.

Tokenization should therefore be viewed not as an isolated innovation, but as one component of a broader transformation of financial markets. Alongside AI and autonomous market structures, it is redefining how financial contracts are created, traded, financed, cleared, and managed. The CFTC's opportunity is to help shape the future architecture of global derivatives markets, ensuring responsible innovation strengthens efficiency, resilience, and trust while at the same time reinforcing U.S. leadership, as has been the case for the past many decades.



GEORGE THEOCHARIDES

Chairman – Cyprus Securities and Exchange Commission

Building trusted and resilient tokenised financial markets

The tokenisation of financial assets has the potential to reduce operational costs, improve market efficiency and mitigate settlement risk. Technological innovation will undoubtedly remain a key driver of change within the financial services sector. As regulators, however, our role extends beyond facilitating innovation. We must identify emerging trends, assess vulnerabilities and anticipate unintended consequences that may arise from new technologies and business models.

In this context, there is scope to further strengthen cooperation and coordination among financial regulators and other competent authorities. At the same time, high standards of investor protection, anti-money laundering compliance, operational resilience and cybersecurity must remain at the centre of supervisory efforts. Particular attention should also be given to the way investors engage with digital platforms, ensuring that innovation is accompanied by transparency, accountability and appropriate safeguards.

Tokenisation has the potential to unlock significant opportunities for the EU's financial markets by fostering innovation, enhancing competitiveness and supporting the development of a more integrated capital market. At

the same time, the transition from traditional market infrastructures to tokenised ecosystems will not be immediate and is unlikely to be without challenges. Realising the full potential of this technology will require investment, legal certainty and coordinated action across both the public and private sectors.

The potential benefits of tokenisation are considerable. It can contribute to greater efficiency across the issuance, trading and post-trade lifecycle of financial instruments, while reducing operational and transaction costs through increased automation and digitalisation. Tokenisation may also enhance access to investment opportunities and facilitate more efficient cross-border distribution of financial products, supporting deeper market integration and the objectives of the Capital Markets Union.

At the same time, as tokenised markets continue to evolve, it is essential that innovation is underpinned by sound governance arrangements, robust risk management practices and an effective regulatory framework that safeguards market integrity, investor protection and financial stability.

The EU has established one of the most comprehensive regulatory frameworks globally for digital finance and tokenised markets. The introduction of MiCA, alongside MiFID II, DORA and DLT Pilot Regime, represents an important step towards enhancing legal certainty, strengthening investor protection and supporting the orderly development of digital financial services across the Union.

The current regulatory framework provides a sound basis for the development of tokenised markets.

The DLT Pilot Regime is particularly important for the development of tokenised capital markets, as it creates a controlled environment for the issuance, trading and settlement of tokenised financial instruments using distributed ledger technology. It serves as a bridge between existing financial market regulations and emerging tokenisation models, supporting innovation while preserving market integrity and investor protection. However, despite the valuable experience gained through the DLT, the scaling-up of tokenised markets has so far remained limited partly due to interoperability challenges. The

coexistence of multiple DLT platforms, fragmented technological standards and the difficulties associated with integrating these systems with traditional financial market infrastructures continue to pose significant barriers to broader market adoption and cross-border scalability.

In addition, DORA provides a robust framework for managing information and communication technology risks through requirements relating to governance, incident reporting, operational resilience testing and third-party risk oversight. These safeguards are especially relevant in tokenised ecosystems, which rely heavily on digital infrastructures and interconnected service providers. At the same time, MiFID II continues to provide a strong investor protection framework where tokenised assets qualify as financial instruments, ensuring that established standards regarding transparency, suitability and conduct of business remain fully applicable.

The current regulatory framework provides a sound basis for the development of tokenised financial markets within the EU.

As the EU advances towards deeper capital market integration and greater digitalisation of financial services, it will be important to ensure that innovation develops within a framework that safeguards financial stability, protects investors and preserves confidence in the financial system. The objective should not simply be to support technological change, but to ensure that such change contributes to efficient, resilient and trustworthy financial markets.



ANDREW MULVENNY

General Manager of Trading Platform – Kraken/Payward Inc.

Tokenisation's next phase: from pilots to products that scale

Tokenisation has moved past the proof-of-concept stage. Across the European markets where we operate, the question is no longer whether assets can be represented onchain, but which use cases generate enough liquidity, distribution and investor demand to matter.

Tokenised equities are where we're seeing the clearest growth today. xStocks, for example, has processed over \$37 billion in cumulative transaction volume and reached over 180,000 unique onchain holders since launching in June 2025 - evidence that investors are trading tokenised securities at meaningful scale. That momentum is being followed by real opportunity elsewhere: tokenised money market funds and other short-duration instruments are close behind, with near-instant settlement and programmable transfer solving operational friction for treasuries and institutional desks. Private market instruments – funds, credit and pre-IPO exposure – are the longer-term opportunity: tokenisation addresses a structural gap, since illiquidity has historically kept these assets out of reach for all but the largest allocators.

What unites these use cases is that tokenisation is not the end goal. It is infrastructure that makes assets easier to distribute, hold, trade and combine into new structures. For issuers, this means

access to a broader, global investor base without rebuilding distribution in every jurisdiction. For investors, it means fractional access to assets previously sold in large blocks, and the ability to move exposure between platforms and wallets rather than being locked into one custodian's ecosystem. Because tokenised assets are programmable, they also open room for product innovation – instruments automating coupon payments, embedding compliance checks, or bundling exposures impractical on legacy rails.

Secondary market liquidity is where the upside is most direct. Fractional units and near-continuous settlement let an asset trade in smaller size, more often, and against a wider pool of counterparties than batch-settled, minimum-lot markets allow today – narrowing spreads and improving price discovery. That upside is only realised when tokenised instruments reach a broad market; confined to closed, single-platform environments, liquidity remains shallow and price discovery weak, regardless of how sophisticated the technology is. The more interesting developments are where tokenised assets can move across venues and trade against genuinely diverse buyers and sellers, which is what turns a digital wrapper into a functioning market.

This points to the main constraint on the sector's growth: fragmentation. Multiple firms are building tokenisation infrastructure on different chains, legal wrappers, and custody and settlement models. Each initiative can work well for its own users, but the absence of common standards for issuing, holding and transferring tokenised assets limits network effects that make any market genuinely liquid. An investor holding a tokenised bond on one platform today often cannot move it, trade it elsewhere, or use it as collateral elsewhere. Until that changes, tokenised markets will remain parallel pools rather than one deeper market.

Tokenisation only delivers value once liquidity, distribution and trust converge.

Regulatory clarity is the other precondition, and Europe is well placed to provide it. MiCA has given the EU a licensing and supervisory framework for CASPs; the next step is extending that clarity to how tokenised securities interact with existing rules under MiFID, rather than treating tokenisation

separately. The EU's DLT Pilot Regime is a useful start for testing tokenised trading and settlement, and the Commission's proposal to raise its volume threshold from €6bn to €10bn, part of the Market Integration and Supervision Package, is a welcome step – though the reform is still working its way through Parliament and Council, and scope remains narrow relative to emerging use cases. Firms need certainty on custody, settlement finality, and how investor protection rules apply once an asset's legal form and technical representation differ. Where clarity exists, adoption moves faster; where it doesn't, firms build cautiously.

Interoperability standards, whether from industry consortia or regulators setting baseline technical requirements, would unlock more liquidity than any single platform's efforts. The same applies to custody: investors need confidence that tokenised assets can be safely held and transferred regardless of which platform issued them.

None of this argues against experimentation. The current period of parallel initiatives is a necessary part of how new market infrastructure develops, producing real lessons about what works. But the next phase of growth depends less on new pilots and more on connecting what already exists: shared standards, interoperable custody, and secondary markets deep enough to make tokenised assets genuinely liquid rather than merely digital. Europe can lead by building that connective layer on top of MiCA and the DLT Pilot Regime, rather than waiting for fragmentation to resolve itself.



TOM SULLIVAN

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Tokenization and the future of post- trade infrastructure

As the digital asset landscape matures, the conversation is shifting from whether assets can be tokenized to where tokenization can deliver meaningful value. While much attention has focused on digitally-native securities and new asset classes, some of the most significant opportunities lie within the post-trade ecosystem, including settlement, asset servicing, collateral management and securities financing.

For financial market infrastructures (FMIs), tokenization is not about replacing existing market structures. It is about enhancing how markets operate. By creating digital representations of real-world assets that can move more efficiently across the financial system, tokenization has the potential to improve transparency, reduce operational friction and support more efficient use of capital.

Among the use cases, collateral management is particularly compelling. Today, collateral is often distributed across multiple custodians, counterparties and platforms during standard market hours, limiting firms' ability to mobilize assets quickly when needed. Tokenization can improve collateral mobility by enabling assets

to move more efficiently across borders and timezones, while enabling financing, margin and settlement workflows. As firms adapt to shorter settlement cycles, higher collateral demands and more global market activity, the ability to deploy collateral more quickly, and outside traditional hours, may become a significant source of operational and capital efficiency.

Repo and securities financing markets could realize similar benefits. Faster asset mobilization, greater visibility into collateral positions and more automated workflows have the potential to improve liquidity management and reduce operational complexity. These efficiencies become even more important as markets evaluate longer trading hours and more continuous operating models.

Settlement is another area where tokenization can create meaningful impact. Financial markets have spent decades improving settlement safety and efficiency, yet many processes still rely on multiple handoffs and reconciliations between participants. Tokenization can support more automated workflows, improve transparency across transaction lifecycles and reduce the operational burden associated with maintaining consistency across systems. The opportunity is not simply faster settlement, but more efficient and predictable settlement supported by higher-quality data and improved visibility.

**Tokenization can
modernize post-trade
markets while preserving
safety and resilience.**

Asset servicing may also benefit. Corporate actions and other lifecycle events often require extensive coordination among market participants. By providing a more synchronized view of asset ownership and entitlements, tokenization can support greater automation and reduce manual processing. Over time, this could improve the experience for issuers and investors alike while helping address longstanding operational challenges.

However, technology alone will not determine success. The industry's ability to achieve interoperability will be critical. Tokenized assets must be able to move across platforms, networks and market participants without creating silos or fragmentation. Common standards, coordinated operating models and trusted infrastructure will be essential to ensuring tokenization delivers benefits

at scale. Interoperability should be viewed not as a technical feature, but as a prerequisite for adoption.

This is where FMIs remain indispensable. The resiliency, governance and risk management that underpin today's financial markets will be just as important in the digital ecosystem. Rather than being displaced, FMIs are well positioned to help bridge traditional and digital markets, supporting innovation while preserving market stability.

For this reason, traditional and digital infrastructures are likely to coexist for many years. The future is unlikely to be defined by wholesale replacement of existing systems. Instead, established market infrastructure will create interoperable bridges, enabling assets to move seamlessly between traditional and digital environments while maintaining the protections market participants expect. By enhancing collateral mobility, reducing reconciliation requirements, supporting automation and enabling more efficient liquidity management, tokenization can help modernize post-trade activities while preserving the trust and resiliency that are fundamental to the financial system.



JANE HEINRICHS

Head of US Government
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Tokenisation: The next chapter in asset management

Tokenisation has generated excitement across financial markets, with many believing that it will fundamentally reshape asset management. The history of the fund industry has been defined by key innovations: the creation of mutual funds, the development of money market funds, and the introduction of ETFs. Fund tokenisation has the potential to become the next major chapter in that evolution.

Although the technology holds promise, the immediate opportunities are less about new investment products and more about improving the infrastructure that supports them. Tokenised money market funds show how tokenisation can enhance collateral mobility, operational efficiency, and capital utilisation while leveraging the strengths of existing regulated fund structures.

For decades, money market funds have served as core cash management vehicles, offering daily liquidity, principal stability, and exposure to high-quality short-term instruments. Since their introduction in the 1970s, they have become one of the most widely used liquidity management tools for both institutional and retail investors. Their combination of market-based yields, transparency,

diversification, and highly liquid underlying investments has made them a trusted component of global financial markets. These same characteristics also help explain why money market funds are widely accepted as collateral and are a natural candidate for tokenisation.

Today, investors increasingly expect faster movement of assets and seamless access across financial ecosystems. Tokenisation can help meet these expectations by representing fund interests digitally while preserving the fund's underlying investment characteristics.

The area where tokenisation may prove most transformational is collateral management. Traditional collateral workflows often require various institutions, including custodians, transfer agents, and counterparties, to coordinate transfers and substitutions. These processes can create operational friction and lead firms to hold excess collateral buffers.

The recent Global Digital Finance and ISDA report on US tokenised money market funds concluded that tokenisation can improve collateral mobility by enabling assets to move more efficiently across institutions and market infrastructures while maintaining legal, regulatory, and operational safeguards. The report also highlights the potential to reduce collateral fragmentation and streamline collateral transfers and substitutions, helping high-quality assets move more seamlessly through the financial system.

Tokenised funds can improve market efficiency and collateral mobility.

For investors, tokenisation expands the utility of money market funds. Traditionally used for cash management and liquidity purposes, money market funds in a tokenised environment may also serve as readily deployable collateral supporting a broader range of financing and capital markets transactions. This could improve capital efficiency by allowing investors to use a single asset to meet liquidity, investment, and collateral needs while continuing to benefit from professional liquidity management.

But the benefits extend beyond collateral mobility. Tokenisation offers the prospect of shorter settlement cycles, greater transparency, lower operational costs, and enhanced interoperability.

Compared with posting cash as collateral, TMMFs allow investors to maintain exposure to a yield-generating, liquid investment while meeting collateral obligations and improving capital efficiency. Tokenisation may also help connect traditional financial markets and emerging digital asset ecosystems. As financial institutions increasingly use distributed ledger technology, investors will require liquidity and collateral solutions that can function across both traditional and digital environments. Tokenised money market funds may be well positioned to support that transition because they combine established investor protections with new operational capabilities.

The success of tokenisation, however, will depend as much on regulatory policy as on technology. Policymakers continue to address legal certainty, custody, interoperability, and collateral eligibility, among other issues.

Importantly, tokenisation should not be viewed as replacing traditional asset management. It enhances the operational utility of fund interests while preserving professional portfolio management, liquidity oversight, governance, and investor protections.

Tokenised money market funds demonstrate how established products can evolve to support the next generation of capital markets while preserving the attributes that investors already trust. Rather than creating a new asset class, tokenisation enhances the utility and collateral mobility of a familiar, highly regulated investment product.

SCALING TOKENIZATION TO SUPPORT SIU



CHRISTOPHER P. BUTTIGIEG

Chief Officer Supervision
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Authority (MFSA)

From sandbox to scale: unlocking the EU's tokenised securities framework

The EU has built the most advanced regulatory framework for tokenised securities globally, yet the architecture is not yet fully sufficient to support largescale tokenised capital markets. While the foundations are firmly in place, the conditions for industrial scale adoption remain a work in progress. In this context, the EU has implemented the DLT Pilot Regime, establishing a statutory regulatory sandbox that permits the issuance, trading, and settlement of tokenised securities through DLT based market infrastructures while providing for targeted exemptions from certain traditional rules. Despite this significant regulatory innovation, practical market uptake has been limited.

A 2025 review by ESMA revealed only a handful of authorised DLT market infrastructures and relatively low activity

levels. The barriers to scale are not rooted in the legal validity of tokenisation itself, but rather in restrictive transaction thresholds, the temporary nature of the sandbox, and the absence of an on-chain cash settlement mechanism. The DLT Pilot Regime also sits within a broader EU policy agenda to foster integrated and innovative capital markets, reflected in the European Commission's Market Integration and Supervision Package (MISP), which seeks to deepen market integration and create conditions conducive to financial innovation.

When analysing the development of tokenised securities in Europe, the current framework's limitations and the proposed MISP fixes become clear. While secondary trading is legally viable, the original DLT Pilot Regime choked growth by imposing strict market capitalisation thresholds, aggregate activity caps, and rigid limits on eligible instruments. MISP directly addresses this by proposing to remove asset specific caps, significantly raising the aggregate market value limit for DLT financial instruments from €6 billion to €100 billion, and creating a simplified, more flexible regime for smaller operators handling up to €10 billion.

Settlement remains highly complex because of hurdles in defining exactly when legal settlement finality occurs on chain, navigating the interplay with legacy post-trade infrastructures, and enabling on-chain Delivery versus Payment (DvP). The Commission's proposal to replace the Settlement Finality Directive with a modernised Settlement Finality Regulation aims to bridge these gaps by recognising DLT arrangements. Furthermore, digital custody is increasingly manageable, but it presents unique supervisory friction points around private-key management, the segregation of client assets on shared ledgers, and operational resilience.

Tokenisation introduces novel supervisory challenges that strain traditional, nation-centric oversight. Disintermediated market structures, where traditional middle-tier institutions are bypassed, blur the lines of liability and operational risk. When an error or exploit occurs on a decentralised ledger, it becomes difficult to legally assign fault between autonomous smart contract code, distributed network nodes, and the underlying platform operators. Managing these core vulnerabilities of distributed ledgers and smart

contracts requires specialised technical competencies that currently vary among national competent authorities (NCAs), leaving the financial ecosystem exposed to fragmented supervision and systemic operational blind spots. This vulnerability is further compounded by the unique digital operational resilience profile of DLT platforms, where validation failures among shared network nodes, and complex smart contract dependencies present acute IT integrity risks that legacy operational frameworks were never designed to police.

To address this supervisory fragmentation, the EU supervisory convergence model must evolve to better take into account the new DLT realities of market infrastructure. To ensure consistent supervision whilst fostering innovation in a competitive environment, ESMA must work to ensure that these emerging risks and vulnerabilities are addressed in a consistent manner by NCAs. Crucially, DORA should provide the common operational resilience framework underpinning the supervision of DLT market infrastructures. By applying existing supervisory convergence tools to DORA, these bodies can for example issue joint regulatory guidelines on smart contract auditing, coordinate Common Supervisory Actions specifically targeting DLT custody and private key security. Such structured cooperation ensures that all NCAs benchmark operational resilience and software vulnerabilities against the exact same rigorous European standards.

EU MISP reforms advance tokenised markets. Scale hinges on laws, digital settlement and Convergence.

Ultimately, the MISP reforms prove that the EU is moving toward an institutional grade ecosystem for tokenised capital markets. However, achieving true scale will depend on the final legislative implementation, the seamless availability of wholesale digital settlement money, and the successful coordination of convergent supervisory standards across all Member States.



THOMAS VLASSOPOULOS

Director General, DG Market Infrastructure & Payments – European Central Bank (ECB)

From experiment to scale: building an integrated tokenised ecosystem for Europe

Tokenisation is not just another technology experiment. It is a strategic opportunity to shape the next generation of capital markets infrastructure. The recent statement on digital finance by the Eurogroup+ highlights the momentum that has built up behind this idea in Europe¹.

Financial institutions are piloting the use of distributed ledger technology (DLT) to issue, trade and settle financial instruments. The promise is considerable: efficiencies through automated processes, risk reduction, innovative use cases and broader market access.

For the EU the opportunity is even greater. Tokenisation offers a rare opportunity to move capital markets away from a fragmented issuance, trading and post-trade landscape towards one that is integrated – or at least interoperable – from the outset.

Seizing this opportunity will not happen automatically. Despite the proliferation of initiatives, tokenisation has not

reached scale. And in attempting to grow, digital finance must avoid rebuilding in tokenised form the fragmentation that Europe is still seeking to overcome in traditional capital markets.

Two conditions are therefore essential. First, the European DLT ecosystem needs a safe settlement asset. Second, it needs integration – overcoming potential silos as market actors build proprietary networks in pursuit of their own network effects. The Eurosystem is addressing both challenges through its work on Pontes and Appia.

Through Pontes, the Eurosystem is making central bank money available for the settlement of DLT-based transactions. For transactions between financial institutions, it is of fundamental importance to settle in an asset that does not carry credit risk, is not subject to price fluctuations and is flexibly available at the size that markets need. This is why also tokenised markets need the safety, trust and scalability that central bank money can uniquely offer. Making it available natively in tokenised form will allow the industry to innovate and scale up on a sound basis.

Scale will not come from technology alone. It requires trust, interoperability and common standards.

Private settlement assets also have an important role to play, much like they do in the traditional system, not least as not everyone has access to central bank money. Yet for private settlement assets to scale, they also need the underpinning of central bank money. Take tokenised deposits, for example: to transfer them across different banks while keeping the efficiency of tokenisation, tokenised central bank money is needed as a bridge to allow the banks to settle between each other.

Central bank money also has a broader connecting function. Today it links the components of the traditional financial system. Tomorrow, it can bridge traditional and tokenised worlds, ensuring that liquidity does not split into fragmented pools operating on incompatible terms.

Settlement, however, is only part of the challenge. Europe's experience with T2S shows that a common settlement platform can deliver substantial

integration. But it also shows that settlement alone is not enough. Fragmentation persists along the rest of the value chain, in issuance, trading and asset servicing. A tokenised ecosystem risks the same fate unless integration is pursued more broadly.

This is where Appia becomes essential. Appia seeks to ensure that tokenised markets develop around common standards, shared utilities and interoperable architectures rather than isolated platforms pursuing closed network effects. This would ensure reachability, open access and compatibility across the services of multiple providers.

None of this can be achieved by the Eurosystem alone. Pontes and Appia are carried out in close partnership with the market, through tests with private-sector participants who bring the use cases, the technology and the business insight. This collaborative approach ensures that public infrastructure remains open, adaptable and supportive of genuine innovation.

Other public authorities also have a crucial role. Legal certainty and regulatory clarity on the treatment of digital assets – including tokenised deposits – are indispensable. Building on the Commission's review of the DLT Pilot Regime, the priority now is to develop a bespoke EU-level framework for tokenised assets, which would enable their seamless issuance and transfer across the Union. Above all, we must avoid legal fragmentation along national lines.

Tokenisation can reshape European finance for the better. But scale will not come from technology alone. It requires trust, interoperability and common standards. Pontes and Appia can provide the anchor and the rails, but completing the journey will require a shared commitment from public authorities and market participants alike: not to replace yesterday's market silos with tomorrow's digital ones.

1. *Statement of the Eurogroup+ on digital finance, Brussels, 9 July 2026.*



NATASHA CAZENAVE

Executive Director –
European Securities and
Markets Authority (ESMA)

Building a credible pathway for tokenisation in the EU

Tokenisation is increasingly moving from experimentation towards practical market applications. Global issuance of tokenised assets has grown significantly in recent years, suggesting that Distributed Ledger Technology (DLT) gradually becomes part of mainstream financial market infrastructure.

Against this backdrop, ESMA seeks to understand and accompany market developments, while ensuring that the EU supervisory and regulatory framework enables market participants to seize the opportunities offered by DLT, enhancing innovation and the competitiveness of EU capital markets without compromising investor protection, financial stability or market integrity.

The DLT pilot regime has been a valuable testing ground: six authorised infrastructures have so far facilitated issuance worth €546 million. We are observing renewed interest from incumbent market infrastructures, likely anticipating the higher thresholds proposed under the Market Integration and Supervision Package (MISP).

The adjustments proposed under the MISP – including the recalibration of the DLT pilot regime, targeted amendments to the CSDR and refinements to settlement finality rules – represent an important step in addressing existing constraints. Yet, a sandbox approach, however well-designed, cannot on its own allow tokenisation to scale.

In ESMA's views, robust settlement arrangements are an essential precondition. This is why we support the Eurosystem's Pontes and Appia initiatives, as they address the need for settlement in central bank money. Tokenised commercial bank money and MiCA-authorised e-money tokens could also play an important role.

More fundamentally, legal certainty is an essential factor to support technological innovation. The absence of a sufficiently clear and harmonised legal framework remains one of the principal obstacles to wider adoption. Important questions persist regarding the legal recognition of DLT-based registries, the transfer of legal title, settlement finality, custody arrangements and cross-border enforceability. If left unresolved, these issues risk encouraging siloed national approaches and creating costly workarounds that could undermine the objective of deeper market integration pursued by the MISP. Interoperability initiatives will therefore need to be backed by a sound legal framework, ensuring that competition between market operators and infrastructure providers fosters innovation without creating new sources of market fragmentation or liquidity segmentation.

A sandbox approach cannot on its own allow tokenisation to scale.

An equally important objective is to facilitate the tokenisation of existing securities. EU CSDs currently hold securities worth several trillion euros, representing a substantial pool of assets that could benefit from tokenisation over time. Allowing the migration of part of this existing stock would support efficient use of established market infrastructures, particularly as other jurisdictions continue to advance towards production at scale. The SEC's decision to grant conditional exemptive relief for certain DLT-based settlement arrangements illustrates how targeted regulatory flexibility can facilitate innovation while maintaining appropriate safeguards.

Looking ahead, one possible avenue worth contemplating would be a dedicated 28th regime for tokenised securities, defining a common set of legal effects capable of supporting tokenisation across the Single Market. Incremental experimentation, beginning with standardised use cases and informed by the experience gained through the DLT pilot regime and ESMA's tokenisation mapping exercise, could help establish the evidence base for such a framework.

Throughout this process, close dialogue and cooperation between public authorities and market participants will remain critical. ESMA will continue to engage with private stakeholders and relevant authorities, including the ECB, the Commission, EBA, Member State and third-country competent authorities. Market-wide monitoring will also need to keep pace as tokenisation shifts from a nascent phenomenon towards a potentially important component of core market infrastructure.

Ultimately, tokenisation should not be viewed only as a technological mutation, but as a market infrastructure transformation. Its long-term success will depend on whether Europe can combine innovation with legal certainty, coherent market design and effective supervision. Achieving this balance would allow tokenisation to evolve from isolated use cases into a genuine driver of further integration, greater competitiveness and more resilient European capital markets.



IVAN ODONNAT

Director General, Directorate
General Financial Stability and
Operations – Banque de France

Settlement assets for tokenised financial markets: the Eurosystem's roadmap

Tokenisation is moving rapidly from experimentation to production across financial markets. As distributed ledger technology (DLT) matures, the key challenge is no longer whether tokenised finance will work, but how to scale it, while and Europe's strategic autonomy. At stake is preserving financial stability as well as monetary sovereignty and the alignment of settlement assets with the two-tier monetary system.

This means extending, in the tokenised ecosystem, a robust and interoperable settlement architecture capable of supporting safe and efficient delivery-versus-payment (DvP) across a broad range of transactions – one in which tokenised central bank money and tokenised private settlement assets coexist seamlessly, each fulfilling distinct but complementary functions. Central bank money should remain the anchor of the monetary system, while private money issued by regulated financial intermediaries should continue to play its essential settlement role in financial markets and in financing the real economy.

Today, central bank money plays a unique role in systemic payment and securities infrastructures by providing the safest settlement asset for payment-versus-payment (PvP) and delivery-versus-payment (DvP) transactions, thereby minimising credit, liquidity and settlement risks. Such a role should remain unchanged in a tokenised environment. Providing access to wholesale central bank digital currency (wCBDC) for wholesale DLT transactions is therefore essential to ensure that tokenisation delivers efficiency gains without weakening the foundations of financial stability.

However, central bank money is not intended to satisfy every settlement need, and private settlement assets should, as in today's financial system, continue to play an essential complementary role alongside wCBDC. Private settlement assets may include for instance tokenised deposits or regulated euro-denominated stablecoins, provided that they are robust, appropriately regulated and capable of supporting safe and efficient settlement. The existence of large-scale non-European stablecoins further highlights the importance of ensuring the development of attractive and competitive euro-denominated settlement assets within tokenised financial markets. Together, both public and private tokenised settlement assets should replicate the strengths of today's monetary system, while supporting use cases such as cross-border payments, corporate treasury management and the broader development of tokenised finance.

**The future of tokenisation
depends not only on
technology but also on
trust in settlement assets.**

The Eurosystem's Pontes and Appia initiatives provide a coherent roadmap for translating these principles into operational reality. Pontes will enable the settlement of DLT-based financial transactions in tokenised central bank money by Q3 of 2026, before progressively incorporating continuous availability and enhanced settlement capabilities. The Appia project aims to extend this work by preparing the longer-term tokenisation evolution of European financial markets. It explores potential architecture setups of a tokenised financial ecosystem, with a view to strengthening European financial market integration, reinforcing European sovereignty, and ensuring that

central bank money continues to fulfil its role within tomorrow's financial markets. In a future environment likely to be characterised by multiple DLT networks, market infrastructures and settlement assets, interoperability may prove as important as the settlement assets themselves. Avoiding the fragmentation of liquidity and settlement arrangements is a key condition for success.

Together, Pontes and Appia offer an appropriate and complementary path forward, combining an immediate, scalable operational response with a longer-term vision for an interoperable, integrated European settlement ecosystem. In France, the joint Banque de France and Euroclear France Pythagore project provides an actual example of this new path forward, with the first tokenised issuances expected from December 2026. The project aims to fully tokenise the Negotiable European Commercial Paper (NEU CP) market, thereby demonstrating how wCBDC can support the end-to-end tokenisation of an existing financial market. As a full-scale initiative, Pythagore will provide valuable operational experience and pave the way for the tokenisation of additional market segments.

Ultimately, tokenisation will fulfil its promises not only if it delivers tangible improvements for issuers, investors, intermediaries and corporate users, but also if it preserves the principles that underpin today's financial markets: high standards of safety, liquidity and efficiency, a robust two-tier monetary system and the anchoring role of central bank money. The future of tokenisation depends not only on technology but also on trust in settlement assets.



VASILIKI LAZARAKOU

Chair of the Management Board – Hellenic Capital Market Commission (HCMC)

Building regulatory foundations for tokenized capital markets in the EU

The European Union has established a robust regulatory and supervisory framework for tokenized capital markets. The next challenge is ensuring that this framework supports innovation to scale while providing sufficient legal certainty, supervisory confidence and flexibility to accommodate evolving market needs. As other jurisdictions accelerate the development of tokenized financial markets, Europe must preserve investor protection, market integrity and financial stability while enabling responsible innovation.

Tokenization has the potential to improve the efficiency of issuance, trading, settlement and asset servicing, enhance transparency and support more integrated cross-border capital markets. Whether these potential benefits are realized will depend on a regulatory framework that provides technological neutrality, supervisory consistency and clear legal treatment while maintaining high standards of investor protection.

The DLT Pilot Regime provides an important foundation by enabling regulated market infrastructures to test DLT-based trading and settlement

models within a supervised environment and under targeted regulatory exemptions. Beyond experimentation, the Pilot generates practical supervisory and operational experience that can inform future legislative developments and, where appropriate, support broader adoption of DLT-based solutions. It has also highlighted the need for greater legal certainty across the securities lifecycle. As tokenized markets evolve, market participants will need confidence that tokenized securities benefit from recognition equivalent to traditional securities, with clear rules governing issuance, ownership, transfer, collateral arrangements, corporate actions and insolvency treatment. Interoperability between DLT-based and conventional infrastructures will also be essential to avoid legal uncertainty and operational fragmentation.

Given the modest participation in the DLT Pilot Regime to date, the MISP proposals seek to extend its duration and scope to support wider market participation and competitiveness. They recognise that broader adoption requires a framework capable of supporting scalable DLT-based market infrastructures while maintaining appropriate safeguards. Greater interoperability, more flexible settlement arrangements and clearer settlement rules could reduce operational frictions and facilitate the coexistence of tokenized and traditional market infrastructures.

Scaling tokenised markets requires legal certainty, innovation and trust.

Despite this progress, some areas require further clarification. Clarifying the interaction between tokenized securities and the Settlement Finality Directive would help ensure that DLT-based settlement arrangements benefit from equivalent legal certainty regarding settlement finality. Similarly, the relationship between DLT infrastructures and CSDR requirements should ensure that equivalent risks are regulated consistently while allowing sufficient flexibility for technological innovation. The objective should not be to create a separate regime for tokenized markets, but to achieve technological neutrality whereby equivalent activities receive consistent legal treatment.

Scaling tokenized capital markets also depends on supervisory convergence supported by supervisory innovation.

Divergent interpretations across Member States could undermine the cross-border benefits of tokenization. Consistent supervisory practices, supported by ESMA guidance and close cooperation among competent authorities, will therefore be essential to creating a genuinely integrated European market. Supervisors will also increasingly require common tools, shared expertise and data-driven capabilities to oversee DLT-based market infrastructures effectively while facilitating responsible innovation.

As tokenized markets develop beyond pilot projects, investor protection, market integrity and governance standards should remain equivalent to those applying in traditional securities markets. The use of DLT should not affect investors' legal rights regarding ownership, custody, settlement finality or corporate actions. Supervisors will require enhanced capabilities to monitor DLT-based trading, prevent market manipulation and ensure appropriate governance, cyber resilience and operational safeguards. The objective should be to position the European Union as a leading jurisdiction for trusted digital capital markets through a regulatory framework that is technologically neutral, proportionate and adaptable, while maintaining Europe's high standards of investor protection, market integrity and financial stability.



SCOTT BAUGUESS

Vice President, Global
Regulatory Policy – Coinbase

The conditions for scalable tokenised financial markets

Future financial markets will be onchain. There is no doubt. What is not yet known is how fast they will scale, and that will be determined by the speed with which tokenisation improves how capital markets work in practice: cheaper issuance and servicing, broader investor access, faster settlement, more efficient collateral use, better transparency and easier cross-border distribution.

In the near term, scale will be reached with familiar instruments brought onchain by ‘wrapping’ their traditional form – i.e. tokenizing an asset by immobilizing its original form at a custodian. That is the clearest route to adoption because issuers, investors and intermediaries already understand the product, the legal rights and the distribution model. Native onchain issuance is the ultimate goal, but it is likely to emerge later given the lift required for each asset issuer to learn the technology.

This key to this future is interoperability, which requires looking beyond the DLT Pilot Regime and any single pitot or discrete venue. If tokenised assets are trapped in firm-specific or jurisdiction-specific silos, liquidity will fragment and the benefits will remain limited. An asset must be able to exist and move across disparate venues, wallets and networks

with the same uses and rights. The financial infrastructure cannot upgrade.

Interoperability can only happen on open blockchain networks that allow any developer and market participant to issue, offer, and trade assets. Closed architectures will constrain liquidity or lead to a one-market-participant-take-all outcome, simply replicating the walled-garden economies offered by many incumbent systems we operate in today. We must guard against a future of digitally upgraded walled gardens, and allow capital, distribution and innovation to meet at scale.

DeFi-style models could help here. Decentralised exchanges and onchain liquidity pools can, in principle, connect tokenised assets to wider and more global pools of capital, while programmable market-making and collateral mobility can reduce frictions in trading and settlement. This depends on public permissionless blockchain infrastructure and a common base layer for issuance, trading, settlement and collateral movement. The benefits from this are practical: shared standards, greater resilience, lower integration costs, stronger cross-border connectivity and a more open, programmable market structure.

Centralized digital asset platforms can also help by providing the technology stack needed to issue, custody, trade and settle tokenised instruments. The same stack that supports crypto markets can also support tokenised funds, bonds, collateral and other financial instruments. Coinbase, for example, already offers elements of this stack through custody, trading, wallet technology and stablecoin connectivity.

**Tokenised markets
will scale when policy,
infrastructure and market
incentives move together.**

Stablecoins will play a key role. For settlement to happen at scale the digital asset leg must have the counterpart digital asset leg. If cash remains slow, fragmented or confined to domestic systems, tokenised markets will struggle to scale, especially across borders. A wholesale digital euro could play an important role in Europe, but they are not yet available, and stablecoins are already serving in this capacity and will remain essential where interoperability, continuous transferability and global reach matter most.

In the EU, the direction of travel is positive, but further reform is still needed. The proposed revision of the DLT Pilot Regime and the broader market integration package could make tokenised markets more commercially viable by raising thresholds, removing product restrictions, expanding the role of CASPs and enabling MiCA-authorised stablecoins to be used more effectively for settlement.

But further action is needed. If Europe wants euro stablecoins to support tokenised markets at scale, it should make them more competitive and prudently designed, including by revisiting overly conservative reserve requirements. The EU also needs clearer legal treatment of onchain records and tokenised instruments, settlement finality and smart-contract functionality, and an enabling framework for how DeFi-based trading and settlement models can be used in capital markets, not only in crypto markets.

That matters not only for market efficiency but also for competitiveness: the EU will need to move faster if it does not want to fall behind other jurisdictions, including the United States, the United Kingdom and the UAE, which are all moving quickly to support tokenised market development.

Tokenised markets will scale when policy, infrastructure and market incentives move together. The key is legal certainty, interoperability, deep liquidity and programmable settlement.



HEIN TIBOSCH

Head of Digital Assets Product
& OTC – Flow Traders

Scaling Tokenisation: Why access to products is key to a successful SIU

The conversation on the future of tokenization in Europe gravitates toward infrastructure. Policymakers, regulators, and market participants debate interoperability standards, the complex transition from legacy systems, and the underlying mechanics of settlements. These operational questions matter. But they are not, by themselves, the test of whether tokenisation will contribute to the EU's Savings and Investment Union. If tokenisation is to fulfill its vast potential to support the European Savings and Investment Union (SIU), we must constantly remind ourselves that infrastructure is merely a means to an end.

The true objective of the SIU is to mobilise European capital, deepen capital markets, and radically broaden participation. Tokenisation delivers on the SIUs promise only if it expands access for investors and issuers: giving investors access to a wider universe of financial products, and giving issuers seamless access to a deeper, more diverse pool of capital.

Currently, too much of the tokenisation debate focuses purely on connecting

systems. We must shift that focus to connecting investors to products. And that vital connection relies on a practical condition: resilient secondary market liquidity, delivering efficient price discovery, increased investment opportunities and better risk management.

Addressing the Barriers to Secondary Market Liquidity

Liquidity is the fundamental precondition for genuine access but currently it's not fully available. You can tokenise every asset in Europe, but if investors cannot seamlessly buy and sell them at fair, competitive prices, you have created accessibility on paper only. Professional liquidity providers are ready to bridge this gap, but two features of the current framework make it difficult for liquidity providers to commit capital at scale.

First, regulatory asymmetry. Market makers require adherence to the principle of "same activity, same risk, same regulation." Professional liquidity providers should never face asymmetric treatment or exclusionary hurdles simply because the trading venue happens to be tokenised. A level playing field is essential for efficient price discovery.

Second, punitive capital treatment. If prudential frameworks impose disproportionately high capital requirements on tokenised assets, treating them as high-risk digital assets rather than acknowledging the true risk profile of the underlying traditional asset, market makers will simply deploy their capital elsewhere, leaving tokenised markets illiquid and inaccessible.

Moving beyond perpetual pilots

To scale access and resolve these frictions, Europe should reconsider the current frameworks. The European Union's DLT Pilot Regime was a vital first step, allowing industry to experiment safely in a sandboxed environment. However, access at scale requires a clear, predictable path from pilot to permanent, production-grade markets. The current constraints on artificially low volume thresholds and strict caps on issuance size, inadvertently discourage the deep capital commitment required to build real secondary market liquidity.

Crucially, moving beyond pilots is an absolute necessity to unlock participation from traditional institutions. Foundational players are already stepping up. The DTCC's recent initiatives in the US to test tokenised infrastructure prove that traditional finance is ready to evolve. However, as long as European frameworks remain

branded as temporary "pilots," major institutions and liquidity providers will rationally choose to hold back. Perpetual pilots breed perpetual hesitation.

There is a growing competitive dimension that Europe cannot afford to ignore. Other jurisdictions are pursuing tokenisation with markedly greater ambition. In the UK, the FCA and the Bank of England have set out a clear, outcome-oriented vision through their Digital Securities Sandbox, explicitly designed to transition experimentation into a permanent regime. In the US, the direction of travel is even more assertive, with regulators and market infrastructure providers actively building the rails for tokenised securities at scale. Capital and talent are mobile. If Europe continues to iterate on pilots while others build permanent, production-grade markets, liquidity and issuance will simply migrate to the jurisdictions that offer certainty and scalability.

To attract the institutional capital that creates access, the markets need a truly pan-European scalable, permanent regulatory framework. We must strongly resist the introduction of national exemptions or fragmented local interpretations. A patchwork of national rules directly undermines the core ambition of the SIU by trapping liquidity within Member State borders.

Designing markets for access

If Europe wants tokenisation to serve the SIU, we must design markets where access and liquidity are central requirements. That requires well-functioning secondary markets supported by a permanent, pan-European framework: one that treats capital and risks proportionately according to the underlying instrument, while ensuring that the same liquidity-provision activity is treated consistently across venues.

The SIU is achieved when an investor anywhere in Europe can seamlessly access and trade a broader universe of assets. By placing secondary market liquidity as a central market design consideration, we turn the promise of tokenisation into the reality of a unified capital market.



CHRISTOPHER BECK

Co-Chief Executive Officer –
Boerse Stuttgart Digital

A unified European capital market: Why regulation must now be matched by scale

Europe does not lack financial expertise, innovative companies or ambitious regulation. What it still lacks is sufficient scale and integration across capital markets. Digital assets offer an opportunity to address this fragmentation – provided we combine a common regulatory framework with institutions capable of operating across borders.

The digitalisation of capital markets is under way. Crypto-assets are becoming an established part of the financial system, tokenisation is creating new ways to issue and trade assets, and investors increasingly expect their banks and brokers to provide digital financial services.

With MiCAR, the EU has introduced the first comprehensive regulatory framework for crypto-assets across a major economic area. Instead of navigating a patchwork of national regimes, regulated providers can scale across the EU under harmonized rules.

Boerse Stuttgart Digital was an early beneficiary, becoming the first German crypto-asset service provider to receive a

MiCAR licence. This demonstrates what European harmonization can achieve: common standards, greater investor protection, and a credible basis for cross-border growth while some international competitors are still struggling to secure their MiCAR approval.

But regulation alone does not create a competitive market. Companies must build the infrastructure and scale required to compete. A license is the starting point, not the finishing line.

This is how I view the combination of Boerse Stuttgart Digital and tradias. Having spent the past years building tradias into an institutional trading and market-making partner for European banks and brokers, I have seen both the potential of digital assets and the fragmentation holding the market back.

Financial institutions frequently need multiple providers for trading, liquidity, custody, staking and tokenisation. Multiple interfaces increase complexity, cost and operational risk. Our merger addresses this by combining Boerse Stuttgart Digital's regulated custody, exchange and institutional infrastructure with tradias' trading, liquidity, brokerage and market-making capabilities.

We created a fully regulated and modular European one-stop shop covering trading, custody, staking and tokenisation. The combined business unit has around 300 employees, headquarters in Frankfurt and Stuttgart, and locations across Europe and the Middle East.

The core strategic rationale behind the merger is to create a European champion with the scale, capabilities and regulatory foundation required to compete globally. It is a blueprint for building stronger European financial-market infrastructure by combining institutional trust, entrepreneurial speed, technology and regulatory expertise.

Europe does not need to replicate the financial ecosystems developed elsewhere its advantage lies in trusted institutions and established banking networks.

Banks and brokers have the client relationships and distribution networks needed to bring digital assets into the financial mainstream but without having to built everything from scratch. As part of Boerse Stuttgart Group, we provide this infrastructure.

Our infrastructure currently reaches more than 30 million end clients, enabling them to access crypto-assets

through banks and brokers they use. More than 15 millions of these end clients receive tradias pricing and liquidity on an exclusive basis.

Our research reinforces this case: In a representative study in Germany, Spain, Italy and France, nearly one in five respondents expected their bank to offer crypto access within three years. More strikingly, 35% could imagine switching banks if another institution offered better crypto investment opportunities. Investors were also more than twice as likely to trust their main bank for crypto trading than a specialized platform.

Digital assets are therefore increasingly relevant to customer acquisition, retention and long-term competitiveness.

MiCAR will continue to evolve, but Europe should first make full use of the framework it has created. This requires consistent implementation across member states and ambition from the financial industry. Financial institutions now have the regulatory certainty to move from observation towards broader adoption.

Trust remains decisive, but regulation alone cannot create it. Trust must be earned through secure infrastructure, transparent products, reliable execution and effective risk management. What Europe needs are champions with scale to invest, serve institutions across borders and compete globally. The combination of Boerse Stuttgart Digital and tradias is our contribution to that objective: integrated, regulated and scalable infrastructure designed in Europe, for Europe – and capable of competing globally.

STABLECOINS: IMPLICATIONS FOR THE EU



PIERRE GRAMAGNA

Managing Director – European
Stability Mechanism (ESM)

Digital finance for a stronger and more autonomous Europe

Digital innovation offers finance a chance to become both more efficient and resilient. Yet, this transformation is unfolding amid geopolitical fragmentation. Economic ties are used as instruments of power, while competition over technology and financial infrastructure is growing. Therefore, strategic autonomy has become urgent for Europe.

Once seen mainly to improve efficiency and financial inclusion, digital finance has become a strategic asset in global competition. Financial infrastructure affects Europe's ability to finance its economy, preserve stability, and act autonomously.

Europe should seize this moment. The goal is a financial system that supports growth, underpins stability, and strengthens the international role of the euro.

Three priorities stand out.

First, Europe must realise the promise of digital finance.

Technology and digitised assets will make transactions faster, reduce intermediaries, and connect markets more efficiently. More importantly, they will help channel Europe's savings into investments.

EU households and non-financial companies hold more than €15 trillion in bank deposits. This is a major source of financial strength. Europe must mobilise it to support defence, innovation, and the green transition. Public budgets alone cannot meet these investment needs. Putting Europe's savings to better use is the aim of the Savings and Investments Union.

The prize goes beyond faster payments: a stronger capacity to finance Europe's future.

Second, Europe must choose the right path: the digital euro and tokenised deposits.

The digital euro is key to this agenda. In everyday payments, it would give citizens a European means of payment backed by the European Central Bank. In financial markets, central bank money will ensure transactions settle safely and irreversibly. Together, these uses of central bank money will reduce Europe's dependence on non-European financial infrastructure and strengthen its financial sovereignty.

Central bank money provides the public foundation. But private money will continue to circulate alongside it. The question is which form private digital money will take.

Stablecoins, mainly used in crypto markets, have flourished most in the US and have been hailed as the ideal way to digitalise finance. At end-May 2026, market capitalisation stood at around USD 320 billion, but the impressive growth registered last year seems to be levelling off. Europe should choose another path.

Tokenised deposits build on the strength of Europe's regulated banking system. Like traditional deposits, they benefit from comprehensive supervision, strong liquidity requirements, and deposit protection. They earn interest, support bank lending, and enable monetary policy transmission.

The significance of tokenisation lies in new functions it enables. Conditions can be built into payments, so funds move only when agreed terms are met. Value can move faster between parties, and

tokenised deposits can be used alongside assets held in the same digital form. Finally, each transaction settles as a single event: both sides complete together, or neither does, so no party is left having paid without receiving.

By linking Europe's vast deposit base more directly with investment opportunities and capital markets, tokenised deposits will help direct savings where needed most.

Third, Europe must turn innovation into scale.

Europe must avoid replacing today's fragmentation with new digital barriers. Central bank money, tokenised deposits, and the platforms on which assets are traded must work together.

Europe still depends heavily on non-European payment providers and financial infrastructure. Today, non-European companies handle nearly two-thirds of card transactions in the euro area. Building trusted European capabilities will reduce critical dependencies, reinforce the Single Market, and allow Europe to shape finance rather than adapt to decisions made elsewhere.

Scale will require clear European rules, common standards, and sound governance. Public-private cooperation is needed, with private innovation building on public foundations, above all central bank money. This is why the ESM supports the ECB's work to ensure transactions can continue to be settled safely as financial markets become tokenised.

The benefits extend beyond Europe. A trusted and widely used European digital financial system will also strengthen the international role of the euro. Making the right choices in digitalising the financial system and building a robust financial technology will be crucial to sustain global confidence and stability in Europe.

Europe has the institutions, banking system, savings, and innovative capacity to lead. It can modernise finance without sacrificing stability. By combining central bank money, tokenised deposits, and a system that works across Europe, it can mobilise savings and deepen capital markets. Innovation and stability can, and must, advance together.



JOSÉ MARIA BRANDÃO DE BRITO

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From walling off to wiring in: recalibrating Europe's stablecoin framework

Europe faces a paradox. In a world where the United States actively promotes dollar stablecoins, a very defensive European approach to stablecoins risks becoming self-defeating. European demand for stablecoins does not disappear when EU rules are strict, but it migrates offshore into unregulated dollar instruments, exposing EU holders to US currency and fiscal risk and threatening "infrastructure dollarization".

The right response is not deregulation for its own sake, but a shift from walling off to wiring in: making euro stablecoins commercially viable while anchoring them more firmly to central bank money.

Some authors, like Lucrezia Reichlin, Bo Sangers and Jeromin Zettelmeyer, have recently proposed interesting reforms that should be regarded as a starting point to this recalibration, touching upon liquidity requirements, remuneration of stablecoin holders and access to the ECB's balance sheet.

While some of these proposals can be improved or adjusted in their features, they are a good framework to strike two important points of the agenda to scale up euro-denominated stablecoins:

- The mitigation of the bias towards the banking system, tributary to the inertial force of the status quo and resulting from the current MiCAR's liquidity requirements that demand for issuers to hold 30–60% of reserves as bank deposits; and, on the other hand,
- The importance of central bank money to remain the default settlement anchor even as capital markets tokenize.

Regarding the first aspect, it should be noted that this rule compresses issuer margins as volumes scale, disadvantaging euro stablecoins relative to GENIUS-compliant dollar coins that face no such constraint and also to tokenized deposits.

The "significant issuer" designation compounds this bias: capital requirements rise at the very point an issuer becomes commercially viable, penalizing the scale that would let euro stablecoins compete with dollar incumbents on liquidity and network effects.

Liquidity standards can instead converge toward the stricter GENIUS-style asset-quality rules without the deposit mandate.

The right response is not deregulation for its own sake, but a shift from walling off to wiring in.

Furthermore, none of these reforms should be seen as diluting the primacy of public money. Central bank money must remain the ultimate settlement anchor in wholesale markets, because singleness of money cannot be sustained by private promises alone.

To preserve a central role for central bank money in the age of tokenization, it is essential to accelerate the ECB's Appia project to connect distributed ledger platforms with TARGET services, prioritizing the issuance of tokenized central bank reserves. Without an interoperable public settlement layer, tokenized markets will rationally gravitate toward whichever private settlement asset is most liquid: currently, the dollar. That is why this is not a peripheral technical upgrade but

the load-bearing element of the entire strategy.

Objections to this path could center on financial disintermediation: would growing stablecoins drain deposits and starve banks of funding for credit creation? However, evidence suggests this fear is overstated. Euro-area banks currently hold roughly €2.3 trillion in excess liquidity, making a binding funding constraint unlikely.

Some moderate safeguards could be considered, nonetheless, such as establishing a framework for assessing the equivalence of third countries' legal regimes, ensuring that competent authorities have full access to relevant data, and increasing transparency through disclosure.

However, in the end, Europe cannot choose solely between financial safety and monetary sovereignty, because pursuing safety through prohibition actively undermines sovereignty by ceding the tokenized payments layer to dollar instruments.

The alternative is to bring stablecoins inside the regulatory perimeter as a form of central-bank-anchored inside money, because settlement remains euro-denominated and interoperable with public infrastructure.

Furthermore, the promotion of euro-denominated stablecoins is a decisive step as part of a broader journey to boost the international role of the euro. American banks clearly saw this connection and accepted a lighter touch stablecoin regime because dollar stablecoins reinforce, rather than threaten, the dollar's global reserve status.

This journey also includes more issuance of EU common debt to fund common public goods, strengthen the single market, complete the Banking Union and the Capital Markets Union, and continue the significant effort of simplification. Also, this journey must be built on strong foundations, such as deep financial markets, rule of law, a powerful military and a strong and open economy.

This is how Europe secures both the singleness of money and a competitive digital euro ecosystem, preserving a stability that is more than the fatal 'stability of the graveyard' and reasserting its strategic weight in the world scene.



KARLHEINZ WALCH

Director General Banking
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Stablecoins: Enabling innovation without weakening Europe's sovereignty

Stablecoins have moved from the margins of crypto markets into the strategic debate on the future of money, payments, and financial market infrastructure. While their scale is still modest compared with the traditional financial system, their direction of travel matters. The global stablecoin market stands at roughly USD 304 billion, around 99% of which is denominated in US dollars (as at July 2026; source: Coingecko). Two issuers – Tether and Circle – account for more than four-fifths of the market. Euro-denominated stablecoins remain very small by comparison, although initiatives such as EURC, EURAU – Germany's first BaFin-licensed euro stablecoin – and the Qivalis project show that market interest in Europe is growing.

From a central banking perspective, stablecoins have raised a strategic question for Europe. If tokenised financial markets, collateral management, and cross-border payments increasingly rely on US-dollar stablecoins, Europe could be faced with a further, gradual “dollarisation” of infrastructure in its digital financial system. This would

not simply affect choice with regard to payments. It could potentially deepen dependence on non-European issuers, infrastructures, legal standards, and regulatory decisions, whilst weakening the role of European monetary and payment infrastructures in future tokenised markets. If critical interbank payments are increasingly settled in stablecoins rather than default-free central bank money, new risks related to concentration, default, and liquidity could arise.

For this reason, central bank money must remain the anchor of the monetary system, including in tokenised finance. In wholesale and interbank settlement, stablecoins should not aim to replace central bank money where it is both practical and available. The Eurosystem's work on tokenised wholesale central bank money is therefore of central importance. These projects will allow tokenised assets to be settled in central bank money and provide a secure foundation for programmable wholesale transactions. In parallel, tokenised commercial bank deposits could support innovation while remaining consistent with the two-tier monetary system.

Euro-denominated stablecoins may still play a role, but a specific one. They can complement – not replace – public money and bank-based solutions where no suitable alternatives are yet available. Supporting European, euro-denominated, and properly regulated solutions could reduce dependence on offshore US-dollar stablecoins and help to strengthen the international role of the euro. However, this support must not come at the price of weakening prudential safeguards. Stablecoins address genuine frictions in today's payment and settlement systems, but their design can shift liquidity, credit, legal, and operational risks into less robust parts of the financial system if not adequately regulated.

**From a central banking
perspective, stablecoins
have raised a strategic
question for Europe.**

The Markets in Crypto-Assets Regulation (MiCAR) is a major regulatory achievement, as it provides a harmonised European regulatory framework for crypto-assets, including e-money tokens and asset-referenced tokens, known as stablecoins. It establishes requirements with regard to authorisation, reserves,

redemption rights, governance, and supervision. However, implementation is already revealing areas in which further development is needed. The most urgent issue that needs addressing in the MiCAR review is third-country multi-issuance. In multi-issuance models, the same stablecoin may be issued both inside and outside the EU, while reserve structures and redemption obligations differ across jurisdictions. In a scenario of stress, redemption pressures could be directed towards the EU issuer and EU reserves, even if the token circulates globally. This creates risks of runs and possible contagion to EU financial institutions holding reserve assets.

The Bundesbank therefore supports targeted improvements to MiCAR. If a revised MiCAR were to permit multi-issuance structures, their risks must be addressed by clear rules on reserve allocation, redemption responsibility, supervisory access to data, enforceability of EU safeguards, and the prevention of regulatory arbitrage.

The EU needs competitive digital payment and settlement solutions, stronger capital markets, resilient market infrastructures and a regulatory framework that enables responsible innovation. Stablecoins could be a part of that landscape because they respond to real frictions: limited operating hours in some payment systems, costly cross-border transfers, fragmented market infrastructures, and demand for programmable settlement assets. These benefits should not be dismissed. The policy challenge is to preserve them where they are useful whilst ensuring that the cash settlement asset does not become a source of monetary fragmentation, liquidity risk, or regulatory dependency. Nevertheless, the foundation must remain clear: trust must remain anchored in central bank money, sound regulation, and resilient European infrastructures.



VATHANY VIJAYARATNA

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Building Europe's competitive edge in a global tokenised economy

A new generation of financial market infrastructures is emerging, creating new opportunities to enhance the efficiency, reach and resilience of financial markets. Across the financial services industry, in payments and capital markets – and increasingly in multiple economic sectors – tokenisation moves from proof-of-concept to adoption.

The question is no longer whether tokenised technologies will play a role in the future of finance, but how they can be deployed in a way that supports trust, liquidity and long-term growth. While much of the debate has focused on technology itself, financial markets ultimately succeed through their ability to attract liquidity, connect participants and provide confidence in settlement.

Europe's ambition to build deeper, more liquid and internationally competitive capital markets can be accelerated by the growing adoption of tokenisation. These markets are unlikely to develop within national or regional boundaries alone; they will depend on cross-border participation, connected infrastructures and access to deep pools of liquidity.

Cooperation between Europe's major financial centres will therefore remain

important. Given London's role as one of the world's leading international financial centres, maintaining strong links between UK and EU markets can help support the scale and liquidity needed for these emerging markets to develop successfully.

The UK and the EU are deeply connected to international financial markets through longstanding regulatory, commercial and infrastructure links. Building on these connections can promote compatibility across jurisdictions, support scale and reduce fragmentation.

As new forms of digital money emerge, the availability of trusted settlement assets across major currencies will remain important for resilience, market confidence and long-term adoption. The debate should not be framed as a choice between forms of digital money. Wholesale central bank digital currencies (CBDC), tokenised commercial bank money and stablecoins can fulfil complementary functions in future settlement systems.

Building foundations for competitive digital financial markets

Wholesale central bank money will remain the settlement anchor of future wholesale financial markets, providing the trust, settlement finality and monetary foundation on which tokenised market structures can develop.

Building on this foundation, tokenised commercial bank money can extend existing banking models into programmable environments, while stablecoins can support new payment and distribution models. The question is not only which forms of digital money are available, but how they operate together.

Europe can strengthen the international role of the euro and unlock new sources of growth.

Initiatives such as Projects Pontes and Appia in the euro-area, the international Project Agorá and other wholesale innovation programmes for a multi-money environment led by central banks, including the Bank of England – reflect growing recognition that the next phase of market development will depend on effective interaction between trusted public settlement assets and private sector innovation.

Regulatory conditions for success

Tokenised wholesale financial markets grounded in central bank money require legal certainty that ensures that the assets and instruments that flow within possess the necessary settlement finality.

Forward-looking regulatory frameworks support the common technical, data and legal standards required for interoperable platforms and networks. This is underpinned by the 'same risk, same rules' principle which supports innovation, investment and competitiveness. In the EU, the Markets in Crypto-Assets Regulation (MiCAR) is essential for that and will now be further complemented by the Markets Integration and Supervision Package (MISP). Clear signals from legislators and regulators can provide the certainty needed for investment and wider adoption.

As digital markets evolve, multiple initiatives are emerging across jurisdictions and market segments. The priority is to ensure that common principles, compatible frameworks and interoperability preserve resilience while supporting innovation at scale.

Conclusion

The greatest opportunity for Europe lies in creating the conditions for a competitive and interoperable digital financial ecosystem that can support innovation, investment, market integration and long-term growth.

Success will depend on combining trusted settlement assets, innovation and market scale within an open and internationally connected framework. Wholesale CBDCs can provide the settlement foundation for tokenised, multi-money markets while supporting deeper European capital markets.

By doing so, Europe can strengthen the international role of the euro and unlock new sources of growth across a tokenised economy.



LAURENT BERTONNAUD

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Europe needs a sovereign architecture to preserve the two- tier monetary system

The tokenization revolution is coming, and for good reasons! Putting assets and their cash leg on the same ledgers means you can settle a transaction instantly, without counterparty risk and the usual chain of intermediaries. That is a real gain for European markets: faster, cheaper settlement, and a useful contribution to the broader push for more integrated capital markets in Europe, in other words for the SIU. But technology is not the hard part. The hard part is making sure that, in the rush, we do not inadvertently break the monetary system that makes all of this trustworthy.

This system rests on two tiers: central bank money as the anchor, and commercial bank money, created by commercial banks through lending, i.e. financing the real economy. It has worked for a long time, precisely because both layers stay convertible to each other at par, and because banks can expand credit when the economy needs it, under the control of the central bank (through its monetary policy and prudential regulation). Any new form of money that gets in the way of that, i.e. that

pulls deposits away from banks or that can't expand and contract with demand, would be an issue for the European economy.

In this respect, stablecoins are not money in the full sense. They can be useful, for low-value cross-border transfers, for settling tokenised funds, for peer-to-peer payments at low cost. A euro-denominated stablecoin also matters, because today almost all of the market is in dollars, which is not a neutral fact for Europe. But in any case, stablecoins must be 100% backed by safe assets at all times, so it cannot expand with credit the way bank deposits can thanks to the principle of "fractional reserves". And as they are bearer instruments, traded on secondary markets, they can lose their parity with their reference fiat currency. For these reasons, they should not become a store of value competing with bank deposits, and should therefore remain non-interest-bearing payment tokens complementing existing payment rails.

This calls for adjustments to MiCAR. First, replace the rigid 30%/60% bank-deposit rule with a flexible, risk-based allocation toward diversified, high-quality liquid assets, in line with the GENIUS Act, while restricting eligible instruments to issuers established in the EU/EEA, to prevent liquidity leakage outside Europe. Second, require bank issuers to segregate reserve assets on the same basis as e-money institutions, to remove the regulatory asymmetry between the two. Third, bring multi-issuance schemes within MiCA's scope and adapt rules to ensure that even when a part of the reserves sits with a non-EU partner (i.e. multi-issuance), EU holders cannot be left exposed in stress scenario.

**None of this is primarily
about technology, it
is about combining
innovation with
monetary stability.**

Tokenised commercial bank money is different. Whether it takes the form of a tokenised deposit, i.e. existing bank account mirrored on a ledger, or a deposit token issued directly on-chain, it is never traded in secondary markets and always stays convertible at par, circulates only among contractually bound, identified participants, and keeps the same capacity to expand through credit as a normal deposit. Nothing about its nature changes; only the infrastructure does. For it to scale, banks need the same prudential and liquidity treatment than

ordinary deposits, and a common legal framework across European jurisdictions so it doesn't stay a patchwork of national experiments.

Central bank money is also essential. Once banks have netted their bilateral exposures, a settlement mechanism is required to reduce the residual exposure, and that has always been central bank money, the only cash settlement that removes counterparty risk. The ECB's Pontes project, due later this year, will connect private DLT platforms to central bank systems. The ECB's Appia project goes further, exploring extended functionalities for central bank money on an extended scope of infrastructures. Both projects should be delivered as soon as possible. As for the BIS's Agorá initiative, which covers the settlement of tokenised deposits with central bank money internationally, its European part should be integrated into Appia to avoid duplication.

The last piece is where all this settles, i.e. the DLT networks themselves. Such DLT networks should be operated by private operators in Europe and fulfil eligibility criteria for critical financial market infrastructure. Europe has the critical mass to make such networks successful: governance and validators based in Europe, clear legal settlement finality, tokenised central bank money available as the trusted settlement asset, and enough openness to connect with other networks without splintering liquidity.

None of this is primarily about technology. It is about combining innovation with monetary stability and ensuring that the benefits of DLT, and, where relevant, stablecoins, can be fully harnessed while preserving the strengths of the two-tier monetary system that has long underpinned monetary stability and the financing of the economy.



JONAH CRANE

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Stablecoins in the EU: Building on MiCA's foundations

Stablecoins in the EU: Building on
MiCA's Foundations

Europe has established itself as a global leader in digital asset regulation through MiCA, but that first-mover advantage has not yet translated into significant euro-denominated stablecoin issuance. MiCA's origins were defensive: to prevent another Libra. To realize the full potential of stablecoins, alongside other forms of tokenized money, policymakers must now transition from defensive safeguards to a framework that actively promotes utility and market growth.

Safeguarding the Promise of Digital Money

Stablecoins arose to provide a form of on-chain programmable money. Initially they took many forms: algorithmic, crypto-backed, and fiat-backed. Following the high-profile collapse of Terra Luna, the market coalesced around fiat-backed stablecoins and USDT and USDC became the predominant stablecoins used for payments—largely as the cash leg of crypto transactions. As stablecoins have matured, they have begun to improve cross-border transactions, serve new commercial models, and enable new payment modalities such as autonomous agents making frequent, sub-cent purchases for token usage or compute time—all of

which traditional payment rails weren't designed to do.

The policy question that arose was how to ensure the stability of this tokenized money. Europe was well-placed to provide an answer, looking to its framework for e-money as the model. At its core, a stablecoin is a claim on the issuer, carrying the same fundamental promise as a bank deposit or e-money: a credible 1-for-1 redemption right into cash. MiCA's rigorous safeguarding regime—anchored by 1-for-1 backing with safe and liquid assets—is essential to making this promise credible in everyday commerce. But it is not novel—it builds on the success of the e-money regime.

However, the initial policy design can be improved upon in ways that will strengthen reserve management, improve stablecoin utility, and promote financial stability. Requiring issuers to hold substantial reserves as deposits in commercial banks creates unnecessary operational friction and centralizes risk. True resilience is better served by diversifying reserves into short-term sovereign debt. Europe faces a particular challenge in this area, with a shortage of short-duration risk-free assets. Central bank money should also play a key role in reserve management. Keeping central bank money at the foundation of tokenized money would ensure the singleness of money and protect financial stability, while also mitigating the relative scarcity of risk-free euro-denominated assets.

**Policymakers must
transition from
defensive safeguards to
frameworks that promote
utility and growth.**

Integration into Modern Payments

For stablecoins to function as money, they must be treated as money across the broader regulatory landscape. This requires aligning stablecoin oversight with existing payment services regulations and ensuring that tax and accounting treatment do not hinder their use. If routine transactions trigger complex tax reporting obligations, stablecoins will struggle to serve as a viable medium of exchange. Europe must ensure that regulated stablecoins are able to be integrated seamlessly into the financial plumbing used by businesses and citizens alike—alongside tokenized deposits and the digital euro, providing

a modern two-tier monetary system that supports payments innovation.

Strategic Sovereignty and Global Reach

Stablecoins are inherently global. If euro stablecoins are restricted to intra-European use, they offer no protection against the disruption of Europe's access to global markets by foreign powers. By enabling multi-issuance arrangements and dynamic global reserve management, European policymakers can ensure that stablecoin activity within the EU is regulated in accordance with Europe's rules, while complementing the role of the digital euro domestically and enhancing the role of the euro in international digital finance. Europe should enable supervisory authorities to address the potential risks of multi-issuance—through dynamic reserve management arrangements, contingency and resolution planning, and international coordination—adopting hard requirements only once best practices have emerged. In global markets, sovereignty is achieved not through isolation but through flexible market-driven arrangements backed by world-class supervision.

Conclusion

Europe's success with SEPA demonstrated the power of integrated financial infrastructure, and its e-money framework paved the road to ensure stable nonbank money. Today, a similar opportunity exists with stablecoins. By modernizing supervisory tools to embrace open network architectures, the Union can secure its strategic autonomy and provide a resilient monetary layer, both public and private, for the digital age.

CRYPTOASSETS: POTENTIAL FRAMEWORK EVOLUTIONS



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European supervision: the case for convergence

The architecture of the European Capital Markets Union (now the Saving and Investments Union) is shifting its center of gravity from the proliferation of harmonised rules to the consistency of their application. To achieve a uniform landscape, two approaches emerge: [a] centralising supervision under a single European authority; or [b] refining supervisory convergence within a decentralised network of National Competent Authorities (NCAs). While the MISP proposes shifting CASP oversight to ESMA, an expansive application of supervisory convergence tools offers a better approach. This framework cultivates a unified institutional culture and reciprocal trust, facilitating seamless cross-border business without the bureaucratic upheaval of centralised supervision.

Conceptually, supervisory convergence constitutes a structured methodology

aimed at fostering a common supervisory culture and ensuring the uniform application of Union law across the EU. At the level of ESMA, it operates through a strategic, risk-based deployment of a diversified toolkit categorised into: [a] preparatory instruments like supervisory briefings; [b] implementation mechanisms like peer reviews; and [c] remediation tools like the breach of Union law methodology. The ESMA Senior Supervisors Forum (SSF), composed of the Heads of Supervision from NCAs, acts as the institutional engine bridging policy and practice. Operating across multiple sectoral configurations, the SSF seeks to ensure that supervisory engagement is applied consistently in different Member States, thereby mitigating supervisory arbitrage and strengthening the Internal Market.

Central to this effort is the Supervisory Convergence Heatmap, a diagnostic instrument driving a risk-based cycle of oversight. This annual exercise evaluates systemic threats to investor protection, market orderliness, or financial stability, directly informing ESMA's Annual Work Programme, and national risk assessments and supervisory priorities. Paired with risk-based principles, this iterative process ensures that monitoring at national level is an active response to identified risks at European level, which are prioritised, i.e. where risks are greatest.

Instead of centralising supervision, the EU should enhance ESMA's convergence framework.

The digital asset ecosystem provides a compelling empirical case for convergence over centralisation. ESMA has strategically deployed supervisory briefings to harmonise CASP authorisations under the Markets in Crypto-Assets (MiCA) regulation. This instrument provides NCAs with granular guidance on the oversight of market participants, establishing precise expectations across the Union. This mechanism serves as a pre-emptive strike against supervisory arbitrage, ensuring a passported license represents a consistent "gold standard" of compliance, irrespective of the issuing Member

State. Expanding peer reviews and fast-track assessments further fortifies this structure, turning evaluations into an instrument of accountability.

To fully address the cross-border nature of digital assets, the Union must transition from mere coordination to deep institutional synergy, transforming the NCA network into an integrated, high-performance ecosystem. This requires the centralisation of data and harmonised analytical tools to guarantee convergent evaluative outcomes across jurisdictions. Additionally, reinforcing supervisory knowledge networks through specialised workshops will organically align professional judgment, while direct ESMA participation in national engagements will offer this Authority localised supervisory insights.

Lastly, by establishing "centers of excellence" to concentrate technical expertise and introducing a common risk management framework with mandatory minimum engagement levels, the EU could ensure high-risk entities face identical inspection cycles regardless of geography. Under this approach, specific NCAs would leverage their existing operational strengths to anchor highly technical domains, such as smart contract auditing or decentralised finance risk tracking. Instead of isolating this proficiency at the centre, these designated hubs would spearhead Union wide knowledge transfer and develop unified diagnostic tools to upskill the broader supervisory network. This structured dispersion of capability ensures high-standard, identical oversight across all Member States, effectively neutralising supervisory arbitrage while avoiding the friction of a centralised supervision. Ultimately, the future of European market integrity lies in evolving this decentralised model into a sophisticated supervisory central nervous system, achieving the consistency of a single supervisor, while retaining national expertise to realise a frictionless Internal Market.



BEATA SIVAK

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MiCA's next test: convergence over structural overhaul and bridges over silos

Payward, Kraken's parent, shares the European Commission's ambition to deepen capital markets integration, strengthen investor protection, and build a genuinely competitive digital asset ecosystem across the EU. A well-functioning single market for crypto-assets is essential for Europe's competitiveness, and MiCA was a landmark step toward it. Now, regulation should bring a forward-looking, bridge-building instinct to MiCA's next phase. Payward went through a similar shift itself: what began as Kraken, a crypto exchange, has grown into a group bridging crypto and traditional finance, from derivatives to tokenized equities and payments.

MiCA replaced a patchwork of national regimes with a single rulebook and a passport that works. This was welcomed across the industry and positioned Europe as a global pioneer in digital asset regulation, bringing legal certainty and stronger consumer protection. Payward committed to the regulated path early and received its MiCA licence last year. Our experience since has been positive:

a growing number of authorised CASPs - now nearly 300 - reflects healthy market participation, the absence of major crypto-related incidents in Europe suggests regulation and transparency are contributing to stability, and the market is visibly maturing, with firms engaging more closely and constructively with their supervisors.

MiCA has only been fully applicable for 18 months and NCAs are in the early stages of operationalising the framework with market and supervisory practices still settling. Some early friction, such as transition regimes expiring at different times across member states, has already been worked through. This is exactly why the priority now should be to let MiCA's effectiveness materialise before considering structural change to how it is supervised. Firms have invested significantly to get licensed and to build working relationships with their supervisors; regulatory stability is not a nicety, it is a signal to anyone weighing whether to build in Europe.

Effective supervision has clear ingredients: deep familiarity with the entities supervised, proactive engagement, clear accountability, ability to act quickly, and cross-border coordination that matches how this industry actually operates. That coordination should drive consistent outcomes across jurisdictions, not substitute for the direct supervisory relationships that make everything else possible. Responsible firms are not looking to avoid supervision; we are looking for supervision that works: clarity on expectations, a supervisor who understands the business, timely guidance where rules are ambiguous, and ongoing dialogue rather than enforcement after the fact.

**Convergence should be
judged on outcomes,
not on which body
holds the pen.**

Fragmentation concerns are real, but they can be addressed within the existing architecture. Binding mediation powers, common supervisory handbooks, structured peer reviews and stronger coordination mechanisms, with ESMA driving convergence, can deliver consistency without discarding the local market knowledge, direct entity relationships and operational capacity NCAs have built through the licensing process itself. Nor should any reform differentiate supervision by size or significance: splitting CASPs across

two regimes would add complexity, tilt the playing field and fragment the very market the reform aims to integrate. Every authorised CASP should sit under one consistent model. Any restructuring must also weigh its fiscal and operational costs, for institutions and industry alike, against benefits that have not yet been demonstrated.

The MiCA review itself should follow the same logic: targeted fixes, not a wholesale overhaul, focused on gaps that have emerged in practice. One clear area is where MiCA and MiFID don't yet connect for products that sit across both like crypto derivatives. MiFID does not currently recognise crypto assets as eligible collateral, forcing firms to run complex, costly operational workarounds simply to let clients trade in a capital-efficient way. This is not an argument for less regulation; it is a case for MiFID to evolve to accommodate crypto-native mechanisms, or for clear regulatory guidance on how the two frameworks interact. A second area is emerging innovative products like perpetual futures. The EU should adopt a risk-based, proportionate, and outcomes-based approach underpinned by product governance leveraging the existing MiFID framework and industry best practices. Any interventions in new products should be evidence-led and targeted at demonstrated investor detriment rather than applied by analogy, so that Europe does not inadvertently push activity toward unregulated, offshore venues, and remains a competitive jurisdiction while protecting investors and market integrity.

We welcome the continued, constructive dialogue with EU institutions, member states and market participants on how to make the framework and its supervision effective, consistent, proportionate and open to innovation. Dublin is the right place to continue that conversation.



AVI
SELA

Chief Operations Officer,
Regulation – etoro

The next chapter of European capital markets

Tokenization is often framed as a debate between crypto and traditional finance. That is the wrong starting point. The real question is whether we can use new infrastructure to build better, more accessible and more efficient capital markets in Europe, and ultimately whether we can create a financial system where value and opportunity are more evenly distributed.

At etoro, we have already seen what happens when technology lowers barriers to entry. By introducing fractional shares, we helped millions of people access global equity markets in a simple and intuitive way. That was not a philosophical shift, it was an infrastructure shift. We used digital tools to make participation easier and more flexible.

Tokenization is the next step in that evolution. It applies the same playbook, fractional access, intuitive distribution and global reach, on a native digital infrastructure. By enabling assets to be owned in smaller units and distributed more efficiently, tokenization does more than improve markets, it opens up new opportunities for wealth creation to a much broader audience. It moves us closer to a system where participation is not limited by geography, ticket size or complexity.

Moving assets on-chain allows ownership to be represented in a programmable format, opening the door to new forms of distribution, transfer and utility. The goal is not technology for its own sake. The goal is to expand what investors can own, how they can use it, and who can participate, while maintaining transparency, safety and trust.

Scaling, however, does not happen because a new technology exists. It happens when demand, liquidity and infrastructure align. The real breakthrough moment for tokenized capital markets will come when retail distribution connects seamlessly with institutional-grade custody, market-making and settlement.

We are already seeing that bridge form. Hedge funds, custodians and liquidity providers are approaching us to explore how they can support tokenized assets. They see the demand from a new generation of investors who are digital-first and globally connected. Tokenization is not about replacing traditional finance, it is about extending it onto new rails. It creates new avenues for partnership, not disruption for its own sake.

A generation of investors has grown up with crypto markets that are real-time, transparent and accessible across borders. For them, digital and always-on access is the norm. Tokenized equities can bring traditional capital markets closer to that environment. With the right market design and safeguards, extended access models and programmable features can deepen participation and increase liquidity. Liquidity follows utility. When assets become easier to access and more versatile in how they can be used, participation broadens, and with it, the distribution of value across a wider base of investors.

**Tokenization is not crypto
versus finance; it is about
building better markets.**

Europe is not standing still in this process. The European Union has moved from experimentation to scaling. The Market Integration Package expands the DLT Pilot framework, raises thresholds and explicitly targets interoperability to enable institutional-scale tokenization. At the same time, the ECB's work on settlement through Project Pontes and the longer-term exploration of native on-chain central bank money recognises that credible cash-settlement solutions are essential to sustainable growth.

MiCA has provided regulatory clarity for crypto-asset service providers and stablecoin issuers, even as debates around MiCA 2.0 and DeFi signal that supervision will deepen as markets evolve. The political direction in Brussels is clear, innovation is welcome, but it must sit alongside strong AML standards, operational resilience and governance clarity. Interoperability and avoiding fragmented "digital islands" are core priorities, as tokenization is expected to support market integration and the Savings and Investments Union.

Europe has the opportunity to lead by enabling innovation that is both pro-consumer and pro-market. That means remaining technologically neutral and focused on outcomes, wider access, greater transparency, stronger resilience and robust investor protection. It also means building the bridges that allow platforms and institutions to scale safely together.

If we get the framework right, tokenization will not remain a niche experiment. It will become a meaningful upgrade in how Europeans access and participate in capital markets, and a powerful tool to expand wealth creation opportunities across society.



PHILIPP BOHRN

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President Governance
– Bitpanda

What do the MiCA review and CASP supervision share? The concept of a quick fix

Part 1: Central supervision - The right way forward?

For the European single market and its compliant players, the ongoing issues of supervisory enforcement, regulatory discrepancies, and cumbersome bureaucratic friction between European Supervisory Authorities and National Competent Authorities (NCAs) are highly critical. Compliant companies spend millions of euros to play by the rules. When non-compliance is effectively rewarded through lax enforcement, it creates unfair competition that the EU simply cannot afford. If we want to foster innovation and business growth in Europe, we must reward regulatory compliance and bring swift, unified enforcement to the single market.

Centralised supervision under ESMA is often presented as a silver bullet, but the operational reality is far more complex. A rigid central framework risks adding bureaucratic complexity through sensitive political compromises. Crucially, partial solutions—such as a two-tiered model based on entity

size or limited in scope to MiCA—risk entrenching the very fragmentation they seek to resolve. To prevent supervisory gaps as crypto and traditional finance converge, any shift toward centralisation should grant ESMA direct oversight of CASPs' MiFID licences, even when held as an ancillary service.

Moreover, current legislative projections estimating that some form of a centralized model will only become operational between 2029 and 2031 are highly optimistic—yet dangerously far off. Compliant market participants cannot wait a decade for the level playing field.

An Immediate, Scalable Solution

To promptly resolve current supervisory gaps, we must act now by maximizing existing convergence tools while proposing proportionate, politically viable solutions:

Enforce and expand ESMA guidelines and supervisory statements (e.g., targeting unfair market practices), mobilize rigorous peer reviews, and drive joint coordination via the Digital Finance Standing Committee.

Equip ESMA with legally binding opinions and/or own-initiative powers to take over cases (e.g., in cases of NCA inaction or significant cross-border market impact). This mimics the proven EU merger control model and carries lower political sensitivity.

These measures address the uneven playing field more rapidly in a time-critical environment. They can offer a concrete proof of concept for potential centralisation, helping define its appropriate scope and format while avoiding bureaucracy and complexity.

**Supervisory enforcement
must happen now,
not in a decade. MiCA
needs fine-tuning,
not an overhaul.**

Part 2: MiCA review - What are the priorities?

The MiCA review should focus on targeted calibration rather than a major overhaul. With grandfathering just ending, the full impact of MiCA is only beginning to settle in. Policymakers must avoid opening a legislative Pandora's Box of stricter rules and overregulation that would stifle innovation and

competitiveness. Instead, we should uphold technological neutrality, embrace strategic fine-tuning, and prioritize risk mitigation over risk aversion.

Main Focus

Reduce Level II and III: Generating 2,000 to 3,000 pages of technical standards for a 160-page MiCA framework is highly onerous and, at times, rules are inconsistent with Level I text. Together with TOFR and DORA, this cumulative weight does not enhance compliance or benefit client decision-making.

Rationalize EMTs & ARTs Rules: Unlock innovation in stablecoins to support Euro and global connectedness. Current volume and issuance limits are overly restrictive, and clearer boundaries are needed to separate EMTs from traditional payment services.

MiCA vs Mifid Interconnectedness: We need clearer, less risk-averse guidance on asset classification. A more pragmatic 'substance-over-form' test is essential to ensure the MiFID perimeter is not artificially expanded.

Activities outside MiCA

Building a rigid regulatory framework around DeFi is premature while core concepts like genuine decentralisation—and our understanding of them—continue to evolve. Effective regulation and enforcement are essential, but they should not begin with immediate, top-down legislation that stifles market growth. European regulators should rather focus on open industry collaboration to demystify risks. A sensible first step would be establishing clear standards and recommendations grounded in ongoing International and European work.

Conclusion

There is no need to rush into major legislative reforms while MiCA's full impact is still unfolding. To succeed, Europe should focus instead on targeted adjustments—providing practical refinements to reduce regulatory burdens, enhance clarity, and guarantee active supervisory enforcement happens today, not years from now.



HUBERT GRIGNON DUMOULIN

Digital Assets Senior
Expert – CACEIS

Evolution of MiCA regulation on crypto assets and tokenisation

The introduction of the Markets in Crypto-Assets (MiCA) regulation has been a transformative event for financial institutions and crypto native entities within the European Union. The EU framework arrived at a pivotal moment, coinciding with a globally favourable alignment for the crypto ecosystem. This global regulatory benchmark is to evolve after an EC MiCA 2 consultation with a new legislative proposal amending MiCA.

Key Advantages of MiCA for Institutional Players

MiCA's comprehensive framework unlocks several specific opportunities for banks and asset servicers:

- **Expanded Stablecoin and Payment Services:** The regulation permits both banking and non-banking entities to issue stablecoins. It also enables the development of new payment rails for clients requiring instant and on-chain settlement.
- **Enhanced Custody Solutions:** Banks can offer custody services using individual client accounts with segregated holdings for digital

assets. This moves away from the omnibus account model commonly used for crypto assets. By avoiding pre-funding or sub-custody arrangements with non-financial institutions, counterparty risk is significantly reduced.

- **An EU-Wide Passport for Crypto Services:** Achieving MiCA compliance, alongside obtaining a European Crypto-Assets Service Provider (CASP) licence, grants a passport to provide digital asset services across the entire EU. This offers a significant advantage over country-level Virtual Asset Service Provider (VASP) licences.

Persistent Regulatory Gaps and Challenges

Despite MiCA's progress, several regulatory gaps continue to hinder seamless institutional participation.

- **Global Interoperability and Harmonisation:** MiCA's scope is limited to the EU, leaving cross-jurisdictional harmonisation as global challenges. New crypto-asset regimes in the UK, US, Hong Kong, Singapore, and the Middle East have adopted differing approaches, particularly in their technical details, creating a fragmented international landscape.
- **Technological and Operational Uncertainties:** The lack of a unified approach for performing settlement 'on-chain' persists due to the diversity of blockchain protocols used.

**MiCA 2 and tokenisation
add-ons could well be
a watershed moment
for the European
digital asset land.**

Financial instruments tokenisation is likely to be even more transformative.

- **Use at large scale of Distributed Ledger Technology with traditional financial instruments.** MiCA brings some insights to capital markets, notably on instant or near instant settlement cycle, automation/programmability with the use of smart contracts due to the use of common technical infrastructure. While tokenised securities fall under MiFID and the EU DLT Pilot Regime in the case of securities admitted to trading, shared solutions are also

possible for the custody of respective assets,

- **Unified Asset Servicing:** When investment fund shares are tokenised, this can be managed by an asset servicing group's existing registrar and transfer agency functions. This ensures full integration with traditional services like fund administration and reporting. From issuance to consolidated reporting, institutional clients benefit from a unified solution covering both on chain and off chain liabilities and assets.
- **Compatibility with Central Bank Solutions:** from an industry perspective, an additional goal to ECB Eurosystem's DLT solutions - the short-term Pontes and long-term Appia - should be interoperable with the financial services industry existing solutions for tokenisation of financial instruments.

Financial institutions have to continue their efforts on the operational side to be at scale for mass adoption of crypto-assets and tokenisation.

Custody Digital Assets infrastructure is not yet fully standardised. Interoperability between custodians, trading platforms and execution venues should be the objective for efficient operations of tokenized capital markets.

Institutional settlement rails development. Reliance on crypto native execution venues is not optimal for financial institutions due to significant use of pre-funding model and sub custody arrangements with non-banks.

Financial Markets Infrastructures legacy IT systems should be made compatible with tokens issued natively and "digital twins". That also requires interoperability across blockchains and smart contracts likely to create the need for specific adaptations of software used.

Conclusion

MiCA 2 and tokenisation add-ons could well be a watershed moment for the European digital asset landscape, offering unprecedented legal clarity and a competitive advantage to institutions within the bloc. By enabling services from tokenisation to institutional grade custodial wallets, CACEIS is accompanying its clients in their journey for institutional engagement. However, work must continue for greater adoption of Distributed Ledger Technology by Financial Institutions and improved standardisation and interoperability.

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6

DIGITAL EURO AND PAYMENT SYSTEM EVOLUTIONS

DIGITAL EURO NEXT STEPS284

Evelien Witlox - European Central Bank / **Alexandra Hachmeister** - Deutsche Bundesbank / **Johannes Rehulka** - Raiffeisen Association / **Teresa Mesquita** - SIBS / **Agustin Reyna** - The European Consumers' Organisation

RETAIL PAYMENT INNOVATION290

Burkhard Balz - Deutsche Bundesbank / **Vasileios Madouros** - Central Bank of Ireland / **Hendrik Bourgeois** - Mastercard Europe / **Stephanie Champion** - Nasdaq Verafin

THE EU PAYMENT SINGLE MARKET294

Pierre Allegret - Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France / **Jonathan Overett Somnier** - European Banking Authority / **Mattia Suardi** - Ministry of Economy and Finance, Italy / **Conor Langford** - Visa Europe

CROSS-BORDER PAYMENTS298

Martin Moloney - Financial Stability Board / **Ivan Odonnat** - Banque de France / **Ulrik Nødgaard** - Danmarks Nationalbank / **James Talbot** - Bank of England / **Jonathan Cox** - Swift / **Dirk Bullmann** - CLS Group

DIGITAL EURO NEXT STEPS



EVELIEN WITLOX

Director Digital Euro – European Central Bank (ECB)

The digital euro: Europe's investment in resilience and innovation

Payments are the lifeblood of a modern economy. They connect consumers, businesses and financial institutions through millions of daily transactions. At the heart of this system lies central bank money, the trusted anchor that supports confidence, stability and resilience. As our economies become increasingly digital, central bank money must evolve too.

The digital euro is therefore much more than a new means of payment. It is Europe's investment in strategic autonomy and resilience built around central bank money.

The need for action is clear. Europeans are paying digitally more than ever, yet access to central bank money remains limited to physical cash. At the same time, Europe depends heavily on non-European providers for retail payments – a dependence that becomes increasingly critical as digital payments continue to grow. In an uncertain geopolitical environment, strengthening the resilience of such critical infrastructure has become a strategic priority.

The digital euro would complement, not replace, euro cash. It would ensure that citizens and businesses continue to have access to public money in the digital age, whether they are paying in shops, online, offline or person-to-person. Like cash, it would be backed by the Eurosystem, available throughout the euro area, and designed to offer a high degree of privacy, particularly for offline payments.

Crucially, the digital euro should also be seen as an opportunity for Europe's banking sector. Some have expressed concerns that it could compete with commercial banks. In fact, the opposite is true. Banks and payment service providers are at the heart of the project. They would distribute the digital euro, manage customer relationships and provide payment services to users.

This matters as banks face increasing competition from non-bank payment providers, big tech firms and digital assets. Doing nothing is not an option. The digital euro offers a European alternative that helps banks remain competitive while preserving their role in the financial system.

Innovation is a key part of that vision. The digital euro would provide a common European platform on which banks and payment service providers can build new services. Through the ECB's innovation platform, market participants have already explored applications such as conditional payments,

where transactions are executed automatically once predefined conditions are met. These types of services have the potential to improve customer experiences and support entirely new business models. Building on this work, we are also looking forward to a second wave of innovation workstreams that will unlock further opportunities for European payments innovation.

The digital euro could also help overcome fragmentation in Europe's payments market. Common standards and legal tender status would support pan-European payment solutions and broadening the range of options. Therefore, the ECB has also agreed with European standard-setting bodies such as ECPC, nexo standards and the Berlin Group to reuse existing open technical standards for digital euro online payments, helping to reduce adoption costs and foster market coordination.

Financial stability remains a priority. The project includes safeguards such as holding limits and non-remuneration, while analysis based on banks' own data indicates that risks to funding and liquidity can be effectively contained.

Progress is now accelerating. Following the European Parliament's vote on 9 July, trilogue negotiations between the Parliament, the Council and the European Commission have formally begun. We welcome this important milestone and hope for a timely conclusion of the single currency package by year-end, which will safeguard euro cash while establishing the legal framework for the digital euro.

Technical preparations are advancing as well. Following a call for expressions of interest, the ECB selected 36 payment service providers from across the euro area to participate in the digital euro pilot. Starting in the second half of 2027, the 12-month exercise will test the infrastructure under real-life, controlled conditions and inform future implementation decisions.

Ultimately, the digital euro is about ensuring that Europe has a resilient, independent foundation for its payments system. By combining the trust of central bank money with the opportunities of innovation, it can strengthen Europe's autonomy, competitiveness and resilience for the decades ahead.



ALEXANDRA HACHMEISTER

Director General Digital Euro Directorate – Deutsche Bundesbank

The digital euro: Europe's missing link in digital payments

Germany's payments infrastructure is among Europe's strongest. Yet its strengths are concentrated in domestic payments and do not fully address the needs of today's increasingly digital and European payment landscape, particularly in the areas of e-commerce and cross-border transactions, where non-European providers dominate.

The digital euro is conceived as a "digital twin" of cash: central bank money for everyday payments, available both online and offline and distributed through banks and payment service providers (PSPs). In Germany, it will complement the girocard and offers synergies with other private-sector payment solutions, such as Wero. Its value lies first and foremost in its European reach, its role as a European public infrastructure in a market increasingly dependent on non-European payment networks and digital wallets, and its provision of common payment rails on which private providers can compete and innovate.

European reach matters because Europe's digital payments landscape remains fragmented, with no single European digital payment instrument offering broad acceptance across European borders. The digital euro can help bridge this gap by providing a common European payment infrastructure that supports in-store, online and person-to-person payments throughout the euro area, and potentially beyond.

To succeed, however, the digital euro must integrate seamlessly into today's payment ecosystem rather than becoming another silo. The digital euro would be integrated into familiar banking apps and digital wallets as an additional payment option, such as Wero. Europe currently relies heavily on proprietary standards set by international card schemes and global wallet providers. To promote interoperability, the European Central Bank has signed agreements with three European standard-setting organisations – the European Card Payment Cooperation (ECPC), nexo standards and the Berlin Group – to reuse open technical standards for online payments. This approach should reduce implementation costs, allow terminals to be upgraded through software, simplify merchant acceptance and enable private providers to share a common infrastructure instead of building parallel systems.

Widespread adoption will also depend on creating the right incentives. Banks and PSPs are concerned about implementation costs, pressure on margins, and the risk that global non-bank players will capture the most profitable segments of the payment value chain. European legislators and the Eurosystem must ensure that banks, PSPs and merchants view the digital euro as a business opportunity rather than a regulatory obligation, while also meeting the needs of customers and merchants.

A common European payment rail would reduce dependence on global providers, strengthen Europe's influence over payment standards and pricing, and provide a platform for innovation – from conditional payments and loyalty programmes to new corporate services. Banks and PSPs would be compensated for processing digital euro transactions and would also be able to generate revenue by offering value-added services, such as buyer protection and buy now, pay later solutions. By bearing the costs of the core infrastructure and capping acceptance fees, the Eurosystem will lower barriers to participation and support broad adoption.

During the pilot phase from mid-2027, in which selected banks, PSPs and merchants will test real digital euro transactions, participants will be able to refine customer journeys, shape technical standards and position themselves at the forefront of tomorrow's European payments ecosystem.

Financial stability also requires careful design. The digital euro is intended primarily as a means of payment, not as a store of value: it will be non-interest-bearing, subject to holding limits and linked to bank accounts through a waterfall mechanism. These safeguards aim to preserve banks' customer relationships and funding base while allowing banks and PSPs to develop innovative services on the digital euro infrastructure.

Europe's digital payments landscape remains fragmented.

Germany already has one of Europe's strongest domestic payment systems. The digital euro serves a different purpose: to ensure that the next generation of European digital payments is built on European infrastructure, governed by European standards and open to private innovation. It is not intended to replace existing national solutions, but to add the European layer needed to enable seamless payments across borders and support innovation across the continent.



JOHANNES REHULKA

Managing Director & Secretary General, Austrian
Raiffeisen Association – Raiffeisen Association

A common digital euro of banks and central banks

European institutions have committed significant resources to the digital euro project, the adoption of the regulation is underway and banks across the eurozone are beginning to prepare for the issuance. Our banking group remains convinced that emerging private payments initiatives could reduce the dependence on non-European actors more cost-efficient and probably faster than the digital euro, while being more customer-friendly. However, the debate about the digital euro has moved beyond the question of whether it should be introduced. The banking sector's focus is now to ensure that its final design strengthens rather than weakens Europe's financial ecosystem and doesn't jeopardize the credit supply for Europe's economy.

Institutions within our cooperative banking group will participate in the next year's Eurosystem pilot activities, continue to engage in other stakeholder activities and provide feedback on draft rulebooks. The banking sector is not standing on the sidelines; it is making a constructive contribution to the project. Banks have decades of experience in payment operations and product development. The ECB should make greater use of this expertise to maximise the project's chances of success and involve the banking sector more proactively.

At the same time, it must be noted that banks have invested heavily in private payment infrastructures, most recently in instant payments solutions. The digital euro won't stimulate these initiatives, rather, it will compete for consumer transactions. Nevertheless, a meaningful coexistence is possible. The key is that the digital euro remain focused on its core purpose: providing a digital equivalent of cash. For this purpose a strict holding limit on a low basis is a prerequisite for the whole project to ensure financial stability. Services such as purchase disputes, insurance products, conditional payments, buy now pay later offerings or loyalty programs should be value-added services that could be offered either through private payment instruments or on top of digital euro payments. This commercial decision should remain with market participants. Moreover, the digital euro should remain strictly focused on retail payments. We already have a successful, sovereign European infrastructure with SEPA and the ECB is already pursuing innovation in wholesale payments through its Appia and Pontes projects.

Nevertheless, the digital euro is a new payment infrastructure operating alongside existing ones. Additional expenses for banks and PSPs can be reduced through smart design choices and the maximum possible reuse of existing standards and certification frameworks, but cannot be eliminated entirely. The ECB should continue its efforts to leverage existing market infrastructure and standards wherever possible.

The compensation model for PSPs will be one of the most important determinants of the project's success. The challenge is to maintain a reasonable balance between several interests. Consumers want free services, merchants want low acceptance costs and the ECB seeks a model in which seigniorage revenues exceed its operational costs. Given these interests, it is not unlikely that banks will be left to foot the bill. However, policymakers must avoid overburdening banks. The compensation mechanism must, at a minimum, fully cover the costs incurred by PSPs and allow for a small profit margin.

**The digital euro can only be a
success, if European citizens and
banks see an added value.**

A European-wide uniform cap should not be set solely against the cost structures of large online banks. Small and regional banks often operate extensive branch networks and face higher servicing costs. In the interests of financial inclusion, such a business model should not be penalised. No institution should be forced into a structurally loss-making activity. Regarding the remuneration of distributing PSPs, the best solution would be to build on proven European legislation and apply the Interchange Fee Regulation, rather than creating a new complex remuneration regime from scratch.

For a successful roll-out, it is important that the digital euro is introduced through a staggered approach. Not every conceivable use case must be available on day one. Therefore the initial phase should focus on delivering minimum functionality reliably and efficiently. Only if the European citizens and banks see an added value in the implementation of the digital Euro the digital Euro it is likely to become a successful addition to the European payment landscape.



TERESA MESQUITA

Chief Operating Officer and Executive Board Member – SIBS

Partnering with SIBS for digital euro readiness

As Europe advances toward the digital euro, payment service providers face a strategic choice: build direct integration with the Eurosystem's DESP infrastructure or adopt a shared connection layer that reduces complexity, risk and cost.

SIBS Digital Euro Connector is designed for the second path. Acting as a Technology Service Provider (TSP) between banks and the Eurosystem, SIBS provides the integration, orchestration, certification and operational capabilities needed for PSPs to become digital euro ready.

The proposition is clear: a single, secure platform that allows banks to comply with digital euro scheme requirements, connect to digital Euro use cases, and scale across European markets.

The introduction of the digital euro will be a challenge for PSPs; SIBS simplifies that complexity. The connector is built around standardization, safety, certification, and European scalability; reducing workflow interactions by up to 90% vis-a-vis an in-house implementation while accelerating time-to-market by up to 50%. It is built on a highly available, multi-tenant, cloud-agnostic architecture running entirely on European infrastructure, ensuring resilience and digital sovereignty. It covers mandatory DESP access while creating space for future value-added services. By relying on a TSP, PSPs can reduce costs and accelerate go-to market strategies. Integration is transparent to the end user — the PSP keeps its channels, brand and customer relationship, and can focus on creating superior user experiences.

SIBS is a fully-fledged payment processor on cards and A2A with more than 40 years of experience operating mission-critical services and infrastructures that connect PSPs, central institutions, merchants, consumers and processors. This track record is especially relevant for the digital euro, where services must be always available, secure, auditable and resilient.

Mostly known for its successful digital wallet solution, MB WAY, launched in 2015 and now reaching approximately 90% of Portugal's banked population, SIBS contributes to the sovereignty of the European payments market through key European interoperability initiatives, such as the EuroPA Alliance launched with Bizum and Bancomat, in 2023. Today, EuroPa covers 10% of the overall European card payments, connects more than 200 PSPs, and reaches 180 million users. More recently, SIBS partnered with the European Payment Initiative (EPI), Bizum, Bancomat and Vipps MobilePay to enable cross-border interoperability.

SIBS is a founding member of the European Mobile Payment Systems Association, representing 13 mobile payment systems, and the European Card Payment Corporation that developed

the CPACE. SIBS has also been engaged in the digital euro working groups since the discovery phase, contributing to technical and functional groups, and is an active member in the standardization bodies that will be involved in the digital euro solution (ECPC, ECPA, Berlin Group).

In a nutshell, SIBS has the knowledge, experience and credibility to be a long-term partner for PSPs in preparing for and operating within the digital euro ecosystem.

With the Irish Presidency's commitment to finalizing negotiations by the end of the year, the 2029 timeline for launching of the digital euro is becoming a reality.

On the policy front, the scheme rulebook should recognize the role of TSPs and of European mobile payment applications to ensure a competitive and innovative market. For the layers built on top of the new infrastructure, it is crucial to leverage existing European standards and market infrastructures.

For PSPs, preparation cannot wait until final regulation is complete.

For PSPs, preparation cannot wait until final regulation is complete. The decisions taken now will determine how quick and efficient PSPs can be, once the digital euro moves from pilot to market readiness.

SIBS will support PSPs in the digital euro pilot phase, testing the flows for P2P both online and offline, and P2M at the physical point of sale and in e-commerce. The experience during the 12 months pilot will allow us to test and improve SIBS digital euro connector in a live environment.

For PSPs, the strategic question is no longer whether digital euro integration will be complex. It is whether that complexity should be managed alone — or shared through a platform built for compliance, resilience and scale.



AGUSTIN REYNA

Director General – The European Consumers' Organisation (BEUC)

Building trust in a digital euro that works for all consumers

The digital euro is entering its final legislative phase. The European Parliament and Council adopted their positions, and negotiators now need to agree on the final text. This is a key moment to make sure the digital euro meets consumers' needs and offers added value to their everyday payments.

Beyond the important objectives of European sovereignty and resilience, the digital euro is also about how consumers pay in their daily lives. As society becomes increasingly digital, payment habits and available choices are changing fast, with more consumers relying on digital solutions.

Cash remains essential and must be protected, but consumers will also benefit from a public payment alternative for the digital world that is designed to work for everyone.

A digital euro that meets consumer expectations

For the digital euro to succeed, consumers need to use it. And for that, it must be attractive to them.

Last year, BEUC conducted a survey across 10 euro area countries to better understand consumers' experiences with digital payments and what they would expect from a new payment option.

The findings show that security and reliability are the most important features for consumers if a new digital payment method was introduced. These are followed by ease of use, low or no fees, the possibility of obtaining a refund in cases of fraud or scams, protection of privacy, and universal acceptance.

The digital euro should therefore offer the highest level of protection possible, but at a minimum, the same as in existing payment methods – including for commercial disputes, apart from fraud and technical issues. The offline functionality is also welcome to allow payments during network disruptions or exceptional circumstances, as well as for its added privacy.

An ambitious list of free basic services, including a payment card – the preferred payment method for adults as our survey has shown – will ensure ease of use and accessibility, together with universal acceptance so it can be widely used.

Privacy by design and default

Payment data is very sensitive as it can reveal personal details about people's lives. BEUC's survey found that 81% of adults and 72% of teens are at least somewhat concerned about privacy violations, such as misuse of personal or financial data or law enforcement surveillance.

Policymakers now have the chance to make the digital euro a more private digital payment option, by adding strong safeguards to the legislation.

For offline proximity payments, it is foreseen that the digital euro can offer a similar level of privacy as with cash, as transaction details would be known only to the payer and payee. This is very positive for consumers, especially since they could choose to use it even when they have connection.

For online payments, the digital euro will comply with the EU's data protection rules and should apply data minimisation by design and by default, so that data is only processed when strictly necessary, such as for fraud prevention and anti-money laundering.

It is also essential that the Eurosystem cannot identify or track individual transactions, as set out in the proposed legislation and confirmed by the European Central Bank's work.

Ensuring financial and digital inclusion

With the decline of bank branches and ATMs, more consumers are forced to switch to digital payments. According to BEUC's survey, 46% of teens and 39% of adults helped a friend or relative make a digital payment, mainly due to lack of skills.

The digital euro can help fight digital financial exclusion, something private solutions do not always prioritise. Because it pursues a general interest, it can reach groups that face more difficulties, such as the elderly, people with disabilities, the non-banked, or people who are not comfortable with digital tools.

For this, the digital euro should be distributed by public entities apart from private payment service providers, with free inclusion support on-site, and simple onboarding processes without a smartphone.

Building consumer trust

Many different elements matter for consumers and depend on their situation and preferences. But overall, it is essential that the digital euro keeps the key features of cash to complement it as a public payment method in the digital sphere. This means free basic use and universal acceptance, strong privacy, high security and reliability, effective redress when something goes wrong, and financial and digital inclusion measures so that no one is left behind when paying in cash is not possible.

If policymakers include these features in the final legislation, the digital euro will not only be a new payment infrastructure, but a payment option that people trust and choose to use.

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RETAIL PAYMENT INNOVATION



BURKHARD BALZ

Member of the Executive Board
– Deutsche Bundesbank

Wallets, AI and instant A2A payments: building a sovereign EU payment space

Retail payments in the European Union are being shaped by several developments, including instant account-to-account (A2A) payments and increasingly sophisticated wallets, as well as more recent innovations like agentic payments. These developments promise to create a more seamless, data-rich and programmable retail payments ecosystem. The challenge for Europe will be to harness these innovations in a way that strengthens sovereignty, protects users and avoids new forms of fragmentation.

Instant A2A payments are suited to form the backbone of this ecosystem. Fueled by the Instant Payments Regulation, real-time credit transfers are to become the rails for many retail use cases across Europe, from peer-to-peer (P2P) payments to e-commerce and payments at the point of sale (POS). Built on European infrastructures and subject to

European rules, instant payments can reduce dependence on non-European schemes and platforms, while enabling business models such as Pay by Bank. Features like the mandatory Verification of Payee will be crucial to maintaining trust as transaction speeds increase.

Digital wallets are evolving from simple containers for cards into multifunctional platforms that can hold payment instruments, identity credentials and – potentially – public money such as a future digital euro. The European Digital Identity (EUDI) wallet, if implemented in a secure and interoperable way, will be able to provide a trusted layer for strong customer authentication and consent management across borders. Wallets, including initiatives like wero from the European Payments Initiative (EPI), can build on common standards to offer pan-European instant A2A payments at the POS, online and P2P.

Agentic payments – where artificial intelligence (AI) agents manage payments on behalf of users – may represent another step into the future of payments. Instead of users manually initiating each transaction, AI agents – embedded in apps or platforms – could manage recurring payments, optimise the settlement of bills and trigger micropayments in the background. For example, travel agents could orchestrate multimodal journeys and handle related payments. Over time, we may see an evolution from simple, rule-based reordering and subscription management towards sophisticated, context-aware payment decisions. These developments could improve convenience and efficiency, but raise fundamental questions about control, liability and data use.

The risks associated with these innovations are significant and must be addressed proactively. Fraud is likely to evolve as criminals exploit faster payment rails and automated processes. Instant irrevocable transfers reduce the window for intervention, while agentic payments may create new attack surfaces if agents are poorly secured or misconfigured. Regulators and supervisors should therefore promote robust authentication, transaction risk analysis and real-time monitoring, supported by data sharing frameworks that respect privacy. Exclusion is another concern. An inclusive payment ecosystem must ensure that basic, user-friendly options remain available, including accessible interfaces and offline capabilities.

Fragmentation remains a structural risk. Interoperability hubs, such as those envisaged in the cooperation between the European Payments Alliance (EuroPA) and the EPI, can help connect domestic and pan-European solutions, but they should be guided by a clear vision of a coherent European retail payments architecture.

Ireland's experience with digital payments offers valuable lessons for the broader European debate. The country has seen rapid adoption of contactless and mobile payments, supported by a modern financial services sector and high smartphone penetration. At the same time, Ireland illustrates the challenge of relying heavily on non-European card schemes and global platforms for everyday payments. This dependence underscores the importance of developing European alternatives that can compete in terms of convenience and user experience.

To steer innovations in a direction that serves Europe's strategic interests, regulators and central banks should focus on three priorities. First, ensuring that instant A2A infrastructures are secure, ubiquitous and accessible. Second, promoting interoperable wallet and identity frameworks that allow both public and private solutions to coexist and reinforce each other. Third, developing sound rules for agentic payments, covering consent, transparency, liability and data governance, so that innovation is fostered but users remain in control even as payments become more automated.

If Europe succeeds in combining instant A2A rails, trusted wallets and well-regulated agentic payments within a coherent framework, it will be able to create a retail payments ecosystem that is innovative and distinctly European. The objective is to strengthen sovereignty through European solutions, to support fair competition and to enhance operational resilience by adding robust new rails alongside existing ones.

Key Sentence: The challenge for Europe is to harness innovations in a way that strengthens sovereignty, protects users and avoids fragmentation.



VASILEIOS MADOUROS

Deputy Governor, Monetary
and Financial Stability –
Central Bank of Ireland

Unlocking the benefits of innovation in retail payments

The transformation of European retail payments continues apace. Over the past two decades, the way we pay for day-to-day transactions has changed dramatically, amid a rapid shift towards electronic payments. The entities in the payments ecosystem have also changed, with a growing role of non-bank payments providers. And the infrastructure supporting retail payments has evolved, including through the Eurosystem's platform to settle instant payments in central bank money. Looking ahead, the integration of DLT in mainstream finance is likely to spur further innovation, including by enabling programmability in payments. And advances in artificial intelligence have the potential to transform commerce, with implication for payments.

Substantial opportunities in European retail payments remain untapped. Despite numerous efforts over many years, an electronic means of retail payment that covers the entire euro area, across the main use cases, has not yet been achieved. A number of local pay-by-account solutions have emerged across different parts of Europe, but these do not have pan-European reach.

Card schemes dominate electronic payments, limiting choice for European citizens and introducing concentration risks. This persistent fragmentation of retail payments in Europe is preventing us from reaping the full benefits of the Single Market.

The ongoing transformation in payments needs to be managed carefully – but there are also costs to standing still. Clearly, the transition to new ways of money movement, or indeed the emergence of new forms of private money, create risks that need to be managed. An uncoordinated transition towards DLT-based financial infrastructures can lead to costly fragmentation. Fraudsters are innovating at a rapid pace, increasing risks to consumers. And the emergence of stablecoins – especially if not subject to appropriate regulatory standards – could have broader macro-financial implications. These are important risks that need to be managed. Equally, though, there are also costs to standing still: households and businesses would not reap the benefits of innovation in payments, and payments activity could shift to less regulated segments of the financial system.

Responding to innovation in payments requires a system-wide approach. The history of payments has been – and will continue to be – one of public-private partnership. In that partnership, the role of central banks and regulators is to ensure trust. We do this by issuing the safest and most liquid asset in the economy – central bank money;

Responding to innovation in payments requires a system-wide approach.

by operating core infrastructures; by supervising financial institutions; and by overseeing payments systems and arrangements. These foundations then enable the private sector to do what it does best: interface with customers, innovate, compete and, ultimately, meet the evolving needs of households and business. Effectively responding to innovation in payments also requires the private sector to work together, whether it relates to fraud prevention, payments interoperability or system-wide preparedness to possible operational disruptions.

Amid broader innovation in the payments landscape, central bank money – a key anchor of trust – also needs to evolve. While we cannot

know precisely what the money and payments landscape will look like in the future, central bank money will remain an essential foundation of any future configuration. This is why the Eurosystem is responding, both through the Digital Euro and by enabling settlement of wholesale transactions on DLT in central bank money. As a complement to cash, the Digital Euro could be used for all digital payments throughout the euro area, be free for basic use, be available both online and offline, and offer the highest level of privacy. It would also provide an open and interoperable pan-European infrastructure, upon which private operators can compete and innovate. On the wholesale side, the Eurosystem's work will ensure that – amid a broader evolution of finance – central bank money continues to form the core settlement anchor of large-value transactions, which ultimately support all payments in the economy.

In Ireland, the National Payments Strategy (NPS) is providing a compass to navigate the continued evolution of retail payments. Building on European initiatives, the NPS takes a holistic approach. It focuses on access and choice; security and resilience; innovation and inclusion; and sustainability and efficiency. It seeks to harness the benefits of innovation in payments, while safeguarding the role of cash in society. And it recognises the importance of taking a system-wide approach, spurring further collaboration and engagement within the payments ecosystem in Ireland. Ultimately, Ireland and Europe have an opportunity to unlock the benefits of innovation in payments from the perspective of households, businesses and the broader economy. This is an opportunity we need to collectively grasp.



HENDRIK BOURGEOIS

Senior Vice President
Government Affairs & Policy
Europe – Mastercard Europe

Europe's payments future: competition, choice and innovation

Europe's payments ecosystem is evolving rapidly. Initiatives such as Wero, EuroPA, open banking and the digital euro reflect both the diversity of Europe's payments landscape and the profound transformation currently underway across the sector. Digital wallets, open banking providers, and fintech innovators are introducing new services and business models. Technologies such as tokenization, digital identity and artificial intelligence are creating new opportunities for consumers and merchants. Competition in payments will continue to intensify as new technologies and business models emerge. Trust, cybersecurity and advanced fraud prevention will be critical building blocks of this new ecosystem. They are the foundation that will allow innovation and digital transformation to not only scale but flourish.

Europe's strength lies in a secure and efficient payments landscape where different solutions contribute to innovation, resilience, and choice. A competitive and innovative payments ecosystem is better equipped to adapt to technological change and emerging challenges. This will raise expectations

around speed, convenience, and security. Mastercard is helping to shape this evolution through continued investment in innovation, security, and the technologies that will define the future of commerce.

The future of payments will not be defined by a single technology or network. Consumers and businesses will increasingly expect seamless payment experiences. Whether enabled by cards, account-to-account payments, open banking, digital wallets or future digital currency solutions, Mastercard's role is to provide the technology, security and connectivity that enable safe payments. As Europe implements the revised PSD3 and PSR, it is important that the regulatory framework supports this evolution. Regulation should remain technology-neutral, proportionate and outcomes-based, creating the conditions for competition, innovation and investment while maintaining strong protections for consumers.

Strong Customer Authentication provides a good example. Payment providers are deploying increasingly sophisticated tools to combat fraud and verify legitimate users, including behavioural biometrics such as typing patterns and device interactions, which the European Banking Authority has recognized as an inheritance factor. Businesses are also using behavioral and environmental data to strengthen fraud detection. In the UK, these data sets are recognized as an authentication factor, providing greater flexibility for innovative security solutions. As fraud threats evolve, Europe should continue to draw on emerging international best practices, while maintaining a technology-neutral framework that enables innovation, strengthens security and preserves high standards of consumer protection and trust.

Europe's payments future will be shaped by choice, interoperability and innovation.

Digital asset innovation is also becoming a more important part of the payments landscape. Stablecoins, tokenized deposits and other forms of digital money have the potential to improve the efficiency of payments, settlement and cross-border transactions. Recent developments in the digital asset ecosystem illustrate the pace of innovation. One example is Open Standard, an industry-led initiative developing Open USD, a new stablecoin

model supported by more than 140 companies across payments, technology and financial services. The initiative is designed as a neutral, multi-participant infrastructure that can help reduce fragmentation, improve efficiency and support wider participation in stablecoin infrastructure.

Europe has played an important role in enabling digital asset innovation through frameworks such as MiCA, providing greater legal certainty for digital asset activity. Innovation in public sector money is equally important for the next generation of digital finance infrastructure. The challenge for Europe is not to choose between these models, but to create the conditions for them to work together safely and efficiently. Interoperability between regulated stablecoins, commercial bank money and future public initiatives will be essential.

We are proud of our European heritage and longstanding presence across the continent. We support secure cross-border commerce within Europe and globally while continuing to invest in European innovation, infrastructure, partnerships and fintech collaboration. Looking ahead, Europe's greatest opportunity is to create the conditions for trusted and innovative payment solutions to compete, interoperate and scale across an open ecosystem. As commerce becomes increasingly digital, real-time and AI-driven, Europe has an opportunity to lead by creating an environment where new technologies can scale, consumers remain protected and businesses can innovate with confidence. At Mastercard, we are committed to playing our part in building that future.



STEPHANIE CHAMPION

Executive Vice President, Head of Financial Crime Management Technology – Nasdaq Verafin

Protecting Europe's financial system in the age of AI-enabled threats

According to Nasdaq Verafin's Global Financial Crime Report, financial crime continues to reach new highs. The amount of illicit funds flowing through the financial system grew by more than a trillion dollars, rising to \$4.4 trillion, while fraud and scam losses reached \$579.4 billion globally in 2025, growing at 9.2% annually since 2023. Fraud scams alone — the authorized push payment schemes, romance frauds, and impersonation attacks that devastate consumers — surged to \$62 billion, growing at more than double the rate of unauthorized fraud. Across EMEA, total fraud losses reached \$132.9 billion, and \$154.4 billion in illicit flows crossed EU borders in a single year. A key driver of these figures is the weaponization of AI, used by criminals to scale their operations across every channel through which Europeans live their financial lives. And today we are at a critical inflection point to bolster our defenses and match this new reality.

A Threat Scaled by AI

Bad actors are often early adopters of new technology, which they will experiment with and use freely to gain

an advantage over institutional defenses. Our research shows that criminals are already leveraging AI at speed and scale. We surveyed over 500 anti-financial crime professionals, and ninety percent reported an increase in AI-driven attacks at their institution.

AI-enabled hyper scams and deepfakes produce convincing, personalized fraud at industrial volume, making authorized push payment fraud so sophisticated it is often nearly impossible for consumers to detect. At the same time, criminal networks have commoditized fraud infrastructure by selling proven toolkits to other bad actors, enabling high-volume attacks with no technical expertise required.

The rise of authorized fraud and the fact that scams tend to originate outside of the financial system — on social media, in messaging platforms, and through dating apps — means banks are often the last line of defense. By the time a suspicious transaction reaches a bank, the victim has often been manipulated for days, or longer.

AI to Bolster Defenses

Traditional detection systems were not built for the world of AI and faster payments. They generate high false positive volumes while sophisticated fraud passes through. That procedural model is no longer adequate. We need to ensure that our financial institutions are equipped with the tools needed to fight AI-powered threats more efficiently and effectively.

By bringing together every industry impacted by fraud and scams, we can get ahead — and stay ahead.

The combination of AI and network-level data offers a path forward for the industry. Machine learning analytics trained on consortium data — drawn from activity across hundreds of millions of counterparties — detect fraud patterns invisible to any single bank in isolation, reducing false positives while delivering the context investigators need to act. Agentic AI can execute complex compliance workflows, reducing time spent on information gathering and the initial triage of fraud or AML alerts, freeing investigators for substantive risk assessment. When built on explainable AI frameworks that meet supervisory

model risk management standards, these tools give regulators the auditability they require while giving institutions the efficiency they need.

A Collaborative Framework for Systemic Resilience

Effective fraud prevention also requires risk signals from outside the financial system. Scam victims are targeted on dating apps, recruited through social media, or manipulated via messaging platforms long before any payment is initiated. Financial institutions see scams at the point of transaction and law enforcement sees reports only after harm has occurred. Without a mechanism to connect those perspectives in real time, response efforts remain fragmented while criminals exploit every gap.

Responsibility for prevention must extend to all industries impacted by financial crime. There are already examples of what this looks like in practice. Banks, telecoms, and digital platforms can share verified scam indicators in real time so that scammers' phone numbers get blocked, fraudulent ads get removed, and malicious sites get taken down. European consumers and businesses would benefit from this architecture, which looks to disrupt scams before victims are engaged and before funds move. By bringing together every industry impacted by fraud and scams, we can get ahead — and stay ahead — of criminal threats for good.

The Choice Ahead

The technology to defend Europe's financial system exists today. What determines the outcome is whether regulatory frameworks allow institutions and the broader ecosystem of platforms and providers to deploy it at the speed the threat demands. Protecting European consumers cannot be accomplished institution-by-institution or jurisdiction-by-jurisdiction. By combining advanced AI with collective intelligence and shared accountability, we can disrupt criminal networks earlier, prevent harm before it occurs, and safeguard the financial system from both today's risks and the threats of tomorrow.

THE EU PAYMENT SINGLE MARKET



PIERRE ALLEGRET

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European payments: promoting strategic autonomy, innovation and interoperability

The payments sector is more strategic than ever. Breakthrough innovation may shift the landscape for stakeholders. At the same time, resilience and strategic autonomy sit at the top of the European agenda. In a globalised technological ecosystem where consumers have the final say, public authorities face challenges in designing an enabling regulatory environment.

Consumers, merchants and other stakeholders keep welcoming ever faster and safer payment solutions. The contribution of international card schemes and of major mobile wallets to the modernisation of European payments and innovation is substantial.

Continuous innovation brings new solutions and models and new realities — such as agentic payments, where AI agents initiate transactions on users' behalf — constantly pushing the boundaries of innovation.

Consumers are free to choose whatever payment methods they like best. That is the cornerstone of trust in money and in payments, but also a key enabler for innovation. Consumers benefit from a broad range of options: cash, cards, instant credit transfers and digital wallets. To attract customers, merchants have to accept a wide array of means of payment. The innovation of the payments sector shows that, for merchants, ease of use and conversion rates often matter more than the cost of acceptance.

Innovation is not free of charge and European payments' industry needs viable business models that incentivise and provide value for all stakeholders. Fair competition between solutions and providers is key to ensure that costs are reduced and consumers benefit from the most effective payment services.

Policy and Regulation have to take into account these features, together with other concerns, such as preventing fraud, which expands together with any new payment solution.

The European strategic autonomy also requires that European sovereign solutions are not left behind. Three structural issues call for heightened vigilance. First, an economic dependence: part of the value created leaves Europe. Second, a technological dependence: payment data largely transit through infrastructures located outside the Union. Third, a strategic dependence: these vulnerabilities expose us to a risk of disruption in the event of geopolitical tensions.

An updated strategy on retail payment sovereignty in the European Union will need to focus on ensuring innovation and interoperability, to offer various payment solutions to European consumers. Favouring various complementary solutions is key to ensure both resilience and fair competition.

Existing payment solutions that proved their efficiency and competitiveness already provide solid grounds for payment sovereignty. This includes domestic schemes, such as Cartes Bancaires (CB) in

France, which routes the majority (>95%) of domestic payments. Such schemes are onboarded in broader payment solutions for consumers, through co-badging of payment cards: transaction routing and payment data remain on national infrastructure, while universality of use abroad is preserved.

Pan-European innovative solutions also provide useful contributions to the European payment landscape. In particular, the European Payments Initiative (EPI) rolled out since 2024 in France, Germany and several other European countries, where it already counts close to 55 million users. It runs on instant credit transfer rails, whose deployment and security are enabled through the recent Instant Payments Regulation. The interoperability agreement reached in February 2026 between EPI and the EuroPA alliance will ultimately extend coverage to 130 million users across 13 Member States, paving the way for the emergence of a sovereign European alternative.

The digital euro will bring another payment solution in the EU. Currently under trilogue, this project will introduce a central bank digital currency with legal tender status and hence provides an additional brick of sovereignty. Its success requires broad consumer adoption — grounded in a seamless experience —, close co-construction with market participants, and a viable pricing model that ensures complementarity with solutions already in place. The role of European technology providers in its distribution, particularly digital wallets, will also be key. As stated in the draft regulation, it is critical that the ECB relies as much as possible on existing payment infrastructures in order to allow a rapid roll-out of the digital euro with limited fraud risk.

In an ecosystem that is going digital, cash still remains key, in particular to address inclusion — digital illiteracy remains a reality — and resilience, as illustrated by the 2025 cyclone in Mayotte. Innovation is not just digital: a new, more secure series of Euro banknotes is currently being developed.

A broad range of payment methods will continue to coexist to meet varied use. It falls to both public authorities and market participants to ensure that such payments methods are interoperable and open to innovation.



JONATHAN OVERETT SOMNIER

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Beyond authentication: Strengthening trust in Europe's payments ecosystem

Europe's payments market has undergone a profound transformation over the past decade. Competition increased, digital payment solutions expanded, and instant payments are becoming a mainstream means of transferring money. Consumers now expect payments to be fast, seamless and available around the clock.

At the same time, payment fraud in general is growing in both scale and sophistication. The last EBA-ECB payment fraud report showed that the total value of payment fraud rose from €3.5 billion in 2023 to €4.2 billion in 2024. Fraudsters increasingly rely on social engineering techniques to persuade customers to authorise fraudulent transactions or disclose sensitive credentials. Many scams now originate outside the payment sector, through social media platforms, search engines, online marketplaces or messaging applications. For instant payments, fraud volumes increased by

175% over 3 years, outpacing the 98% growth in transaction volumes.

AI is accelerating this trend. Fraudsters can generate highly convincing phishing messages, create deepfake audio and video content, and automate large-scale scams with unprecedented efficiency. To help consumers, EBA with ESMA and EIOPA issued consumer factsheets describing how AI can trick consumers and what they can do to detect and react.

Fraud prevention must continue to evolve. Strong customer authentication (SCA) played a pivotal role in reducing unauthorised payment fraud. But it was not designed to address authorised payment fraud, where customers are manipulated into initiating payments. Protecting users requires moving towards prevention, detection and intervention across the payments ecosystem.

The industry is already adapting. Many payment service providers (PSPs) are strengthening real-time transaction monitoring and deploying AI-based tools to intervene before losses occur. Additional safeguards, such as tailored spending limits and targeted consumer awareness initiatives, are becoming more common. In parallel, several Member States introduced measures to combat telephone number spoofing and other forms of impersonation.

Regulation is evolving in the same direction. A key milestone is the introduction of Verification of Payee (VoP) for euro credit transfers under the Instant Payments Regulation. By enabling users to verify that a beneficiary's name matches the account identifier before a transfer is executed, VoP addresses a vulnerability frequently exploited by social engineering scams.

Trust in digital payments requires stronger fraud defences and cross- sector cooperation.

The forthcoming PSD3 and PSR framework will go further by strengthening transaction monitoring requirements, extending VoP to credit transfers in all EU currencies, facilitating targeted information sharing between PSPs and introducing anti-fraud obligations for actors beyond the payment sector. This reflects an important reality: fraud is rarely confined to the payment transaction itself. It often exploits vulnerabilities elsewhere in the digital ecosystem.

Under PSD3 and PSR, EBA will continue to support the reinforced fraud-prevention framework through new mandates on payment security, transaction monitoring and fraud reporting. In developing these we must recognise that individual actors often see only part of the fraud picture. Particular attention will need to be paid to ensuring that payment security and transaction monitoring measures remain effective, drawing on fraud intelligence available through information-sharing arrangements to better detect and prevent fraud, while remaining proportionate and avoiding undue friction for users.

Technology will also be part of the solution. AI can help institutions analyse large volumes of data in real time and detect emerging threats that escape traditional monitoring tools. Equally important will be mechanisms enabling institutions to exchange fraud intelligence rapidly and securely, allowing coordinated responses. As use of AI increases, PSPs remain accountable for its outcomes, maintaining oversight and ensuring they can explain decisions affecting customers.

Diversity and innovation are strengths of our payments ecosystem. But fraudsters are quick to exploit gaps between PSPs, sectors and jurisdictions. The challenge ahead is to make cooperation as interconnected as the threats faced, maintaining effective fraud prevention without undermining the speed, convenience and innovation that users expect. This requires real-time monitoring, effective information sharing and closer cooperation across the digital ecosystem, combined with continued vigilance from all stakeholders, including consumers, PSPs, online platforms, telecommunications providers and public authorities.



MATTIA SUARDI

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Payments in Italy and the EU: Remaining obstacles and key opportunities

From Italy's perspective, one of the most significant remaining obstacles to the effective functioning of the EU payments single market is the lack of truly pan-European payment end-user solutions. Although the Single Euro Payments Area (SEPA) has successfully established a common set of European payment schemes based on harmonized technical standards and rules, end-user solutions remain fragmented along national lines and Europe continues to depend on a small number of non-European providers. In response to these challenges, the Eurosystem's comprehensive payments strategy, published in March 2026, recognizes the importance of fostering EU-governed, market-driven, pan-European solutions that cover all relevant use cases, thereby contributing to a resilient, integrated, innovative and competitive euro retail payments landscape. Ongoing initiatives such as EuroPA (European Payments Alliance) – which includes Bancomat, the Italian domestic debit card payment scheme, among its participants – and EPI (European Payments Initiative), together

with their cooperation efforts to enhance interoperability, represent a promising step in this direction. Moreover, the digital euro project is expected to provide a pan-European digital means of payment available throughout the euro area, under European governance and distributed through European banks and payment service providers (PSPs). In a complementary manner the digital euro could enable providers to scale up across different use cases and borders, thereby making the European payments landscape more competitive and innovative.

A further challenge stems from the uneven implementation of existing rules across the EU and the resulting differences in consumer protection, which continue to hinder the integration of the European payments market.

However, the forthcoming new EU legislation on payment services based on the PSD3/PSR package is specifically designed to address these issues. Notably, the introduction of a directly applicable regulation (PSR) aims to minimize the national divergences that emerged under PSD2 and promote greater regulatory harmonization throughout the Union. In particular, the PSR seeks to strengthen consumer protection through a comprehensive anti-fraud framework, including measures aimed at addressing increasingly sophisticated payment scams, such as spoofing fraud. It also requires PSPs to participate in fraud information-sharing arrangements between themselves. In addition, the proposed framework promotes cross-sector cooperation between PSPs and a range of technological actors – namely providers of hosting and electronic communications services, as well as very large online platforms and search engines – to improve the prevention and detection of fraudulent payment transactions.

Banks and other PSPs are called upon to play a key role in shaping the future of payments in Europe.

PSPs, including banks, are key actors in the ongoing transformation of the payments market. As instant credit transfers become ubiquitous following the implementation of the Instant Payments Regulation (IPR), PSPs are expected to compete less on the execution of payment transactions and more on the innovative value-added services built on top of them. The full

uptake of instant payments can also foster the development of innovative European payment schemes. As acknowledged in the Eurosystem's recently published strategy, PSPs can leverage the SEPA Request-to-Pay (SRTP), in combination with instant payments, to develop new point-of-interaction (POI) solutions. Another noteworthy innovation is the development of account-to-account (A2A) payment solutions based on instant payments, which are emerging as a viable alternative for certain use cases.

Market participants, including Italian banks and other PSPs, are actively participating in the digital euro project and will play a central role in its distribution. The digital euro could also act as a catalyst, encouraging market players to develop value-added services such as conditional payments, whereby transactions are executed automatically once predefined conditions are met.

Banks and other PSPs are therefore called upon to play a key role in shaping the future of payments in Europe, and to cooperate closely with both EU and national institutions in fostering a secure, innovative, resilient and competitive payments ecosystem. To this end, the Italian Payments Committee (IPC), chaired by Banca d'Italia and with the participation of representatives of the supply and demand sides of the market, as well as public authorities, including the Ministry of Economy and Finance, provides a permanent forum for dialogue and cooperation in this area. The IPC also serves as a key point of contact with other national and European committees and fora, including the Euro Retail Payments Board (ERPB).

Ultimately, addressing the remaining obstacles while seizing emerging opportunities will be essential to ensure that the European payments market continues to evolve in a way that benefits consumers, businesses and the broader economy.



CONOR LANGFORD

Country Manager,
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Europe's payments future: innovation, choice and resilience

The payments landscape is evolving rapidly, driven by technological innovation and changing consumer and merchant expectations. Payments are becoming faster, more secure and more seamless, while new models such as digital wallets, account-to-account payments, stablecoins and a future digital euro are expanding choice. In this increasingly competitive environment, payment providers must continue to innovate and invest while maintaining the security, resilience and trust that underpin the payments ecosystem.

Europe's payments landscape has much to celebrate, with greater digitization, diversity, innovation, and competition delivering more choice for consumers and businesses. While cards remain among the most preferred payment methods, providing seamless cross-border acceptance, interoperability, strong consumer protection, and broad merchant reach at scale, new initiatives are expanding the range of available options. Domestic schemes, European initiatives, as well as the digital euro reflect European policy objectives around innovation, competition and availability of payment options.

Visa recognises these priorities and is adapting accordingly. From an Irish perspective, our national Visa strategy

is largely consistent with the ambitions set out in Ireland's National Payments Strategy and wider EU payments strategy: ensuring consumers and businesses have access to modern payment options, supporting innovation, maintaining trust and resilience, and keeping Europe globally competitive as payments continue to digitise.

As the market evolves, Visa is adapting its model in three important ways.

First, trust, security and resilience remain the foundation of digital payments. As consumers and businesses adopt new ways to pay, maintaining confidence in the payments ecosystem becomes even more important. Fraud prevention, cyber resilience and strong consumer protection are not optional features; they are prerequisites for the trust and effective functioning of the payments market. As Europe continues its digital transition, it is equally important to ensure consumers and businesses can access and benefit from new payment solutions. For Irish consumers, trust in digital payments underpins everyday commerce and will become increasingly important as payments become more digital and AI-enabled. Maintaining strong safeguards against fraud, scams and cyber threats will be critical to ensuring consumers can embrace innovation with confidence.

**Europe's payments
landscape has much
to celebrate, with
greater digitization,
diversity, innovation.**

Second, Visa continues to invest in security and innovation in Europe. Visa has recently announced a €500 million investment plan across Europe over the next decade, reinforcing our long-term commitment to the region and supporting the next phase of secure and innovative digital growth, while addressing the challenges faced in Europe. Visa is strengthening its long-term commitment to Europe through a new regional hub in Frankfurt, a Eurozone data centre, a European Innovation Centre and Cyber Fusion Centre, and the expansion of its Technology and Solutions Centre in Poland. Together, these investments will support the development of secure, resilient, and next-generation payment solutions across Europe. These investments will help strengthen fraud prevention and cyber resilience areas where Ireland performs strongly while

supporting the next generation of digital payments. The Central Bank of Ireland has noted that Irish payment fraud rates are below the EU average for most payment types. As payments become increasingly AI-enabled, maintaining these high standards of security and trust will be critical to the success of emerging agentic commerce and payments.

Third, we are deepening collaboration across Europe. As part of Europe's payments ecosystem for more than six decades, Visa remains committed to supporting banks, fintechs, merchants and payment providers. We support an open and competitive payments market that fosters innovation and consumer choice, and have helped many of Europe's leading fintechs scale internationally through our network. The same principles should guide the development of a digital euro: delivering clear consumer value, preserving choice, supporting innovation, fostering financial inclusion and ensuring strong consumer protections against fraud and financial crime.

Ultimately, Visa's investment priorities are not an either/or choice between new rails, AI or partnerships. Europe's future payments ecosystem will require all three.

Nearly 50 years after establishing our presence in Ireland, Visa remains committed to supporting Europe's payments future through continued investment, innovation and partnership. As the payments landscape evolves, Europe's success will depend on maintaining an open, competitive and interoperable ecosystem where different payment methods can coexist, innovate and compete on the basis of value, security and consumer benefit.

CROSS-BORDER PAYMENTS



MARTIN MOLONEY

Deputy Secretary General –
Financial Stability Board (FSB)

The end of the road? A lot done: more to do

In the middle of COVID, during the Saudi Arabian G20 Presidency, the FSB received one of the most ambitious requests it has ever received from the G20: to enhance cross-border payments.

The background of the Libra project and declining correspondent banking in the Pacific island and elsewhere is well known. The challenge of trying to improve a global network of different, two-sided payments markets, with signs of market power at every turn, is well understood. But how the FSB decided to tackle this issue is perhaps less well understood.

In retrospect, I can summarise the key ideas of this hugely complex roadmap:

This is not one problem; it's between ten and twenty different linked problems and we must tackle as many of them as we can;

The way forward has to be to first fix the global policy coordination issues

and see if the industry responds to us reducing frictions by improving investment and service provision;

We must coordinate between a huge number of different global bodies (CPMI, OECD, World Bank, IMF, FATF) and we must bring in the private sector as much as possible;

We must reach out from the silo of financial services regulation to engage with data protection regulation issues;

We need to be the ones who set the standard of what good looks like by issuing global key performance indicators (KPIs) so that no one loses sight of the needs of the end users;

The many problems include technical coordination, cross-sectoral competition, legal issues and payments resilience concerns;

While focusing on the global issues, we know that many of the issues are regional and payment corridor specific;

All the time we are implementing this roadmap, technology will be evolving and we have no way of getting ahead of that.

The details of all the hard work and the milestones reached as part of this process since 2020 are now part of history. I have recently written about that in an article co-authored with a colleague in a forthcoming issue of the Journal of Payments Strategy & Systems. At a policy and coordination level, the achievements have been substantial. In terms of our KPIs – our indicators of whether the user experience is improving – the results have left a lot to be desired.

To summarise the results, we see very strong fragmentation across regions, with some regions achieving a much better quality of service than others. We also see strong fragmentation across different measures of service: speed is improving more quickly than cost. Transparency is lagging. Change is proving slow and uneven.

How do we interpret this? One way is to conclude that we have done the key work but that there is bound to be a lag – perhaps of years – before the benefits come through. A second view would focus on the costs involved in the so-called 'first' and 'last mile' issues. This is about the costs of sanctions and AML vetting, and implementing

capital controls. Perhaps if we can simplify and standardise regulations across jurisdictions and make these requirements cheaper for incumbents, those incumbents will invest in and achieve better automated systems. But perhaps not. Another view would say that global policy work is not enough. There also needs to be regional coordination work to develop different cross-border payment rails. But is that the answer? Arguably, it doesn't matter how good the cross-border rails are if the domestic payment systems are not of a high quality. Could technological innovation bypass the whole issue?

Thinking about these issues, over the last two years of the Roadmap, the FSB has switched strategic direction. We have switched away from global policy making to promotion of better implementation. Having South Africa in the G20 Chair in 2025 with its focus on regional development was very helpful. So also was having the USA in the G20 presidency in 2026, given their focus on practical issues like opening hours and messaging standards.

A couple of lessons are already clear to us: strong regional governance structures matter. So too does central bank leadership. Given the central role of the ECB in developing the European payments architecture and reaching out to link with other parts of the world, this is not a difficult set of lessons for Europeans to understand.

In 2027, the Cross Border Payments Roadmap comes to an end. The UK will be the G20 President. Their commitment to cross-border payments is well known. With the goals of faster, cheaper, more transparent and inclusive cross-border payments not yet realised, what comes next? We are already aware of many initiatives among various stakeholders to begin debating the future. These initiatives are very welcome. If there is to be another Cross Border Payments Roadmap, it should be fully informed by the work of the first Roadmap. It should be ambitious and tech-friendly. It should never lose sight of the fact that what counts is the user experience of people and small companies trying to send and receive payments around the world. The discussion has begun!



IVAN ODONNAT

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Cross-border payments: from global targets to a targeted approach

With little more than a year remaining before the end-2027 deadline of the G20 roadmap for cross-border payments, the challenge is less to achieve all of the G20 targets -this seems unlikely at the current juncture- than to collectively build on the progress made since 2020 to continue to deliver tangible upgrades in the short term and more importantly prepare a new phase of reforms in the medium term.

Indeed, measurable results have been achieved overall. Wholesale cross-border payments have become faster on average, the share of high-cost corridors has continuously declined for retail payments, both access and transparency have improved across all segments (wholesale, retail and remittances). Important foundations have also been laid through the adoption of common standards, the promotion of instant payment systems and stronger cooperation between public authorities and the private sector.

Yet the progress made remains uneven across regions and business segments. Retail payment costs have largely stagnated, some remittance corridors

continue to face significant obstacles, and the improvements recorded overall have not translated into a consistently better experience for end users.

Such a situation should not come as a surprise. Cross-border payments are ultimately a collection of thousands of corridors, each shaped by its own market structure, regulatory environment, infrastructure and business incentives. Global targets have played a useful role by creating a political momentum and providing common benchmarks. However, they are no longer sufficient on their own. Aggregate indicators can actually mask persistent bottlenecks affecting specific corridors, countries, communities and businesses.

These disappointing findings call for a renewed focus in the remaining stretch towards 2027. Rather than relying solely on global targets, we should now aim at delivering tangible improvements to users through targeted action. This means that we now need to identify corridors where improvements would generate the greatest benefits for households and businesses and direct resources to lift them. To do so, we also need to rely more heavily on cooperation between public and private stakeholders involved in these corridors, working together to identify and solve issues.

**The last mile is the
hardest to cover but
it is also the most
rewarding, isn't it?**

We have everything at hand to head towards these targeted actions. Member countries of the Financial Stability Board (FSB) are developing jurisdictional action plans. We are also currently working on identifying corridors where most pressing obstacles remain with the help of private sector partners. We can rely on existing public-private fora within the FSB or within the Committee on Payments and Market Infrastructures (CPMI) to enhance cooperation between public authorities and private entities. At our disposal, we have a comprehensive policy toolkit and the set of guidance developed since 2020. Finally, we can benefit from a deep collective experience in technical assistance, which remains one of the most effective tools to reduce structural barriers.

Besides, we should also articulate these short-term ways of action with a more prospective agenda for cross-border payments beyond 2027. The payments landscape has changed dramatically

since the inception of the roadmap, and the future agenda must take account of technological developments which have emerged in the meantime. Today's perspective of a greater interlinking of fast payment systems (FPS) offers one of the most practical and immediate paths to improving the speed, transparency and accessibility of cross-border payments. At the same time, tokenised central bank money could become an important component of the next generation of cross-border payment infrastructures. Their value lies in their ability to enable safer and more automated settlement processes, improve interoperability between platforms and support payment-versus-payment mechanisms across jurisdictions.

Europe has an important role to play in the next phase of cross-border payments reforms, with its experience in regional integration of payments through the Single European Payment Area arrangements and the Eurosystem Target services. Furthermore, it can contribute to the global efforts by promoting interoperable infrastructures and common standards. Whether through the interlinking of FPS or future tokenised settlement arrangements, the priority should remain interoperability across jurisdictions. The objective is not to multiply the number of platforms with a potential outcome in a world of competition, but to connect them effectively in order to avoid fragmentation. Otherwise, technological innovation risks reproducing the fragmentation that the G20 Roadmap was designed to overcome.

Will 2027 be a pivotal year for cross-border payments? Efforts are more needed than ever to reap the benefits of the steps already taken and prepare for the upcoming challenges. The last mile is the hardest to cover but it is also the most rewarding, isn't it?



ULRIK
NØDGAARD

Governor – Danmarks
Nationalbank

The last mile: From infrastructure to end-users in the Nordics

The past few years have demonstrated both the progress and the challenges in improving cross-border payments. New infrastructures, common standards and instant payment systems have created opportunities for faster and more efficient international payments. Efforts to interlink global payment systems are therefore promising. Yet experience has shown that connecting infrastructures is only one part of the challenge. Delivering better outcomes also requires alignment of schemes and legal frameworks, which can be more difficult than the technical connection itself.

In Europe, TIPS provides a common multicurrency platform for settlement in central bank money and is open to both euro and non-euro currencies. It already settles instant payments in euro, Swedish kronor and Danish kroner, while Norway and Iceland have announced plans to join with their national currencies in the coming years. As more currencies become available on the same platform, opportunities emerge for instant cross-currency payments using existing infrastructure. TIPS x-ccy is one example of how these opportunities can be put into practice. In this sense, cross-currency payments between participating TIPS currencies

can be seen as some of the low-hanging fruit in the broader effort to improve cross-border payments.

However, even low-hanging fruit may be difficult to harvest. The interaction between payment schemes, European legislation and market participants across countries is complex. Technical settlement is only one layer. Payment schemes and legal frameworks shape how infrastructures and PSPs operate. As a result, solutions such as TIPS x-ccy depend not only on technology, but also on how these layers fit together.

While TIPS x-ccy may improve the speed and availability of cross-border transfers across currencies, improved infrastructure does not automatically translate into lower costs for end users. The last mile is not only a question of connecting infrastructures and PSPs, but also of ensuring that the benefits reach households and businesses. The prices paid by end users are ultimately determined by the services offered by PSPs and the competitive conditions in the market. In the Nordic countries and other non-euro EU/EEA countries, the price of a cross-border transfer often depends more on the currency in which the payment is made than on the origin and destination country. It can therefore be cheaper to transfer, say, 1,000 Danish kroner from Copenhagen to Stockholm in euro rather than in Danish or Swedish kronor, even though the euro-denominated payment may require two currency conversions: from Danish kroner to euro when the payment is initiated, and from euro to Swedish kronor before the funds are credited to the recipient.

The last mile is also about turning better infrastructure into lower costs for end users.

This reflects the Cross-Border Payments Regulation (CBPR2). Under the regulation, which applies across the EU and EEA, charges for cross-border payments in euro must be the same as for corresponding domestic payments. No equivalent pricing rule applies to transfers denominated in currencies other than the euro. As a result, transfers in non-euro currencies, including the Nordic currencies, typically involve both a cross-border transaction fee and an FX margin. For smaller transfers, transaction fees often account for the largest share of the total cost, making euro-denominated transfers the cheaper

option despite the additional currency conversion.

While TIPS x-ccy can improve the infrastructure for cross-border payments between participating currencies, lower costs for households and businesses are not guaranteed. Achieving that final step of the journey – the last mile from infrastructure to end users – also depends on market adoption, competition and the wider regulatory framework.

The importance of the regulatory framework is also illustrated by the Instant Payments Regulation (IPR). From 2027, its requirements for euro-denominated instant payments will apply to PSPs in non-euro EU Member States, including Danish banks offering euro payment services. Many PSPs are already adapting their liquidity arrangements, with some opening euro accounts at Danmarks Nationalbank to access central bank settlement [CBi].

The notion of the last mile also applies to large projects. Once the infrastructure is in place, attention shifts to implementation: onboarding participants and ensuring operational readiness. The benefits will depend on how effectively the service is integrated into existing market arrangements and also whether improved infrastructure translates into lower costs for end users.



**JAMES
TALBOT**

Executive Director, International
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Cross-border payments: Shaping the next phase of work

The international community's work on improving cross-border payments is at a pivotal moment: progress has been made since the G20 Roadmap was launched in 2020, but we are far from reaching the targets that were set for 2027. As Andrew Bailey put it at the FSB Payments Summit earlier this year: "we are not stopping until the job is done."

Cross-border payments are not a niche technical issue – they affect households sending remittances, small firms trading internationally, corporates managing global supply chains and financial institutions moving liquidity across markets. While persistent frictions can act as a source of fragmentation in the global financial system, faster, cheaper, more transparent and more accessible payments can support inclusion, growth and resilience.

On top of this, technological innovation has accelerated, placing further pressure on established cross-border payment arrangements. At the same time, there is growing recognition that a more targeted package may be needed to galvanise and focus support across both public and private sectors in order to deliver tangible improvements.

The US G20 presidency is focusing on tangible improvements, including extending operating hours, implementing ISO 20022 and reducing fraud in payments, and we are looking to build on these initiatives as the UK takes up the G20 presidency in 2027.

The next phase of the Roadmap can deliver better outcomes for end-users around the world. The barriers differ across wholesale, retail and remittance payments, and across corridors. Some problems reflect legacy infrastructure and limited operating hours, while others arise from inconsistent legal, regulatory and supervisory frameworks, fragmented data requirements, and growing fraud and illicit finance risks.

This points to three priorities for public authorities. First, authorities should translate global commitments into domestic and regional implementation. Jurisdictional Action Plans can help implement international recommendations domestically, recognising that cross-border payments depend on effective domestic rails at the first and last mile. Regional Action Plans can support implementation where regions start from different baselines and are progressing at different paces. This should include working with the World Bank and IMF to ensure that technical assistance programmes are effective.

**We must target our
efforts more effectively
to translate global
ambition into tangible
improvements**

Second, stronger public-private collaboration will be key. The investments and operational decisions required to improve cross-border payments sit largely with banks, payment firms, infrastructures and technology providers. Continued engagement and action by the private sector, both individually and collectively, plays an important role in supporting progress towards the cross-border payments goals. Further innovation will also be needed across both public and private sector infrastructure, building on progress on ISO 20022, APIs and extended RTGS operating hours while recognising that the most effective upgrades may differ across retail and wholesale systems.

Third, authorities should account for how the payments landscape

has changed since 2020. Cross-border payments now sit in a rapidly evolving multi-money and multi-rail ecosystem. Innovations such as stablecoins and tokenised deposits could increase competition and improve user experience, but they could also create new fragmentation and financial stability risks. Adherence to the FSB's 2023 high-level recommendations would ensure that these new innovations create an interoperable, innovative and trusted global payments system.

Trust should be central to that agenda. Fraud and illicit finance risks are no longer peripheral to cross-border payments reform. Alongside improving and better aligning national AML/CFT frameworks, technology could help reduce the cost and friction of compliance without diluting standards.

Equally important will be ensuring that emerging payment arrangements can interact seamlessly across borders and technologies, avoiding the creation of parallel systems that create friction and reduce the efficiency gains that innovation promises.

The next phase of international work offers an important opportunity to sharpen the agenda on cross-border payments, bringing together industry, public authorities and international bodies to focus on actions that would genuinely move the dial for users. But progress will take longer than 2027, and sustained commitment across jurisdictions will be needed to keep cross-border payments high on the international agenda and to move us closer to the finish line.



JONATHAN COX

Managing Director Global
Corporate Affairs – Swift

Connecting today's payments with tomorrow's value

With the G20 targets for cross-border payments approaching in 2027, there is progress to point to. Payments travelling over Swift are moving faster than ever: 75% now reach the beneficiary financial institution within 10 minutes, and many arrive within seconds. That is a big step forward. In many cases, the core cross-border journey is starting to feel more like domestic payment.

But that is not always what customers experience. People and businesses still face delays, uncertainty over fees or timing, and limited visibility on where their money is. Much of that friction sits in the "last mile" - the point where funds are credited and information is shared with end users. Around 80% of processing time sits there.

That is what Swift's consumer payments framework is designed to fix. Launched in June, it gives participating institutions a set of rules for retail cross-border payments, so consumers get a clearer view of costs, receive the full amount intended, see funds credited faster and can track the payment from end-to-end. The goal is to bring a best-in-class consumer experience to the trusted rails banks already use every day - rails that connect more than 11,500 institutions across 200+ countries and move the equivalent of the world's GDP every few days.

We are seeing the impact in markets globally. The framework is now being used across 25 market corridors, with 26 institutions live and more than 70 committed to implementation by the end of the year. Eleven creditor markets are now active, helping consumers benefit from full-value transfers, clearer costs and better tracking when sending money internationally into markets such as India, China, the United States, the United Kingdom, Spain, Australia, Pakistan, Germany, Canada, Bangladesh and the Philippines.

And the difference is visible. Payments from Brazil to Germany have moved in 60 seconds, and payments from China to the United States in under a minute. But speed is only part of the story. What matters is the whole experience: knowing what the payment will cost, where it is, when it will arrive and that the right amount will get there.

The same applies to ISO 20022. Its value will only be fully felt if richer, structured data travels with the payment all the way from sender to receiver - and if every institution in the chain uses that data consistently. This is not just a technical migration. Used well, ISO 20022 can make payments more transparent, easier to track, simpler to reconcile and less likely to get stuck along the way.

Raising the standard for cross-border payments: faster, consistent, predictable, transparent.

But those benefits will not happen by default. The industry needs to move beyond being technically ready and focus on how ISO 20022 data is actually used. Data quality, common market practice and interoperability between correspondent banking, domestic systems and the final-mile experience all matter. When the right information is preserved and acted on from end-to-end, users get clearer updates, fewer exceptions and more confidence in when their money will arrive.

The same challenge applies as the industry moves into tokenised deposits and digital assets. These forms of regulated value will scale if they work with the systems, controls and settlement processes banks already trust. Digital finance cannot become another set of disconnected islands.

That is where Swift's approach comes in. The aim is to connect these worlds, not force a choice between them. The Swift

ledger is now available for participating institutions to pioneer cross-border transactions using tokenised deposits. It acts as a secure orchestration layer for tokenised deposits issued on banks' own ledgers, allowing value to move for customers at any time - including overnight and at weekends - before final settlement takes place through existing systems such as RTGS or correspondent banking.

The aim is to extend the utility of proven infrastructure, so new capabilities can be adopted safely, compliantly and predictably. In payments, innovation only works if it can be trusted in the real world - by banks, by businesses and by the people depending on money to arrive when and where it should. That is the common thread across the consumer payments framework, ISO 20022 and tokenised movement: better rules, better data and better connectivity. Together, they close the gap between faster networks and better outcomes.

For Europe, that matters. A region that trades extensively across borders needs payment infrastructure that is open, resilient and globally connected. European businesses and consumers benefit when payment into and out of the region are faster, more transparent and easier to track.

The same principle applies as new forms of digital value emerge. The future will not be defined by one technology or one model, but by how effectively trusted systems connect - so value can move securely, transparently and without fragmentation. For Europe, the stakes are straightforward. A continent that trades across borders benefits when payment infrastructure is global in reach and built on trusted standards.



DIRK BULLMANN

Managing Director, Office
of the Chief Executive
Officer – CLS Group

Settlement risk's next chapter

More than USD1 trillion of foreign exchange (FX) activity is fully exposed to settlement risk every day.¹ While significant, it sits in a market that has become dramatically safer over the past five decades.

The collapse of Bankhaus Herstatt in 1974 exposed the consequences when one side of an FX transaction is paid but the other never received. It prompted industry action, including the creation of CLS, widespread adoption of payment-versus-payment (PvP) settlement, and the development of standards and best practice like the FX Global Code.

Fast forward to 2026. Data from the Bank for International Settlements (BIS) shows how successful those efforts have been. According to the BIS, 90% of average daily settlement now takes place using methods that eliminate or materially reduce settlement risk.

The remaining risk reflects the evolution of the FX market more than shortcomings in market infrastructure.

The challenge now is extending proven solutions to a market that continues to diversify and grow.

A half-century of progress

The BIS 2025 Triennial Survey introduced a new methodology for assessing settlement risk, based on the settlement hierarchy established by Principle 35 of the FX Global. It found:

- USD5 trillion (36%) of average daily settlement used PvP arrangements such as CLS Settlement, eliminating settlement risk.
- USD7.6 trillion (54%) settled through methods such as pre-settlement netting that reduce settlement risk.
- Only USD1.4 trillion (10%) settled on a gross bilateral basis and remained fully exposed.

These results reflect decades of collaboration between central and commercial banks, regulators, market participants and infrastructure providers.

Broader participation

None of this argues for complacency. USD1.4 trillion remains a significant exposure.

The BIS identifies three reasons why some trades continue to settle outside PvP arrangements: broader participation by non-bank financial institutions (NBFIs); growth in currencies outside existing PvP arrangements; and transaction types that fall outside traditional settlement models.

The BIS found that 75% of bilaterally settled transactions were not eligible for PvP settlement, most commonly because one counterparty lacked access to a PvP system.

This reflects the growing role of NBFIs. Over the past 20 years, the FX market has expanded beyond dealer banks, with other institutional investors accounting for more activity.

Many of these institutions have not embedded settlement risk management into their operating models in the same way as dealer banks. Education, industry engagement and greater awareness of best practice can help bring more activity from these sectors into existing risk mitigation frameworks.

New currencies, new flows

The survey also highlights evolving currency flows. Thirty-six percent of gross bilateral settlement involved currency pairs that are not eligible for PvP settlement.

The renminbi is the most prominent example. According to the BIS, it appeared on one side of 8.5% of global over-the-counter FX transactions after 12

years of sustained growth. As renminbi and other emerging market currencies grow, risk mitigation tools must evolve alongside them.

CLS is developing a dedicated USD/CNH PvP settlement session. Operating separately from the main settlement session, it would extend CLS's risk mitigation and multilateral netting benefits to the USD/CNH market.

As with any new service, implementation remains subject to regulatory approvals, non-objection processes across multiple jurisdictions and settlement member readiness. CLS's priority is to ensure the service is implemented safely, efficiently and in line with supervisory expectations.

**The challenge now
is extending proven
solutions to a market
that continues to
diversify and grow.**

Complementary approaches also play an important role. Where PvP is not yet practical, bilateral netting can significantly reduce risk. CLS's bilateral payment netting calculation service, CLSNet, supports over 120 currencies, including CNH, THB, PLN, CZK and TRY. The BIS notes that pre-settlement netting nearly doubled between 2006 and 2025.

New markets create new settlement needs

Settlement risk also persists because certain transaction types fall outside existing PvP models. As settlement cycles shorten and demand for intraday liquidity grows, the industry must evolve without losing the benefit of multilateral netting.

Stablecoins, tokenized deposits and other forms of digital infrastructure could further improve intraday liquidity management and settlement where traditional processes are less effective.

The BIS findings do not point to a new settlement risk problem. Rather, they show that the next chapter will be about extending proven principles to an evolving market through resilient infrastructure, continued collaboration and broader adoption of best practice.

1. BIS Quarterly Review, June 2026.

7

RISK PREVENTION AND MITIGATION

SUPERVISING AML IN CRITICAL INTERFACES.....306

Derville Rowland - Anti-Money Laundering Authority / **Andreas Schirk** - Austrian Financial Market Authority / **Alexandre Diers** - La Banque Postale / **Brent McIntosh** - Citi

CYBER RESILIENCE IN THE AI ERA..... 310

Kerstin Pilt - Estonian Financial Supervision Authority / **Sofia Toscano Rico** - European Central Bank / **Moirá Cronin** - PwC Ireland / **Jessica Kaffrén** - J.P. Morgan SE / **Dea Markova** - Fireblocks

PRIVATE ASSETS AND NBFI: COMBINING INNOVATION AND RESILIENCE..... 316

Francesco Mazzaferro - European Systemic Risk Board / **Takushi Kurozumi** - Bank of Japan / **Patrick Amis** - Single Supervisory Mechanism / **Petra Hielkema** - European Insurance and Occupational Pensions Authority / **Lee Foulger** - Bank of England / **Linda-Eling Lee** - MSCI / **Yann Le Pallec** - S&P Global Ratings / **John Golden** - Apollo Global Management

SUPERVISING AML IN CRITICAL INTERFACES



DERVILLE ROWLAND

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From rulebook to reality: tackling money laundering and terrorism financing

Europe's new anti-money laundering framework, with AMLA and the Single Rulebook at its centre, responds to a simple reality: financial crime is cross-border and fast-moving.

The Single Rulebook alone does not guarantee a unified AML/CFT system. Success won't be measured by the legislation's adoption, but by AMLA's ability to turn a shared legal framework into a genuinely consistent supervisory and AML/CFT practice across the Union.

AML/CFT supervisors, FIUs, prudential supervisors, and other authorities must work closely together, informed by the best information available, to develop a holistic approach. AMLA drives this convergence by setting common rules building a shared understanding of risks, and aligning supervisory approaches.

Through this work, AMLA helps supervisors identify vulnerabilities earlier, direct resources towards the areas of greatest exposure, and take targeted and proportionate action.

AMLA builds its approach around four principles:

1. Risk based, outcome-focused and proportionate supervision
2. Strong governance and common AML/CFT culture
3. Consistent, data-driven and technology-enabled supervisory approaches
4. Effective cooperation across the AML/CFT Supervisory System

Risk-based approach. The risk-based approach is at the core of AMLA's AML/CFT framework. Targeting supervisory resources where they are most needed requires a common methodology and shared under-

standing of risk. AMLA is establishing this harmonised framework for assessing ML/TF risks, creating the conditions for more consistent supervisory prioritisation and risk-based action across the Union.

Governance and culture. AMLA places governance and organisational culture at the centre of effective AML/CFT frameworks. Formal compliance alone cannot deliver effective outcomes. Obligated entities must establish clear accountability, support informed decision-making and ensure sustained engagement from their governing bodies and senior management. Through regulation, and its direct and indirect supervision, AMLA will reinforce high governance standards and foster a common supervisory culture across the EU AML/CFT system.

Data and technology. AMLA promotes the effective use of timely and accurate data and information to help supervisors identify vulnerabilities, emerging typologies and act consistently across borders.

Automated and AI-based solutions can enhance risk identification while cross-border data sharing can further improve the detection of suspicious activity. However, technological innovation also creates new ML/TF typologies with increasingly sophisticated methods of concealment. The use of AI and other automated tools introduces risks where off-the-shelf solutions are introduced without adequate understanding or calibration to an institution's specific risk profile.

AMLA will support supervisors and FIUs in making responsible and effective use of these tools and foster the development of supervisory technology. It will also promote robust safeguards, sound governance and appropriate human

oversight to preserve trust, accountability and effectiveness.

Cooperation. AMLA delivers its mandate through close and sustained cooperation. Common standards and a shared understanding of risk are built on timely and effective information sharing among Supervisors, FIUs, EU institutions and bodies, and the private sector.

AMLA also brings relevant partners together on cross-cutting issues such as data, technology and supervisory infrastructure. By working with the Commission, the ECB, the ESAs and other relevant bodies, AMLA helps align expertise, streamline data collections to reduce duplication and strengthen the EU's collective capacity.

A framework that evolves

Financial crime does not stand still, and neither will AMLA's supervisory approach. The principles are built to adapt risk-based supervision that recalibrates as risks evolve, governance expectations that keep pace with how obliged entities operate, data and technology that surface emerging patterns early rather than simply recording them, and cooperation that keeps the whole system moving together.

Turning the Single Rulebook into a consistent supervisory reality is not a one-off exercise. It is a forward-looking, cooperative undertaking that will evolve as risks, technologies and typologies change. AMLA's role is to keep National Competent Authorities, Financial Intelligence Units, EU-level supervisors and the private sector aligned around this shared task, so that Europe's response to money laundering and terrorist financing becomes not just more consistent, but more effective, over time.



ANDREAS SCHIRK

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Financing Division – Austrian Financial Market Authority

From rules to outcomes: Making European AML supervision work in AI & Crypto Era

The establishment of AMLA marks the beginning of a new phase in European AML/CFT supervision. The Single Rulebook provides the foundation, but effective and consistent supervision will require more than harmonised rules. Success will depend on close cooperation between AMLA, national competent authorities (NCAs) and the private sector. Together, they must build a supervisory model that combines convergence with flexibility, leverages data and technology, and scales solutions that work across Europe.

Convergence in supervisory expectations and outcomes is a priority. However, it takes time and standards alone will not do the trick. A common rulebook is necessary, but only one building block. Convergence also requires common methodologies, coordinated practices, effective information sharing, interoperable technology, joint training and staff exchanges. Structured cooperation between AMLA and NCAs, complemented by stakeholder dialogue, can help ensure that expectations are practical, risk-based and understood across the market. Experience from European banking supervision shows that a common supervisory culture is built through cooperation and shared practice rather than regulation alone.

At the same time, convergence should not come at the expense of supervisory effectiveness. NCAs need sufficient flexibility to address local ML/TF risks and respond to innovation effectively. Risk exposures differ across jurisdictions, from cash-intensive sectors to international financial centres, payment firms or crypto services. Input from stakeholders close to market developments can help keep supervisory responses proportionate, targeted and operationally meaningful. The objective should be convergent supervisory outcomes within a common European framework, rather than uniform supervisory processes in every situation.

AMLA can create significant European value added by addressing challenges **individual authorities cannot tackle effectively on their own and by scaling successful solutions across the Union.** This is particularly relevant for crypto-assets, where transactions move seamlessly across borders and supervisory insights are often fragmented. Several NCAs are already developing innovative analytical tools and supervisory technologies. AMLA should act as a platform that identifies, connects and scales such initiatives. It should evolve into a European hub for blockchain analytics and risk intelligence, interconnecting data and analytical capabilities to give supervisors a shared understanding of cross-border crypto-related ML/TF risks and emerging typologies.

Common rules only work if turned into shared data, tools and supervisory practice.

Risk-based supervision must become more data-driven, with AI used to augment expert judgement. As financial services become more digital and interconnected, traditional approaches relying heavily on periodic assessments are reaching their limits. Better data, analytics and information sharing can help supervisors identify risks earlier, allocate resources more effectively and focus on areas of greatest concern. AI can further support the detection of complex patterns, improve risk identification and help process large datasets, contributing to greater consistency and efficiency. But safeguards remain essential: explainability, transparency, accountability and human oversight are needed whenever models influence supervisory assessments or compliance decisions.

Closer cooperation with the private sector will also be essential to learn and level up. Supervisors and firms face many of the same challenges when dealing with new technologies, emerging risks and evolving typologies. Structured dialogue, joint learning formats and controlled experimentation can help AMLA, NCAs and firms build practical understanding, identify safeguards and scale good practices more quickly, while respecting supervisory independence and confidentiality.

Ultimately, the future effectiveness of European AML/CFT supervision will depend less on additional rules and more on turning data, technology and cooperation into operational outcomes. Common standards remain fundamental, but they must be complemented by shared tools, shared intelligence and a shared supervisory culture. If AMLA, NCAs and the private sector cooperate effectively, Europe can build a framework that is more consistent, more proportionate and better equipped for the challenges of the AI and crypto era.



ALEXANDRE DIERS

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AI in financial crime: weapon or shield?

Artificial intelligence (AI) is reshaping the landscape of anti-money laundering (AML) and counter-terrorist financing (CTF) efforts. On the one hand, criminal organizations leverage AI to refine their fraudulent strategies; on the other, financial institutions and European regulators harness it as a powerful defensive tool. This duality challenges Europe's ability to reconcile innovation, security, and ethical considerations. By examining emerging threats, the banking sector's operational responses, and the evolving regulatory framework, we explore how the AML Authority (AMLA) and the EU should transform this challenge into a winning strategy.

AI as a crime multiplier

Criminals are increasingly exploiting AI to circumvent surveillance systems. Through deepfakes and automated bots, the production of fraudulent identities has reached industrial scale, rendering traditional controls ineffective. In 2023, the French Prudential Supervision and Resolution Authority (ACPR) reported a 40% surge in phishing attempts targeting automated systems, driven by criminal groups specializing in the fraudulent use of these technologies. By lowering costs and technical barriers, AI has democratized access to sophisticated methods formerly reserved to State actors.

AI also boosts the sophistication of money laundering schemes. In the physical world, algorithms create ephemeral legal structures to hide one's tracks: according to Europol, 60% of shell companies used in 2022 were generated via automated platforms. In the digital world, automated opening and running of pass-through accounts, privacy mixers for crypto-asset transactions, or smart contracts, provide multiple new avenues for anonymizing transactions and evading sanctions.

This transformation demands heightened and proactive vigilance from financial institutions.

AI as a compliance lever

To counter these threats, banks are integrating AI into their monitoring and alert management systems. Machine learning models analyse transactional behaviour in real time, significantly reducing false positives. For instance, La Banque Postale achieved a 60% reduction in errors when filtering name matches against people subject to restrictive measures. Graph-based analysis of transactions and relationships – notably on blockchains – has become a standard tool for uncovering hidden links between entities.

Agentic AI can now improve both the speed and quality of analyses. However, these technologies do not replace human judgment; they rather augment it. AML officers must understand how to use AI tools effectively, “feeding” them with their professional expertise to receive intelligent support and become an “augmented human”.

This shift is redefining compliance roles, transforming analysts into “AI supervisors”. Faced with a skills shortage, the sector must rethink training and employee support, integrating social dialogue and continuous skill development.

Along with the internal use of AI, banks also contribute to mitigating AI risks by informing and educating their clients about new fraud technologies, fostering constant vigilance while maintaining trust. La Banque Postale engages daily with its 18 million customers to this end.

An evolving European regulatory framework

While the AML/CFT regulation does not explicitly address AI systems, national authorities – such as ACPR in France – have acknowledged their relevance. White papers, workshops, and partnerships reflect this commitment to supporting the banking sector. The AMLA should

now assume this role at the European level to meet two imperatives: regulatory predictability in a rapidly changing environment, and the alignment of requirements with operational realities.

This framework aims at avoiding too burdensome rules while closing loopholes exploited by criminals. The governance framework for banks, as exemplified by the Caisse des Depots Group's 2025 common position on AI use in AML/CFT, is a case in point. Beyond governance, the AMLA will need to clarify its expectations regarding the auditability and reversibility of systems, to reconcile innovation with risk management.

Europe should adapt regulation and lead emerging threats detection across the industry.

The dialectic between AI as a threat and as a compliance tool illustrates the ongoing arms race in AML/CFT. Through AMLA, Europe is laying the groundwork for a dynamic balance: recognizing AI as an indispensable yet strictly regulated lever, hybridizing skills, and strengthening cooperation between public and private actors.

The success of this approach will depend on financial institutions' ability to invest in training and collaborate with regulators. It is now up to the European Union to demonstrate that its model – combining rigor and agility – can prevail in this endless competition.



BRENT MCINTOSH

Chief Legal Officer & Corporate Secretary – Citi

Winning Europe's fight against financial crime requires partnership & prevention

Europe's move toward greater anti-money laundering convergence through the creation of the Anti-Money Laundering Authority is a welcome step toward strengthening the integrity of the European financial system. For many years, AML supervision across the European Union has been fragmented and insufficiently risk-based. AMLA should serve to promote a more harmonized framework and refocus supervision on the prevention of financial crimes across the Single Market.

As Europe strengthens its AML framework, it is important to remember the ultimate goal: preventing criminals from exploiting the financial system. Too often, regulators measure their impact by the number of findings and the size of penalties, rather than by their fundamental success in forestalling bad acts in the first place. The latter is harder to measure and may not bring the same public recognition, but it is the *raison d'être* of financial crime regulation. Accountability and enforcement remain essential, but they should always be in service of outcomes such as disrupting illicit networks, identifying emerging risks and making it harder for criminals to move and hide funds. A risk-based, outcomes-focused approach helps direct supervisory efforts to the areas of greatest financial crime risk and supports the integrity of the financial system.

This is all the more important because the fight against illicit finance extends beyond Europe's borders. Criminal networks, sanctions evaders, terrorist financiers and other illicit actors operate globally, exploiting regulatory gaps and rapidly adapting to new technologies and controls. AMLA has already recognized the importance of stronger information-sharing and closer cooperation among supervisors, financial intelligence units and the private sector. Building on these commitments to share timely

intelligence and foster a common understanding of emerging risks will be critical to ensure Europe can respond effectively to increasingly sophisticated threats.

Global financial institutions such as Citi will be invaluable partners in this endeavor. Banks have invested significantly in advanced monitoring systems, data analytics, artificial intelligence, and dedicated financial crime and threat intelligence capabilities. These resources enable institutions to identify suspicious activity across regions, detect emerging criminal typologies, and spot patterns that may not be discernible within a single jurisdiction. Because global banks operate across interconnected markets, they often possess unique insights on how illicit actors move funds through the international financial system and how to deter those movements.

Where effective legal frameworks and trusted partnerships exist, financial crime intelligence can be shared more effectively, helping to allocate resources efficiently. Article 75 of the AML Regulation is a significant step in this direction, providing a new basis for information-sharing partnerships across the financial sector. Combined with AMLA's focus on cooperation and supervisory convergence, Article 75 presents an opportunity to strengthen collective understanding of financial crime risks. Effective supervision is at its strongest when authorities and firms share a common view of emerging threats, vulnerabilities and typologies, allowing both supervisory approaches and risk management frameworks to evolve alongside the threat landscape.

AMLA has signaled its commitment to building a modern, intelligence-led and future-focused supervisory framework. As financial crime risks evolve alongside new technologies, maintaining this focus on innovation will be essential. The responsible use of advanced

analytics, artificial intelligence and data-driven approaches can strengthen both supervision and financial crime prevention. Combined with a culture of continuous improvement and adaptability, this can help Europe's AML framework remain effective against increasingly sophisticated criminal threats.

Public-private partnerships are key to a stronger, integrated fight against financial crime.

Preventing criminals from exploiting the financial system is an objective shared by authorities and industry alike. The EU's new AML framework provides a foundation for achieving that goal, but proof of the pudding is in the tasting. Continuing to foster true partnerships between the public and private sectors will best provide Europe with the opportunity to build a more integrated, effective and resilient framework for combating financial crime.

CYBER RESILIENCE IN THE AI ERA



KERSTIN PILT

Chair of the Management Board
– Estonian Financial Supervision
Authority (Finantsinspeksioon)

DORA delivers real results in Estonia — But the harder work begins now

DORA is already delivering real resilience benefits in Estonia and across the wider Baltic region. Its biggest contribution has been turning supervisory expectations into enforceable legal obligations. Much of what DORA now requires; ICT risk management, incident reporting, testing, third-party oversight, was already supervised in Estonia before DORA came into force, based on EBA guidelines and other soft-law tools. What has changed is the legal footing: we now have a clear, directly applicable basis to enforce these requirements. As a result, management bodies at DORA-regulated firms are paying closer attention to operational resilience, ICT risk governance has improved, and oversight of critical third-party dependencies has become more structured. In a region where cyberattacks are a constant threat, driven in large part by a hostile neighbor, and where our societies are highly digitalized, this shift is not a mere technicality. It

closes the gap between best practice and legal obligation.

The harder work lies ahead: operationalizing the Critical Third-Party Provider oversight framework. Overseeing providers whose services underpin the resilience of the European financial system requires close coordination between Lead Overseers, national authorities and the providers themselves, many of which sit outside the EU and outside supervisors' traditional reach. Given how concentrated the market for some of these services already is, getting this right is not optional: it is foundational to system-wide resilience. Three open questions will decide whether this becomes effective rather than a paper exercise: do Lead Overseers apply consistent methodologies across Member States; are escalation paths fast enough; and do providers whose regulatory ties have traditionally lain elsewhere take the framework seriously? This is a multi-year effort, and success will be judged less by initial designations than by how the first disputes are handled.

**Resilience will be judged
not by standards adopted,
but by how consistently
we apply them.**

There is a further complication. Some third-party providers in Estonia: telecoms operators, digital identity and signature service providers, are critical to the financial system, yet their small size means they will never fall within scope of the oversight framework. This is not a hypothetical gap, it is a real one, since these are services most people use daily without thinking of them as part of the financial system. For them, we rely on national legislation and cooperation with other authorities holding the relevant mandate. Our priorities follow the regional threat picture. Cyber resilience remains, and will remain, the core mission, not a box we tick once DORA implementation is complete. AI, meanwhile, is becoming central to the resilience landscape creating real opportunities for cyber defense, anomaly detection and incident response, alongside with new dependencies, risks and attack vectors of its own. Even so, we do not see a need for a wholly new AI

regulatory regime at this stage as DORA's framework is broad enough to absorb these. The priority now is consistent implementation, not more legislation. And implementation calls for real proportionality. Our market ranges from systemic banks to firms with two or three employees, all under the same regulation. An approach calibrated for the largest players will simply be unworkable, or ignored, by the smallest - proportionality is what keeps the framework credible across such a varied market.

Supervisory cooperation should be strengthened further; this is where the greatest gains are still to be made. DORA's requirements, and the threats behind them, are broadly shared across Europe, which makes cooperation a necessity, not a courtesy. Estonia has pursued this on several fronts: domestically with our Central Bank, the Police and Border Guard Board and Information System Authority; and internationally with peer supervisors. This June we hosted a joint training with the Bundesbank in Tallinn, informally known among participants as the "DORA on-site inspectors' festival," bringing inspectors together to align practical approaches. We would welcome common supervisory expectations, harmonized inspection methods, better threat-intelligence sharing, and closer alignment between Lead Overseers and national authorities. We understand that this does not happen automatically but requires sustained effort from supervisors on all sides. Ultimately, digital operational resilience will be determined not by the number of technical standards adopted, but by our ability to apply them consistently and respond together to an interconnected threat landscape.



SOFIA TOSCANO RICO

Deputy Director General
– European Central Bank

Safeguarding Europe's banks in the digital age

A transformed risk landscape

On 7 July 2026, the European Systemic Risk Board (ESRB) issued a warning¹ on systemic cyber risks stemming from frontier artificial intelligence (AI) models, acknowledging how these models are changing the cyber threat landscape for the EU financial system. On the same date, the European Central Bank (ECB) published a letter² to the CEOs of banks directly supervised by the ECB, framing AI-enabled cyber threats as a long-term shift in the threat environment and calling on banks to strengthen their information and communications technology (ICT) resilience.

Frontier AI models are highly capable AI models that represent the leading edge of current or anticipated technological development and mark a paradigm shift in cybersecurity as they can discover and exploit software vulnerabilities at unprecedented speed and scale. This has profound implications for the confidentiality, integrity and resilience of banks' ICT systems, particularly in the case of legacy systems.

Compounding this challenge is third-party risk. In many areas, including AI, EU banks are becoming increasingly reliant on a few external providers

from outside the EU, exposing them to strategic dependency and geopolitical risks. Moreover, the same dependencies expose banks to the risk of cascading disruptions arising from cyber incidents, operational failures or outages, even when the banks themselves are not directly targeted.

Keeping pace: supervision of ICT and cyber risk

Regulation has advanced in parallel. The Digital Operational Resilience Act (DORA) was designed to ensure that financial entities within the EU can withstand, respond to and recover from ICT-related disruptions, while the AI Act sets harmonised rules to regulate AI systems based on their risk level. Alongside these legislative initiatives, and building on the role provided for in DORA, the European Supervisory Authorities, at the request of the ESRB, have established the pan-European Systemic Cyber Incident Coordination Framework (EU-SCICF) to strengthen coordination during systemic cyber incidents.

Monitoring the risk landscape carefully, the ECB has kept operational and IT resilience firmly and consistently in the focus of its banking supervision. One cornerstone was the cyber resilience stress test conducted in 2024, in which 109 banks faced a severe scenario disrupting core systems and had to demonstrate their response and recovery capabilities. As a complement to this, in 2023 and 2024 European banking supervision conducted cyber dry runs to test whether the ECB and national competent authorities were sufficiently prepared for system-wide cyber incidents affecting both the authorities and banks. The exercise was extended to other EU bodies, such as the European Banking Authority (EBA) and the Single Resolution Board (SRB), when it was repeated in 2026. Incident reporting also helps supervisors rapidly identify major cyber events and coordinate crisis responses when needed.

**Operational resilience
comes down to
preparedness: banks
must be ready.**

To address third-party risks resulting from the use of cloud services, the ECB published its *Guide on outsourcing cloud services to cloud service providers in 2025*³, encouraging geographically diversified data centres, clear exit strategies for

outsourced cloud services and regular assessment of concentration risks.

From compliance to culture: owning resilience

These structural challenges cannot be tackled in isolation: in a system where the weakest link can affect many, sharing good practices and working together are essential. Banks have to be able to respond effectively to the transformed risk landscape. A bank's management body therefore needs a proper understanding of the evolution and materiality of such risks in order to take adequate and timely decisions to manage them.

But that is not all. Management boards must also champion a culture of resilience within banks, and executives must invest decisively in modernising legacy systems and hardening defences. Such investments are not mere operational costs; they will be the foundation of renewed competitiveness.

Ultimately, operational resilience comes down to preparedness: banks must be ready.

1. <https://www.esrb.europa.eu/news/pr/date/2026/html/esrb.pr260707~4e1b68241a.en.html>
2. https://www.bankingsupervision.europa.eu/press/letterstobanks/shared/pdf/2026/ssm.2026_letter_on_AI_enabled_cybersecurity_threats.en.pdf
3. https://www.bankingsupervision.europa.eu/framework/legal-framework/public-consultations/pdf/ssm.pubcon240603_draftguide.en.pdf



MOIRA CRONIN

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Cyber resilience after DORA: from compliance to capability

Financial services firms face a cyber-threat landscape evolving in speed, scale and consequence. Firms can no longer contend only with isolated attacks. They operate in an industrialised, interconnected and adaptive threat environment shaped by ransomware, identity compromise, supply-chain disruption, geopolitical activity etc. and AI-enabled social engineering, including deepfakes targeting executives and clients. The ECB's 2024 cyber resilience stress test confirmed that while banks can respond, recovery capabilities remain uneven.

The most significant shift is not volume but propagation. Impacts move rapidly across firms, third parties and markets. Heavy dependence on cloud services, software providers, managed services and outsourced operations delivers efficiency and innovation, but also concentration risk and complexity. A cyber incident or technology outage can quickly become a systemic operational resilience event, with direct implications for customers, counterparties, regulators and trust. The EU's Digital Operational Resilience Act (DORA) has sharpened governance, accountability and focus across a number of areas. The first phase of implementation, however, should

be seen as the beginning of a more demanding resilience journey, not the end.

The areas where firms remain least prepared are increasingly clear.

First, end-to-end visibility: many firms understand applications and controls better than how critical services are actually delivered, and where true single points of failure sit, particularly across fourth and nth-party dependencies.

Second, exit and substitutability planning for critical ICT third-party providers under DORA Article 28 remains immature, especially where cloud or specialist providers have few viable alternatives.

Third, data resilience: immutable backups and validated recovery integrity still lag control-focused investment.

Fourth, operational effectiveness: firms must demonstrate they can respond to severe but plausible scenarios and meet DORA's tight incident reporting timelines under pressure.

Fifth, ownership and board challenge: cyber resilience cannot sit solely with the CISO or CIO — it requires business accountability, active board engagement and non-executives capable of meaningful challenge. Legacy technology, technical debt and cyber talent shortages compound each of these gaps.

DORA sets the standard; resilience is the strength and stamina firms must show.

Investment has risen, but too much remains directed at compliance evidencing rather than capability building. Compliance asks whether the framework is in place; resilience asks whether critical services can continue when all else fails. Both matter, but they are not the same. The risk after DORA is that activity concentrates on evidence packs and regulatory deadlines, rather than firm-wide capability to withstand, adapt to and recover from disruption.

The next phase should be practical, prioritised and outcome led. Firms should focus on three priorities: validating critical services and their end-to-end dependencies, including concentration in cloud; strengthening resilience testing beyond discussion-

based exercises and embedding resilience in strategic decisions on transformation, outsourcing and technology modernisation.

A Minimum Viable Company lens can help. Rather than treating everything as critical, this recent PwC campaign takes the approach to identify the services, processes, people, technology and third-party dependencies that must remain operational or be restored first. It creates clarity around recovery priorities, investment and board reporting, and focuses leadership on protecting what matters most to customers, regulators and markets.

Artificial intelligence will play an increasingly important role in cyber resilience. Used well, AI can improve detection, triage, threat intelligence, vulnerability prioritisation and incident response. Attackers are also adopting AI rapidly through deepfakes, automated reconnaissance and adaptive malware meaning defensive adoption is no longer optional. However, AI is not a substitute for resilience fundamentals. Its effectiveness depends on high-quality data, reliable telemetry, accurate asset inventories, robust governance and human oversight. Firms must manage risks associated with AI itself, including model security, data integrity, explainability, accountability, adversarial manipulation and concentration in foundation-model providers.

In high-impact decisions containment, recovery, customer communications, regulatory notification AI should augment expert judgement, not replace it.

DORA has provided a strong foundation. The challenge now is to convert it into demonstrable resilience across critical services, third-party dependencies and recovery capability. The firms that lead will treat DORA as a catalyst, not a ceiling. In an increasingly digital and interconnected financial system, cyber resilience is no longer only a regulatory obligation it is a strategic imperative, a trust differentiator and a driver of long-term competitiveness.



JESSICA KAFFRÉN

Member of the Management Board – J.P. Morgan SE

Refining DORA in an era of frontier AI cyber risk

With a sector as interconnected and interdependent as financial services, it is impossible for any one entity to be resilient in isolation. The largest banks have long been subject to stringent ICT and cybersecurity risk management rules. But DORA has raised the level for the sector as a whole and given European financial entities a head start on the urgent work of cyber hygiene and IT risk management.

That said, DORA, like any ambitious first attempt at major regulation, is not perfect. Reforms to two areas in particular would materially help defenders without weakening regulatory standards.

Incident reporting

After more than a year in operation, it is clear that DORA incident reporting is capturing too many non-material incidents, creating strains on financial entities and supervisors alike. The wide and complex array of criteria and thresholds that dictate reporting under DORA are not good measures of how severe an incident actually is.

Two examples from the current reporting criteria help to illustrate the point. First, the geographic spread criteria indicates primarily that the firm has legal entities

in different member states, not that an incident was significant. Second is the cost criteria. It belongs in a final report, as part of understanding an incident after the fact, not among the criteria that decide whether it is reportable in the first place. Business-as-usual response costs should be excluded outright, since they measure effort, not severity.

If DORA's incident reporting criteria can be properly recalibrated around severity the result will be less noise for authorities and less wasted effort for firms.

Criticality

The second area is criticality. The definition of critical or important function (CIF) is built for outsourcing, not for resilience. Every service should benefit from strong security and resilience. But if criticality is to be usable within a firm's resilience framework, it must be reserved for the smallest possible number of genuinely essential services. A definition that sweeps too broadly dilutes focus precisely where focus matters most.

The fundamentals of cyber hygiene are more important than ever.

The tensions this creates are already showing. Some EU authorities have begun pushing the concept of a smaller subset of CIFs that require additional resilience, while others are de-facto broadening the interpretation of what is critical.

The EU needs a consistent concept of criticality focused only on the services most essential to the stability of the firm and the sector and which therefore require a degree of resilience beyond the already high standards of financial entities.

AI

Finally, AI. It is already reshaping the threat landscape. The window we once had to analyse and implement a security patch has shrunk to almost nothing: many models can now reverse-engineer a patch and build a working exploit in less than a day. Firms must radically accelerate their patching, but we should acknowledge that attackers will always have the speed advantage and we cannot rely on patching alone to mitigate the risk. That is why the fundamentals of cyber hygiene are more important than ever.

Earlier this year, we set out ten steps firms can and should be taking¹. We focused on the fundamentals: reducing end-of-life dependencies, managing privileged access well, filtering outbound traffic from production systems. The overwhelming majority of cyber risk is still won or lost on these basics.

But it is not only financial entities that should be acting. The worsening threat landscape means authorities also need to consider what they can do to reduce risk exposure. In the U.S., the Federal Banking Agencies (FBAs) have recognised the essential role they play in keeping the sensitive data of financial entities safe. In their statement on the handling of highly sensitive information, the FBAs acknowledge that the collection and storage of certain information such as details of control weaknesses, network diagrams penetration test results or certain business data, should be minimised through options including accepting on-site review only or the collection of summarised or redacted versions of documents². They also commit to notify firms of any material breach affecting their confidential supervisory information within 72 hours. These changes are not about lowering supervisory standards. Rather, they are about good security fundamentals of minimising data exposure to what is strictly necessary to properly supervise firms.

Conclusion

The task ahead is to build on DORA's positives. We need to keep our eyes on the fundamentals, to refine the rules where they create noise without improving risk management, and to confront honestly, but urgently, what frontier AI means for the cybersecurity risk faced by the sector.

1. <https://www.jpmorganchase.com/about/technology/blog/fortifying-the-enterprise-10-actions-to-take-now-for-ai-ready-cyber-resilience>
2. <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20260716a1.pdf>



DEA MARKOVA

Policy Director
- Fireblocks

Better organised threats deserve a better organised response

Better organised threats

Digital assets are becoming mainstream finance. In 2026, use cases have matured across cross-border settlement, bank and asset manager tokenization, and payment networks, driving significant volume. Stablecoin transaction volume reached a record \$1.79 trillion in June 2026 alone¹, up 63% month over month. In July, the DTCC, which safeguards more than \$114 trillion in securities, converted assets held at its depository into tokens and used them in live production trades with more than 30 firms, ahead of a full-service launch in October². When the plumbing of US capital markets tokenises its own book, the asset class is no longer at the edge of the system.

As the sector matures, so do its attackers. Digital asset theft is no longer opportunistic. It is patient, well-funded, and increasingly industrialised. Hackers stole more than \$3.4 billion³ in digital assets in 2025, and over \$17 billion since 2020. What changed through 2026 is organisation and sophistication.⁴

For instance, DPRK actors are running a sustained, parallel, multi-vector campaign, focusing on social engineering. Three confirmed DPRK-

linked operations occurred in April 2026 alone, each targeting a different layer of the digital assets stack: those authorised to approve a protocol's decisions, the personal laptops of the engineers who build it, and the systems that confirm whether a transaction is genuine.

Nefarious actors spend months building trust with employees before they strike. Criminal networks sell ready-made attack kits to less skilled operators, enabling theft at scale by people who lack technical skill.

Tokenization changes the attack vectors for any tokenized assets, and thus requires dedicated risk management and rulemaking. For example, the so-called blind signing: attackers obtain valid signatures by manipulating signers into approving transactions whose content they do not fully understand. Blind signing has been a persistent attack vector across the industry, with examples including the WazirX⁵ (\$234M, July 2024) and Bybit⁶ (\$1.46B, February 2025) incidents.

Leveraging AI for good & bad

AI is now adopted on both sides of this fight. Its value to resilience depends entirely on where you let it act.

As digital assets move into mainstream finance, threat actors have grown more organised and industrialised. AI can be an asset, on both sides of the fence. Europe's resilience rules need a dedicated focus on digital assets.

On offence, we have already seen what it does. Attackers used AI to fake identities and forge paperwork, thus taking control of a platform's website and sending users to a fraudulent copy. In another case, a criminal hid a payment instruction inside an ordinary-looking coded post on social media. An AI assistant passed it to a second AI system, which made the transfer automatically.

On defence, AI earns its place. It can scan software for weaknesses before release, spot unusual transaction patterns faster than any analyst, monitor third-party providers for emerging risk, and

help staff catch deepfake voices and video used in scams. These are analysis and detection tasks.

The gap post DORA

The EU's Digital Operational Resilience Act has gone a long way to converge industry and its supervisors onto a higher cybersecurity standard. With the MiCA transition just finalised, it is too early to assess the outcomes of all EU crypto-asset service providers being subjected to DORA.

What we learned, as a third-party technology provider, is that the requirements on the custody function, stemming from MiCA, DORA, and the payments, capital markets, and AML rulebooks, leave a wide range of choices to industry and its supervisors. The requirement of an independent review of cryptography-related code is a good example. How and how often to audit one's third-party vendors is another.

A common supervisory action on CASPs' digital operational resilience for custody was launched eight days after the MiCA deadline, which we understand to reflect the same concerns.

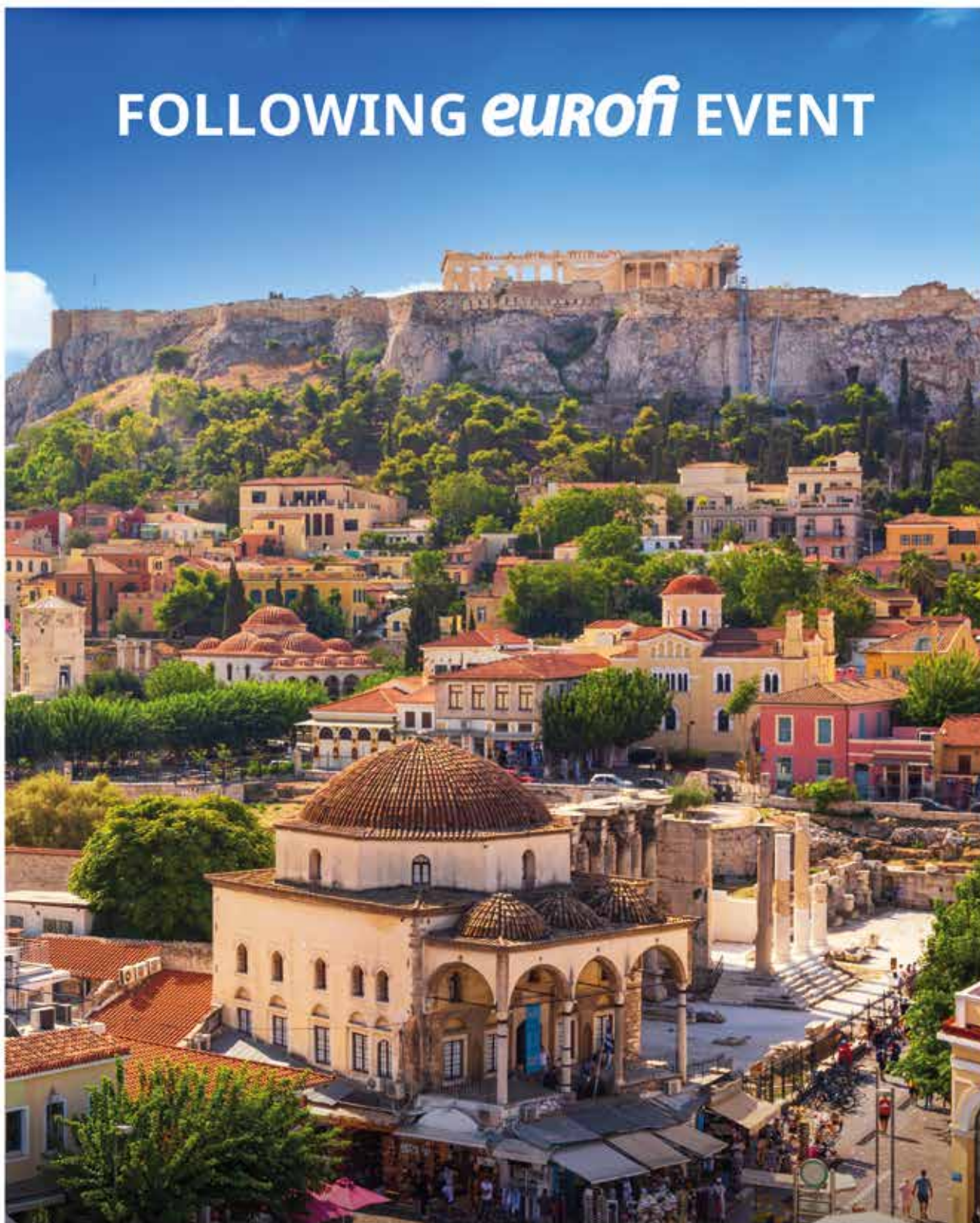
The experience of securing digital assets is in short supply, in both crypto-native and traditional finance, and the absence of dedicated guidance opens the EU to implementation vulnerabilities.

Primary legislation and technical standards are, rightly, technology neutral. Yet safeguarding tokens, whether crypto, financial, or payment instruments, changes the operational resilience paradigm that applies.

The CSA is a helpful step. A dedicated report on the learnings, and guidelines, ought to come next. Better organised threats deserve a better organised response.

1. Visa Onchain Analytics Dashboard (Allium Labs), June 2026, accessed August 2026.
2. DTCC press release, 15 July 2026.
3. Chainalysis, 18 December 2025.
4. Fireblocks Global Digital Asset Threat Report Q2 2026.
5. WazirX statement, 18 July 2024 (losses "exceeding \$230 million").
6. Chainalysis, 18 December 2025.

FOLLOWING *eurofi* EVENT



**THE EUROFI FINANCIAL FORUM
ATHENS, GREECE**

15, 16 & 17 SEPTEMBER 2027

PRIVATE ASSETS AND NBFI: COMBINING INNOVATION AND RESILIENCE



FRANCESCO MAZZAFERRO

Head of Secretariat
– European Systemic
Risk Board (ESRB)

Bank–NBFI linkages: stronger safeguards, incomplete visibility

Non-bank financial intermediaries connect to banks in very different ways, and those connections are where financial stability risks accumulate. Insurers and pension funds hold long-term, largely investment-grade portfolios. Open-ended funds offer daily redemptions and must manage liquidity accordingly. Leveraged entities, notably hedge funds, take directional and financing risk. These business models differ profoundly in how they behave under stress and connect to banks.

Those connections are the heart of the matter. While they can help share risk, they may also create vulnerabilities. In the euro area, NBFI entities fund roughly 15% of bank balance sheets, much of it at very short contractual maturity, while banks' asset-side exposures to NBFIs amount to around 10% of total assets. Because euro area banks are net debtors to the sector in aggregate, the dominant vulnerability is bank-side funding and liquidity risk. In the US, by contrast,

banks are net lenders and extend substantial credit lines.

This funding is concentrated and correlated. It comes through deposits, unsecured short-term debt securities and securities financing transactions, provided by overlapping NBFI counterparties. Money market funds in Europe, for instance, both supply dollar repo and hold banks' dollar commercial paper. A systemic price shock could trigger simultaneous redemptions and margin calls across NBFI groups, prompting them to withdraw liquidity from banks at once. Short-term debt and repo markets could dry up precisely when banks need them, first hitting the largest banks that receive most NBFI funding, then spreading outward.

Against this backdrop, insurers and pension funds could stabilise rather than introduce volatility. They hold predominantly investment-grade bank debt, are internationally diversified, and are not concentrated in any single name among G-SIBs and larger banks. Yet even here there is a caveat: a downgrade below investment grade could force cliff-edge liquidations, so normal-times stability does not eliminate tail risk.

**The safeguards are
largely in place, but
system-wide visibility
remains incomplete.**

A key set of risks lies in cross-border bank–NBFI linkages. Banks' reverse-repo lending to NBFIs has grown, with the largest exposures to potentially leveraged entities, including hedge funds. Much of this activity is US-dollar-denominated and government-bond-collateralised, intermediated by a small group of EU banks bridging global markets. FX-swap and dollar-funding dependencies add a further transatlantic channel. This is where leverage, concentration and interconnectedness converge.

It is also where a data blind spot lies. Many of the most material counterparties are non-EU entities, generally outside EU reporting requirements. These linkages are likely to persist, and a fully coordinated global data initiative appears unlikely in the near term. Authorities therefore cannot yet assemble a timely,

complete view of leverage, liquidity and concentration. The pragmatic answer is a centralised mechanism for data access and sharing among authorities, building on granular sources already available, including AnaCredit, securities financing transaction data, and securities holdings statistics, combined with deeper supervisory cooperation across borders.

But better data access is only the first step. Authorities must translate fragmented information into a forward-looking view of how stress propagates across banks, NBFIs and markets. That is why sectoral stress testing must be complemented by holistic, system-wide frameworks. The relevant shocks are not confined to individual balance sheets: they involve dense linkages and overlapping exposures, collateral dynamics, repo constraints, credit-line drawdowns, redemption pressures and valuation shocks across sectors and jurisdictions. System-wide stress-test models that reflect contagion and feedback loops better capture cascading risks and cross-market spillovers. Embedding NBFI behaviour and cross-border exposures into such frameworks would turn scattered indicators into a coherent assessment of systemic resilience.

On the regulatory substance, Europe is comparatively well equipped. AIFMD II, the UCITS framework, the ELTIF regime and Solvency II already include features supporting financial stability: liquidity management tools, leverage limits, redemption safeguards, disclosure requirements, and intervention powers for authorities. These place EU market-based finance ahead of several other models internationally. The gap is therefore less a lack of safeguards than an incomplete system-wide picture of how those safeguards would perform under stress.

The objective is to preserve the benefits of interconnectedness, diversification and risk sharing, while identifying and mitigating emerging vulnerabilities. Authorities need to see leverage, liquidity and interconnectedness clearly enough, and early enough, to act before stress becomes systemic. Europe has built strong foundations. The task now is to match those safeguards with system-wide visibility and forward-looking stress testing.



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Navigating the bank-NBFI nexus toward systemic resilience

The global financial landscape is being transformed through rapid innovation in non-bank financial intermediation (NBFI), which significantly diversifies capital allocation and market dynamism. While the expansion of investment funds and the private credit market brings substantial benefits, it simultaneously introduces complex vulnerabilities that can amplify financial shocks. Balancing financial innovation with systemic resilience requires a macroprudential framework that internalizes the risks of the deepening bank-NBFI nexus.

A primary challenge to resilience stems from the structural liquidity mismatch in many investment vehicles, particularly open-end funds. These funds provide liquid access to often illiquid underlying securities. During stress events, adverse shocks can trigger large-scale redemptions, forcing fund managers to liquidate holdings via fire sales. This mechanism creates a negative feedback loop where forced sales depress asset prices, further deteriorating fund performance and driving more redemptions. Systemic risks are potentially compounded by the

expansion of global bond fund holdings, implying liquidations may amplify the negative impact on market liquidity and asset valuations.

Recent innovations in private credit, encompassing private equity and private debt funds, represent a new frontier in the "innovation-risk paradox." Large financial institutions increasingly provide specialized products, such as subscription financing and net asset value (NAV) financing, to foreign investment funds to improve yields and core profitability. While offering attractive interest spreads, these products possess risk profiles distinct from traditional corporate lending. Subscription financing is typically secured by the capital commitments of high-credit-quality limited partners, making defaults historically rare. In contrast, NAV financing uses the valuation of a fund's underlying investment assets as collateral, making loans highly sensitive to rapid shifts in market valuations and the operating environment. Furthermore, fund managers must remain mindful of redemption risks that may become a destabilizing factor for private markets and trigger sudden outflows.

Systemic resilience depends on the stability of the entire interconnected ecosystem. Innovation has deepened links between sectors, where banks provide liquidity and credit to NBFIs to minimize regulatory costs. Consequently, stress in the fund sector translates into bank balance sheet impairments. A critical insight is the explicit link between asset price declines and the real economy. When funds are forced into fire sales, sharp price drops worsen corporate funding conditions and create adverse wealth effects for households. This may lead to an economic slowdown that returns to the banking sector via increased credit costs and higher default probabilities for borrowers.

**Ultimately, financial
innovation and
systemic resilience
are complementary.**

To effectively combine innovation and resilience, the financial system must move toward "exploratory scenario analysis." Traditional stress tests focusing solely on the banking sector are no longer sufficient for a modern, globalized economy with the NBFI sector. Authorities should prioritize modeling the NBFI sector's behavioral reactions and account for second-round

effects, including how foreign shocks propagate through international fund holdings into domestic markets. Such analysis is essential given the inherent complexity of the NBFI sector and the lack of historical stress events referencing modern fund behaviors.

Closing data granularity gaps is vital for systemic resilience. Monitoring is often constrained by limited details of the financial conditions, leverage, and positions of private funds and hedge funds. Resilience requires transparency to identify multi-layered credit exposures and hidden leverage within alternative investments. Banks must work towards real-time portfolio management of all fund-related exposures. Proactive risk management also necessitates that banks account for potential drawdowns on committed credit lines during stress events, which exert liquidity pressure and increase credit costs.

Resilience should be integrated into financial innovation via macroprudential tools. Mechanisms such as swing pricing charge redeeming investors for liquidity costs, reducing the first-mover advantage that often drives runs. As digital innovations gain momentum, robust safeguarding is necessary to ensure they do not become conduits for systemic vulnerability. International coordination remains essential to monitor global shocks and cross-border risk transmission.

Ultimately, financial innovation and systemic resilience are complementary. Innovation drives dynamism, while resilience provides the stable infrastructure for sustainable growth. By fostering a balanced prudential environment grounded in transparency, granular data, and forward-looking analysis, the financial system can ensure new frontiers in capital allocation contribute to long-term stability.



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Further NBFIs transparency would benefit all market participants

The NBFIs sector has been a key focus of market participants attention for some time. The ECB is no different. We have kept a close monitoring of emerging trends and risks, especially those which could spill into the European banking sector.

The NBFIs sector has emerged as a complementary funding source to traditional banks, providing diversified financing to the economy. NBFIs actors increasingly act also as funding providers to banks. However, the sector's growth can create vulnerabilities which could create contagion to wider financial markets and infrastructures if risks materialise. In ECB banking supervision, we are focused on those structures and products that create interconnections between the banks we supervise and NBFIs. These interconnections are mainly created via direct lending and securitisations and market products such as repos, securities lending and derivatives.

Of course, not all business models or financial structures are created equal when it comes to risk. One should not forget that a number of NBFIs

activities are already covered by a sound regulatory and supervisory framework (e.g. insurance activities or regulated funds). Business models and financing structures which rely on short-term or potentially unstable funding sources are the riskiest however like all market players, we have to contend with a lack of transparency and data on many components of the market and on a range of products. Also, in recent years, financial innovation is facilitating the emergence of complex group structures that provide technology-enabled financial services across jurisdictions and sectors. These operators have the potential to pose threats to operational resilience in areas such as payments and crypto-asset services with spillover effects at the system level.

The European regulatory framework, made up of AIFMD II, UCITS, ELTIF, Solvency II, MICAR and related regulation, provides comparatively strong ex-ante safeguards against the excessive build-up of risks. This creates a robust architecture within which NBFIs must operate, but it does not always allow for the identification of risk concentrations and second round effects. As a result, there are still many unseen relationships and networks that could create problems to our financial markets and to our banks.

In the ECB banking supervision, we proactively address risks with banks and deepen our understanding of NBFIs connections, but we can never foresee every possible outcome, so we also prepare for contingency.

For direct lending we are actively monitoring banks' exposure to private markets to ensure robust risk management practices. From our oversight of a subset of banks engaged in private market activities, we have observed that most exposure arises indirectly through lending to investors, private equity or private credit funds, and portfolio companies of these funds.

**While the ECB Banking
Supervision focuses
on understanding
banks' vulnerabilities
to the NBFIs sector.**

As private markets grow, it is important that banks strengthen their processes to address specific challenges, particularly in the area of fund financing. Key areas for improvement include better aggregation and identification of private

market exposures, adaptation of credit risk management frameworks to fit the specific risks posed, and enhanced collateral valuation with improved transparency.

For market-based products, we have conducted various analyses focused on banks' Counterparty Credit Risk (CCR) exposures stemming from derivatives and repo transactions. These analyses revealed that NBFIs contribute significantly, accounting for 27% of aggregate CCR exposures. Notably, key deficiencies in CCR management practices were identified and are being addressed through high-priority measures. We use a range of tools to assess these risks including on-site inspections, off-site deep dives and targeted reviews, while also supporting future work on understanding the role of principal trading firms as market makers and liquidity providers. This combined approach strengthens oversight and helps addressing identified weaknesses in Banks' CCR management.

While we are focused on banks, enhanced transparency of the NBFIs sector, coming from non-regulated actors in particular, would benefit market participants and financial stability as a whole. If a crisis hits, the first thing that every market player, including the ECB, needs is data. Bridging the information gap would go a long way to improving the understanding of the risk environment, the interconnections, concentrations and potential spillover effects across market participants in the event of a crisis.



PETRA HIELKEMA

Chair – European Insurance
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What is funding beyond banks good for? *“Absolutely nothing”* is not the right answer.

The EU's investment needs cannot be met by public finances or bank lending alone. Fiscal constraints are increasing across Member States, while tighter credit conditions and concerns about further bank-sector leverage limit the scope for additional bank financing. A greater contribution from non-bank financial intermediation is therefore both desirable and necessary.

The term NBFi does not describe a homogeneous sector. It encompasses entities with different business models, risk profiles and regulatory frameworks, including investment funds, family offices, pension institutions and insurance companies. Some operate under relatively light regulation, while others, such as European insurers, are subject to comprehensive prudential frameworks.

Since 2016, Solvency II has proven resilient through multiple episodes of financial and economic stress, establishing itself as a benchmark for prudential regulation through its integrated quantitative and qualitative requirements.

The same clarity is needed for private credit. Broadly, it refers to lending outside the traditional banking system or public capital markets. Yet, it lacks a universally accepted definition, and its perimeter differs across sectors and jurisdictions, making comparisons difficult. For example, insurers generally classify mortgages as private credit, whereas banks typically do not. Such differences complicate market measurement and underline the need for consistent terminology and reporting.

Private credit provides long-term financing for illiquid assets such as infrastructure and corporate investments, often meeting financing needs that listed markets cannot easily satisfy. As these investments generate relatively predictable cash flows over long horizons – while still carrying credit risk – they are particularly suited to investors with long-term liabilities.

Insurers, whose liability structure enables investments over extended horizons, are thus natural providers of private credit. Considering direct and indirect exposures through funds to unlisted corporate bonds, credit-risk-bearing structured securities, mortgages and loans, while excluding intra-group exposures and lending to banks, European insurers held more than EUR 500 bn of private credit investments at the end of 2025, i.e. around 5% of total assets. Around 70% of these were in real estate and mortgages in Europe. They enhance diversification, offer attractive risk-adjusted returns and provide stable long-term cash flows (though subject to credit risk) aligned with insurers' obligations towards policyholders.

**In a period of
goeconomic and
political turmoil, soundly
managed and supervised
NBFIs and private credit
can contribute to the
European economy.**

The expansion of private credit requires attention from both microprudential – due to demands that insurers develop the expertise needed to assess borrowers' credit risk over the loan lifecycle and comply with the Solvency II Prudent Person Principle (PPP) – and financial stability perspective, as borrower structures and financial engineering become more complex, and an increasing share of lending is directed towards sponsor-backed leveraged finance.

Although the asset class offers clear benefits, it also presents risks related to leverage, liquidity, valuation uncertainty, concentration and interconnectedness. These vulnerabilities may be amplified by the relative opacity of private markets and differences in regulatory oversight across NBFi sectors. Private credit exposures should thus be assessed through robust asset-liability management, sound credit assessment, appropriate valuation methodologies and effective monitoring of geographical, sectoral and counterparty concentrations to avoid that localised shocks quickly propagate through the financial system. The recent review of Solvency II reinforced its financial stability framework by requiring designated insurers to integrate macroprudential assessments into their ORSA and PPP processes and to strengthen liquidity risk management.

The appropriate policy response is not to discourage private credit but to ensure that its growth is accompanied by sound risk management, transparency and effective supervision. This requires recognising that not all NBFIs present the same risk profile or operate under equivalent prudential frameworks. Regulatory approaches should remain proportionate and risk-based, avoiding the mistake of treating all NBFIs alike. Well-regulated sectors, such as insurance, should not be assessed in the same way as entities subject to less demanding supervisory standards.

Finally, effective oversight of private credit requires stronger supervisory cooperation. Given the cross-sectoral nature of private markets, data availability, information sharing and coordinated supervision are essential to identify emerging vulnerabilities, limit spillovers and prevent systemic risks from building up. A deeper European capital market, supported by responsible participation by NBFIs, can become a strategic source of financing for Europe's future, provided that financial innovation is matched by equally robust standards of governance, transparency and supervision.



LEE FOULGER

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System-wide scenarios: The next frontier in financial stability

For years, financial stress testing focused on individual institutions. Regulators asked whether a bank or insurer could survive a severe shock and maintain adequate capital and liquidity. Those exercises strengthened resilience across the financial sector. But recent episodes of market stress have revealed a different challenge: understanding how the financial system behaves as a whole.

Events such as the market turmoil of March 2020 and the UK liability-driven investment (LDI) crisis demonstrated that systemic vulnerabilities often arise not from the failure of a single institution, but from the collective behaviour of many market participants. When firms respond to stress at the same time—selling assets, raising liquidity or reducing risk—their actions can reinforce one another and amplify market disruption.

This has prompted a shift in regulatory thinking. Rather than focusing solely on individual firm resilience, authorities are increasingly seeking to understand resilience at the level of the entire financial system. System-wide scenario exercises have emerged as a key tool in this effort.

Unlike traditional stress tests, system-wide scenarios examine how different parts of the financial system interact during a shock. The objective is not simply to assess losses, but to identify amplification mechanisms, feedback loops and vulnerabilities that may emerge through the collective actions of firms. This reflects a recognition that financial stability depends as much on interconnections and behaviours as it does on the strength of individual balance sheets.

The Bank of England's first System-Wide Exploratory Scenario (SWES) exemplified this approach. It brought together banks, insurers, central counterparties and non-bank financial institutions to examine how participants might react to a severe market stress. The exercise focused on whether responses such as asset sales, deleveraging and liquidity management could amplify market dysfunction. Importantly, it addressed dynamics that individual firms cannot easily observe on their own because they lack visibility of how the wider market might behave.

A key lesson was that market resilience cannot be assessed by looking at institutions in isolation. During periods of stress, actions that are rational for individual firms can collectively destabilise markets. Understanding these system-wide effects is increasingly important as financial intermediation becomes more market-based and interconnected.

The evolution of SWES also reflects broader changes in the financial system. The Bank's second exercise focuses on private markets, an area that has grown rapidly over the past decade. Private equity and private credit now play a significant role in financing businesses, while private market assets have expanded substantially in size. Yet these markets have limited experience of operating through prolonged economic stress, raising questions about how they might perform under adverse conditions.

Authorities need tools capable of assessing risks across the entire financial ecosystem.

This shift highlights an emerging feature of system-wide analysis: a greater focus on non-bank financial intermediation. As financing increasingly occurs outside the traditional banking sector, authorities need tools capable of assessing risks across the entire financial

ecosystem. Vulnerabilities may emerge through interactions between banks, asset managers, insurers, pension funds and market infrastructures rather than within any single institution.

Looking ahead, system-wide scenarios are likely to become more sophisticated. Future exercises will probably move beyond assessing the impact of a shock and place greater emphasis on how markets evolve in response to that shock. Authorities are increasingly interested in endogenous risks—those generated by the financial system itself through behavioural responses and feedback loops.

We are also likely to see greater use of multi-round and iterative exercises, where participants adjust their actions as market conditions deteriorate and information changes. This reflects the reality that financial crises are dynamic events rather than static scenarios. We also need to develop our capabilities so we can undertake similar exercises in a way that is proportionate for the firms participating, while maintaining the robustness of results. Our aim is to build exercises that are repeatable at a desktop level with much lower cost after the initial investment.

Ultimately, system-wide scenarios represent a significant evolution in financial stability analysis. They reflect a shift from asking whether institutions are resilient individually to asking whether the system is resilient collectively.

The future of stress testing may therefore be less about institutions in isolation and more about understanding the interactions that connect modern finance. System-wide scenarios offer the prospect of identifying vulnerabilities before they crystallise, helping authorities build resilience not just at the level of individual firms, but across the financial system as a whole.



LINDA-ELING LEE

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The transparency gap in private assets is closing

As private assets reach individual investors, the case for independent data, common standards and timelier valuation has moved from useful to urgent.

When high-profile bankruptcies late in 2025 triggered a wave of redemption requests from investors in private-credit funds, they exposed a transparency gap. Without better information, investors struggled to tell whether the withdrawals reflected isolated problems or the start of something broader.

Advances in data and analytics are increasingly closing that gap not only in private credit but across private-asset investments, including private equity, private credit, real estate and infrastructure. The demand comes from two directions: private-asset managers, who need greater transparency to reach a broader range of investors, and institutional investors, who increasingly want consistent information about what they own and what those investments are worth.

An expanding market

Investors now hold more than USD 13 trillion in private assets. Private credit has been a major driver of that expansion, growing from under USD 100 billion two

decades ago to USD 1.3 trillion today, faster than private equity over the same period, according to the MSCI Institute's Global Investment Tracker.

As private assets reach wealth and retirement channels, lagged data no longer suffices. Semi-liquid, or "evergreen," funds now exceed USD 500 billion in assets, up more than 30% in a single year, with retail investors accounting for roughly a fifth. These vehicles allow investors to subscribe and redeem at the manager-reported net asset value, which makes the accuracy and timeliness of that value critical in a way it never was for closed-end funds.

The demand is global, even if the market is not. The U.S. accounts for 61% of investment in private assets, with an even larger share of the private-credit market. Exposures, however, are unconstrained by borders, transmitting through syndicated loans, bank credit lines and cross-border holdings.

Stress is real, uneven and hard to see

Stress in private credit is not evenly distributed. As of the third quarter of 2025, our analysis shows that 15.7% of loans across private-credit funds were valued at less than 80% of principal, a rough threshold for distress, and more than 10% were valued at less than 50%. Smaller funds carried nearly 20% of loans below the 80% mark, against 13% for larger funds.

As private assets reach individual investors, transparency has moved from useful to urgent.

The harder problem is that a strategy label reveals little about the risk beneath it. In one example, analysis of three senior direct-lending funds showed that their risk looked alike. Modeling their actual holdings, however, revealed a wide range, with one fund's risk triple that of another.

The infrastructure is developing

The market is responding through more independent and consistent measurement in three areas.

Standardization. The market is coalescing around common classifications that allow investors to compare borrowers, collateral, risk drivers and performance characteristics more consistently. MSCI's PACS framework groups private assets by economic characteristics, separating, for

example, sub-asset classes within private credit. That distinction matters because private credit is not a uniform asset class. For example, in Q1 2026, opportunistic lending returned 2.6%, compared with 1.0% for real-estate debt and just 0.3% for direct lending.

Timelier measurement. Innovations such as nowcasting enable daily private-asset indexes for credit and equity to estimate how values are moving between formal reporting dates. Ahead of the March 2026 repricing, for example, MSCI's private-credit index reflected stress weeks before quarterly valuations caught up.

Look-through. Investors increasingly have the ability to see the companies, sectors and risks beneath the funds they own across asset classes. Case in point: data-center investments across private assets were valued at USD 122 billion as of Q3 2025, with nearly 14% of data-center companies held by funds spanning more than one asset class, meaning exposure to the same underlying company could appear simultaneously in, for example, infrastructure, real estate and private equity allocations. Hence, a fund-level view alone can mask an investor's exposure.

A clearer view

Transparency will not make private assets resemble publicly listed assets, nor should it, and illiquidity remains inherent. Better information does not remove liquidity or valuation risk. But standardized classification, timelier measurement and more granular exposure analysis provide market participants with stronger tools to assess risk within portfolios and throughout the financial system.



**YANN
LE PALLEC**

President

– S&P Global Ratings

The evolving role of private markets in the financial system

The growth of private markets has broadened financing options for companies, infrastructure projects, and asset owners, while increasing diversification across the financial system. Private capital has also become an increasingly important source of funding for innovation and economic growth.

Yet, with private credit and non-bank financial institutions (NBFIs) more deeply embedded in global capital markets, understanding the implications for financial stability has become increasingly important. A conversation among market participants, policymakers, as well as independent providers of market intelligence and risk assessments is both necessary and welcome.

Balancing the opportunities and risks associated with private markets is also a particularly pressing policy challenge for Europe. Resilient and flexible alternative funding mechanisms will be central to building the Savings and Investment Union, implementing the competitiveness recommendations of the Draghi Report, and investing in the strategic assets necessary to deliver security, innovation, and growth.

Growing Interconnections

Risk becomes systemic when it has the potential to cause widespread disruption within the financial system and generate significant spillovers to the real economy. Despite private credit's limited liquidity and transparency, S&P Global Ratings' research suggests that current exposures among systemically important institutions, including banks and insurers, remain manageable.

However, the potential for systemic risk is rising as linkages deepen, financing structures become more complex, leverage increases, and semi-liquid investment vehicles gain market share. As a result, the central challenge is understanding how risks may be transmitted across an increasingly interconnected ecosystem of banks, NBFIs, insurers, pension funds, and private market vehicles.

Alternative asset managers now play an increasingly important role in credit intermediation. Private credit is funded through a network of investment vehicles supported by banks, insurers, pension funds, and sovereign wealth funds. Fund finance, Significant Risk Transfers, and other financing arrangements continue to deepen these links across the financial system.

Against this backdrop, S&P Global Ratings' Credit Conditions Committee has identified rising stress in private credit as a key risk that could impair liquidity, erode investor confidence, and increase market volatility. While these risks are currently most evident in North America, they could have broader implications as global markets become increasingly interconnected.

Addressing these potential vulnerabilities will require greater coordination.

Pressure Points

Vulnerabilities in private credit can emerge when illiquid assets are combined with leverage, valuation uncertainty, or asset-liability mismatches. Recent market stresses highlight four areas of focus: (1) the growth of retail participation through semi-liquid structures; (2) increasing complexity and leverage within private market vehicles; (3) expanding exposures among banks, insurers, and pension funds; and (4) concentrations

in sectors such as software that may face disruption from Artificial Intelligence.

These pressure points may appear manageable when considered individually. However, as private markets continue to expand and integrate more deeply into the broader financial system, understanding how these risks interact—and potentially reinforce one another—should remain a priority.

Addressing Vulnerabilities

As private markets scale and mature, the policy challenge will increasingly shift from monitoring individual exposures to understanding how risks are transmitted across the broader financial ecosystem.

Leverage warrants particular attention given that it is increasingly layered across borrowers, funds, financing vehicles, and investors. At the same time, valuation uncertainty may amplify and weaken investor confidence during periods of market stress. Limited transparency and varying disclosure practices also complicate risk assessment.

Addressing these potential vulnerabilities will require greater coordination. This should include the development of improved data on leverage and interconnections, robust liquidity risk management, effective stress testing, as well as cross-border regulatory and supervisory cooperation. Efforts by regulators, including through the FSB and IOSCO, to advance transparency and risk monitoring are therefore welcome.

Enhancing Confidence

Private markets and NBFIs are an increasingly important source of capital and financial flexibility. As these markets continue to mature, effective risk assessment will depend on a holistic view of individual institutions and the broader financial ecosystem in which they operate.

As private markets become more interconnected with banks and other institutional investors, reporting standards and data availability will also take on greater significance. Enhancing financial resilience and market confidence therefore requires renewed dialogue among market participants and policymakers.



JOHN GOLDEN

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Private credit: financing the global industrial renaissance

Banks and private credit providers play complementary roles in financial markets. Banks, predominantly funded by short-term liabilities such as demand deposits, are key providers of liquidity and short- to medium-term financing, including working capital and revolving credit facilities to corporate issuers. In addition, banks provide essential financial services such as payments, cash management, FX, and M&A advisory. Private credit providers, meanwhile, are particularly well suited to provide tailored, long-term financing. They take long-dated investor capital and deliver scale, duration, and execution certainty for borrowers, as well as flexibility to customize financing structures. Because private capital is long-dated, it naturally matches the duration of longer-term assets and projects. Therefore, a financial system that effectively marshals the strengths of both banks and private credit providers better meets diverse borrower needs and reduces system-wide maturity transformation.

Investment-grade private credit is essential for financing the Global Industrial Renaissance, a massive industrial build-out currently

transforming the world economy. Global financing needs for energy transition, utilities, next-generation manufacturing, defense, and digital infrastructure are estimated at tens of trillions of dollars over the coming decade. Meeting demand at this scale necessarily requires long-term capital beyond what banks can solely supply, including investment from institutional investors like insurance companies, sovereign wealth funds, and endowments, as well as individuals. Private credit is now an approximately \$40 trillion, predominantly investment-grade market, dwarfing the \$2 trillion direct lending market that frequently dominates public discourse. Investment-grade private credit spans numerous asset types including corporate loans, infrastructure debt, mortgages, asset-backed finance, equipment finance, aviation, supply-chain finance, and project finance—all essential for financing the Global Industrial Renaissance.

Rising energy demand illustrates how private credit can mobilize substantial long-dated investor capital to meet today's strategic financing needs. Global electrification, industrial expansion, transport, cooling, and the modernization of aging grids are increasing the need for reliable power. Global electricity demand is expected to grow by an average of 3.6% annually from 2026 through 2030, 50% faster than over the previous decade. Meeting this demand will require sustained investment across generation, transmission, distribution, storage, and grid resilience. These assets are capital intensive, often take years to develop, and require staged funding, execution certainty, and repayment profiles aligned with long operating lives. The buildout is therefore expected to require trillions of dollars of private capital, much of it investment grade given the scale and essential nature of the assets.

**Private credit providers,
in partnership with
banks, are essential
for mobilizing
capital at scale.**

A recent Apollo-led financing for EDF illustrates how private credit providers can meet financing needs at this scale in partnership with banks. Apollo-managed affiliates, funds, and strategic accounts agreed to invest up to £4.5 billion in fixed-rate callable notes issued by EDF, with proceeds expected to be used primarily for EDF projects in the United Kingdom, most notably the

Hinkley Point C nuclear power station. The transaction was the largest private credit transaction in the sterling market and EDF's largest-ever capital funding transaction. It demonstrates how long-dated, investment-grade private capital can support critical power infrastructure, energy security, and reliable baseload generation, while banks remain central to structuring, advisory, hedging, and other essential services. This transaction is just one of many such deals that Apollo and other private credit providers have financed across the globe.

Private credit providers, in partnership with banks, are essential for mobilizing capital at scale to finance the Global Industrial Renaissance, offering long-term, match-funded, customized financing for assets that may be difficult to finance solely through bank balance sheets or public markets but are nonetheless critical to meeting global strategic objectives. By marshalling the strength of diverse capital markets that draw from both private capital and bank balance sheets, the European Union has a pivotal opportunity to finance its strategic objectives while positioning itself for substantial growth and innovation in the decades to come.

INDEX OF CONTRIBUTORS

PUBLIC AUTHORITIES

Karen Dorte Abelskov	Ministry of Taxation and Economic Growth, Denmark	56
Maria Luís Albuquerque	European Commission	18
Pierre Allegret	Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France	294
Patrick Amis	Single Supervisory Mechanism	223; 318
Barbara Antonides	Dutch Authority for the Financial Markets	75
Emmanuelle Assouan	Autorité de Contrôle Prudentiel et de Résolution	165; 173
Burkhard Balz	Deutsche Bundesbank	290
Marie-Anne Barbat-Layani	Autorité des Marchés Financiers	67; 123
Ugo Bassi	European Commission	211
Michelle Beck	Financial Conduct Authority	101
Vojtech Belling	Czech National Bank	233
Nathalie Berger	European Commission	39
John Berrigan	European Commission	148
Christophe Bories	Direction Générale Du Trésor	216
José Maria Brandão de Brito	Ministry of Finance, Portugal	271
Christopher P. Buttigieg	Malta Financial Services Authority	262; 276
Stefano Cappiello	Ministry of Economy and Finance, Italy	136
Natasha Cazenave	European Securities and Markets Authority	264
Avgi Chrysostomou-Lapathiotis	Ministry of Finance, Cyprus	33
Carlo Comporti	Commissione Nazionale per le Società e la Borsa	79
Astrid Cousin	European Commission	232
Gerry Cross	International Association of Insurance Supervisors	196
Urška Cvelbar	Ministry of Finance, Republic of Slovenia	65
Rita Laura D'Ecclesia	Italian Insurance Supervisory Authority	199
Carmine Di Noia	Organisation for Economic Co-operation and Development	28
Regina Doherty	European Parliament	117
Valdis Dombrovskis	European Commission	16
Sharon Donnery	Single Supervisory Mechanism	163; 186
Jurand Drop	Ministry of Finance, Poland	151
Bertrand Dumont	Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France	150
Philip Evans	Bank of England	180
Olivier Fliche	Autorité de Contrôle Prudentiel et de Résolution	238

Lee Foulger	Bank of England	320
Pierre Gramegna	European Stability Mechanism	270
Giuseppe Grande	Banca d'Italia	87
Mel Gunewardena	U.S. Commodity Futures Trading Commission	257
Philippe Guyonnet-Dupérat	Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France	190
Alexandra Hachmeister	Deutsche Bundesbank	285
Simon Harris	Department of Finance, Ireland	12
Jos Heuvelman	Dutch Authority for the Financial Markets	114
Petra Hielkema	European Insurance and Occupational Pensions Authority	128; 191; 198; 222; 319
Dušan Hradil	Ministry of Finance, Czech Republic	66
Jacek Jastrzębski	Polish Financial Supervision Authority	166
Damian Jaworski	European Insurance and Occupational Pensions Authority	122; 138; 210; 240
Anna Jegnell	Ministry of Finance, Sweden	129
Alexandra Jour-Schroeder	European Commission	38
Colm Kincaid	Central Bank of Ireland	115
Januš Kizenevič	Ministry of Finance of the Republic of Lithuania	137; 256
Līga Kļaviņa	Ministry of Finance of the Republic of Latvia	29
Stavros Konstantas	Bank of Greece	192
Signe Krogstrup	Danmarks Nationalbank	34
Mariana Kühnel	Austrian Financial Market Authority	116
Takushi Kurozumi	Bank of Japan	317
Jimmy Kvarnström	Swedish Financial Supervisory Authority	74; 250
Dominique Laboureux	Single Resolution Board	155
Luís Laginha de Sousa	Portuguese Securities Market Commission	124
Vasiliki Lazarakou	Hellenic Capital Market Commission	78; 266
Rohan Lee	HM Treasury	207
Suzanne Lloyd	International Sustainability Standards Board	205
Klaus Löber	European Securities and Markets Authority	93
Vasileios Madouros	Central Bank of Ireland	291
Gabriel Makhlouf	Central Bank of Ireland	14
Paloma Marín Bona	Spanish Securities and Exchange Commission	100
Francesco Mazzaferro	European Systemic Risk Board	316
Sandrine Ménard	Ministry for Economy, Finance and Industrial, Energy and Digital Sovereignty, France	45

François-Louis Michaud	European Banking Authority	44; 149; 172
Toshiyuki Miyoshi	Financial Services Agency, Japan	51
Martin Moloney	Financial Stability Board	298
Simon Morley	Bank of England	94
Maria Sofia Mourtzini	Ministry of Finance, Greece	212
Mario Nava	European Commission	27
Ulrik Nødgaard	Danmarks Nationalbank	300
Stephen Nolan	The United Nations Development Programme	206
Soledad Nuñez	Banco de España	187
Ivan Odonnat	Banque de France	265; 299
Jonathan Overett Somnier	European Banking Authority	164; 181; 295
Peter Palus	Permanent Representation of the Slovak Republic to the EU	156
Sirpa Pietikäinen	European Parliament	135
Kerstin Pilt	Estonian Financial Supervision Authority	310
Rui Pinto	Banco de Portugal	224
Birgit Puck	Austrian Financial Market Authority	80
Shaneera Rasqué	Commission de Surveillance du Secteur Financier	217
Jérôme Reboul	Autorité des Marchés Financiers	107
Odile Renaud-Basso	European Bank for Reconstruction and Development	73
Fernando Restoy	Financial Stability Institute	178
Lucy Rigby	UK Government	22
Märten Ross	Ministry of Finance, Estonia	40
Verena Ross	European Securities and Markets Authority	64
Derville Rowland	Anti-Money Laundering Authority	306
Rimantas Šadžius	Formerly Ministry of Finance of the Republic of Lithuania	160
Carlos San Basilio	Spanish Securities and Exchange Commission	72
Andreas Schirk	Austrian Financial Market Authority	307
Dirk Schrade	Deutsche Bundesbank	92
Oliver Schütz	Austrian Financial Market Authority	154
Jean-Paul Servais	Financial Services and Markets Authority, Belgium	50
Giuseppe Siani	Banca d'Italia	249
Marius Skuodis	Bank of Lithuania	239
Maria Staszkiwicz	Ministry of Finance, Poland	234
Mattia Suardi	Ministry of Economy and Finance, Italy	296

NAME

INSTITUTION

PAGE

Mateusz Szczurek	International Monetary Fund	26; 36
James Talbot	Bank of England	301
Martina Tambucci	Commissione Nazionale per le Società e la Borsa	108
Tim Temple	National Association of Insurance Commission	197
George Theocharides	Cyprus Securities and Exchange Commission	258
Michael Theurer	Deutsche Bundesbank	182
Sofia Toscano Rico	Single Supervisory Mechanism	311
Mark T. Uyeda	U.S. Securities and Exchange Commission	52
Johan Van Overtveldt	European Parliament	37
Thomas Vlassopoulos	European Central Bank	86; 263
Harald Waiglein	Federal Ministry of Finance, Austria	32; 46; 162
Karlheinz Walch	Deutsche Bundesbank	272
Stefan Walter	Swiss Financial Market Supervisory Authority	179
Evelien Witlox	European Central Bank	284
Marco Zwick	Commission de Surveillance du Secteur Financier	106

INDUSTRY REPRESENTATIVES

Elena Alfaro	BBVA	253
José Antonio Álvarez	Santander	131
Julia Backmann	Allianz Global Investors	219
Chloe Barz	Robinhood	125
Alexander Batchvarov	Bank of America	139
Denise Bauer-Weiler	UBS	169
Scott Bauguess	Coinbase	267
Christopher Beck	Boerse Stuttgart Digital	269
Olivier Belorgey	Crédit Agricole Corporate and Investment Bank	57
László Bencsik	Otp Bank	167
Hedva Ber	etoro	252
Christoph Bergweiler	J.P. Morgan Asset Management (Europe)	102
Laurent Bertonnaud	BNP Paribas	274
Jacques Beyssade	Groupe BPCE	177
Philippe Blanchot	Groupe Caisse des Dépôts	130
Philipp Bohrn	Bitpanda	279
Philippe Bordenave	BNP Paribas	152

Harm Bots	MUFG	168
Haroun Boucheta	BNP Paribas	88
Stéphane Boujnah	Euronext	60
Sarah Bouquerel	CNP Assurances	193
Hendrik Bourgeois	Mastercard	292
Niels Brab	Deutsche Börse Group	82
Anthony Brennan	Zurich Insurance Ireland	215
Dirk Bullmann	CLS Group	303
Laurence Caron-Habib	BNP Paribas Asset Management	218
Christian Castro	CaixaBank	141
Francesco Ceccato	Barclays Europe	47
Stephanie Champion	Nasdaq Verafin	293
Jonathan Cleborne	Vanguard Asset Management, Ltd	118
François Coste	Groupama	214
Adrien Couret	Aéma Groupe	194
Jonathan Cox	Swift	302
Jonah Crane	Stripe	275
Moirá Cronin	PwC Ireland	312
Benoit de La Chapelle Bizot	Groupe BPCE	49
Mandy DeFilippo	Standard Chartered Bank	183
Isabelle Delorme	Euroclear S.A.	96
Terri Dempsey	State Street Ireland	61
Kelly Devine	Mastercard Europe	255
Alexandre Diers	La Banque Postale	308
Francis Donnat	Société Générale	170
Anna Dunn	JPMorgan Chase & Co.	146
Nick Dutton	Cboe Europe	83
Stephanie Eckermann	Deutsche Börse Group	97
Christian Edelmann	Oliver Wyman	42
Matthew Elderfield	Rabobank	175
Elie Farah	Oliver Wyman	246
Sebastian Gehrmann	Bloomberg	245
Stefano Giuliani	BancoPosta SGR	220
John Golden	Apollo Global Management	323
Hubert Grignon Dumoulin	CACEIS	280

Quentin Guerineau	Crédit Agricole S.A.	208
Gillian Hamilton	Google Cloud	251
Jane Heinrichs	Federated Hermes UK LLP	261
Joe Heneghan	Revolut Holdings Europe	236
Hiroataka Hideshima	Dai-ichi Life Holdings, Inc.	201
Colin Hunt	AIB	31
Hiroshi Ibaraki	SMBC Bank International plc	184
Frédéric Jacob Peron	Société Générale	185
Antony Jancic	Bank of America Europe DAC	153
Stéphane Janin	BNP Paribas Asset Management	110
Michael Jefferson	Amazon Web Services	235
Mark Jopling	Amazon Web Services	230
Jessica Kaffrén	J.P. Morgan SE	313
Daniel Kapffer	DekaBank Deutsche Girozentrale	127
Marco Kessler	SIX Group	98
Shree Khare	Moody's	213
Tomas Klenke	Commerzbank AG	254
Nikolaj Kosakewitsch	Nasdaq	81
Clotilde L'Angevin	Crédit Agricole S.A.	144
Conor Langford	Visa Europe	297
Yann Le Pallec	S&P Global Ratings	322
Linda-Eling Lee	MSCI	321
Emma Lokko	Susquehanna International Group	84
James Longsdon	Fitch Ratings	35
Anne Macey	Natixis Investment Managers	104
Daniel Maguire	LSEG	58
Sergiu Cristian Manea	Romanian Commercial Bank	119
Dea Markova	Fireblocks	314
Giuseppina Marra	Desjardins Group	176
Stephen Martin	Amazon Web Services	241
Joe McHale	Bloomberg	70
Brent McIntosh	Citi	309
Dera McLoughlin	Forvis Mazars	244
Teresa Mesquita	SIBS	287

Jakub Michalik	Euronext	69
Cristina Mihai	Swiss Re	200
Gilles Moëc	AXA Group	48
Francesca Monti	Generali	226
Adrian Mulryan	Invesco Investment Management Limited	111
Andrew Mulvenny	Kraken/Payward Inc.	259
Cecile Nagel	BNY	90
Agathi Pafili	Capital Group	132
Michal Paprocki	Euroclear Group	243
Corentine Poilvet-Clediere	LSEG	68
Ben Pott	BNY	113
Ann Prendergast	State Street Investment Management	103
Emily Prince	LSEG	242
Daniel Quinten	National Association of German Cooperative Banks	174
Johannes Rehulka	Raiffeisen Association	286
Susan Revell	BlackRock	112
Samantha Ricciardi	Fidelity International	109
Marc Roberts	Raisin GmbH	126
Riina Salpakari	Nordea	188
Pier Mario Satta	UniCredit S.p.A.	158
Karolin Schriever	Deutscher Sparkassen- und Giroverband	159
Avi Sela	etoro	278
David Serrero	Caisse des Dépôts	43
Beata Sivak	Kraken/Payward Inc.	277
Eline Skramstad	DNB Bank ASA	189
Michalis Sotiropoulos	The Depository Trust & Clearing Corporation	89
Tom Sullivan	The Depository Trust & Clearing Corporation	260
Julia Symon	Finance Watch	209
Michael Tae	Broadridge	120
Hein Tibosch	Flow Traders	268
Valérie Urbain	Euroclear S.A.	59
Guylaine Vandooren	Optiver	76
Sandra Veseli	Moody's Ratings	41
John Vibert	PGIM	62

Vathany Vijayaratna	Deutsche Bank AG	273
Axel Weber	Raisin GmbH	95
Johanneke Weitjens	ING Group	157
Ansgar West	Munich Re	140
Michael West	Moody's Ratings	30
Atsushi Yasutake	Norinchukin Bank	225

OTHER STAKEHOLDERS

Jean-Marie Andrès	EUROFI	9
Jean-Jacques Bonnaud	EUROFI	195
Didier Cahen	EUROFI	9
Jacques de Larosière	EUROFI	24
Sylvie Goulard		204
Ondřej Kovářík		248
Aleksandra Maczynska	Better Finance	133
Christian Noyer	Banque de France	134
Agustin Reyna	The European Consumers' Organisation	288
Marc Truchet	EUROFI	9
David Wright	EUROFI	10

NEXT *eurofi* EVENT



THE EUROFI HIGH LEVEL SEMINAR 2027
VILNIUS - LITHUANIA
21, 22 & 23 APRIL 2027

FOLLOWING *eurofi* EVENT



THE EUROFI FINANCIAL FORUM
ATHENS, GREECE
15, 16 & 17 SEPTEMBER 2027

EUROFI PRESIDENT // David Wright

SECRETARY GENERAL & PUBLISHER // Didier Cahen

ASSOCIATE PUBLISHERS // Jean-Marie Andrès and Marc Truchet

EDITORIAL COORDINATOR // Daniela Craciun

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ABOUT EUROFI

The European think tank for financial services

- Two major annual international events fostering open dialogue between public authorities and financial industry stakeholders from all sectors and steps of the value chain;
 - A broad and forward-looking agenda covering regulatory developments, macro-economic trends, and key financial industry transformations;
 - A neutral, fact-based and general interest approach aimed at enhancing the effectiveness, integration and further development of European financial markets.
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OUR OBJECTIVES

Eurofi was created in 2000 with the aim to contribute to the strengthening and integration of European financial markets.

Our objective is to improve the common understanding between the public and private sectors of the trends and risks affecting the financial sector, and to facilitate the identification of areas for improvement that can be addressed by regulatory or market-based measures.

OUR APPROACH

We work in a general interest perspective for the improvement of the overall financial market, using an analytical and fact-based approach that considers the impacts of market trends and regulations for all concerned stakeholders. We also endeavour to approach issues from a holistic perspective, considering all relevant implications from a macro-economic, risk, efficiency and user standpoint.

We organise our work mainly around two annual international events, which bring together the main stakeholders concerned by financial regulation and macro-economic issues for informal debates. Research conducted by the Eurofi team and contributions from a wide range of private and public sector participants allow us to structure effective debates and provide extensive input. The result of discussions, once analysed and summarized, provides a comprehensive account of the latest thinking on market and economic trends and on financial regulation and helps to identify emerging and pending issues that merit further action or assessment.

This process, which combines analytical rigour, diverse input and informal interaction, has proven over time to be an effective way of advancing the regulatory debate in an objective and open manner.

OUR ORGANISATION AND MEMBERSHIP

Eurofi operates on a membership basis and comprises a diverse range of more than 100 European and international firms, covering all sectors of the financial services industry and all steps of the value chain: banks, insurance companies, asset managers, stock exchanges, market infrastructures, service providers, tech providers... The members support Eurofi's activities both financially and in terms of content.

The association is chaired by David Wright who succeeded Jacques de Larosière, Honorary Chairman, in 2016. Its day-to-day activities are conducted by Didier Cahen (Secretary General), Jean-Marie Andres and Marc Truchet (Senior Fellows).

OUR EVENTS AND MEETINGS

Eurofi organises two major international events each year (the High Level Seminar in April and the Financial Forum in September) for open and in-depth discussions on the latest developments in financial regulation and the implications of ongoing macro-economic and industry trends. These events bring together a wide range of representatives from the private sector, the EU and international authorities and civil society.

On average, more than 1000 participants have attended these events in recent years, with a balanced representation between the public and private sectors. All European countries are represented, as well as several other G20 countries (US, Japan...) and international organisations.

These events take place just before the informal meetings of EU Finance Ministers (Ecofin) in the country holding the EU Presidency. Eurofi has also organised similar events in parallel with G20 presidency meetings.

OUR RESEARCH ACTIVITIES AND PUBLICATIONS

Eurofi conducts extensive research on the main topics on the European and global regulatory agenda, recent macro-economic and monetary developments affecting the financial sector and significant industry trends (digitalisation, sustainable finance...). Three main documents are published every 6 months on the occasion of the annual events. They are widely distributed in the market and to the public sector and are also publicly available on our website www.eurofi.net :

- **Views Magazine:** A unique collection of over 230 articles from leading public and private sector figures offering forward-looking insights on regulatory trends, macro-economic challenges, sustainable finance, and digital transformation in the European financial sector.
- **Macro-economic & Monetary Scoreboards:** Data-driven publications presenting key figures, charts, and analyses on macro-economic developments, monetary policy trends, and their implications for finance in Europe and globally.
- **Conference Summaries:** The latest thinking of the key stakeholders shaping the European financial market on macro-economic priorities, regulatory initiatives, sustainable finance, and digital transformation.

Eurofi also regularly publishes research notes on key topics such as the Banking Union, the Savings and Investments Union, the use of technology in the financial sector, vulnerabilities in the financial sector, sustainable finance...which are published on the Eurofi website.

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