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FINANCIAL FORUM SEPTEMBER 2026

Organised in association with the Irish Presidency of the Council of the EU

Summary

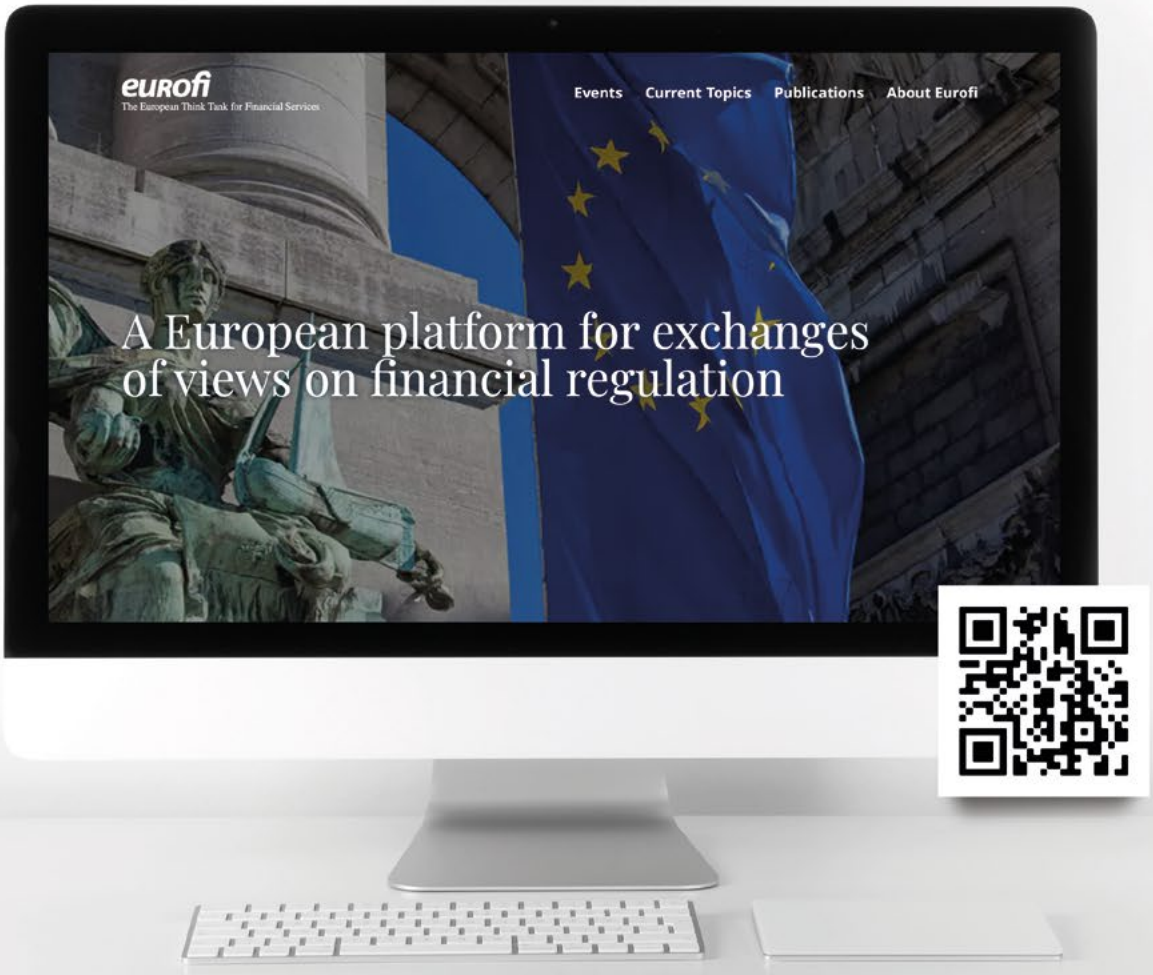


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Foreword

The Eurofi September 2026 Financial Forum was organised in association with the Irish Presidency of the Council of the EU.

Over 1300 participants from the public and private sectors attended the Forum, which featured 44 panel discussions, as well as speeches and exchanges of views with key representatives from government, European and international public institutions, regulatory and supervisory authorities, industry and civil society.

The Forum addressed Europe's economic challenges, notably the priorities for reviving productivity, financing innovation and tackling fiscal vulnerabilities, and examined the Savings and Investments Union (SIU) strategy and the proposals of the Market Integration and Supervision Package (MISP) for developing more integrated EU capital markets. Discussions also covered developments in banking and insurance regulation, international regulatory cooperation and regulatory simplification. Other key themes included digital transformation, AI, digital assets, the digital euro and payments, sustainable finance, and financial sector resilience, including cyber risks, anti-money laundering and risks related to non-bank financial intermediation.

The following pages contain summaries of the Forum's panel discussions and transcripts of the speeches delivered and exchanges of views held during the event. These provide a comprehensive overview of the main trends and challenges shaping the financial sector, as well as the policy initiatives, reforms and regulatory developments being discussed or implemented in response. We hope you find this summary informative.

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



Marc Truchet
Senior Fellow



Didier Cahen
Secretary General



Jean-Marie Andrès
Senior Fellow

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Reviving productivity in the EU

Didier Cahen, Secretary General, Eurofi, opened the panel by noting that, as illustrated by the Eurofi macroeconomic scoreboard, the most severe reductions in productivity have been experienced by European countries with the highest levels of public debt. High levels of public expenditure correlate with decreased competitiveness. The most indebted economies have the highest unemployment rates.

The Chair indicated that, although Europe's productivity problem is often viewed purely from the European perspective, the panel will consider whether it is also a national challenge.

Discussions focused on the structural factors behind Europe's productivity gap and the reforms needed at both national and European level. Participants emphasised the importance of labour market adaptability, human capital and more efficient resource allocation, alongside deeper capital markets and greater investment in innovation and technology. They also highlighted the need to overcome fragmentation and strengthen Europe's capacity to implement reforms and achieve greater scale.

1. Addressing Europe's productivity gap: structural reforms, labour markets and human capital

1.1 Boosting European productivity: national reforms and deeper European integration

An official emphasised that improving European productivity will depend primarily, although not exclusively, on addressing productivity challenges at the national level. National policies also have an important role to play in supporting business investment, skills and human capital, public services, and research and innovation. Labour market and human capital reforms will be essential to reviving productivity. Latvia's experience illustrates how broad structural reforms can transform an economy and support convergence with the EU average. However, the Covid pandemic and subsequent geopolitical shocks have led to uneven adjustments in product and labour markets, contributing to a productivity trap that requires renewed reform efforts across several sectors.

As challenges differ across member states, improving productivity requires both national reform agendas and action at European level. There is broad agreement on the measures needed to remove barriers to deeper European integration, but implementation remains difficult. From a national perspective, the benefits of removing barriers may be distributed across Europe, while the associated costs are often borne domestically. The benefits of integration therefore need to be better explained to member states. The EU decision-making process may also need to be examined more closely.

1.2 Closing Europe's productivity gap: scale, flexibility and structural reforms

An official observed that, although Europe has been relatively successful in absorbing recent economic shocks, underlying growth and productivity growth remain disappointing. Europe has a highly educated workforce, capital and savings, but is not translating these ingredients into productivity gains. There are two main constraints. First is lack of scale, as the single market remains fragmented, despite significant integration. Second is lack of flexibility, with European firms facing difficulties in scaling up or down at a time of major structural and sectoral shifts in the global economy.

Closing Europe's productivity and income gap requires action at both national and EU level. Fully aligning domestic structural policies with best practices and reducing intra-EU barriers to trade and labour mobility to levels comparable with those observed in the US could raise EU productivity by around 20%. The reforms required will differ across member states. In Italy, for example, size-contingent incentives that discourage firms from scaling up should be scaled back, while Spain needs measures to support firm scale-up and innovation, alongside more effective activation policies for the long-term unemployed.

The Chair highlighted the importance of scale. Targets can focus minds and drive positive outcomes, but these targets must be aligned with the means available to achieve them.

1.3 Making Europe's social model sustainable through productivity-enhancing reforms

1.3.1 Reconciling social protection with productivity and economic adjustment

A policymaker acknowledged that the European social model is a major achievement. As the viability of this model comes under increasing pressure, higher productivity will be necessary to sustain it. At the same time, welfare state institutions need to be reformed in ways that support productivity, requiring policy choices to be made and the right balance to be found.

Further reform of the Stability and Growth Pact (SGP) is not the main issue. Under current conditions, budgetary constraints are driven more by financial markets than by the SGP. The priority should therefore be to reprioritise expenditure rather than focus on further changes to the fiscal framework.

High productivity and high levels of social protection are not inherently incompatible, as demonstrated by several successful European countries. Labour market institutions should facilitate the reallocation of workers from declining and low-productivity firms and sectors towards higher-productivity activities. In some member states, relatively flexible labour markets allow firms to disappear, adapt or reorganise at relatively low cost

while workers remain protected. This contrasts with approaches in some larger member states that focus on preserving existing jobs by supporting companies, thereby increasing the cost of adjustment and reinforcing the status quo.

1.3.2 Supporting productivity through competition, human capital and more efficient spending

A policymaker commented that, although competition is crucial to innovation, it is often overlooked in EU policy debates. While there is a case for a disciplined industrial policy, this should not come at the expense of competition, as sustained innovation requires competitive markets.

Evidence from the European Commission, the OECD, the IMF and others identifies investment in human capital as one of the main long-term drivers of productivity. However, recent developments in this area are moving in the wrong direction.

Raising productivity is not simply a matter of increasing expenditure. Comparisons of education spending across member states show that countries can achieve widely different outcomes with similar levels of expenditure, pointing to significant inefficiencies. The priority should be spending better, rather than simply spending more.

The Chair noted that a human capital recommendation is already part of the European Semester.

1.4 Labour market adaptability and productivity: lessons from Europe's strongest performers

1.4.1 Labour market resilience and persistent barriers to mobility

An industry representative noted that the EU unemployment rate was 6.1% at the end of July, close to a historical low and well below peaks reached during the sovereign debt crisis and the pandemic. This strong labour market performance has contributed to the broader economy's resilience to the accumulation of recent shocks. However, significant differences remain across member states in wage levels, sectoral structures, labour market legislation and pension entitlement rules, making it difficult to view the EU as a single labour market. Intra-EU labour mobility remains limited compared with the US, with only around 4% of the total working population moving from one country to another. Language barriers, difficulties in recognising skills and qualifications, and housing availability all constrain mobility.

1.4.2 High-performing models and country-specific reform lessons

An industry representative stated that the Netherlands, Sweden and Denmark are among the strongest performers in the EU and are all rated AAA. Their performance is supported by strong economic and fiscal profiles, robust institutions, effective education systems, high labour force participation and active labour market policies, all of which contribute to productivity growth and economic adaptability. Labour force participation among older workers is particularly high, with around 75% to 78% of people aged 55 to 64 in active employment in these countries, compared with around two-thirds on average across the EU. Continuous education and early access to education also play an important role. In the Netherlands, around four-fifths of children under the age of three are enrolled in formal education, compared with an EU average of around 39%.

These three countries automatically link retirement ages to longevity, maintain well-funded pension pools that reduce reliance on taxpayers and include built-in financial adjustment mechanisms in pension disbursements. These features retain people in the labour market and support continued growth of the tax base. Their experience shows that a strong welfare state and robust public finances can coexist with high productivity, and that economic adaptability is also linked to the rapid adoption of technology.

Other member states have also made significant progress. Portugal has continued to invest through EU programmes. Greece has reduced unemployment to below 10%, from a peak of 28% in 2013. Over the past decade, Ireland has strengthened its institutional framework and resilience to external shocks, moving from a sub-investment grade rating to Aa2. Policy lessons should be drawn from successful national experiences and adapted to country-specific circumstances, rather than relying on uniform solutions to highly differentiated challenges across the EU.

The Chair noted that the recently published Fair Labour Mobility Package aims to address major obstacles in the European labour market, -among others - by increasing the powers of European labour authorities and developing a system that allows employers to verify skills digitally.

1.5 Designing effective reforms for competition, investment and long-term productivity

An official cautioned that relaxing merger policies while maintaining barriers between national markets could have the unintended consequence of creating national champions. While there is broad agreement on what needs to be achieved at both European and national levels, significant barriers remain. In several countries, substantial public resources are devoted to supporting venture capital (VC), including through public financing and co-financing, potentially crowding out private capital. Although early-stage financing is relatively well developed in some European countries, difficulties emerge when companies need to scale up, contributing to firms leaving Europe. As these barriers can be specific to individual countries or markets, policy interventions, including R&D subsidies, need to be carefully targeted.

Fiscal buffers can only operate as shock absorbers when sufficient spare capacity is available. If financial markets exert pressure on public finances, fiscal constraints can become shock amplifiers. Abrupt fiscal policy cuts may then affect precisely the productivity-enhancing policies that are needed.

Long-term structural reforms need to anticipate future challenges. Germany and Finland, previously regarded as leading examples in education, have now been identified as requiring reform. Education systems need to be both future-proofed and technology-proofed. Public-sector reforms take time, and measures designed too specifically around current conditions may already be obsolete by the time they are implemented. The Chair

also observed that most countries' education systems were established when the number of newborns was three times higher than it is today.

Beyond structural reforms, discussions also emphasised the need to mobilise Europe's existing financial and human resources more effectively and channel them towards productive investment, innovation and technology.

2. Mobilising capital, investment and technology for productivity and scale

2.1 Mobilising Europe's human and financial capital for productivity

2.1.1 Retaining European capital and talent and improving investment incentives

An industry representative emphasised that Europe already has the human and financial capital required to significantly improve productivity. However, talent and savings are crossing the Atlantic to build technological innovation in the US. Monetary policy also matters for the allocation of resources: ultra-loose policy and negative interest rates have not necessarily supported productivity in the past, as they have contributed to resource misallocation and sustained weak businesses. The industrial cluster on the US West Coast is staffed to a large extent by Europeans and financed substantially by European savings.

2.1.2 Creating fiscal and financial capacity for productivity-enhancing investment

An industry representative observed that high public debt and substantial current expenditure can reduce the fiscal space available for future-oriented investment. From a fiscal perspective, public investment should be an acyclical component of government spending, given its long planning lead times and implementation lags. In practice, however, it is typically the most pro-cyclical component. One possible response is the new green golden rule proposed by Darvas and Wolff under the SGP, whereby investment in the transition and preventing climate change would be excluded from its provisions. This approach could potentially be extended to other productivity-enhancing investments, including education.

Greater reliance on public-private partnerships (PPPs) could also help mobilise private capital for productivity-enhancing public investment. Such arrangements have already been used effectively, particularly for investment in universities and schools. Reputation is another important consideration. The widely repeated perception that 'the US innovates, Europe regulates and China imitates' needs to be challenged rather than allowed to become an accepted description of economic reality.

Finally, Europe's private sector could play a greater role in financing early-stage venture capital. Although much of the capital ultimately financing these activities is European in origin, the pool of early-stage venture capital is considerably deeper in the US than in Europe.

The Chair commented that continuing education will play a greater role than the traditional school and university model in the future. Programmes such as the Programme for International Student Assessment (PISA) are important markers of the quality of education systems. Over the past seven years, the EU has invested €46 billion through the European Social Fund Plus in training, upskilling and reskilling. However, increased intervention from the private sector is also needed.

2.2 Improving capital allocation and expanding long-term financing capacity

2.2.1 Directing public and private capital towards productive investment

An official observed that global debt markets have remained broadly resilient despite very high levels of outstanding debt securities. Total bonds outstanding amount to around $110 trillion, including approximately $61 trillion in sovereign bonds, while OECD governments are still expected to borrow about $18 trillion in 2026 alone. This resilience should not be taken for granted. Although financing conditions have been stabilised by years of monetary and fiscal support, important supply-side challenges remain, with low productivity a particular concern in some areas.

Corporate bond issuance has not always been directed towards capital expenditure and productive investment. In some cases, it has supported capital management activities, such as share buybacks and dividend payments. Similarly in public finances, a significant share of spending associated with large fiscal deficits is funding recurrent expenditure rather than productive investment.

Debates about rebuilding fiscal buffers and strengthening fiscal capacity are often interpreted, particularly at member state level, as calls for spending cuts. Instead, fiscal discipline should be viewed as part of a growth strategy. The focus in both the public and private sectors should be on spending better, rather than simply spending less, and in ensuring those resources are effectively translated into productive capacity.

The latest PISA results provide an important wake-up call and offer useful, comparable evidence on the performance of education systems. A parallel PISA financial literacy exercise is also being developed for 2029 – in which twice as many countries are expected to participate relative to the previous edition – alongside an adult survey on financial literacy in 2026.

2.2.2 Expanding long-term financing capacity amid demographic and technological pressures

An official observed that financing capacity could be increased through greater direct and indirect participation by citizens in capital markets. Demographic pressures create both urgency and opportunity: reforms to pension systems, pension funds and insurance could further expand the supply of long-term financing. At the same time, AI is creating major new competition for capital. Just nine hyperscalers – seven US companies together with Alibaba and Tencent – are expected to undertake around $4.1 trillion of capital expenditure over the next

five years, an amount broadly equivalent to Germany's GDP. Investment needs on this scale could generate significant crowding-out effects, as well as broader investment spillovers, across capital markets.

2.3 Unlocking Europe's productivity potential: deeper capital markets and disciplined industrial policy

2.3.1 Deepening capital markets to support scale and investment

An industry representative emphasised that deeper and more integrated capital markets are needed to improve the risk-reward calculus for European savers. The existence of 27 different insolvency regimes increases risk premia and the cost of capital, potentially making cross-border investment prohibitively expensive and preventing companies from scaling beyond their domestic markets. Securitisation faces similar obstacles, as the stigma inherited from the global financial crisis continues to limit its use. Europe needs deeper cross-border liquidity and greater capital velocity. Securitisation can act as a shock absorber by distributing risk and freeing up financial capacity to invest at the frontier.

2.3.2 A disciplined industrial policy to support strategic technologies

An industry representative stated that a disciplined industrial policy will be crucial, particularly as Europe's productivity gap is concentrated in technology. Alongside AI, general-purpose technologies such as quantum, synthetic biology, fusion, robotics and space platforms are approaching commercial scale, but Europe is lagging behind. Their long investment horizons, substantial upfront capital requirements and the considerable tolerance for regulatory and geopolitical risk they require are contributing to capital clustering away from Europe.

Industrial policy should identify the specific market failures constraining investment and tailor interventions accordingly. These market failures may relate to cost differentials, demand shortfalls, regulatory barriers or supplier coordination. Competition should be preserved rather than promoting national champions, while public balance sheets should be used to crowd in rather than replace private investment. Support should also include clear upfront milestones and sunset provisions to avoid permanent dependence on government intervention.

Beyond these two pillars of deepened capital markets and a disciplined industrial policy, Europe already possesses what the industry representative described as a significant and unmatched competitive advantage: its reputation as a trusted and reliable partner. In an increasingly fragmented geopolitical environment, this can act as an important productivity multiplier. This reputation is underpinned by Europe's commitment to the rule of law, transparency and democratic accountability.

2.4 Closing Europe's technology gap: scaling up innovation, infrastructure and capital deployment

2.4.1 A widening technology gap: AI opportunities and strategic dependencies

An industry representative emphasised that Europe's productivity challenge is often wrongly portrayed as a shortage of resources. Europe is a large single market of 450 million people, with skilled labour and a deep pool of household savings. The main challenge is instead one of deployment: mobilising capital and implementing innovation and technology at scale. Europe's productivity gap is increasingly becoming a technology gap. Moody's estimates that EU labour productivity has increased by only 3% since 2019, approximately one quarter of the growth recorded in the US. Business investment in innovation has been lower in Europe, while R&D intensity has stagnated at around 2% of GDP over the past decade, compared with approximately 3.5% in the US.

AI represents a major opportunity to reverse this trend, although the window of opportunity is limited. Investment in AI and AI infrastructure is increasing rapidly in the US, with around $1 trillion in spending expected by the end of 2027. As the main profit pools in AI are located within value chains, participation in these value chains will be important. In addition, Europe remains heavily dependent on external providers of hardware, cloud services and frontier models. Three firms account for more than 70% of European cloud capacity, while the EU's share has fallen from around 29% in 2017 to approximately 15% today. These dependencies raise concerns not only for investment and competitiveness, but also for resilience. The European Commission's digital sovereignty package aims to address these dependencies, but the timing and execution of these measures will be decisive.

2.4.2 Scaling up technology: corporate strengths, infrastructure and capital deployment

An industry representative suggested that Europe needs to build on its existing strengths at the same time as expanding digital infrastructure capacity and addressing existing bottlenecks. Europe currently accounts for around 15% of installed capacity, compared with approximately 50% in the US and 25% in China. The pace of deployment in Europe also needs to accelerate and is currently around half the pace observed elsewhere. Key constraints include grid capacity, environmental rules and market fragmentation.

Vast pools of capital remain unproductive. The Savings and Investments Union (SIU) is making progress in this area, but the focus should remain on ensuring the strength, effectiveness and durability of capital deployment. Mobilising capital and technology at scale also requires addressing the fragmentation and institutional barriers that continue to constrain European integration and collective action.

3. Overcoming fragmentation and strengthening Europe's capacity to act

3.1 Managing divergence while advancing Europe's productivity agenda

A policymaker emphasised that significant differences remain between member states and inevitably affect European negotiations. Europe nevertheless generally succeeds in finding compromises. The main concern is

the speed of this process: while Europe continues to make progress, the rest of the world is moving faster. Differences between member states are also not static. Significant shifts have occurred over the past 10 to 15 years, with some countries previously in crisis now among the strongest performers, while some former high performers are stagnating. Over a longer period, central and eastern European countries have also achieved impressive progress in economic convergence.

Differences within countries may be even more important than those between member states. The political instability resulting from these internal disparities constrains progress at the European level. While a European productivity agenda is important, it cannot by itself resolve national and regional disparities. Without appropriate mitigating measures, such an agenda could even exacerbate tensions between regions that benefit strongly from productivity gains and those that continue to stagnate.

3.2 Overcoming national barriers to deeper European integration

An official observed that member states remain reluctant to remove existing barriers. From the perspective of individual member states, the benefits of removing these barriers may be shared across Europe, while the associated costs are borne domestically. The benefits of removing barriers therefore need to be better understood and articulated in order to facilitate progress.

3.3 Countering fragmentation through scale, co-investment and structural reform

3.3.1 Rethinking integration: from fiscal convergence to common investment

An industry representative echoed a previous panellist's point that a major challenge for Europe will be to overcome forces of fragmentation within democracies in order to achieve greater scale and integration. This may require a different approach from the traditional model, which sought to first build trust through fiscal policy convergence, assuming that this would eventually support greater risk sharing and deeper integration. The Scaleup Europe Fund offers a different and potentially more productive model, based on joint investment rather than prior fiscal convergence.

3.3.2 The Scaleup Europe Fund: scale, reduced trust requirements and reform incentives

An industry representative explained that the €5 billion fund includes a €1 billion contribution from the European Commission, with the remainder coming from national and private sources. Its objective is to provide late-stage capital to European companies with the potential to scale, helping them remain in Europe.

The fund reduces the need for trust between member states, because countries do not need to have confidence in each other's public finances in order to co-invest in a profitable company with scaling potential. It also achieves a scale that individual member states could not reach on their own. Denmark's national development bank, for example, decided to participate after seeing some successful domestic companies move abroad, pooling its resources with other countries at a scale it could not replicate nationally. Finally, the fund places greater emphasis on structural reforms at national level. It is under no obligation to invest in any particular member state, so investment depends on whether countries create the conditions for scalable companies. Instruments of this kind could therefore represent a productive way of countering political fragmentation while simultaneously promoting scale, investment and reform.

3.4 Reducing fragmentation while preserving competition and consumer protection

An official highlighted three main policy issues. First, fragmentation remains an obstacle to productivity. The 28th regime could help companies scale up more easily across borders, although implementation could remain challenging if its application continues to take place at national level. Second, greater capital market integration and simplification are needed to improve access to financing and enable companies and start-ups to grow and succeed. Third, competition policy remains an important consideration. Relevant markets should be defined more broadly rather than simply along national borders. At the same time, consumer protection needs to be preserved. Excessive deregulation could ultimately prove counterproductive over the medium and long-term.

3.5 From diagnosis to implementation: accelerating European decision making

An industry representative observed that, although the Draghi and Letta reports have clearly articulated Europe's challenges and proposed a series of sensible solutions, relatively little has happened since their publication. Estimates suggest that only around 18% to 30% of the Draghi report has so far been implemented. The priority must now be to implement the changes already identified. At the same time, the world is changing at an unprecedented pace. This calls for an open discussion about whether the EU's existing policy-making and decision-making structures remain fit for purpose.

Overall, discussions suggested that Europe has many of the resources needed to revive productivity, but needs to deploy them more effectively through structural reforms, deeper integration and greater investment in innovation and technology. Accelerating implementation and overcoming persistent fragmentation emerged as key challenges for translating these resources and policy priorities into productivity gains at scale.

Fragilities of highly indebted EU countries

The discussion examined the growing fiscal vulnerabilities associated with high public debt in Europe, focusing on how debt sustainability should be assessed, the respective roles of fiscal adjustment and growth, and the implications of Europe's institutional architecture. It also considered how sovereign risks are reflected in ratings and market pricing, and which fiscal, policy and market developments could ultimately trigger a repricing.

1. Diverging debt trajectories

1.1 Growing debt sustainability risks and fiscal fragilities

The Chair outlined the two issues of how to assess sovereign debt sustainability, including what distinguishes highly indebted European countries from the US, UK and Japan, and whether markets have been and remain too tolerant of rising deficits, increasing debt and even unsustainable debt paths.

The Chair highlighted that the European Commission projected debt to drift over 100% of GDP over the next decade. The IMF expected European debt to double to 130% of GDP by 2040 in the absence of policy measures and given new spending pressures.

1.2 Addressing divergent debt trajectories

1.2.1 Country-specific debt dynamics

A policy-maker stressed that projections of rising debt are based on a no-policy-change assumption. There are significant differences in debt levels and trajectories across member states. Several have debt ratios below 60%, but four still have ratios above 100%.

There are also significant differences within the latter group. Greece still has a very high level of debt, but it is declining rapidly, largely because the country has achieved a very high primary surplus. Italy has a very high debt level, with a small primary surplus but rather low growth, meaning that its debt is drifting upwards slowly. France and Belgium combine high debt levels with significant primary deficits and therefore face the greatest adjustment needs.

There is a need to look beyond headline figures. The current approach is firmly anchored in the European Commission's debt sustainability analysis methodology. The analysis goes beyond headline debt figures, assessing risks to debt sustainability, including a country's ability to meet its financing needs and the likelihood that debt remains on a sustainable trajectory. Under this framework, each member state should have a country-specific net expenditure trajectory placing its debt on a downward path.

Several member states still require significant fiscal adjustment, while also needing to create room for other priorities, including defence. Debt dynamics are closely linked to the productivity agenda: the higher structural growth, the easier it becomes to reduce debt. For some countries, like Italy, this may be more important than controlling the fiscal deficit.

1.2.2 Growth cannot substitute for fiscal adjustment

The Chair noted that the US is on an unsustainable public debt path, but its official response is that it will grow out of the problem. That is not an argument generally heard in Europe.

A policy-maker suggested that there are two reasons for this difference. First, current US statements are overly optimistic. Growth is very important, but with a deficit of 6-7% that is expected to persist for the foreseeable future, it is difficult to see how to simply grow out of the US's fiscal situation. Secondly, growth does not happen automatically. Europe has developed a more prudent approach by not factoring in productivity increases before they have materialised.

1.3 Fiscal discipline and the structural pressure from social expenditure

1.3.1 Strengthening market discipline within the fiscal framework

An official suggested that markets should play a stronger role in imposing discipline on countries. However, the European Commission's counter-argument was that only factors within public responsibility should count in the European framework. The bond market should play a stronger role. When there are rising interest rates, countries should consolidate faster. No such requirement is incorporated into the framework. Nonetheless, the excessive deficit threshold would continue to constrain countries. During the negotiations, he had opposed excluding interest payments from the expenditure rule, while acknowledging that the approach was symmetrical: lower interest rates would not count as consolidation either.

1.3.2 Social expenditure, fiscal space and investment needs

The Chair commented that following the pandemic there was an expectation among the population that existing living standards would continue and that public support would be provided whenever risks materialised. At the same time, there was a proliferation of escape clauses, including for defence and energy.

An official highlighted that the old Stability and Growth Pact (SGP) required faster fiscal consolidation, although growth does have to also be taken into account. During discussions on reforming the fiscal rules, a key concern was whether consolidation periods lasting eight, nine or 10 years left countries sufficiently prepared to respond

when the next financial crisis occurred. Countries need to be in a position to react when such a crisis hit, which is not yet the case.

OECD statistics show that social expenditure, particularly in Europe, has grown faster than GDP for decades. Since 2000, the additional amount of social expenditure relative to GDP has been between 2% and 4%. If the trend in social expenditure is not addressed, joint debt will become the only solution for financing investment crowded out by social expenditure. He also noted that, to his knowledge, there was no forum in which these social expenditure dynamics were being identified as a problem to be addressed, as social expenditure was generally considered a member-state responsibility under the Treaty.

1.4 Sovereign ratings reflect debt stocks and fiscal dynamics

1.4.1 Multiple factors explain sovereign ratings and differences across countries

An industry representative stated that, although debt-to-GDP probably has the greatest explanatory power among public finance metrics, it is not the strongest overall determinant of sovereign ratings. Structural indicators can account for just over half of the weighting in models and include factors like the wealth and size of the economy, governance, political stability and the rule of law. Models can do much of the work in determining a rating, but do not determine ratings on their own and can be adjusted. Macroeconomic factors account for around 10% of the weighting, public finances for around 20%, and external finance for around 17%.

France, Italy and Belgium share the same reserve currency through the euro and have fairly similar sovereign net foreign asset positions and external positions. Their macroeconomic performance is also fairly similar, with growth at roughly 0.8%. Italy is somewhat weaker in areas like government effectiveness, control of corruption and the rule of law. Public finances are the main factor explaining the rating differential between the three countries. Italy's debt-to-GDP ratio is approximately 138%, which is around 30 percentage points higher than Belgium and 20 percentage points higher than France. France and Belgium are rated A+, compared with BBB+ for Italy.

1.4.2 Diverging fiscal flows are driving rating convergence

An industry representative commented that, despite its higher debt stock, the market recognises Italy's discipline on the flow side, including its ability to run primary surpluses. Although Italy faces higher interest costs, its overall deficit is expected to remain just below 3% over the next few years, which is a debt-stabilising level.

By contrast, despite having a debt ratio around 20 percentage points lower than Italy's, the market is penalising France on the flow side. Its deficit is running at around 5% and, unaddressed, could reach 7% by the end of the decade. Interest costs are adding around 0.2% of GDP per year. Interest costs stood at around 2% of GDP in 2024. Belgium is in a similar position, with a deficit of around 5%, although there are fewer risks around that figure. These contrasting dynamics are already reflected in rating actions. Fitch has been downgrading France and Belgium while upgrading Italy and other southern European countries; Cyprus provides a particularly striking example, having been upgraded nine notches in 10 years.

If these trends continue, the current differences in debt ratios could narrow substantially by the end of the decade, implying continued convergence in sovereign ratings. Italy's debt ratio could be only around 9 percentage points higher than France's and around 17 percentage points higher than Belgium's.

1.5 Markets distinguish between debt levels and fiscal trajectories

1.5.1 Italy and Belgium's vulnerabilities are largely understood by markets

An official suggested that markets are not materially underpricing the risks of any specific country at present. However, France might be more vulnerable because of its flow problem, compared to Italy with its stock problem or Belgium and its institutional fragmentation.

Italy's debt stock is very high, but investors understand the challenge. Italy has demonstrated an ability to generate primary surpluses, has a diversified investor base and benefits from a long debt maturity profile. Belgium's challenges - including ageing pressures, fiscal deficits and institutional fragmentation - are also relatively well understood.

1.5.2 France's less favourable fiscal trajectory is a key vulnerability

An official reported that although France's debt ratio is lower than Italy's, its direction of travel is less favourable. Persistent primary deficits, rising interest expenditure and limited fiscal consolidation mean that debt continues to accumulate.

Markets have been patient with France because it has a deep and liquid market, strong institutions and a large economy. However, that does not imply indifference. Investors can become much less comfortable when they start questioning whether the debt trajectory is improving or deteriorating. The key issue is therefore not which country has the highest debt ratio today, but where the largest gap lies between current fiscal performance and the adjustment required to put debt on a clearly declining path.

2. Completing the European architecture while preserving fiscal discipline

2.1 Europe's fiscal architecture provides a basis for common debt

2.1.1 Euro area fragility reflects market fragmentation

An industry representative highlighted that the fiscal situations of the US, the UK and Japan were considerably worse than Europe's. The euro area today is not that of

2010. This is not only because of the facilities that have since been put in place, but also because the central bank conducts counter-cyclical policy.

There is no a priori difference between the European Central Bank (ECB)'s indirect support and the direct support provided by the Federal Reserve, the Bank of England or the Bank of Japan. The possibility of a central bank stepping in to buy debt is not comforting.

The relevant issue is there is significant demand for Eurobonds that European countries and governments are choosing to not satisfy. As a result, Europe pays more to finance its debt than it has to. European debt fragmentation creates a different market structure compared to other jurisdictions, but that is not a fundamental difference in sovereign risk. Investors focus on policy intentions. An industry representative illustrated the importance of policy intentions with the example of a French presidential candidate proposing to "burn the debt", arguing that such signals are captured by markets.

2.1.2 Supporting common debt issuance

An industry representative argued that the SGP was a major success because it anchored European countries around the 3% deficit threshold. In this respect, Europe was in a much better position. It should take advantage of its better fiscal framework by issuing common debt that would enable Europe to fund its debt at a lower level.

2.2 Conditions for a European safe asset

2.2.1 Common debt

A Central Bank official suggested that greater market and capital market integration is needed to support growth and fiscal sustainability in Europe. Given the fragmentation of European public debt markets, a sufficiently large and liquid common debt instrument could help bridge some of these divides under certain assumptions. She stressed that she was considering both the benefits and drawbacks rather than advocating such an instrument.

However, the design of such an instrument is critical, particularly to ensure that it did not erode market discipline. A European bond could potentially become an international safe asset and compete with other international safe assets. Such an asset would be coupled with the currency, so it could also contribute to a greater international role for the euro. International currencies need to be widely used in international transactions and trade. The euro performs relatively well at the regional level, but less so globally.

2.2.2 Trust, fiscal sustainability, liquidity, size and returns

A Central Bank official grouped the parameters underpinning trust into three categories. The first is trust in the value of the asset, which requires institutions that protect investor rights. The second is political stability. The third is fiscal sustainability.

Liquidity and size are crucial considerations in determining whether the instrument could function as an international safe asset. Investors would not hold a safe asset without returns. This creates a chicken-and-egg problem: higher returns on European investments are needed to underpin a safe asset, while a safe asset could itself support higher returns by fostering greater market integration.

2.3 Common debt requires fundamental changes to the European architecture

2.3.1 Stronger financial supervision

An official, who was not particularly supportive of common debt, argued that Europe still lacks a framework capable of adequately addressing the moral hazard problem. Making common debt viable would require changes comparable in scale to those made when the euro was introduced; without them, it would not deliver the savings some envisaged.

Financial sector supervision is where Europe has made the greatest progress. The European supervisory model, based on the ECB and the Single Supervisory Mechanism (SSM), is superior to the US model. However, important gaps remain in the resolution framework. He compared the resolution framework to a bridge extending only halfway across a river; Europe has not yet experienced a major resolution case in which this gap proved problematic.

2.3.2 The credibility of the fiscal framework

An official criticised the tendency to introduce new escape clauses whenever a new problem arises. Doing so creates poor optics and undermines the credibility of the fiscal framework. More broadly, he considered that the jury was still out on whether the new rules would work better than the old ones and suspected that the previous problem had been less the rules themselves than a lack of willingness to apply them. The escape clauses give countries more time to adjust rather than allowing them to avoid adjustment altogether.

2.4 National ownership can strengthen fiscal enforcement

A policy-maker argued that rules, laws and measures have a greater chance of sticking when they are genuinely owned by a country. Greater national ownership makes enforcement easier. Under the new framework, the central indicator is the country-specific net expenditure path. Once agreed, this forms the basis for surveillance and enforcement. The enforcement mechanism itself remains roughly the same as before.

2.5 Fiscal adjustment strategies

An official stressed that it is difficult to distinguish between what is genuinely infeasible and what reflects a lack of political willingness to consolidate. Greece was cited as an example of a country that achieved sizeable fiscal consolidation despite an international institution having previously argued that such an adjustment was not feasible.

The US's deficit of around 7.5%, combined with a huge investment boom financed by debt, including by hyperscalers currently generating negative cash flows, could produce strong growth in the short term. The question is whether this gamble will pay off over the longer term.

3. Market discipline increasingly depends on fiscal trajectories, policy credibility and the investor base

3.1 Interest rates and sovereign spreads reflect investment and policy uncertainty

3.1.1 Higher interest rates

The Chair queried whether markets have been too tolerant, given fiscal developments, and what threshold might trigger a market reaction and repricing.

An industry representative identified two reasons for the increase in interest rates. The positive reason is that the period of stagnation that followed the global financial crisis has ended. Both the private and public sectors are investing and competing for funds. The less positive reason is that repeated increases in energy prices are leading markets to question the reaction function of central banks and how sensitive monetary policy has become to energy prices. The speaker described the first development as an "investment glut", with demand for financing exceeding supply. On the second, reduced forward guidance was adding to uncertainty and could contribute to some over-tightening of financial conditions.

3.1.2 Markets differentiate countries by policy responses

An industry representative highlighted that markets remain willing to finance investment. Whether this ultimately produces a favourable outcome depends on what countries do with that investment and whether they translate it into future growth.

European countries are not at a disadvantage in this respect. Instead, markets are pricing the quality of policies and the uncertainty surrounding those policies. That explains the French spread reaching the level of Italy's. Italy typically responds to deteriorating conditions by tightening its primary balance, giving markets a known and tested policy reaction; France, by contrast, has continued to find reasons not to tighten its primary balance.

3.2 Debt stocks determine rating levels; fiscal flows drive rating changes

3.2.1 Ratings adjust more slowly than markets

An industry representative reported that a rating change can result from a shock affecting several variables simultaneously. A crisis, for example, can produce a growth shock, reduce government revenues and prompt a policy response that widens the budget deficit and rapidly increases debt. Outside crisis periods, however, a rating is more likely to change because a single existing weakness continues to deteriorate until it crosses a threshold.

Markets have an almost unlimited number of basis points through which to reflect changing conditions, whereas ratings are inherently stickier. There are only 22 rating levels. Ratings can remain unchanged even as underlying conditions evolve, because there is some headroom within each rating. A downgrade normally creates additional headroom, allowing the new rating to remain stable for some time. Belgium went nine years between downgrades, compared with only two and a half years for France; Cyprus had been upgraded nine times in 10 years.

3.2.2 Sovereign ratings respond differently to market and fiscal developments

An industry representative emphasised the distinction between stock and flow variables. The debt-to-GDP ratio is more important in explaining the existing rating level. Flow variables, by contrast, are more for assessing what could cause a rating to change. Among the relevant flow variables, he highlighted the budget balance and the interest-to-revenue ratio.

A very high debt stock can make it considerably more difficult for a country to respond to a shock. Italy is expected to continue to have a higher debt ratio than France and Belgium by the end of the decade, even though Italy's debt ratio is declining while France and Belgium's are deteriorating.

3.3 Fiscal rules provide an anchor for market discipline

An industry representative emphasised that rules matter because they anchor what is politically feasible. For example, with the 3% deficit benchmark, a deficit of around 5% in France raises concerns because it is measured against the 3% anchor, whereas a deficit of around 7% in the US attracts less attention as there is no comparable fiscal anchor. When the European Commission indicates that a country is not doing what the rules require, markets pay attention, thereby reinforcing the disciplinary role of the fiscal framework.

Market pricing does not clearly indicate that Europe is in a worse position than the US or the UK. The UK has combined the highest real interest rate with the weakest expected growth, followed by the US and then Europe. The market pricing is a signal of the degree of discipline that markets expect from each jurisdiction.

3.4 The changing investor base can amplify sovereign debt market risks

A Central Bank official described a long-term shift in the investor base away from sovereign investors, sovereign wealth funds, official asset managers and banks investing on their own books. More recently, non-bank financial institutions (NBFIs) have increasingly taken up the market. At the same time, central banks have been withdrawing following the end of quantitative easing (QE), and quantitative tightening (QT) adding further supply to the market.

The NBFI investor base includes relatively stable investors such as pension funds and insurance companies, as well as investment funds and leveraged hedge funds. Hedge funds can employ leveraged strategies such as basis trades, exploiting spreads between sovereign bonds and their funding costs through instruments including repo, cross-currency swaps and foreign exchange swaps.

These strategies are more sensitive to pricing, risk sentiment and funding conditions. As a result, markets can become more volatile and respond more rapidly to shocks, changes in sentiment or funding conditions,

independently of underlying debt sustainability. These new market dynamics need to be taken into account.

At high debt levels, such dynamics can become particularly dangerous, because higher funding costs feed into government budgets and can ultimately generate adverse fiscal sustainability dynamics.

3.5 Restoring credibility requires sustained policy action and ownership

An official noted it took Cyprus nearly 10 years to regain investment-grade status. That experience demonstrates that credibility takes years to build but can be lost very quickly. Although the fiscal numbers were corrected relatively early, it took much longer to rebuild confidence that the improvements would prove durable. Its first upgrade back to investment grade came in September 2022.

Confidence was not restored through debt reduction alone. Policymakers also had to demonstrate a sustained willingness and ability to take difficult decisions. This involved a combination of fiscal discipline, banking sector restructuring and structural reforms, with the involvement of the European Commission and the IMF, and strong political ownership of the adjustment.

Speed also mattered. Cyprus exited the programme after three years of strict implementation. Ownership and the ability to move forward with the necessary adjustments were important in restoring confidence.

3.6 Assessing potential triggers for market repricing

The panel was asked which of the countries discussed faces the most serious risk of market repricing over the following year, and what variable might trigger such a repricing.

An industry representative pointed to France, citing the tone of the political campaign.

An industry representative is monitoring all countries, but particularly where debt is currently rising rapidly. France's debt is rising quite quickly, although its downgrade the previous year created some headroom. US debt is also rising quite steadily. UK debt is not increasing particularly quickly. All the countries discussed currently had stable outlooks.

An official pointed to the US and France based on their track records. The technical nature of the problems in France was understood, but there is insufficient political willingness to address them. The US lacks sufficient recognition of its fiscal situation.

An official was cautious about singling out one country. However, the gap between market expectations and policy delivery in France can be highlighted; whether the primary deficit narrows will be monitored.

A policy-maker stated that the US would be well advised to adjust, while stressing that this also applied to other countries.

A Central Bank official stated that concern is more general. Looking ahead, there are potential implications from AI on fiscal dynamics. It could affect growth expectations and therefore tax revenues, while potentially shift the composition of income from labour toward capital income. These developments could have important consequences for fiscal positions and fiscal dynamics over the coming years. She also stressed that she did not see a sovereign crisis "around the corner".

Monetary policy's role with resurgent inflation, weak growth and high public debt

1. Monetary policy amid persistent inflation and evolving shocks

The Chair opened the session by noting that monetary policymakers are navigating a second tightening cycle within four years following a decade-long lull. The two broad themes of the discussion are the current monetary policy cycle and longer-term structural issues, including central bank balance sheets, fiscal-monetary interactions and the broader role of monetary policy. While the recent interest rate increase has not been unexpected, the subsequent communication has perhaps been surprising.

The discussion is summarised in three parts: the inflation outlook and evolving shocks; the assessment and communication of monetary policy; and the structural challenges arising from financial imbalances, fiscal–monetary interactions and central bank balance sheets.

1.1 Resilience, persistent price pressures and monetary policy flexibility

A Central Bank official stated that a comparison of the latest data with the situation before the summer revealed two developments, which were discussed at the previous week's Governing Council meeting in Berlin. The first was the resilience of the European economy, which had demonstrated a greater capacity to withstand shocks than previously anticipated. The second was the persistence of price pressures, with energy price increases proving more enduring than expected. These developments are reflected in the staff projections of the European Central Bank (ECB), which show modest upward revisions to growth and inflation forecasts. Taking these factors into account, the Governing Council unanimously decided to raise interest rates by 25 basis points. This decision was not unexpected and was subsequently described by President Lagarde at the press conference as a 'no-brainer'.

A Central Bank official noted that the term 'rate cycle' may not fully capture the current environment because monetary policymakers are operating in a context that is largely shaped by supply-side shocks. It is essential to acknowledge the considerable uncertainty surrounding future developments; this uncertainty justifies the ECB's meeting-by-meeting and data-dependent approach to policymaking. Maintaining price stability is the central objective, and the ECB will take whatever actions are necessary to achieve it. Given the high level of uncertainty, the ECB does not wish to commit to a specific path for interest rates.

The Chair commented that the concept of resilience has become the subject of considerable debate, including within the IMF. While the term appears appropriate in some respects, the question is whether a persistent shock can still be called a 'shock' if it has become permanent, in which case the economic situation may call for a different assessment.

1.2 Managing inflation expectations amid energy shocks and rising debt risks

The Chair asked whether the ECB was faring better or worse in the current energy supply shock, and what lessons had been learned from the previous one.

A public representative stated that the economic, financial and geopolitical environment remains highly volatile. Additional inflation would further increase uncertainty for households, businesses and other economic actors. In such conditions, the key role of central banks, and particularly the ECB, is to manage inflation expectations, which ultimately shape how households and corporations respond to real and monetary shocks. Second-round effects are central to the current challenge. Central banks cannot increase the supply of oil or gas, nor can they make the leaders of certain large countries act more sensibly. Their primary task is therefore to anchor expectations in an exceptionally uncertain environment, which requires careful judgment. The ECB's policy rate remains slightly negative in real terms, which carries inflation risks, but policymakers must also weigh the risks to growth and the nature and origins of these shocks.

A public representative highlighted that Europe's debt situation is alarming; the likelihood of a serious crisis is increasing daily, judging by market reactions and the way that some countries manage their budgets and debt. Should such a crisis materialise, the ECB would be called upon to use the Transmission Protection Instrument (TPI). This would be a highly sensitive scenario because the ECB would inevitably need to make judgments on political issues when assessing whether the conditions for activating the instrument are fulfilled. Determining whether these requirements are met is a major question for the future. Despite these challenges, the ECB is performing quite well given the exceptionally uncertain and volatile environment.

1.3 ECB policymaking amid global spillovers and energy price volatility

The Chair asked how decisions and communication by other central banks, including the Federal Reserve, as well as foreign exchange developments, could affect ECB policymaking through international spillovers.

A Central Bank official stated that the current

environment is characterised by significant volatility, with global and geopolitical developments changing the scenarios under consideration and the questions policymakers receive. Questions frequently arise as to whether oil prices above $100 or close to $110 per barrel mean that an adverse scenario has materialised. Despite these developments, the ECB's objective remains clear: to achieve 2% inflation over the medium term. Policy decisions, and particularly those concerning the deposit facility rate, continue to focus on the medium-term inflation path and inflation expectations. In such an environment, it is essential to communicate policy intentions clearly, as the ECB has done.

A Central Bank official observed that recent developments in the United States demonstrate the importance of aligning communication with action. The recent Fed rate increase has delivered on its earlier signals of monetary tightening, illustrating that communication must be followed by action. But rather than signalling a particular future path of the policy rates, policymakers turn to the communication of the central bank's reaction function providing information about factors that determine future policy decisions. Although nowadays inflation is largely driven by energy, it is not exclusively an energy phenomenon. Technological developments such as AI are raising productivity and may ease wage pressures. Consequently, policymakers consider a broad range of factors when making future decisions. He also noted that other components of inflation were helping to bring it down, even though energy remained an important driver.

1.4 AI and monetary policy: short-term inflation pressures and uncertain productivity gains

The Chair invited brief assessments of whether AI would alleviate inflation through productivity gains or intensify near-term price pressures.

A Central Bank official stated that the impact of AI remains uncertain. In the short term, AI is already increasing demand through data centres and electricity consumption, among other channels, and may have a slightly inflationary effect. Its long-term impact remains unknown.

A Central Bank official noted that AI will help to analyse vast amounts of data, potentially leading to better monetary policy decisions.

The Chair observed that AI could help policymakers to optimise their decisions.

A Central Bank official agreed that AI is probably adding to current demand and is therefore likely inflationary. However, higher productivity growth remains possible, depending on a number of conditions being fulfilled.

2. Monetary policy assessment and communication amid uncertainty

The Chair commented that the uncertainties discussed raise two practical questions for monetary policymakers: how to assess the propagation of shocks and how to communicate a response while preserving flexibility. These questions arise both from volatile energy prices and from uncertainty about the economic effects of technological change.

2.1 Assessing second-round effects through scenarios and euro area heterogeneity

The Chair highlighted that, during the summer, a Central Bank official had been outspoken in arguing that a rate increase in September was justified. At the same time, market expectations remain highly sensitive to volatile movements in energy prices. He asked how second-round effects could be identified and when movements in energy prices should prompt a monetary policy response.

A Central Bank official stated that policymakers have spent several years dealing with a series of shocks of varying scale and persistence. The key challenge lies in determining whether a given shock is small enough to be looked through or large and persistent enough to spread through firms' costs, pricing behaviour, wage developments and inflation expectations. A series of unrelated shocks may also propagate through these channels. In such circumstances, excessive reliance on a single central forecast could be problematic. Conversely, uncertainty itself may become an argument for taking a decision, but more often for not taking one. While baseline forecasts remain valuable, they cannot bear the full burden of policymaking.

A Central Bank official outlined a two-part analytical approach. The first element involves sensitivity and scenario analysis. Scenario analysis tests whether a decision holds across shocks of differing severity, persistence and inflationary impact. The second element of the approach stems from the heterogeneity of the euro area, which in this respect is a strength. The differences between euro area economies constitute a valuable source of information; common shocks affect countries differently, depending on factors such as energy intensity, wage-setting institutions, market structures, and how frequently firms adjust prices. Consequently, some economies provide earlier indications of what may happen elsewhere. Lithuania is a useful example; as a small, highly open economy, shocks pass through it rapidly, making it possible to observe how firms respond, whether profit margins absorb the shock and how wages react. Lithuania functions as a testing ground, offering valuable insights into the potential consequences of abrupt changes in prices. The Chair summarised this as a combination of scenario testing and learning from smaller economies; the central bank official clarified that the broader point was the information provided by heterogeneity across the euro area.

2.2 Framework guidance and policy flexibility amid uncertainty

The Chair referred to the concept of framework guidance highlighted in Christine Lagarde's Sintra speech and requested clarification on its key components.

A Central Bank official stated that increased uncertainty makes communication even more important. Central

banks use different communication approaches, and the debate is ongoing about how much information should be provided. The Fed has a working group on communication in place to discuss these issues. Such discussions are not new, although different elements of communication are sometimes misunderstood. Every central bank is interested in clearly explaining its objective and how it intends to achieve it. For the ECB, this objective is to achieve an inflation rate of 2% over the medium term. The reaction function therefore needs to be clear. Framework guidance combines the policy objective with an explanation of how policymakers intend to achieve it and what actions are needed. Once markets understand this framework, their behaviour can support central bank policy.

A Central Bank official noted that there was a debate on whether to go further towards forward guidance. The ECB's strategy review indicates that forward guidance should remain in the toolbox for situations at the zero lower bound but should not be used in periods of substantial uncertainty, particularly when supply shocks create a pronounced trade-off between monetary policy intervention and economic activity. Policymakers therefore need to retain full flexibility, and the current meeting-by-meeting approach is both justified and appropriate. In more predictable environments, forward-looking indications may play a greater role. Current market behaviour demonstrates that ECB decisions and reasoning have been fully understood.

The Chair highlighted that distinguishing between framework guidance and forward guidance is important and refreshing, as the distinction has become blurred in communications around the world. The IMF has been clear about the distinction and considers that this is not necessarily the time to dictate what will happen from one meeting to the next. The recent period has been particularly eventful for central banks globally.

3. Financial imbalances, fiscal-monetary interactions and balance sheet policy

Beyond the immediate policy response, the discussion turned to differing assessments of past monetary accommodation, the interaction with public debt and the challenges of balance-sheet normalisation.

3.1 Financial dysfunction: monetary origins and policy remedies

3.1.1 Central bank policy errors and their financial consequences

Jacques de Larosière argued that the dysfunctions of Europe's financial system stemmed from significant misinterpretations by central banks. In 2008, Henry Kaufman noted that central banks were doing nothing to curb credit growth. The aggregate monetary base of OECD countries increased from $2.5 trillion in 2000 to $25 trillion in March 2022, equating to a 900% rise. However, this expansion was not accompanied by tighter monetary policy, even though fiscal and monetary policy are linked; when fiscal policy gets out of hand, monetary policy must tighten. Instead, 'fiscal dominance' went unchecked and central bank balance sheets reached unprecedented levels.

Jacques de Larosière commented that, because of inflation targeting, central banks had, for the first time in monetary history, remained indifferent to 15 years of exponential credit growth. In the 2010s, both the neutral rate and inflation stood at around 1%. The gap with the artificial 2% target was interpreted as a shortfall in demand, signalling a risk of deflation and depression, so inflation had to be increased at all costs. Quantitative easing was therefore used to raise inflation to 2%, creating vast amounts of liquidity and credit, which allowed the financial cycle to deteriorate. Expectations were anchored at 2% and interest rates were at or below zero; non-banks therefore proliferated, with speculation taking precedence over productive investment.

Jacques de Larosière noted that the risk of deflation had never materialised. Instead, these policies drove the extreme financialisation of the economy, which was characterised by speculation, the demise of long-term savings, asset bubbles and the collapse of productive investment, resulting in less growth and greater inequality. Compounding this error, Europe sought to reduce the real cost of servicing the debt of over-indebted countries to zero. This merely increased the debt burden of the most fragile countries without resolving their underlying structural problems.

3.1.2 Restoring fiscal balance and prioritising productive investment

Jacques de Larosière proposed the following policy priorities: abandon the belief that perpetuating financial disruption is beneficial; stop gearing all policies towards short-term inflation targeting; begin reducing public finance imbalances, which in some countries have reached unmanageable levels; allow a decade or so to restore the competitiveness of over-indebted nations; stop favouring speculative investment over productive investment, as near-zero rates have entrenched short-termism; let markets set interest rates instead of authorities, as market rates reflect concerns about high public debt, rising oil prices and the war in the Middle East; dispel the illusion that an unconditional injection of money, even when created by the central bank, can solve fundamental problems requiring national structural measures.

3.2 Balance sheet uncertainty, monetarist insights and the primacy of policy actions

The Chair noted that IMF financing always comes with conditions. The ECB's balance sheet remains sizeable despite its reduction. The question is whether returning it to pre-global financial crisis levels would be desirable at this stage and whether such an adjustment would be feasible given current public debt levels and market tensions.

A public representative remarked that future balance sheet developments remain highly uncertain and will depend on how conditions evolve. While focusing solely on money growth would be inappropriate in the modern

world, elements of traditional monetarist analysis deserve renewed consideration. He argued that central bankers overestimate the impact of their communication. Drawing on his conversations with market participants, he observed that they spend only a few minutes discussing central bank statements, but hours analysing what central banks actually do.

3.3 Fiscal sustainability, policy coordination and central bank responsibilities

The Chair asked whether high deficits and debt complicate monetary policy through fiscal dominance, balance-sheet management or the yield curve and monetary transmission.

A Central Bank official stated that the environment within which central banks operate is formed by fiscal decisions, financing needs and broader economic conditions. Ideally, prudent fiscal and monetary policies would work together, offsetting each other's weaknesses and creating synergies. Nevertheless, the role of central banks remains the same, regardless of whether public debt is high or low, rising or falling. The ECB's task is to deliver price stability and achieve the inflation target over the medium term. Central banks have the analytical capacity to objectively and independently evaluate the impact of fiscal decisions. These assessments are important for both implementing monetary policy and informing policymakers. By communicating the potential economic impact of fiscal choices, including their effects on variables relevant to monetary policy, central banks can help make monetary policymakers' task easier.

The Chair emphasised that coordination between policymakers is desirable because the effectiveness of monetary policy depends partly on the actions of other authorities. He suggested that seeking to educate or discipline fiscal policymakers might go too far and asked what central banks could do within their mandates to improve the policy mix.

A Central Bank official agreed that each institution has its own job to do. Although central banks and finance ministries perform different functions, dialogue and coordination where possible remain valuable. Central bankers are justified in commenting on the broad fiscal framework, and particularly its long-term sustainability, because it is relevant to monetary policy, even though fiscal decisions are not theirs to take. However, they should avoid prescribing specific taxes or subsidies or commenting too actively on short-term political decisions. Many central banks already adopt this approach. He described central banks as "long-term agents": independence supports their role in addressing long-term debt sustainability and productivity, without intervening in specific short-term government choices.

3.4 Balance sheet normalisation, liquidity provision and policy effectiveness

The Chair noted that the ECB's balance sheet will face two opposing forces in the coming years. Run-offs under the asset purchase programme (APP) and pandemic emergency purchase programme (PEPP) will continue to gradually shrink the balance sheet and excess reserves. Conversely, planned structural liquidity provision through a new asset portfolio or new structural lending facilities will expand it. The Chair asked whether this transition could affect the intended policy stance or monetary transmission and what preparations might be required from the ECB and the financial system.

A Central Bank official stated that maintaining financial stability throughout the transition remains essential, including in relations with finance ministries, other institutions and regulators. Reserves are now at half their 2022 level, representing a significant adjustment and an operational challenge. New instruments are being developed and introduced to banks to provide liquidity through different tools as the balance sheet contracts. The deposit facility rate remains the key instrument. Banks can determine the amount of liquidity they wish to hold while meeting regulatory requirements, such as the liquidity coverage ratio (LCR), but the deposit facility rate ultimately determines how much they place with the central bank. Access to central bank liquidity remains straightforward through main refinancing operations whose rate is only 15 basis points above the deposit facility rate. Current conditions remain smooth and orderly, and there are no immediate concerns about the transition. Nevertheless, the central bank is fully prepared to intervene and supply more liquidity to banks if needed.

A Central Bank official remarked that central bankers do not overestimate the importance of their communication, but the issue deserves further discussion. Balance sheet normalisation is underway, but the balance sheet will probably remain larger than before the financial crisis. This conclusion does not stem from monetary policy stance considerations, but rather from changes in the way that money markets function. The hope is that demand for liquidity through main refinancing operations (MROs) and longer-term refinancing operations (LTROs) will increase. MROs had previously been the principal refinancing instrument.

A Central Bank official concluded by noting that the balance sheet remains part of the policy toolkit, and experience has helped to identify the conditions in which it is most effective. During Covid, the PEPP and balance sheet measures that addressed financial stability shocks proved very effective. However, it is uncertain whether the earlier use of the balance sheet to raise inflation was particularly effective as a monetary policy stance instrument. Nevertheless, balance sheet tools remain part of the ECB's toolkit and will be deployed when necessary.

Financing innovation and scale-ups in Europe

Europe has strong research capabilities, skills and an industrial base, as well as abundant savings, but continues to face difficulties in translating these strengths into technological leadership and successful scale-ups. The discussion focused on how more European capital can be channelled towards innovation, which conditions and instruments are needed to support companies through the scale-up phase, and how stronger exit channels can help recycle capital and talent within the European ecosystem.

1. Mobilising Europe's capital for innovation and scale-ups

1.1 Bridging Europe's innovation and scale-up gap: what is at stake?

The Chair introduced the panel and emphasised that Europe's future depends on innovation, especially given the AI investment boom in the US and China. While Europe has strong innovation capabilities, it lags behind in terms of technological leadership. Scaling up is a recurring issue. Europe has some €15 trillion in deposits while at the same time not generating sufficiently needed risk capital.

Creating a supply of finance is not enough; also demand must be generated. The experiences of the US and China demonstrate that, rather than specific policies, a broader ecosystem that supports innovation is needed in order to generate stable demand and to allow companies to overcome the 'valley of death' between laboratory research and commercial application. The ecosystem must also channel funding into commercial use; in Europe, this requires effective interaction between national and European levels and instruments capable of achieving sufficient scale.

1.2 Mobilising more capital for European scale-ups

A policy-maker stated that while Europe contributes substantially to research and innovation, many innovative companies choose to relocate outside Europe when they reach the scale-up stage. This can take knowledge, expertise and growth potential out of Europe. Addressing this problem is one of the objectives of the EU's Savings and Investments Union strategy, with a number of measures already adopted or in the pipeline.

First, the strategy recognises that institutional investors can play a more important role. They have significant resources that can support the scale-up needs of innovative companies. Financing by institutional investors does not need to come at the expense of solvency or financial stability, and recent regulatory measures to facilitate investment in growth are fully in line with prudent management. The implementation of the revised Solvency II framework in January 2027, for example, will make it easier for insurers to invest long-term in venture and growth capital through a reduction in the associated prudential risk weights. This preferential capital treatment will also apply to European Long-term investment funds and European Venture Capital Funds.

The same framework provides for more favourable prudential treatment to encourage institutional investment alongside public programmes, including programmes involving the European Investment Bank (EIB) and national promotional banks. Work is also progressing on the Pan-European Personal Pension Product (PEPP). The clarification of the prudent person principle should help pension funds invest responsibly, that is accepting risks they can manage instead of staying clear of risks altogether, thereby facilitating investment.

Europe already has mechanisms that could help venture and growth capital funds reach greater scale, such as the Euveca framework, but they are not being used sufficiently. The European Commission intends to examine this issue further in 2027.

Finally, exit opportunities also need to be addressed. Once capital has been invested in a company, an initial public offering (IPO) is not always the appropriate exit route. Private exit solutions may sometimes be needed. The Commission is examining this issue with the objective of mobilising more capital for scale-ups and helping them remain in the European Union.

1.3 Putting European savings to work for Europe

A public representative noted that Europe does not have a money problem, but an issue on where the money flows. We have €35 trillion of European savings but they are financing mostly US companies, US jobs and US growth.

1.3.1 Mobilising private capital at European scale

A public representative highlighted that public money can open doors, reduce risk and highlight EU projects but it is not a gamechanger. Initiatives such as the European Investment Bank's (EIB) European Tech Champions Initiative (ETCI) and the European Investment Fund (EIF)'s scale-up work are needed, but true scale must come from the private sector, as emphasised by the Draghi report in 2024.

1.3.2 Unlocking pensions through stronger systems and financial education

A public representative commented that European savings cannot be unlocked without addressing pensions, which represent Europe's biggest pool of long-term capital. While the EU is not in the driving

seat when it comes to designing national pension systems, it can remove barriers, create choice and set standards. Most importantly, it can encourage Member States to improve their systems and take action. This is precisely the purpose of the new pension package. The question is not only how to unlock this capital, but also how to put it to work for Europe. Pensions must first benefit citizens, while helping finance European companies so that they can grow and innovate. This pool amounts to trillions of euros, and Member States and Europe have complementary responsibilities in this area.

Public pensions in Europe are projected to cover only around 38% of a worker's income. Member States therefore need to build stronger pension systems, and their first priority should be financial education. People cannot be expected to mobilise their savings towards the real economy if they have never been taught how to save, invest or budget. Lifelong financial education is an essential issue and a common responsibility starting with the Member States.

1.4 Channelling Europe's capital towards productive investment

1.4.1 Redirecting European savings towards productive investment

An industry representative emphasised that risk appetite is an important but often overlooked element of the risk-return equation. This relates not only to private individuals, but also to broader behaviours, investor sophistication and financial education. Europe is not short of capital, but too much of this capital is tied up in low-risk, low-return investments.

The 2024 Letta report referred to €33 trillion of EU private savings, much of which is held in cash and short-term deposits. This is notably different from the US, where a much higher share is invested in capital markets. EU insurers also allocate only 10% to 15% of their investments to private credit, compared with roughly one-third for US insurers. Europe therefore faces an allocation challenge and lacks an effective transmission channel for directing available capital towards productive investment.

Corporates also have a preference for bank financing, reflecting the less developed capital markets culture in Europe. This has historically been driven by very low-cost and flexible financing. It also reflects a more risk-averse culture. While private credit is assuming a growing role in bridging financing gaps. However, the market continues to evolve and is yet to achieve the scale and depth required to meet its full potential. European private credit assets under management are expected to approach 800 to 900 billion euros by 2028, while Europe accounted for about half of private credit fundraising last year, illustrating its attractiveness as an investment destination.

Global private credit assets under management are expected to approach $3 trillion by 2028. However, private credit is debt, not loss-absorbing equity. The discussion needs to consider the full range of available financing tools, identify which instruments are appropriate for different needs and challenges, and determine which well-informed investors are best placed to make those investment decisions.

1.4.2 Turning abundant liquidity into productive capital

An industry representative noted that the same issue is visible on corporate balance sheets. EMEA non-financial corporates held just under $1.4 trillion in cash at the end of 2025, 40% above pre-pandemic levels. This points to risk aversion as well as significant liquidity in the system, but liquidity does not equate to productive capital. Private credit markets and corporate balance sheets hold substantial and growing pools of capital. The key question is the extent to which these resources will be channelled towards productive investment, R&D and scale-up financing rather than refinancing existing debt at increasingly high coupons, paying dividends or financing share buybacks. The figure relates specifically to EMEA non-financial corporates rated by credit rating agencies; the key question is whether liquidity funds growth rather than maintenance capex.

Private credit is evolving beyond its traditional lending role. There is increasing investor participation in structured corporate joint ventures that can support very large upfront capital needs. Over time, cash flows that could otherwise be redirected towards investment may instead go towards pre-agreed returns for minority investors. For companies with funding needs, the challenge is to strike the right balance between the long- and short-term nature of investment, the sophistication of investors and the longevity of the overall system. For the system to work more effectively, the roles of different stakeholders and the available decision-making toolkit need to be better understood.

Mobilising more capital is therefore only part of the challenge. Europe also needs the market conditions, institutions and investor capacity required to deploy that capital effectively.

2. Building the conditions for effective scale-up financing

2.1 Creating the conditions to finance European scale-ups

2.1.1 Removing market fragmentation to support scale-up financing

A policy-maker highlighted the need for greater capacity to respond to the existing demand for capital, alongside a broader cultural shift towards greater risk appetite. Currently, Europe accounts for only 5% of global venture capital fundraising, compared with 52% for the US and 40% for China.

She also stressed the need for a fully functioning Single Market. The single market remains highly fragmented, making it difficult to support innovation and scale-ups. Barriers to the single market need to be removed. The roadmap in the European Commission's 2025 Single

Market Strategy should be implemented, while the issue of gold-plating also needs to be addressed. Anti-money laundering legislation is applied very differently across Member States; the Anti-Money Laundering Authority (AMLA) should help to improve consistency. The fragmentation is reflected in 35 listing venues, 41 trading exchanges and 18 central clearing houses. Similar inconsistencies can be found in many other areas.

2.1.2 Using public finance to bridge the 'valley of death' and crowd in private capital

A policy-maker noted that, when firms have demonstrated their viability but cannot yet access the credit needed to scale up, they often turn to the US to find capital that partly originates from European savings invested in American exchange-traded funds (ETFs). Europe needs to bring that capital back and attract private investment capacity to support its scale-ups. This is particularly important in areas that are strategic for Europe's economic autonomy and resilience, including security, deep tech, quantum computing, artificial intelligence, defence and biotechnologies.

Public finance capacities should intervene where there is market failure, using public instruments and partnerships with the EIB Group, the EIF and national promotional banks. The objective should be to de-risk projects that are not considered bankable, thereby attracting private investors.

InvestEU has so far achieved a multiplier effect of 15, with €1 of guarantee mobilising €15 of investment. Some guarantees provided by the European Investment Fund have achieved a multiplier effect of 19. In the context of the next Multiannual Financial Framework, the European Commission has presented its proposal for the European Competitiveness Fund. The capacity of InvestEU will be integrated into a new model, providing greater flexibility and allowing instruments to be tailored to the needs of markets. The framework will allow interventions through guarantees and blended finance. Grants may also be used, although they are not always the instrument best suited to meeting capital needs. The available toolkit could therefore include guarantees, blended finance, equity, quasi-equity and debt financing.

2.2 Giving national promotional institutions a cross-border perspective

An official commented that Europe has been experiencing cycles of public money flowing in and out for decades. It remains questionable whether promotional institutions or banks should play a large role in capital markets. Pension funds would be much better suited to that role, but if promotional institutions are to play it, they should do so properly.

One problem with these institutions is that they are established nationally and have national objectives. They are not always well suited to selecting winners through competitive pressure. It is important for national institutions to adopt a cross-border perspective. In this respect, initiatives such as the ETCI are preferable to relying solely on national institutions. National promotional institutions should remain limited in size, following a 'do no significant harm' principle. Estonia has had companies that made it through the "valley of death" and found financing, but their subsequent growth was not driven by national promotional institutions. Political incentives can also encourage national resources to remain within national borders, reinforcing the case for a cross-border perspective.

2.3 Building Europe's investor capacity and investment ecosystem

An industry representative highlighted the issue of Europe's starting position and the inertia that needs to be overcome. It is difficult to build an ecosystem that does not yet exist and when there is a lack of clarity about the destination. The market is competitive, and entrepreneurs are often unaware of the financing available to them. Many products are designed according to the US model. Europe therefore needs products adapted to its own circumstances.

Growth capital requires sufficient investor capacity to deploy money into investments. This is difficult to develop when the market and the necessary experience do not already exist. Pension funds are reluctant to invest in funds without a track record; the structures need to first be built so that other investors will subsequently be willing to invest in them. Experience from setting up a UK fund 15 years ago also illustrated the distinction between financial capacity and investor capacity. Pension funds are not good at investing directly in start-ups.

From the perspective of an equity investor in growth capital, harmonising insolvency rules is of limited relevance; by the time a company is insolvent, equity investors have already lost their investment. Equity investors focus primarily on upside potential rather than downside risk. Europe needs to understand and adopt this investor mindset. Insolvency rules matter more to debt investors.

The focus should be on what is both achievable and effective. From a regulatory perspective, relatively few measures fall into both categories. Addressing withholding tax would be helpful if achievable, as would resolving some of the administrative difficulties related to anti-money laundering requirements. Market infrastructure is less important for smaller equity investments, since many ultimately result in trade sales. Home bias matters to some extent, although sector specialists will also emerge. Potential measures should therefore be assessed through a matrix of what is achievable and what would be effective. Institutional participation is additionally constrained by the absence of established structures and track records.

Ultimately, creating the necessary ecosystem requires a consistent drive across many countries working towards the same objective. Europe needs to set out a clear vision and adhere to it consistently for the next 15 years. Building an effective financing ecosystem also requires credible exit channels, allowing capital and

expertise to be recycled into the next generation of European companies.

3. Strengthening exit channels to recycle capital and talent

3.1 Building a stronger European tech IPO market

An industry representative observed a paradox in European innovation. While Europe has excellent engineers, research and start-ups, it is weak on financing and scaling companies, particularly at the IPO stage.

3.1.1 Making IPOs a strategic tool for growth, capital recycling and independence

An industry representative outlined three reasons why a dynamic IPO market is strategic. First, it can protect young companies from being acquired too early. He argued that companies acquired at such an early stage are unable to continue growing independently and therefore need the IPO market as an alternative route. In France, the median valuation of M&A transactions involving tech companies over the past four years has been €50 million.

Secondly, IPOs play an important role in recycling capital. When VC-backed companies go public, VCs can recover their investment and return capital to their limited partners, who can then reinvest in VC funds. This creates a virtuous circle. In the US, €250 billion has been returned to VCs over the last five years, compared with only €40 billion in Europe. Greater capital recycling would allow limited partners to reinvest more in European VC funds.

Thirdly, IPOs can help European companies remain independent from the US. 20% of European unicorns already have a presence in the US. Europe needs to attract the remaining 80% to its own markets. Their US presence may be through the CEO, headquarters or facilities, and the industry representative argued that these companies are likely to list in the US sooner or later.

Europe already has potential IPO candidates, with around 200 unicorns valued at more than €1 billion. These companies need to be attracted to European public markets. Europe creates as many companies as the US but deploys four times less capital. Europe should concentrate more capital in fewer companies, creating stronger businesses and increasing the number that can become IPO-eligible.

3.1.2 Developing the investment ecosystem needed to support tech IPOs

An industry representative suggested that three types of funds could help strengthen the IPO market. Firstly, Europe needs more large private tech funds with more than €1 billion under management, such as the Scaleup Europe Fund, which has recently invested in Mistral and Loft Orbital. Secondly, Europe needs more pre-IPO crossover funds that invest in both listed and unlisted companies and therefore have the expertise to help companies transition to public markets. Thirdly, Europe needs more specialised tech equity funds. These can act as cornerstone investors in IPOs, appearing in the prospectus and providing confidence to other market participants. Pre-IPO crossover funds remain rare in Europe, and there are currently too few specialised tech equity funds.

Europe has the companies but does not have enough capital invested in its IPO market. A powerful tech IPO market is important for financing growth, innovation and European sovereignty. The US Nasdaq illustrates the role that a deep technology stock market can play in supporting the tech sector, while China has developed the STAR Market in Shanghai as a powerful technology-focused market. The industry representative argued that such a dynamic tech stock market would strengthen China's competitive position relative to Europe and that Europe needs to develop comparable capabilities. Five robotics companies had listed on the STAR Market since the beginning of the year.

3.2 Developing multiple exit channels to recycle capital and talent

An industry representative emphasised that an exit is not the end of the journey but the beginning of a new one. This applies not only to capital but also to talent. A chief financial officer (CFO) who has already taken a company through an IPO process is extremely valuable, as this experience can subsequently be deployed again in other companies.

3.2.1 Increasing liquidity in European public markets

An industry representative stated that liquidity is crucial when it comes to public markets. IQM and Bending Spoons are recent examples of European companies that have turned towards the US. Relative to GDP, market liquidity in the US is four times that of Europe. This is partly driven by the nature of the US market, including its stronger equity culture and broader ecosystem of research analysts, but it is also the result of European choices. Europe's strong emphasis on competition in market infrastructure has contributed to fragmentation. The share of trading taking place on lit venues in Europe fell from 38% in 2020 to 30% in 2025, meaning that less than a third of total liquidity contributes to price formation. This is a challenge that needs to be addressed.

3.2.2 Developing secondary markets and corporate exits

An industry representative noted that another important channel is the secondary private market. European companies often IPO too early or relocate to the US before going public. Europe needs a pan-European, cross-border single market for secondary sales, allowing founders and early talent to realise some of their investment earlier while continuing to develop their companies. Such secondary sales can allow companies to continue developing before eventually seeking an IPO.

The third channel is corporate exits. In the US, a significant proportion of start-ups are ultimately acquired by large, established and often listed corporates. In Europe, such acquisitions are often viewed more cautiously from a competition perspective,

and only a small share of European SMEs and scale-ups ultimately end up in the hands of listed companies. These acquisitions can provide a way of injecting innovation into established companies.

In order to function effectively and to create a dynamic exit and capital-recycling ecosystem, Europe therefore needs all three exit channels: liquid public markets, a pan-European secondary private market and corporate acquisitions.

The Chair concluded by noting the focus on various financial aspects, including pensions and insurance, as well as the need to build up VC. The role of risk culture in generating innovation has been discussed in relation to both the public sector and companies. A variety of instruments are available at European and national levels, with particular emphasis on the role of the private sector.

Closing Europe's scale-up financing gap requires more than increasing the supply of capital. European savings need to be channelled more effectively towards productive and risk-bearing investment, supported by greater investor capacity, appropriate public and private instruments and a more integrated European market. Developing effective exit channels is also essential to recycle capital and talent and to create a more self-sustaining European innovation ecosystem.

Defence financing in Europe

Europe's renewed commitment to strengthening its defence capabilities raises major questions about how to finance investment efficiently while overcoming the fragmentation of national defence markets. Higher public spending alone will not address these challenges.

The discussion explored three priorities: strengthening European procurement and industrial cooperation, modernising procurement practices and improving risk allocation, and mobilising private capital alongside public financing. Across these themes, participants emphasised predictable demand, industrial scale and effective public-private cooperation. They also distinguished the risks governments should retain from commercial and technological risks for private investors, and the financing needs of major contractors from those of innovative firms and smaller suppliers.

1. Overcoming fragmentation through European defence cooperation

1.1 Defence financing

The Chair stressed the urgency of strengthening defence while avoiding the waste of scarce resources. Despite rising public defence budgets and private investment, fragmented structures remain poorly adapted to technological change. Finance ministries, other public authorities and the private sector all have a role in addressing these inefficiencies. He also noted the value, and complexity, of cooperation with the UK, Canada, Norway and other like-minded partners.

1.2 A joint European defence procurement institution

An official identified three challenges requiring a new approach: fiscal constraints, persistent and emerging geopolitical threats, and the loss of traditional allies. Bruegel's proposed European Defence Mechanism (EDM) might be the only model that addresses all three. European countries and like-minded partners, including the UK and Canada, would establish an international financial institution with its own equity, for joint procurement of military equipment. The institution would retain ownership of the equipment on its balance sheet, keeping it off national public balance sheets unless participating countries chose to acquire it. This mechanism could also foster closer integration of defence forces.

1.3 Joint European procurement

An official commented that the 2030 Readiness Roadmap, adopted in October 2025 and due for review in October 2026 and annually thereafter, calls for coordinated joint European procurement. It pursues two objectives: maximising the economic multiplier of substantial public defence spending and strengthening strategic autonomy by reducing dependence on external actors for equipment design and production. Joint procurement is also embedded in the Security Action for Europe (SAFE) legislation.

The roadmap sets out a sequence: identify shared capability gaps, organise joint procurement and support it through common European financing, based on European preference criteria. France strongly supports this approach.

The Chair suggested that traditional weapons systems may be better suited to lengthy coordination processes, but established manufacturers' entrenched positions make cooperation politically difficult. New technologies offer another starting point, yet procurement coordination lasting up to two years risks undermining the needed agility. He asked how cooperation could be made sufficiently agile to address this dilemma.

1.4 Prioritising future defence systems for European cooperation

An official stated that despite progress on European financing facilities in 2025, the response remains insufficient relative to the challenges. Europe must act now on strategic enablers and advanced technologies with long development lead times. While existing tank and current-generation fighter programmes offer little scope for rationalisation, future systems, such as sixth-generation fighters, satellites and a European missile defence dome, are prime candidates for joint European projects.

Referring to Mark Carney's address to the European Parliament that day, he highlighted opportunities to strengthen cooperation with Canada, the UK and Norway. Defence cooperation could also help advance discussions on European public goods, their financing and safe assets.

Although a European armed force remains a distant prospect, progress should begin immediately. Cooperation on established technologies remains possible through joint programmes, joint ventures and potentially mergers, but emerging technological fields offer the greatest potential for genuinely European projects.

1.5 Aligning European funding with industry cooperation

The Chair questioned whether sufficiently agile and effective quality controls could be established for EU-financed projects. European funding is unlikely to secure lasting political support if it merely perpetuates fragmented national structures. He nevertheless saw potential for European financing where it helped overcome fragmentation.

An official noted that major defence contractors face few financing constraints, particularly since defence has become a prominent investment theme. They can raise equity when needed; their principal requirement is credible, predictable commitments from defence ministries, especially for long-term programmes.

Further down the supply chain, surveys suggest that equity is harder to obtain than credit. Public authorities can help develop venture capital markets and support start-ups, particularly where such markets remain underdeveloped, while providing R&D grants to foster defence innovation.

European financing should primarily promote industrial cooperation and larger production volumes to generate economies of scale to narrow the cost gap with US defence equipment. There are limits to SAFE; countries like Germany do not benefit from its financing-cost advantages as they can already borrow on financial markets at lower rates than the EU itself. Sovereign borrowing spreads continue to vary across the EU, and industrial cooperation remains difficult to organise.

While existing cooperation agreements and joint ventures provide a starting point, he called for mechanisms that would encourage new cross-border industrial cooperation. The allocation of industrial responsibilities between countries remains especially contentious and must be addressed openly, as disputes over which partners undertake which tasks have already caused several high-profile projects to fail.

1.6 Specialisation, shared ownership and a larger defence market

The Chair acknowledged that the Bruegel benchmark, under which joint procurement and supplier selection based on quality and price could reduce the influence of geographical considerations, would be difficult to implement for established systems such as tanks, aircraft and warships.

An official argued that the Bruegel benchmark could address public demand for defence equipment, while private financing remains a separate issue. Established defence manufacturers generally have sufficient capital; they need predictable, long-term procurement contracts rather than additional loans. He emphasised that this assessment reflected Austria's experience.

There are reputational and proliferation risks associated with export guarantees. In the 1980s, Austrian-made long-range guns backed by state guarantees were used in the Iran-Iraq war. He questioned whether the European Investment Bank (EIB) sufficiently recognises such risks, independently of ESG considerations.

On the allocation of responsibilities between European and national levels, there should be specialisation rather than duplication of capabilities across countries. Luxembourg, for example, specialises in satellite intelligence within NATO, while Austria has no need for aircraft carriers but can contribute through other specialised capabilities.

The Chair suggested that specialisation raises questions of asset ownership: infrastructure comparable to Starlink would be better owned jointly than by individual countries. Secondly, fragmented national markets can push manufacturers with limited domestic demand toward exporting to potentially problematic destinations so they can achieve competitive prices. A larger integrated defence market encompassing the EU, the UK, Canada, and potentially others, could reduce that pressure.

Deeper European cooperation could help overcome market fragmentation and achieve greater industrial scale, but its benefits depend on how defence equipment is procured and financed. Participants therefore examined the need for more agile procurement procedures, clearer long-term demand signals and a more effective allocation of risks between public authorities and private companies.

2. Modernising procurement and improving risk allocation

2.1 Adapting to defence companies' needs

A regulator commented that banks have historically played a limited role in defence financing. Financing needs vary considerably by expenditure, equipment and company: developing aircraft, engines or missiles differs from purchasing drones or simpler equipment in large quantities. Traditional centralised procurement processes are lengthy and demanding, particularly when funding is constrained and substantial R&D is required. However, procurement has become more flexible. Higher thresholds for direct spending and R&D by some member states allow more direct payments without full procurement procedures, although direct subsidies remain constrained by EU rules. He noted that these constraints are particularly relevant for non-dual-use systems requiring substantial R&D.

Established defence manufacturers rely heavily on public procurement and have limited need for bank lending. Start-ups and dual-use firms require loans, venture capital and equity. Smaller second- and third-tier suppliers also need seed funding and early public-sector participation, potentially involving the EIB, to help mobilise private financing throughout the supply chain. Procurement should also cover production capacity, as illustrated by vaccine production and the need to expand munitions output.

2.2 Modernising defence procurement to accelerate innovation

An industry representative distinguished two categories of risk: long-term demand and financial risk, linked to the predictability of future European defence orders; and technological risk, which requires a different approach to procurement. The traditional model seeks to contain technological risk through extremely detailed specifications, sometimes extending to 5,000 pages, in programmes that can take around ten years. It also relies on major defence contractors to generate activity throughout the supply chain.

While large, complex weapons systems remain necessary, procurement methods inherited from the past 70 years are inadequate for today's challenges. Ukraine illustrates a faster approach, with new drones developed within six months to two years. Rather than exhaustive technical specifications, public authorities should define the desired outcome and allow smaller firms to compete in delivering it. The Chair also compared rigid defence procurement with agile, AI-assisted software development.

The Chair cited a German defence company's weapons

system successfully used in Ukraine. The German army reportedly expressed interest in it, but it sought modifications before adoption. Initially it requested 1,800 modifications. The number was subsequently reduced to 1,000 modifications. This illustrates the rigidity of existing procurement practices.

2.3 Reducing defence financing costs

2.3.1 The cost of poorly allocated risks

An industry representative argued that inefficient risk allocation between companies, sovereigns and public authorities raises financing costs. Rheinmetall's estimated cost of equity stands at 5.7%, against 5.3% for Lockheed Martin, despite German 10-year bonds benefiting from a roughly 1.5-percentage-point risk-free-rate advantage over US Treasuries. This difference is due to Rheinmetall's equity beta, a measure of equity-market sensitivity, which is approximately four times higher.

He cited Rheinmetall's acquisition of the Lürssen naval business in anticipation of a major German frigate order. However, the F-126 programme's estimated cost rose from €10 billion to €18 billion following redesigns and changes in specifications, and it was then cancelled. Rheinmetall subsequently lost €10 billion in market capitalisation, with its share price falling 20% intraday, which increased the pressure on its cost of equity. Companies should bear normal commercial risks, not unpredictable shifts in sovereign priorities or specifications.

2.3.2 Standardising procurement and securing demand

An industry representative advocated more standardised specifications and coordinated EU procurement to reduce fragmentation. He cited 17 types of battle tanks and 29 types of frigates in Europe, compared with one and four respectively in the US. This fragmentation is linked to substantial price differences: a howitzer costs approximately $1.6 million in the US versus €11 million in Germany and €6 million in France. Collaborative procurement currently accounts for only 18% of European defence equipment procurement and should increase.

For major projects above a certain threshold, he proposed a second-taker principle. Securing a second buyer, potentially at a discount, would reduce dependence on a single order and limit equity volatility and financing costs.

The Chair agreed that unclear public-sector decisions create risks that more credible and coordinated signalling could mitigate. However, these should be distinguished from legitimate commercial uncertainties, such as whether a new weapons system will attract buyers amid competition or technological change, for which part of the risk should be borne by the private sector.

More predictable procurement, standardised requirements and better risk allocation could reduce financing costs and improve the bankability of defence projects. However, meeting Europe's investment needs also requires mobilising a broader range of financial institutions and investors, particularly to support innovative companies and smaller suppliers that cannot rely on established public procurement relationships.

3. Financing the defence effort: public support and private investment

3.1 Bank financing: essential but no substitute for public funding

An industry representative observed that defence reflects several challenges on Eurofi's broader agenda. With public budgets under pressure, bank financing is essential, but regulatory simplification is needed to unlock it. In his view, inadequate prudential treatment of trade finance and specialised lending creates obstacles, while market fragmentation hampers financing for both defence and the economic transition. The Market Integration and Supervision Package (MISP) seeks to address the latter.

However, financial institutions cannot replace public expenditure. Public-private partnerships (PPPs), guarantees and a stronger role for the EIB are therefore needed to mobilise additional financing. Defence financing has not traditionally been part of the EIB's culture. Despite recent progress, further change is necessary.

The Chair noted that public authorities can support defence companies through financing or direct ownership. Government shareholdings may stabilise expectations but can also create difficulties.

3.2 Expanding the role of banks in defence financing

A regulator stated that defence accounts for just 0.3% of EU banks' total loans and advances, but banks expect their involvement to grow substantially. According to a twice-yearly survey, 34% anticipate playing a major role in defence financing, while 70% expect lending to the sector to increase sharply over the next 12 months. Banks are particularly interested in financing R&D and second-, third- and fourth-tier suppliers rather than major contractors, further underscoring the importance of public-private partnerships.

From the EBA's perspective, no defence-specific prudential restrictions prevent banks from lending to the sector. This does not negate the broader regulatory concerns raised by the banking representative. Large companies benefit from external credit ratings, while smaller firms can make use of differentiated prudential treatment for specialised lending and project finance, as well as small and medium-sized enterprise (SME) and infrastructure-supporting factors. These provisions could facilitate greater bank involvement.

3.3 Mobilising private capital

3.3.1 Equity financing and long-term predictability

The Chair proposed using a risk-allocation framework to clarify which risks should be borne by the public and private sectors. An industry representative stressed that BPCE, as a cooperative bank with a major role in financing French SMEs and the defence supply chain, helps strengthen its resilience. Profitable, bankable projects can obtain loans; the greater collective challenge is equity

financing. PPPs and leverage mechanisms can help mobilise capital, provided there is public-sector support.

There is a need for predictable long-term commitments. France's Loi de programmation militaire, which establishes multi-year defence spending plans, is under pressure from budgetary constraints, weakening the visibility required by private investors.

The Chair highlighted the value of equity investors combining technological expertise with an appetite for risk, particularly in assessing emerging technologies' defence potential. That is a task governments are not necessarily well-equipped for. Developing such investors outside the US would also strengthen Europe's geopolitical resilience.

3.3.2 Addressing equity financing gaps

An official noted that financing is now flowing into traditional defence production capacity, despite persistent bottlenecks. SME owners should open up their capital to outside investors rather than rely solely on debt. The removal of environmental, social, and governance-related (ESG) exclusions affecting defence investment is welcome.

For innovation, however, there is a persistent market failure in the availability of large late-stage investment tickets, so coordinated public-private action is necessary. At European level, she highlighted the European Investment Fund (EIF) and the European Tech Champions Initiative (ETCI), which was preparing its second round. At the national level, greater risk-taking is needed from patient, long-term investors. France's Tibi initiative, which helps identify funds investing in higher-risk technologies, is a useful example. These European and national approaches should be combined.

3.3.3 Insurers, sovereign risk and collective defence financing

An industry representative noted that governments remain the ultimate customers and payers for defence equipment. Insurers can provide long-term financing ahead of public payments, provided the final payer is sufficiently certain. AXA has long invested in defence and does not regard its responsible-investment policies as an obstacle.

Major European defence contractors are generally cash-rich, often with negative net debt, and have limited financing needs. The greater challenge lies in identifying and funding companies further down the supply chain. There need to be more effective channels for long-term capital.

He argued that defence is a public good that calls for collective financing. Inadequate defence capabilities can raise sovereign risk premiums by threatening states' security, and even their survival. Effective defence expenditure should therefore be viewed not simply as an additional fiscal burden but as a means of containing sovereign financing costs over time. He regretted the limited progress on joint European debt issuance, despite the collective nature of the challenge.

The Chair echoed the view that effective defence spending can reduce sovereign risk. Equity financing is important even for major defence companies, raising the question of whether the sector's risk profile calls for a predominantly equity-based model.

3.3.4 Industrial scale, dual-use capabilities and investment mechanisms

An industry representative agreed that debt remains necessary but argued that equity should play a central role in financing defence as a growth sector. Defence and energy are major investment opportunities whose equity returns should ultimately benefit future pensioners.

From a credit perspective, industrial scale and dual-use capabilities reduce risk. Rheinmetall's proposed but unrealised takeover of Volkswagen's Osnabrück plant was an opportunity to repurpose existing industrial capacity for defence. He cited the consolidation of the US defence industry in the 1990s, including the Northrop–Grumman and Lockheed–Martin Marietta mergers, as evidence that scale strengthens creditworthiness. Dual-use applications further reduce the risk of stranded assets: drones, for example, can serve civilian purposes in peacetime.

The EIF has a role in attracting private capital. Its recent support for Sienna Hephaestus, the first defence-oriented private credit fund, and a defence venture capital fund illustrates how publicly-backed investment mechanisms can crowd in private financing.

The Chair welcomed these EIF initiatives and argued that Europe's defence system suffers from both insufficient scale and limited competition. Reforms should deliver greater scale, stronger competition or, ideally, both, rather than perpetuate fragmentation without either benefit.

The discussion underscored that Europe's defence financing challenge is as much structural as it is financial. Greater investment will deliver its full benefits only if it is accompanied by less fragmented markets, more efficient procurement, more predictable demand and better risk allocation. The central challenge is to translate higher defence budgets into coordinated orders, investable projects and stronger European capabilities.

Joint European procurement, industrial specialisation and cooperation on future defence systems could help achieve greater scale, while more agile procurement practices and credible long-term commitments would strengthen incentives for private investment.

Although major defence contractors generally have access to financing, smaller suppliers and innovative companies continue to face difficulties, particularly in raising equity. Public guarantees, European investment instruments and cooperation with banks, insurers and long-term investors can help address these gaps. Progress will require stronger European coordination, effective national implementation and a clearer allocation of responsibilities between public authorities and private investors. Participants also highlighted the case for collective financing of defence as a public good, noting that effective defence capabilities could help contain sovereign risk over time.

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SIU: can the current strategy deliver deeper and more integrated markets?

1. SIU progress and remaining challenges

A policymaker highlighted the growing momentum behind the Savings and Investments Union (SIU), particularly the unprecedented political and operational commitment of all EU institutions to deliver the One Europe, One Market roadmap, including key SIU measures, within demanding deadlines. The pensions, securitisation and MISP proposals have all been delivered on schedule by the Commission, as well as the communication on the competitiveness of the EU banking sector. MISP is particularly important for the SIU because greater market integration is necessary for European capital markets to achieve the scale needed to finance Europe's economy.

The panellists broadly welcomed the SIU and MISP proposals and the political momentum behind them, while stressing that their ambition must be preserved, remaining gaps addressed and implementation made effective.

An official expressed strong support for MISP as a means of reducing fragmentation and facilitating cross-border activity in European capital markets. The package is part of broader progress towards SIU, alongside the Listing Act, the consolidated tape and further initiatives such as the proposed 28th regime. Sustained political determination is now essential to maintain momentum and deliver the remaining reforms.

Another official identified three conditions that must advance together for SIU to succeed: mobilising more long-term capital, reducing cross-border investment costs and making European investment opportunities more attractive, notably by enabling companies to obtain growth financing and expand across the Single Market.

An industry speaker emphasised the opportunity MISP presents to achieve deeper integration of European capital markets. However, care must be taken to ensure that political compromises involving transition periods or concessions to national interests do not dilute the ambition of the proposals, undermine their effectiveness or create difficulties for cross-border firms operating in the sector.

A second industry speaker stressed the need to move from discussion to implementation of SIU and MISP measures, with the financial industry playing an active part. The depositary passport proposed under MISP could remove barriers to providing depositary services across borders, supporting the integration of European asset management. National initiatives can also help mobilise household savings. In Ireland, the planned introduction of tax-advantaged investment accounts aims to encourage retail investment, particularly relevant in a country with a large ETF industry but limited participation by domestic households. The recently launched pension auto-enrolment scheme provides another example: in its first months of operation, it has attracted 835,000 participants and mobilised €500 million, with an opt-out rate of only 4%, illustrating the potential of such schemes to expand long-term investment.

A third industry speaker welcomed the shift towards competitiveness and regulatory simplification brought by the SIU, following years of efforts to strengthen the resilience of the European financial system after the 2008 financial crisis. Deeper capital markets are needed to diversify financing and meet Europe's strategic investment needs in defence, energy, technology and agribusiness, which banks cannot finance entirely through their balance sheets.

A fourth industry speaker highlighted existing European capital market strengths on which SIU can build, notably the UCITS investment fund framework and the Eurobond market, the world's third-largest fixed-income market, which is notably used by major international companies to finance investments. MISP could further strengthen European capital markets by removing cross-border barriers and fostering competition for the benefit of issuers and investors; facilitating the development of existing cross-border market infrastructure groups through more consistent supervision and a level playing field across Member States; and preparing capital markets for future developments in digital assets and tokenisation. For this last objective to succeed, a pan-European legal and regulatory framework is needed from the outset to avoid reproducing 27 different national digital asset regimes.

2. Conditions for more integrated and attractive EU capital markets

2.1 Financing scale ups

An official expressed concern about Europe's shortage of attractive investment opportunities. The share of Norway's sovereign wealth fund invested in European equities has fallen from 22% to 13% over ten years, illustrating Europe's declining position in global capital markets and the relative attractiveness of investment opportunities elsewhere. European capital and companies are increasingly moving to the US, creating a vicious circle that further weakens Europe's investment environment. Breaking this cycle requires more financing for scale-ups, better opportunities for companies to expand across the Single Market, and

progress on the One Europe, One Market agenda and regulatory simplification initiatives.

Another official emphasised the difficulties innovative businesses face when they need substantial financing to move beyond the early growth stage. The shortage of funding contributes to Europe's productivity gap with the US and pushes some companies to seek capital or relocate outside Europe.

The Chair agreed that inadequate scale up financing is a major European weakness and that changing this dynamic is an important test for SIU.

2.2 Developing securitisation

An industry speaker explained that deeper capital markets require mechanisms through which banks can transfer credit risk to investors, as well as a sufficiently broad investor base. Securitisation is one such mechanism and needs further development, particularly for residential mortgages, which account for a substantial share of European banks' assets. Significant risk transfer (SRT) securitisation, through which banks transfer a substantial share of their credit risk on loan portfolios to investors to obtain capital relief, has expanded over the past decade. However, volumes remain limited relative to financing needs, and further growth requires making these transactions economically viable for banks and attractive to institutional investors, including insurers. For banks, a key factor is the calibration of the minimum risk-weight floor, which determines the minimum risk weight applied to retained securitisation exposures when calculating regulatory capital requirements. A floor even reduced to 5% would make fewer than 10% of residential mortgage exposures economically viable for risk transfer, while reducing it to 2% could increase that proportion to around 40%, freeing up capital for additional lending.

Another industry speaker acknowledged progress on SIU and improvements to the asset management framework with the ELTIF 2.0, SFDR and AIFMD reviews, but considered that the political ambition on SIU still falls short of Europe's urgent growth and competitiveness needs. Securitisation illustrates this mismatch: EU securitisation rules still place greater emphasis on risks evidenced during the global financial crisis than on current financing challenges.

The securitisation proposals also give insufficient consideration to investors' needs and the potential benefits of these investments. EU disclosure and due-diligence requirements restrict access to some US securitisations because US issuers do not necessarily provide the information required under EU rules. This limits European investors' investment choices and their ability to achieve attractive long-term returns. The proposed introduction of additional penalties for breaches of securitisation due-diligence requirements, on top of sanctions already applicable to banks, insurers and investment fund managers under their respective regulatory frameworks, could further discourage investment in this market.

The industry speaker also criticised proposed UCITS limits on the proportion of an individual securitisation a fund may own, which could make these investments less attractive. In particular, minority holders have little incentive to initiate and finance action to resolve problems with a securitisation, including legal proceedings, when the benefits would be shared with other investors. A larger ownership stake, by contrast, can make it worthwhile to bear these costs and take responsibility for resolving such problems.

2.3 Mobilising household savings and long-term investment

An official stressed the need for Europe to mobilise more long-term capital. Several Member States are already taking steps to encourage long-term investment through pension auto-enrolment, tax incentives and savings and investment accounts, demonstrating that progress can be made at national level without waiting for further EU legislation.

The Chair noted growing retail participation in equity markets in Germany and forthcoming pension reforms. An official confirmed the importance of strengthening investor demand to develop deeper and more liquid capital markets, particularly through the expansion of funded retirement pension schemes.

An industry speaker highlighted that broadening the European investor base is essential for financing the economy. Households hold substantial savings, but roughly one-third remains in low-risk assets or deposit accounts rather than being invested in the capital markets. Further EU measures to encourage pension fund development could help mobilise more of these savings to finance growing companies and long-term strategic investments, including in defence.

Another industry speaker noted the contradiction between European commitments to market integration and national policies protecting domestic interests, particularly in the area of retail investment. While governments recognise the need to direct more household savings towards equities, some Member States, particularly among those with the highest public debt, offer tax incentives encouraging households to invest in domestic government bonds. These incentives support public debt financing but run counter to the objective of mobilising savings for equity investment. Addressing this inconsistency, including through sounder public finances and better alignment of national savings incentives with SIU objectives, would help support greater long-term equity investment.

2.4 Improving the competitiveness of EU capital markets

An industry speaker warned that Europe's financial sector has lost considerable ground to the US over the past decade. US banks have doubled their market share in Europe, while European financial institutions have become increasingly dependent on US technology providers, a trend that could accelerate with the development of AI. The slow pace of European policymaking makes it difficult to respond to these rapidly evolving competitive challenges. Deeper integration of European capital markets could help strengthen Europe's competitiveness by enabling financial-market operators to achieve greater scale and efficiency. Successful

consolidation initiatives demonstrate this potential, while single European supervision and the proposed pan-European market operator (PEMO) regime could help further reduce fragmentation. Consolidation does not necessarily undermine competition: larger, integrated market infrastructure groups can achieve economies of scale while competing with other providers and expanding into new activities, as illustrated by exchange groups developing competing post-trading services.

The industry speaker added that the competitiveness of European capital markets must also be considered in the wider geopolitical context. US policies tend to prioritise US strategic and economic interests, sometimes at Europe's expense, a trend unlikely to change fundamentally under future administrations. European financial firms also face an imbalance in transatlantic market access, with US firms enjoying easier access to European customers than European firms have to the US market. Europe must therefore address these competitive imbalances and strengthen its capacity to produce competitive goods and services, rather than remain primarily a market for foreign providers, or risk further decline in its financial markets.

A second industry speaker proposed making competitiveness a secondary objective of ESMA's mandate so that its regulatory decisions also take account of Europe's financial sector competitiveness. Transferring some market supervisory responsibilities to EU level, as envisaged under MISP, could also strengthen Europe's position in international regulatory discussions. The integration of banking supervision provides an example, having enabled the ECB to engage with the US Federal Reserve on a more equal footing.

A third industry speaker stressed that MISP's supervisory reforms must deliver genuinely unified supervision rather than add another European layer on top of national oversight. Consistent supervision and the ability to offer investments across the EU under a single passporting framework would benefit both investors and financial firms.

An official identified high cross-border trading costs as another obstacle to market competitiveness, which MISP measures could help address by reducing fragmentation and trading costs.

An official called for a wider financial services simplification package to reduce regulatory complexity and costs, while also pointing out promising approaches regarding simplification within the Commission's banking competitiveness initiative.

3. Implementation approach

3.1 Combining EU-level and Member State action

The Chair stressed the importance of consistent implementation and interpretation of EU rules across Member States, supported by early cooperation to resolve differences and ESMA's supervisory powers. Where national implementation does not comply with EU law, effective enforcement is also essential, notably through infringement proceedings brought by the Commission before the Court of Justice, where it has a strong record of successful cases.

A policymaker emphasised that SIU's success depends on effective implementation across Member States, not only on EU-level legislation. This is particularly important for initiatives requiring national action, such as private pensions and savings and investment accounts (SIAs). The Commission's recommendation on SIAs encourages Member States to examine successful approaches elsewhere in the EU. National schemes must nevertheless comply with EU law, and the Commission should monitor compliance while facilitating exchanges of experience among Member States. The European Semester provides an additional means of monitoring progress, with an increasing number of country-specific recommendations addressing SIU priorities and mechanisms to follow up on shortcomings. Greater use of directly applicable EU regulations rather than directives could also help avoid divergent national implementation, while infringement proceedings remain a last resort.

An industry speaker proposed national scorecards to monitor and compare SIU implementation across Member States, using indicators such as retail investor participation and cross-border investment flows to assess progress and identify where further action is needed.

An official explained that Member States have traditionally implemented EU rules separately, leading to differences in interpretation and application that contribute to market fragmentation. Greater cooperation and mutual learning among Member States during implementation could help address this problem. Cooperation in the Nordic-Baltic region could provide a source of inspiration in this regard: the industry-led Nordic Compass initiative promotes greater market harmonisation across the region, while the prime ministers of eight Nordic-Baltic countries have called for more consistent implementation and interpretation of EU rules and closer regional capital market integration.

Another official agreed that common EU rules must be applied consistently, avoiding national gold-plating that increases fragmentation. Monitoring can help, but political commitment and effective enforcement are essential to achieving genuine harmonisation. SIU's success also depends on combining EU and national measures, as well as top-down and bottom-up initiatives. At national level, reforms are particularly needed to develop occupational and private funded pension schemes alongside existing pay-as-you-go systems. Such reforms are politically challenging and must reflect national circumstances. Member States can also exchange good practices and coordinate initiatives to mobilise private capital, as illustrated by efforts to develop a European network around the French Tibi and German WIN initiatives and by the Competitiveness Lab through which willing Member States pilot capital market integration projects.

An industry speaker emphasised the importance of cooperation among legislators, supervisors and market

participants to ensure that new rules can be implemented effectively and proportionately. The industry-wide transition to T+1 settlement, coordinated by ESMA, and the public-private Pythagore initiative to digitalise the French commercial paper market illustrate the benefits of such collaboration.

3.2 Increasing implementation speed

An industry speaker urged greater speed and accountability in European decision-making. After a decade of discussions on CMU, Europe is still pursuing largely the same integration objectives under the SIU framework. The priority is now to translate these political commitments into concrete results.

Another industry speaker stressed the importance of regulatory certainty and timely implementation. Lengthy delays between political agreement on EU legislation and the adoption of the detailed rules needed to implement it create uncertainty and hinder market participants' ability to act quickly. The nine years taken to revise the ELTIF framework also illustrate the excessively slow pace of regulatory reform in the EU.

The Chair concluded that the coming months are decisive for SIU. The priority is to maintain political momentum and deliver the agreed reforms within the deadlines endorsed at the highest EU political level.

MISP supervisory proposals and regulatory simplification

1. Supervision of significant trading venues and post-trading infrastructures

1.1 The rationale for more integrated supervision

An industry speaker noted that European capital markets have historically been fragmented, with market structures and supervision organised largely along national lines. Trading venues and financial market infrastructures (FMIs) have since integrated through corporate consolidation and shared technology platforms, improving liquidity and market access. Supervision has not kept pace: despite a common EU regulatory framework and convergence efforts led by ESMA, each trading venue remains separately licensed and supervised by a national competent authority (NCA). In addition, divergent national requirements, including on capital and board independence, create complexity and restrain synergies and scale advantages. While large FMI groups invest substantially in innovation, deploying new products and offerings across their markets may be delayed by the pace of approval of certain national supervisors.

A regulator considered the existing arrangements for supervising EU trading venues and infrastructures unsatisfactory. The Draghi and Letta reports and ESMA's May 2024 report on EU capital market integration identified fragmented supervision as a significant obstacle to market integration, increasing operating costs and undermining supervisory efficiency and convergence, and in some cases financial stability.

Another regulator emphasised that supervisory divergence not only increases costs and inefficiencies but also poses risks to consumer protection, particularly when digital investment products are passported across the EU under inconsistent national supervision, creating opportunities for arbitrage and potentially exposing investors to inadequate protection. Nevertheless, reorganising supervision is only one part of developing deeper European capital markets, as supervisors control markets rather than create them.

1.2 Expected benefits of centralised supervision

An industry speaker regarded the proposed Pan-European Market Operator (PEMO) status as a major simplification for groups operating integrated trading venues across several EU Member States.

A regulator supported the MISP proposals for more centralised supervision, particularly the PEMO regime, which could promote supervisory convergence and a level playing field among large cross-border market infrastructures, some of which may be systemically important. Centralised European supervision offers a more effective route to convergence than coordination among 27 NCAs, with a single authority ensuring consistent implementation across Member States more directly and rapidly. The highly detailed and prescriptive nature of Level 1 legislation also partly reflects concerns that NCAs may interpret and apply common requirements differently. By making supervisory convergence inherent in the system, centralised EU-level supervision could reduce the need for detailed legislative prescriptions, thereby supporting regulatory simplification and burden reduction.

Another regulator stated that the larger, the more international and systemically important an infrastructure is, the stronger the case for centralised supervision. CCPs are consequently a relatively straightforward starting point.

An industry speaker agreed that CCPs are a suitable starting point for centralised supervision, because supervisory arrangements should reflect the cross-border nature of the risks involved. Systemically important CCPs cannot be regarded as purely domestic, as their members, collateral, third-party service providers and technical platforms extend across jurisdictions. In a crisis, risks may spread across jurisdictions before NCAs agree on a response, strengthening the case for EU-level supervisory decisions. Centralisation should not, however, be an end in itself, but a means to improve risk management and supervisory efficiency.

Another industry speaker added that supervision should not only reflect the cross-border operations of FMIs but also enable greater market integration and interoperability, particularly in post-trading. Placing CCPs participating in interoperability arrangements under the same supervisor is appropriate as it would offer more consistent oversight of related risks and facilitate those arrangements.

1.3 Conditions and challenges for more integrated supervision

An industry speaker acknowledged the potential benefits of integrated supervision but cautioned against a one-size-fits-all approach. Some pan-EU multilateral trading facilities (MTFs) already operate under a single national supervisor, so transferring their supervision to ESMA would not necessarily bring improvements. The added value of centralised supervision depends on ESMA's future supervisory model and mandate, including its approach to competitiveness, and on how the transition is implemented. Market participants therefore need a clearer understanding of how ESMA would operate, both immediately after the transfer and in subsequent years, and what tangible benefits it would offer operators already subject to a single supervisor. The supervisory framework should also account for

differences between asset classes, as fragmentation is more pronounced in equities than in fixed income. Finally, a carefully planned, phased transition would be important to preserve the expertise accumulated by NCAs.

A regulator acknowledged that practical questions raised by market participants about how European supervision would operate remain to be addressed. Although optional supervision is unusual, the proposed PEMO regime would give ESMA an opportunity to demonstrate its effectiveness.

A second industry speaker identified three requirements for effective EU-level supervision: a clear division of responsibilities, an appropriate scope and a rapid transition. ESMA should have clear responsibility for wholesale licences, while NCAs retain their role and expertise in developing national capital markets, facilitating listings, supporting local brokers and protecting investors. Duplicative arrangements should be avoided, and the transition should take no more than one year, allowing market operators to quickly adapt to the new supervisory framework and build on it to further develop and integrate European markets.

A third industry speaker also identified three related conditions: accountability, expertise and transition speed. Decision-making and accountability must be aligned: if ESMA makes supervisory decisions, it should assume responsibility for them, with clarity about who decides and on what basis. Centralisation should also preserve and bring together the specialised expertise accumulated by NCAs and central banks across national markets, ensuring that it continues to inform supervisory decisions at EU level. Finally, the transition should take about one year to eighteen months, given the economic cost of further delaying changes.

A regulator warned that centralisation could reduce efficiency if it merely adds a European supervisory layer and obliges supervisors to establish new interfaces. For CCPs, the transfer of supervision to the European level should be accompanied by a corresponding Europeanisation of resolution and crisis-management responsibilities, ensuring that responsibility for the costs of potential failures is also addressed at EU level.

1.4 Significance criteria, thresholds and reassessment frequency

An industry speaker supported the Commission's proposed scope for direct ESMA supervision, considering that it appropriately covers key cross-border market infrastructures, including operators organised through different corporate structures. Integrated FMI groups should be able to organise their activities across Member States without facing different supervisory requirements simply because of where those activities are performed. The industry speaker also considered that ESMA should initially supervise at least 25–30 FMIs to develop sustainable supervisory capacity.

An official stated that the scope of centralised supervision must reflect different business models through clearly defined and calibrated significance criteria and thresholds. An activity-based test should replace the group criterion, with a common interpretation of cross-border activity. A venue licensed and supervised in one Member State should not transfer to ESMA merely because it serves clients or counterparties elsewhere. By contrast, multiple licences and oversight by several NCAs make a stronger case for centralisation. Where a group comprises separately licensed entities operating domestically in different Member States, national supervision may nevertheless remain preferable, notably because of national corporate-law differences.

The official added that significance should be assessed by considering EU-wide transaction volumes or market share compared with the entity's importance in its national market. Criteria and thresholds should also identify those for which centralisation would offer genuine benefits, including supervisory efficiency. The frequency of reassessment also needs to be appropriately determined. An initial threshold breach could permit voluntary opt-in, while repeated breaches would trigger automatic transfer. A two-year, preferably three-year, reassessment cycle would be appropriate, as a yearly reassessment could create uncertainty and disruptive changes of supervisor. Operators could still voluntarily opt in between assessments, if they consider that centralised supervision genuinely reduces costs and administrative burdens and improves supervisory interactions.

An official noted that decisions on whether an infrastructure should fall under direct ESMA supervision should be based on its own activities and cross-border operations, assessed individually for each entity.

A regulator proposed transferring supervision of all CCPs, including smaller domestic ones, to EU level, reallocating existing supervisory resources instead of duplicating them. Retaining parallel national supervision or establishing Joint Supervisory Teams would indeed add complexity and cost in an international sector with relatively few significant players and limited linguistic or cultural diversity.

2. Supervisory convergence, regulatory agility and simplification

An official welcomed MISP's proposals for enhancing supervisory convergence, regulatory agility and meaningful simplification as ways to develop more integrated and effective capital markets. These objectives are particularly important for smaller markets, where regulatory and compliance costs are spread over fewer participants and transactions. Divergent interpretations of EU law, inconsistent supervisory practices and duplicative reporting add to these costs and create barriers to cross-border activity, making the proposed reforms valuable for improving smaller markets' accessibility and attractiveness to investors.

The official identified three priority areas for supervisory convergence: authorisation and approval procedures, supervisory data and reporting, and enforcement practices. More aligned supervisory expectations could accelerate approvals and improve legal certainty and

predictability for passporting. Better sharing and reuse of supervisory data could strengthen oversight while reducing duplicative reporting. In addition, more consistent enforcement practices would help prevent regulatory arbitrage. Greater use of directly applicable EU rules could also reduce fragmentation, with Level 1 establishing core rights, obligations and systemic requirements, Level 2 providing technical adjustments, and Level 3 guiding implementation without introducing new obligations. Regulatory agility would enable faster responses to implementation difficulties and technological developments. Finally, meaningful simplification should deliver actual cost reductions rather than merely fewer rules, with particularly significant opportunities in the area of supervisory data.

A regulator stressed that most capital market supervision will remain national, making stronger supervisory convergence indispensable. More detailed regulation has reached its limits as a way of removing differences in supervisory practice. Greater supervisory convergence requires more consistent data standards and supervisory models, better governance and access to specialised technical expertise, which is increasingly difficult to maintain at the required level across 27 national authorities. Above all, ESMA must be able to address unjustified divergence effectively, especially where inconsistent oversight of passported products puts consumers at risk.

Another regulator acknowledged that national supervision will continue in many areas, making supervisory convergence essential, although centralised supervision is more effective for preventing arbitrage and ensuring a level playing field. Recent ESMA coordination work regarding crypto-asset activities demonstrated that convergence can be achieved and regulatory arbitrage limited without direct EU supervision. Achieving this convergence, however, required substantial coordination efforts and was very time consuming hence costly for national authorities, with ESMA's digital finance standing committee meeting weekly over several months to align national supervisory approaches. A less consensus-driven decision-making culture is needed within ESMA to accelerate convergence, as resolving differences in national supervisory practices can currently take months or years. No-action letters could also help ESMA respond more quickly to market developments and emerging regulatory issues.

An industry speaker stressed that convergence efforts should focus on supervisory outcomes rather than supervisory processes. Responding to divergence by adding detail to Level 1 rules is costly and slow, and risks embedding today's market structures in legislation that may constrain future evolution and competitiveness. Greater reliance on centralised European supervision could offer an alternative to increasingly prescriptive legislation, allowing consistent regulatory outcomes to be achieved through supervisory decisions rather than detailed rules specifying how requirements must be implemented. Level 1 legislation should establish the common regulatory framework and objectives, while Level 2 should provide implementation guidance where necessary, leaving the European supervisor greater discretion to determine how those objectives are achieved in practice. This could enable faster decisions and greater regulatory agility without compromising safety. However, this approach requires distinguishing between areas where detailed legislative rules remain necessary and those where greater supervisory discretion would be more effective.

An official agreed that greater convergence in authorisation procedures would help prevent regulatory and supervisory arbitrage. Regarding the distinction between convergence of outcomes and processes, the official considered that common Level 1 criteria and consistent supervisory procedures should generally lead to similar outcomes across Member States.

An industry speaker favoured extending single European supervision to all market infrastructures in the longer term, while emphasising that in the meantime supervisory convergence would remain essential for smaller entities outside ESMA's direct remit, particularly as past crises have sometimes originated in entities considered non-systemic.

3. ESMA governance and sharing of supervisory responsibilities

An official supported clearer responsibilities and stronger ESMA powers for guidance, cooperation and data-sharing, while preserving the role of NCAs for activities that remain nationally supervised.

An industry speaker cautioned that more centralised ESMA supervision would not eliminate the need for national regulatory and supervisory arrangements. National requirements concerning client money, client assets and fit-and-proper assessments would continue to apply. In addition, MiFIR's harmonised regime for third-country firms has not been activated, leaving national market-access regimes relevant. Close cooperation between ESMA and NCAs, drawing on their respective expertise, would therefore remain essential, alongside faster and more efficient decision-making.

An official noted that some activities, including settlement systems covered by the Settlement Finality Regulation, will remain nationally supervised because of their links to domestic corporate law. The coexistence of EU and national supervision makes cooperation essential, with NCAs retaining a strong role in ESMA governance. Within ESMA, a clear division of responsibilities is also needed: its main decision-making body should be responsible for supervisory convergence decisions, while the executive board should oversee day-to-day centralised supervision.

An industry speaker observed that MISP would transform ESMA from primarily coordinating NCAs into directly supervising a substantial share of EU lit trading, clearing and settlement activity. This expanded responsibility should also give ESMA a stronger role in defining EU-wide regulatory-policy objectives, identifying shortcomings in the regulatory framework and initiating regulatory responses through Level 2 or Level 3 measures or recommendations to co-legislators,

adopting a more proactive approach similar to that of US regulators such as the SEC and CFTC. For example, such an approach might have enabled ESMA to identify and address earlier the market-structure issues examined in its recent call for evidence on European equity markets.

A regulator considered that effective convergence requires a more executive-led ESMA, with clearer powers and the ability to decide more rapidly despite differing views among national supervisors. NCAs should continue to play a strong collective role within ESMA, but act under clearer central control to implement decisions consistently and promptly.

Another regulator suggested broadening the discussion on ESMA governance beyond the allocation of powers within its future leadership structure. Adding a small number of independent, non-permanent members to the executive committee, with expertise in financial services and consumer protection could bring different perspectives, constructively challenge proposals and improve regulatory decision-making.

An industry speaker supported the inclusion of independent members to ESMA's governance. Such members can bring an external perspective and constructively challenge existing approaches, particularly when their mandates are time-limited, encouraging them to make a meaningful contribution during their tenure.

4. Competitiveness objectives and mandate

An industry speaker advocated introducing an explicit competitiveness objective into ESMA's mandate, considering it a strategic priority for Europe given its ambitions for greater autonomy and sovereignty. Introducing such an objective would be a concrete measure within the EU's control, without which many of the expected benefits of centralised supervision might not materialise. Other jurisdictions are increasingly taking competitiveness into account in their regulatory frameworks, although their approaches cannot be directly replicated in the EU because of differences in legislative and regulatory processes.

A regulator opposed a dual safety-and-competitiveness mandate for supervisors. Ensuring the safety of the financial system must remain their priority, just as aviation safety regulators should not be responsible for making airlines competitive. Competitiveness may be considered in rulemaking, but adding it to the supervisory mandate could compromise safety.

An industry speaker agreed that competitiveness objectives must not create conflicts of interest for supervisors, but advocated broader performance indicators to monitor how the regulatory framework affects European market competitiveness and the EU industry's market share.

A regulator considered that competitiveness could be a secondary objective guiding regulatory policy over the medium term, provided it does not interfere with day-to-day supervision or enforcement. Competitiveness already features in the strategic plans of some national supervisors without being part of their statutory mandates or compromising enforcement. A statutory secondary competitiveness objective could also be considered for ESMA, although it would not be a silver bullet and should not dominate the debate on supervision.

Wrap up

The Chair emphasised that both the rationale for more centralised supervision and the way it is implemented are important. The criteria and thresholds determining which entities will come under direct EU-level supervision need to be carefully defined. As some entities will remain nationally supervised, ensuring consistent supervisory practices and outcomes across the two levels will remain a key challenge. A holistic approach is also needed to ensure coherence between regulation, implementation, supervision and enforcement, supported by better use of supervisory data. Effective ESMA governance, stronger supervisory convergence tools and the ability to reach common decisions rapidly will be essential to achieving more consistent supervisory outcomes and responding to evolving technological and geopolitical challenges.

Boosting the attractiveness and competitiveness of EU capital markets

The Chair opened the session by asking whether Europe is making sufficient progress towards more attractive and competitive capital markets, overcoming barriers to cross-border investment and market integration within the EU and keeping pace with technological change.

1. Current trends and challenges in European capital markets

1.1. Retail investment trends

An industry speaker expressed causes for optimism about recent trends in European household savings and investment. The euro-area household saving rate is high, at around 14%, and research covering the preceding two years suggests that households are increasingly directing savings towards investment accounts and pension products rather than bank deposits. Sustaining this shift towards capital market investment requires both EU measures and national reforms, particularly in taxation and pensions, adapted to the circumstances of individual Member States.

Another industry speaker observed that growing numbers of younger investors with more limited financial resources and greater sensitivity to costs are entering financial markets. They increasingly invest in US markets, where post-trading costs are lower than in Europe because European markets remain fragmented. They also favour lower-cost products, such as US ETFs, and are willing to switch providers if the products they want to invest in are unavailable. Reducing fragmentation and post-trading costs in Europe is therefore important to retaining investment activity in European markets and facilitating cross-border trading within the EU.

1.2. Lessons from national and regional capital markets

An official suggested that Europe still functions more as a collection of national and regional capital markets than as a genuinely integrated EU capital market. There has been real progress at EU level, particularly in relation to MISP proposals. In less developed capital markets, including some in Central and Eastern Europe (CEE), however, care must be taken to ensure that efforts to reduce the costs and complexity of fragmentation do not undermine local market ecosystems and SMEs' access to financing. Technology could facilitate greater integration of European capital markets while allowing local markets and financing arrangements to continue developing. In addition, fragmentation is not the only obstacle to capital market development. Limited appetite for risk and shortcomings in financial culture and education contribute to the reliance of companies, particularly SMEs, on bank finance and to households' preference for deposits. So there needs to be a shift in mindset. Markets also need stronger investment demand and a wider range of assets in which to invest. In markets where the number of listed companies is small, additional listings, including through the privatisation of state-owned utilities, could increase investment opportunities, market activity and liquidity. Experience in the CEE region also illustrates how regional cooperation can complement EU-wide initiatives. Regional cooperation on covered bonds and other instruments in the Baltic markets has been very successful, for example. The EBRD is also working with 8 CEE countries to develop common instruments and closer links between their markets, with the aim of improving liquidity and companies' access to market finance.

A regulator noted that Spain's economy, asset management sector and private credit market are performing reasonably well, but its equity market is less dynamic. Despite some recent improvement, IPOs and stock-market turnover remain well below their levels a decade earlier. Stock-market liquidity is also limited, although that is a wider European problem, except in certain countries such as Sweden.

Another regulator highlighted the Swedish market as an example of how vibrant equity markets can develop under existing EU rules, although the Swedish model cannot simply be replicated elsewhere. Sweden has more than 900 listed companies, a substantial growth-market ecosystem, broad household participation in equity markets and a strong tradition of active share ownership. Nearly 80% of Swedish listings over the preceding 10–12 years have taken place on growth markets, while around half of listings on regulated markets have involved companies moving up from growth-market multilateral trading facilities (MTFs). Proportionate rules and well-developed growth markets can therefore help build a pipeline of companies accessing public markets before progressing to regulated markets.

2. Expected contribution of SIU and MISP and remaining priorities

2.1. Expected benefits and limitations of SIU and MISP regulatory measures

Several panellists welcomed the SIU and MISP proposals and the political momentum behind these initiatives, recognising their potential to support greater European capital market integration, while highlighting limitations and complementary measures needed for their success.

An official emphasised that the Draghi and Letta reports have been a major wake-up call for Europe after years of slow progress towards more developed capital markets. These reports have raised political awareness of the importance of capital market development for financing the economy, innovation, growth and the green transition and ultimately supporting citizens' purchasing power and living standards. This awareness now needs to translate into concrete action. Progress on MISP is encouraging and could generate further momentum, although the package alone will not resolve all the obstacles to greater integration of European capital markets.

An industry speaker highlighted MISP's potential to remove unnecessary barriers to cross-border market activity, particularly in post-trading.

A regulator welcomed MISP's progress towards removing cross-border barriers, including some national requirements that are seldom justified. Its impact could nevertheless remain limited without complementary SIU measures to increase retail investment and develop pension schemes.

A second regulator stressed that funded pension schemes and automatic enrolment can help develop deeper capital markets while addressing the long-term sustainability of pension systems. The Dutch experience illustrates the substantial savings such arrangements can mobilise over time, although developing these systems requires a gradual approach.

A third regulator observed broad agreement on the direction of SIU and MISP, while emphasising that regulation alone cannot create successful capital markets. The proposals can help remove cross-border barriers, improve access to data and reduce post-trade fragmentation, but cannot themselves generate attractive issuers, active investors, funded pension assets, analyst coverage or the other operational components of a functioning market ecosystem. The key is whether these reforms help companies raise capital and expand, improve market liquidity, reduce cross-border costs and strengthen European competitiveness. Beyond regulatory changes, the discussions generated by SIU and MISP also provide an opportunity to identify structural barriers and learn from successful national market practices that could be developed more widely across Europe.

2.2 Expected impact and conditions of MISP supervisory measures

The MISP supervisory proposals were broadly welcomed as a means of enhancing supervisory convergence, although panellists emphasised the importance of their design and implementation.

A regulator emphasised that the effectiveness of MISP's supervisory proposals depends on how the new arrangements work in practice. ESMA needs an independent executive board with genuine decision-making powers, rather than a governance structure in which too many parties are involved and can impact decisions. Supervisory costs must also be carefully controlled. The supervisory approach is equally important. Supervision should be risk-based, taking account of the risks associated with different markets and activities, while accepting that not all risks can be eliminated. Supervisory priorities should be determined primarily by the potential harm to investors and markets. Unlawful conduct that is also harmful warrants intervention, while infringements causing little harm may receive lower priority. Supervisors should also consider the opportunities offered by new technologies and market developments alongside their potential risks. Effective supervision also requires centralised supervisory data and clear enforcement powers, including appropriate means of addressing unlicensed firms and other market participants that may pose risks.

A second regulator stressed the need to strike the right balance between centralising supervisory responsibilities where appropriate and strengthening supervisory convergence across the EU, while ensuring an effective allocation of responsibilities between ESMA and national competent authorities, with ESMA playing a leading coordinating role.

A third regulator highlighted the value of building MISP's supervisory reforms on existing expertise and well-functioning market structures across Europe, while taking a measured approach to introducing new and less established arrangements. Drawing on these strengths could help successful market models develop on a wider European scale, contributing to greater market integration, particularly in the short to medium term.

The Chair recalled an earlier AFM recommendation that significant cross-border risks should be supervised at European level and stressed that the success of MISP's supervisory reforms will depend on the powers granted to ESMA and the strength of its executive governance.

2.3 Further policy responses

A regulator called for political courage to remove persistent regulatory barriers that prevent investors and market participants from taking full advantage of the EU market, notably innovative fintech firms seeking to pursue a pan-European strategy. SIU and MISP can help reduce fragmentation, but further action on taxation and insolvency rules is needed to make European capital markets more attractive.

An industry speaker suggested areas where MISP could go further, for example if it delivered interoperability between clearing houses for cash equities, with some proposed European Parliament amendments representing a positive development in this regard. Deep and liquid markets are also a necessary condition to attract investors, particularly institutional investors and issuers. This requires a diversity of market participants with different views on prices and investment horizons. However, the diversity of specialist market-making firms in Europe has declined in recent years. One concern is the EU regulatory regime for investment firms (IFR/IFD), notably the application of certain requirements to EU firms' activities outside Europe and obligations that may be disproportionate to their market-making activities. Beyond MISP, supporting

greater liquidity provision on EU markets requires a targeted review of the regulatory framework for market makers, building on issues identified by the European Banking Authority in the preceding year.

A regulator considered MISP's market-structure proposals insufficiently ambitious. Lit markets including traditional exchanges, have lost ground to more bilateral trading arrangements, raising concerns about market transparency and liquidity, which may affect the attractiveness of stock-market listings. A more level playing field is needed between exchanges, systematic internalisers (SIs) and other execution venues. In particular, adjustments to pre- and post-trade transparency requirements and tick-size rules could address regulatory differences that may unjustifiably disadvantage exchanges, particularly as SIs also handle retail order flow. Such changes should nevertheless preserve competition between trading venues.

The Chair concluded that Europe's diversity is a strength on which to build. The positive political momentum around SIU and MISP must be maintained and agreed legislative measures must be followed by concrete market-led initiatives, since legislation alone cannot deliver more liquid and integrated capital markets.

3. Technology as a driver of market integration and competitiveness

3.1 Implications of technology for EU capital market competitiveness

An industry speaker warned that tokenisation could further widen the competitive gap between US and European investment markets. A July 2026 announcement by the US DTCC, reporting the successful completion of transactions involving tokenised securities and plans to launch a service enabling round-the-clock transfers of eligible securities between digital wallets, illustrates the rapid progress of tokenisation in the US. Such developments could make US markets more attractive to European retail investors seeking effective investment solutions and encourage other international market operators to develop similar services. The industry speaker expressed hope that European market participants would develop their own tokenised securities offerings in the near term, alongside progress in reducing market fragmentation and strengthening coordinated supervision of tokenised products. Otherwise, European distributors may increasingly have to offer US products to meet customer demand.

A regulator agreed that technological innovation is essential to improving the competitiveness of European trading and post-trading markets relative to their US and Asian counterparts. Europe cannot afford to spend years addressing fragmentation in its existing trading and post-trading arrangements while international markets continue to advance technologically.

A public representative highlighted the opportunities offered by DLT to shorten settlement cycles and potentially reduce settlement risks and costs. These technologies could also help connect fragmented European markets, increasing their scale and international competitiveness. However, technology is not a substitute for regulatory harmonisation and cross-border cooperation, which remain essential for tokenised markets to operate effectively across Europe.

A regulator emphasised the need for Europe to respond rapidly and collectively to accelerating technological change. AI presents another major challenge, requiring coordinated thinking and cooperation, potentially beyond the European level.

An industry speaker underscored the need to monitor global market developments when shaping European policy, since Europe cannot address these challenges in isolation.

3.2 Adapting the regulatory framework to technological innovation

A regulator considered that MISP does not go far enough in supporting technological innovation, particularly given the limited ambition of the proposed changes to the DLT Pilot Regime. Technological innovation could become a major driver of European capital market integration and competitiveness, and Europe should adopt a more ambitious approach to avoid falling further behind the US and Asian markets. Greater policy attention should be given to how technology could transform European capital markets and support their integration and competitiveness, alongside the ongoing discussions on capital market regulation and the organisation of European supervision.

A public representative stressed that Europe's longstanding market fragmentation problems, although important, should not monopolise political attention at the expense of emerging technological challenges. Despite positive momentum around MISP, the package is not sufficiently ambitious in preparing European markets for innovations such as DLT. After several years of experimentation, Europe needs to move beyond the DLT Pilot Regime towards a framework allowing wider commercial deployment, rather than continuing with restrictions on trading and settlement volumes. Without rapid action, Europe risks falling behind international competitors within three to five years.

The problem with the DLT Pilot Regime is also that it establishes a separate regulatory framework for DLT transactions, meaning that different rules apply to DLT and conventional transactions performing the same economic function. More fundamentally, EU financial-market legislation should be technology-neutral, allowing market participants to choose the technological solutions that best meet their needs. The capital market framework should also accommodate technologies beyond DLT that may emerge in the future, without requiring a new technology-specific regime. Revising existing EU legislation to achieve this will be complex and lengthy, making an early start essential given the pace of international competition.

The legal framework must also cover both the securities and cash sides of digital transactions. Efficient and

reliable settlement requires appropriate arrangements for the cash leg, potentially including a wholesale digital euro, alongside making TARGET2-Securities (T2S) compatible with DLT. These issues are insufficiently addressed by MISP, and the financial industry should press EU legislators to act, considering the potential economic and societal benefits of developing digital capital markets.

The public representative added that the objective of developing a genuinely cross-border EU market for tokenised securities could provide further impetus to overcome longstanding national legal differences. Technology cannot itself harmonise company law, definitions of shares or shareholder rights, but the need for common rules allowing tokenised securities to operate across borders creates an opportunity to address these barriers. A 28th-regime approach could help establish a common European legal framework to support cross-border tokenisation, without necessarily providing a broader solution to the fragmentation of EU capital-market regulation.

An official expressed concern that, despite Europe's early adoption of a regulatory framework for DLT with the Pilot Regime, practical applications of DLT in European capital markets remain limited. Pilot arrangements can themselves become an obstacle to market development if participants lack clarity about the regulatory framework that will allow DLT-based activities to develop on a wider scale. Greater regulatory certainty is therefore needed, alongside progress on settlement infrastructure, including T2S and suitable digital-currency arrangements, to build attractive and effective tokenised securities markets. It requires both a top-down and bottom-up approach.

A regulator emphasised that technological innovation, like regulation, is a means rather than an end in itself. Regulation should facilitate the adoption of new technologies where they can address concrete market problems and improve efficiency.

The Chair endorsed the principle that financial regulation should create conditions for markets, competition and technological innovation to develop, rather than prescribe which technology market participants should use.

Will MISP deliver more integrated and competitive EU securities markets?

1. Strategic imperative to strengthen European capital markets

An industry speaker warned that accelerating global competition and Europe's dependencies in defence, technology and energy put EU strategic autonomy and societal values under increasing pressure. Europe's weak growth relative to the US and Asia is a central concern, also illustrated by the absence of European companies among the world's 12 leading companies by market capitalisation (the "Magnificent 12"). Inflationary pressures, partly driven by higher energy prices, are prompting monetary tightening through interest-rate increases, which could undermine growth forecasts and lead to stagnation or recession. Fiscal pressures are also intensifying, with increasing debt and interest costs, illustrated by Germany, where interest payments are nearly twice education expenditure. These economic pressures contribute to growing dissatisfaction among citizens and rising populism across Member States. The SIU and more active capital markets are essential to strengthen Europe's growth prospects and societal resilience, but so far progress has remained insufficient.

Another industry speaker considered that geopolitical developments, intensifying global competition and fiscal constraints increase the urgency of developing capital markets in Europe to finance growth and the real economy, while strengthening their international competitiveness and attractiveness.

2. Structure and competitiveness of EU securities markets

2.1 Market capitalisation and IPO activity

An industry speaker highlighted the gap between EU stock market capitalisation, at approximately 55% of GDP, and the US at 180%. The EU share of IPOs at global level has also fallen below 9%, or to an estimated 3% excluding Sweden, while IPO activity remains strong in some other jurisdictions, with record sized IPOs in the US and substantial activity in several Asian markets. This weakness is significant for the EU economy, given that listed companies account for more than 30% of European employment and over 50% of corporate taxes. Europe's weak listing performance shows that the existing market framework is not fit for purpose, with fragmented liquidity across numerous trading venues and post-trading infrastructures contributing to insufficient valuations.

A second industry speaker considered Europe's IPO shortfall a structural problem that cannot be attributed simply to insufficient secondary market liquidity. Substantially higher liquidity existed in the market than was generally admitted before the consolidated tape made it more visible. A more important obstacle explaining the scarcity of IPOs is fragmentation at the listing level, which makes it difficult for issuers to identify sufficiently broad peer groups for valuation. In the US, listings are concentrated on two main exchanges, providing a wider set of comparable listed companies. Another aspect, which is a global trend, is that companies take longer to go public, often waiting for the right opportunity to list. Encouraging IPOs also requires a broader and more diverse investor base, supported by better financial education and incentives for households to invest their savings, including tax incentives.

A third industry speaker added that greater competition between European exchange groups could help attract more IPOs and international investment to European markets.

2.2 Market fragmentation and level playing field

A regulator explained that fragmentation of EU securities markets can be assessed both by the number of CSDs, CCPs and trading venues operating in Europe and the effectiveness of their interconnections as an infrastructure network. The European market structure results from a combination of factors including earlier policy decisions to introduce competition into markets historically organised as national monopolies and the persistence of national ecosystems, in some cases organised around vertically integrated silos. Although consolidation is a market-driven process, past experience suggests that mergers may remain difficult without a change in the approach of competition authorities.

An industry speaker considered that market fragmentation is not inherently problematic, provided there is effective competition. In the US, 19 trading markets compete in largely the same securities, supported by a common CCP and CSD infrastructure. This competition drives technological and process innovation and encourages trading venues to respond to customer and investor needs. Europe does not need to replicate the same market structure, but should ensure that its multiple post-trading infrastructures compete effectively, with sufficient interoperability and open access to allow trading firms to optimise post-trading costs.

A second industry speaker agreed that fragmentation is not a problem where genuine competition gives market participants meaningful choice. However, fragmentation combined with limited competition, as in European post-trading markets, can leave individual infrastructures facing limited competitive pressure, generating inefficiencies and additional costs. MISP

seeks to address these issues by streamlining the post-trading market structure, notably through measures to improve interconnection and open access.

A third industry speaker disputed the suggestion that European exchanges do not compete or that vertically integrated structures explain Europe's market weaknesses, noting that such structures also exist in the US and Asia. Major European exchanges compete for IPOs and offer a broad range of internationally traded instruments. However, high intermediary costs can discourage trading these instruments on European exchanges, while established liquidity pools may make trading certain securities, such as US equities, more attractive in their home markets.

The industry speaker considered that the large number of trading venues and post-trading infrastructures in Europe - approximately 500 trading and execution venues, 16 CCPs and 28 CSDs - contributes to excessive market fragmentation. However, reform should preserve investor choice while ensuring a genuine regulatory level playing field between different execution mechanisms. The systematic internaliser (SI) regime is particularly problematic in this regard, given the differences in regulatory requirements applying to SIs and exchanges. Originally intended for large scale transactions, it now handles average orders of around or below €5,000, smaller than on-exchange transactions, indicating significant retail flow. The original MiFID strategy sought to create a competitive pan-European market but the opposite has happened in terms of market integration. Reform is needed to enable market forces to reconsolidate liquidity, as an unchanged regulatory strategy will not produce different outcomes.

Responding to a question from the Chair about market consolidation, the industry speaker noted that previous attempts by major European exchange groups to merge had been blocked by the European competition authorities. Enabling greater consolidation and scale would require a substantial change in the European competition policy framework, which also has a political dimension. The speaker however welcomed the renewed attention being given to this issue.

3. Expected impact of the MISP proposals

3.1 Overall assessment and conditions for success

A regulator considered that MISP includes a relevant combination of measures to improve infrastructure connectivity and facilitate market integration, which together with other SIU initiatives, could achieve more than previous more focused reforms. These measures could reinforce one another, creating a positive cycle of market integration, although their overall impact remains uncertain. Success will depend on their coordinated implementation and on market participants making use of the new opportunities for integration.

An industry speaker expressed strong optimism about MISP, considering that the proposals reflect extensive consultation with market participants and investors and draw on effective features of international markets. By addressing the different layers of market structure, including clearing and settlement, whose efficiency and cost are essential for effective trading competition, MISP could strengthen the attractiveness and competitiveness of European capital markets and support their growth and role in financing the real economy.

A second industry speaker described MISP as a potentially transformative package amending approximately 14 EU regulations, well beyond MiFID and the Central Securities Depositories Regulation (CSDR). The proposals build on the competition introduced by MiFID II in secondary markets, while seeking to address fragmentation and limited competition in post-trading.

A third industry speaker expressed strong doubts that the MISP package in its current form will materially improve European market integration, IPO activity or growth. Without more substantial reform, MISP risks falling short of its objectives.

3.2 Securities trading framework and consolidated tape

A regulator explained that MISP preserves the current competition framework for trading while introducing stronger transparency, notably through enhancements to the consolidated tape. While the tape should improve visibility of liquidity distributed across venues, it is still uncertain whether this will be sufficient to make European trading markets more attractive. The regulator added that the proposed pan-European market operator (PEMO) regime will also provide a new framework allowing market operators to conduct cross-border activities across the EU more cost-effectively, without prescribing a particular market structure or business model.

An industry speaker emphasised that MiFID II has fostered competition and execution choice and contributed to lower market data and execution costs, stable spreads in secondary markets and greater automation. These benefits should be preserved within a framework ensuring robust risk management and responsible use of technology. Regulatory changes that could favour particular execution mechanisms should be avoided, as restrictions on competition or execution choice could run counter to global trends towards greater automation and choice.

A second industry speaker welcomed the launch of the consolidated tape for equities and ETFs, considering that it largely addresses the transparency problems associated with market fragmentation by giving investors and issuers worldwide a consolidated view of trading prices across European venues.

A third industry speaker also welcomed the recently launched consolidated tape, noting the role of European exchanges in its development, and stressed that its performance in practice should be assessed before introducing further changes, in line with the principles of better regulation.

3.3 Post-trading measures

A regulator welcomed MISP's proposed prescriptive measures to improve infrastructure connections. These measures aim to move towards a hub-and-spoke model by interconnecting CSDs and strengthening open access at clearing level, which should facilitate access to European liquidity at lower cost and make it easier for issuers to list.

An industry speaker also supported the proposed measures aiming to interconnect CSDs and connect them to TARGET2-Securities, which could enable investment firms to choose where to settle EU instruments and rationalise costs. Proposed improvements in open access between exchanges and CCPs are also positive but interoperability between CCPs should be mandated to enable trading firms to centralise clearing at a chosen CCP, which would save costs, and support genuine competition between trading venues.

3.4 DLT Pilot Regime

An industry speaker raised concerns about MISP's proposed extension of the DLT Pilot Regime, which could allow sovereign debt instruments to be traded using permissionless DLT platforms, with assets potentially held in offline wallets outside Europe. In the event of a crisis affecting these markets, this could complicate intervention by European regulators and supervisors and potentially increase market fragmentation.

4. Complementary measures to support investment and develop IPOs

An industry speaker noted that some other important aspects for the development of capital markets need further work. Broadening investor participation by converting savers into investors, increasing the number and size of IPOs and developing closely connected private markets are essential objectives that are recognised in the package, but would require a more developed strategy.

A regulator emphasised that complementary SIU initiatives, notably concerning pensions and savings and investment accounts, aim to increase savers' direct and indirect participation in capital markets and require coordinated implementation alongside MISP. Some of these measures risk remaining largely national, requiring strong central monitoring by the Commission and Council. IPO activity also remains inadequate despite encouraging examples in certain Member States. The Listing Act improves listing conditions for SMEs, but further measures are needed to facilitate initial listings, continued access to public markets and transfers between listing markets, particularly for companies initially listed on growth markets.

Another industry speaker added that the slow pace of European decision-making, with legislative cycles of five to seven years, is also a competitive disadvantage relative to the US and Asia. Accelerating these processes is essential, while preserving democratic principles.

Wrap up

The Chair highlighted several key takeaways from the discussion, notably the importance of a level playing field that does not favour particular market models and the need for market participants to contribute to European integration and scale, alongside regulatory reforms. While greater interoperability could improve market integration, further consolidation may also be needed to achieve sufficient economies of scale, potentially requiring a more global perspective from competition authorities. The development of IPOs, market liquidity, retail investment and pensions are closely interconnected, and progress across these areas is essential to strengthening Europe's international competitiveness. While the impact of MISP remains uncertain, timely and effective implementation is essential to ensure that Europe makes meaningful progress on market integration and competitiveness.

Securities trading: fragmentation, future trends and MISP implications

1. Evolution of the European securities trading markets

The Chair explained that European securities markets are evolving rapidly, driven by technological innovation, changing investor behaviour and regulatory developments, including the MiFID review and the proposed MISP package. Trading is increasingly distributed across different execution mechanisms, including continuous lit order books, closing and periodic auctions, systematic internalisers (SIs) and other non-lit execution methods. Developments such as algorithmic and AI-driven trading, extended trading hours, passive investment and the transition to T+1 settlement could further change how liquidity is formed, accessed and distributed across European markets.

1.1 Main trends in market structure and liquidity distribution

A regulator reported that ESMA's first assessment of European equity market structure based on transaction-reporting data indicates that markets continue to function well, although some developments merit closer attention. Between 2022 and 2025, addressable liquidity, meaning trading activity potentially accessible to other market participants, remained broadly stable at around 85–90% of total turnover (value of securities traded over the period), with on-book trading accounting for approximately 75–80%. However, liquidity is increasingly redistributed across different execution mechanisms: continuous lit order-book trading (CLOB) is declining, while closing, intraday and frequent batch auctions are gaining ground. Frequent batch auctions involve repeated auctions during the trading day, each lasting only milliseconds. SI activity has doubled from approximately 5% to 10% over four years, with numerous small transactions alongside larger transactions concentrated among relatively few firms. Dark trading remained broadly stable, at around 4.5 to 5% of turnover.

An industry speaker confirmed the decline in continuous lit trading and growth in frequent batch auctions and off-order-book SI activity. Closing-auction volumes are rising, a global trend highlighted in a recent IOSCO report and partly driven by passive investing. However, the overall balance between on-book and off-book trading remains broadly stable; it is the execution mechanisms within these categories that are changing.

Another industry speaker agreed that European equity markets currently function well both for institutional and retail investors, while stressing the need to continue monitoring their performance.

Another regulator observed substantial differences between national markets. Approximately 90% of trading liquidity in Poland is concentrated on its primary exchange, compared with around one-third in Austria. Warsaw's stock-market capitalisation has grown more strongly than Vienna's. In 2019, it was 13% higher than Vienna's, a difference that has widened to 49% in 2026. This suggests that marginal trading-cost advantages associated with more diversified trading arrangements are not necessarily decisive for market development.

1.2 Drivers of change in trading patterns

An industry speaker attributed changes in trading patterns to technological innovation, the growing importance of information-driven trading, changes in the types of market participants and best-execution rules, which require investment firms executing client orders to seek the best possible outcomes when choosing how and where to execute them. In increasingly sophisticated and information-driven markets, large client orders executed on lit order books are often divided into smaller orders during the day, potentially creating signals that other participants can detect and use to move prices against the client. Alternative mechanisms, despite sometimes offering less pre-trade transparency, can reduce information leakage and market impact, delivering better execution outcomes.

A second industry speaker emphasised the role of investor needs in driving changes in trading patterns. As buy-side investors become more sophisticated, they seek complementary execution methods. Continuous lit trading through CLOBs remains essential where an open, competitive market can provide suitable execution without undue market impact, but SIs and other execution mechanisms can be more appropriate for sensitive or larger orders, or when immediate execution certainty is important. These execution mechanisms play complementary roles, with investor demand influencing where liquidity is provided. Shifts in trading volumes between execution mechanisms should therefore not, in themselves, justify regulatory intervention. To develop deeper liquidity pools in Europe, in line with the SIU's objectives, the priority is to ensure that the range of execution mechanisms continues to meet investor needs while preserving the role of CLOBs in effective price formation and maintaining overall market quality.

A third industry speaker observed that frequent batch auctions have grown rapidly from a zero base by serving previously unmet investor needs, complementing rather than replacing CLOBs. It is natural that the CLOB model, introduced nearly 60 years ago, should be supplemented by newer execution mechanisms addressing different investor needs.

2. Implications of market trends for market quality and competitiveness

The Chair framed the central question as whether European markets deliver deep, resilient liquidity, effective price formation, high-quality execution, transparency and efficient access across the EU.

2.1 Competition and choice

A regulator explained that respondents to ESMA's call for evidence on European equity market structure largely agreed on the observed market trends, but disagreed on the interpretation of some evolutions. Some considered the changes to be a natural consequence of competition and evolving investor demands; others saw threats to price formation and liquidity access. Two topics were particularly controversial. Concerning SIs, sell-side firms and market makers regarded their growth as a natural evolution, whereas trading venues and investor representatives questioned whether SIs compete on a level playing field. Views on frequent batch auctions also differed: some respondents were favourable or neutral, while others including certain trading venues and academics suggested closer examination.

An industry speaker considered that successive reforms have enabled European equity markets to deliver greater competition and choice, reducing explicit trading costs and improving end-investor outcomes. These benefits also attract additional liquidity and can support healthier IPO pipelines.

Another industry speaker agreed that the development of competition has contributed to the strength of European equity markets. Trading volumes rose by 23% in 2025, a record year, with an even higher level expected in 2026. Strong market performance is also helping drive trading activity, illustrated by European bank stocks gaining 64% in recent months, compared with 10% for the US Magnificent Seven, reflecting renewed interest in European equities amid global instability. The diversity of European trading platforms helps accommodate and manage these growing volumes.

2.2 Fragmentation and European capital market attractiveness

An industry speaker cautioned that despite substantial aggregate liquidity across European trading venues, its fragmentation raises concerns about achieving the objectives of the SIU. Looking five to ten years ahead, tokenised shares, contracts for difference (CFDs) and other derivative-like products replicating underlying returns could further increase fragmentation. In such a context, tokenised shareholdings should be recorded on-chain or in central depositories to preserve issuers' visibility and control over their shareholder bases and proxy voting rights, while limiting further fragmentation.

Another industry speaker considered that what some regard as fragmentation can also be seen as competition, and that the current degree of fragmentation in Europe is not a cause for concern. The US market is considerably more fragmented than the EU in terms of trading activity: OTC trading reached 52% in summer 2025, compared with approximately 20% in Europe after excluding clearing transactions and technical trades. The main European primary exchanges also retain larger shares of trading in their own stocks, around 50%, compared with 20 to 30% for the major US exchanges. European equity trading consequently remains more centred on primary exchanges than in the US.

2.3 Price formation, market liquidity and the role of primary markets

An industry speaker expressed concern about the migration of trading away from lit venues, which provide most of the price formation. If primary exchanges increasingly become the last resort for routing orders, they risk attracting a greater concentration of toxic order flow and intraday micro-volatility, to the detriment of investors who continue to trade on these venues. Europe is also losing high-growth companies, including unicorns and decacorns, to markets such as the US, which offer access to different investor bases, deeper and more liquid lit markets, lower costs of capital and better trading conditions. US lit order books offer higher market quality, supported by stronger on-exchange liquidity provision, in a market characterised by more intense competition and greater fragmentation. Improving the fairness and efficiency of European trading is therefore essential to achieving the objectives of MISP and the SIU.

A regulator also warned that the decline in continuous lit trading and the growing importance of alternative trading mechanisms threaten price discovery and the viability of primary-market business models.

The regulator acknowledged the benefits of innovation and incremental price improvements offered by alternative trading mechanisms but argued that primary regulated exchanges face competitive disadvantages because, in addition to their role in lit price discovery, they bear the costs of organising IPOs, which are essential for financing the real economy, as well as related regulatory and supervisory costs. These obligations make it difficult for them to compete with other trading operators on execution costs alone. Public authorities therefore need to consider these broader market effects beyond individual client outcomes, such as marginal improvements in execution prices.

A second industry speaker considered that lit order books currently show no signs of deterioration, citing a European Principal Traders Association (EPTA) study covering small-, medium- and large-cap stocks in the STOXX Europe 600, which found that quoted spreads and displayed order sizes had remained stable over five years, consistent with ESMA's assessment. Nevertheless, future deterioration remains possible and requires monitoring, particularly if investors start moving away from lit order books instead of combining them with complementary execution mechanisms.

A third industry speaker agreed that available evidence shows no apparent deterioration in bid-ask spreads or execution slippage (difference between the expected and actual execution price) and that the implications of

changing trading patterns for price formation need monitoring, given the importance of robust price discovery for attracting international and retail investment into European markets. The industry and regulators should agree on observable key performance indicators to monitor these evolutions.

A fourth industry speaker argued that price formation should not be regarded as exclusive to primary exchanges or CLOBs. It occurs whenever buyers and sellers agree on a mutually acceptable transaction, whether through continuous order books, closing or periodic auctions, SIs or bilateral OTC trading. Most price formation takes place through CLOBs, but other execution mechanisms contribute in complementary ways.

The industry speaker added that developing alternative trading mechanisms also requires significant investment in customer consultation, technology development, testing and implementation, while most innovations are not patented and can be adopted by competing operators.

3. MISP proposals and priorities for reform

3.1 Trading market structure and level playing field

A regulator identified two issues warranting particular attention in the context of MISP discussions: whether SIs compete on a level playing field with other trading venues, given potentially different price-increment constraints under tick-size rules; and the rapid expansion of frequent batch auctions. How the negotiations will address these issues remains uncertain. Reforms should focus on market outcomes, such as greater transparency, fair competition and innovation rather than favouring particular business models, while accommodating national differences within the broader objective of efficient, integrated European markets.

An industry speaker considered that MISP does not adequately address liquidity fragmentation in the European equity markets. While fragmentation may reflect greater competition, when combined with opacity it can weaken incentives for effective competition. There is also evidence of widening bid-ask spreads in certain European markets. In addition, EPTA's research finding of stable lit-book quality does not establish whether liquidity and spreads might have improved further in a more transparent market where competition could operate more effectively. Policy work should therefore look beyond observed market-quality indicators and consider whether greater transparency could strengthen competition and improve market outcomes.

Another regulator argued that MISP should give greater priority to trading mechanisms contributing to price discovery and pay closer attention to the longer-term implications of regulatory changes for market efficiency and primary exchanges. Instead, the proposed MISP measures risk accelerating the decline of continuous lit trading and the shift towards alternative execution mechanisms, potentially weakening price formation over time. Although alternative trading venues and primary exchanges remain complementary today, continued liquidity migration away from primary exchanges could progressively undermine their viability, with negative consequences for price discovery, valuations and IPOs. A recent Federation of European Securities Exchanges (FESE) paper warned that secondary-market fragmentation and unfair competition are eroding liquidity on primary exchanges.

The regulator acknowledged the need for competition among trading venues, including for primary exchanges, and suggested that they should place greater emphasis on technological innovation to remain competitive. However, competition is intensifying so rapidly that primary exchanges may not be able to adapt, particularly if MISP accelerates these changes. If this trend continues, European trading could ultimately become dominated by alternative platforms, with very few primary exchanges remaining, raising concerns about the future functioning of European public capital markets.

An industry speaker emphasized that the priority should be to grow the European equity market as a whole. Better investor understanding of Europe's complex trading structure has helped to attract investment. MISP should therefore avoid major structural changes to equity markets, as regulatory stability is important for sustaining this progress and encouraging further investment.

3.2 Consolidated tape and market transparency

An industry speaker stressed that the European equities consolidated tape, which has recently gone live, should help to monitor price formation more precisely. Before introducing further structural changes, policymakers should assess current market performance based on the more comprehensive picture of European liquidity and price formation offered by the tape. The tape may indeed reveal deeper liquidity and a different distribution of trading volumes than generally perceived, as perceptions have not always kept pace with the evolution of European market structure. The tape could be enhanced with venue attribution in pre-trade data, ideally covering all European trading venues. The industry speaker added that the question of including SI quotes is legitimate, but making bespoke bilateral prices offered to individual clients publicly available raises significant practical difficulties and risks creating confusion in the market.

A second industry speaker agreed that the launch of the European equities consolidated tape marks an important step towards improving the visibility of liquidity across European markets and that adding venue attribution would substantially increase its usefulness for supporting European market growth.

A third industry speaker added that the consolidated tape should provide a more complete picture of European liquidity across on- and off-venue trading, helping prospective issuers assess liquidity across the European market. Extending the tape to include the five

best buying and selling price levels and associated quoted volumes displayed in order books would provide visibility of quotes that may not result in trades, providing a fuller picture of liquidity across European markets. In addition, improving pre- and post-trade transparency, with shorter publication deferral periods or higher deferral thresholds, would help reduce information asymmetry, enabling liquidity providers on lit order books to incorporate a more complete view of trading across the market into their pricing.

A fourth industry speaker cautioned that expanding the consolidated tape with additional functionalities before its practical performance has been properly assessed would be premature. Venue attribution could improve transparency, but achieving greater transparency would also require including SI quotes.

3.3 Post-trading optimisation

An industry speaker considered that post-trade reform, particularly in clearing, could deliver more substantial improvements to European securities markets than further changes to trading arrangements. Open access remains incomplete across the EU, with vertically integrated structures restricting competition between clearing providers. Preferred-clearing arrangements, which require both sides of a trade to select the same CCP, are less efficient than interoperability arrangements, which allow counterparties to use different interconnected CCPs. Existing open-access provisions should therefore be more fully implemented to strengthen clearing competition.

A second industry speaker also emphasised post-trade improvements as a priority for enhancing European securities markets. While MISP provides for mandatory CSD interoperability and measures to improve clearing access arrangements, compulsory CCP interoperability remains a key missing measure that could further strengthen European market integration and clearing competition.

A third industry speaker supported further post-trade optimisation and considered that MISP could contribute to European market integration through stronger supervision, while the proposed pan-European market operator regime could also help improve post-trade efficiency.

Post-trade integration and market structure evolution

1. MISP measures and remaining issues

1.1 CSD interconnectivity and passporting

An official welcomed the MISP proposals on CSD interconnectivity as a step towards addressing the fragmentation of European post-trade markets, which remains an obstacle to achieving the ambitions of the SIU. Such links can facilitate cross-CSD settlement and allow securities issued in other markets to be settled within a single CSD, while helping to reduce lengthy chains of custodians and other intermediaries. Objections that some proposed CSD links lack market demand tend to take as given today's market fragmentation, excessive home bias and limited cross-border trading, which make many cross-border transactions uneconomic and prevent potential demand from emerging. Decisions on new links should therefore also take into account the demand that improved connectivity could generate.

The official stressed that CSD interconnection can also encourage harmonisation of market practices, complementing ongoing work within the TARGET2-Securities (T2S) community to develop common standards for settlement, corporate events, shareholder identification and messaging. The Eurosystem and T2S users are also pursuing initiatives to improve the efficiency and accessibility of T2S and strengthen its contribution to European post-trade integration. These include simplifying T2S's complex pricing schedule; improving the processes for developing and implementing changes to the T2S platform requested by market participants; enhancing cross-CSD settlement including with CSDs outside T2S; and expanding the currencies and markets covered by T2S, with additional countries due to join.

An industry speaker supported encouraging additional links between CSDs where justified, noting that many links already exist. Their relevance and costs must be assessed, since custodians would bear the cost of developing them and ultimately pass it on to clients and end investors. Unjustified costs should not be imposed on the market.

An official welcomed the MISP proposals to improve CSD passporting and freedom of issuance, particularly the significant shift from prior authorisation to notification for CSDs providing services in another Member State.

1.2 Persistent legal and operational barriers to integration

The panellists welcomed the MISP proposals to improve post-trading integration, highlighting their potential to facilitate cross-border issuance, investment and settlement and their capacity to strengthen competition, increase scale and user choice and potentially foster innovation. They however stressed that persistent legal, fiscal and operational barriers could limit the effectiveness of these measures, making further efforts to address fragmentation necessary.

An official observed that the benefits of MISP and T2S initiatives for cross-border connectivity and settlement may be limited by persistent differences across national frameworks, notably regarding tax and corporate actions.

Another official also noted that national differences in company, tax and insolvency law and corporate-action processes could undermine the benefits of CSD interconnectivity and passporting. Such barriers continue to impede seamless cross-border issuance and transfer of securities. Existing harmonisation initiatives address some of them, but further progress is needed. The official moreover highlighted the supervisory consequences of these persistent legal differences. Under the MISP, CSD passporting would be simplified, replacing prior authorisation with a notification procedure for providing services in other Member States. However, as long as certain legal and operational requirements differ across Member States, host supervisory authorities will need to retain the ability to request information from CSDs based in other Member States in order to assess their preparedness to operate under local requirements.

An industry speaker stressed that despite 25 years of efforts to address the Giovannini barriers, frictions persist throughout the post-trade chain in many areas such as securities lending, ownership and account structures, corporate-action processing, withholding tax and fiscal transparency, affecting market participants and efficiency. In addition, Europe's post-trade landscape remains too fragmented with 10 CCPs and 29 CSDs. The challenges however are significantly greater in equity than in fixed income markets. Bolder public-sector action is also needed to make passporting effective across the single market, including for fund depositaries, as proposed under MISP, in order to support greater scale and efficiency in the asset management sector.

Another industry speaker also noted that while MISP is an unprecedented opportunity to reshape post-trading market structure, differing national rules continue to create frictions that hinder passporting and require collective action. The proposed fund depositary passport, for example, appears premature given insufficient harmonisation of national legal and supervisory frameworks.

1.3 Internalised settlement and custody requirements

An industry representative considered that the MISP provisions on internalised settlement should better reflect its nature as a custody service, particularly regarding reporting and fee transparency requirements. When a custodian settles transactions between two clients within the same omnibus account, this constitutes a custody service and not a substitute for CSD core services.

Reporting methodologies should be improved to reflect that distinction, so that information supplied by custodians and CSDs enables supervisors to assess internalised settlement appropriately. MISP also proposes establishing greater fee transparency, but public fee disclosure requirements comparable to those applicable to CSD core services do not appear appropriate for internalised settlement, which is a different type of service whose price is already disclosed directly to custody clients.

The industry representative also pointed out that CSDs provide ancillary services alongside their core functions, which may compete directly with custodians. Such competition benefits market and clients, but comparable activities offered by different providers should be subject to equivalent regulatory requirements to ensure a level playing field.

2. Complementary initiatives and approaches to post-trade integration

2.1 The potential contribution of a 28th regime

An industry speaker observed growing momentum for European post-trade integration. The main question is no longer whether more integration is needed, but how to achieve it, given the diversity and complexity of existing legal and operational arrangements across Europe. A possible 28th regime could provide a useful optional common European framework without requiring full harmonisation of national rules. However, its success would depend on effective interaction with national legal frameworks in areas outside the common regime, and with existing market infrastructures and operational practices across Member States. The aim should be to reduce fragmentation and complexity, not add another regulatory layer that may prove difficult to integrate into day-to-day operations.

2.2 Lessons from the Eurobond market

An industry speaker highlighted the greater integration of post-trade services in the bond market. The Eurobond market, established more than 60 years ago, demonstrates how common legal arrangements, a common operating model and shared settlement infrastructure can facilitate cross-border issuance, investment and settlement. Other European securities markets could draw lessons from this experience, which shows that integration requires progress on all three dimensions (legal frameworks, operating models and settlement infrastructure) with private sector participants contributing notably through the harmonisation of market practices.

3. Progress with the implementation of T+1 settlement

3.1 Industry readiness

An official considered preparations in the European market for T+1 broadly on track but identified two priorities: moving from preparation to effective testing and engaging the entire ecosystem. Firms need to conduct internal testing and prepare for end-to-end market testing scheduled for 2027. CSDs have an important coordinating role in coordinating testing and ensuring that all participants, systems and processes work together effectively across the complex settlement chain to support T+1 settlement. Individual firms must also assess the readiness of their clients, counterparties, vendors and other service and technical providers, identifying and addressing possible gaps, deficiencies and bottlenecks. At system-wide level, monitoring by the authorities and the industry committee is also essential.

Another official reported that two rounds of industry readiness surveys indicate strong awareness and commitment, but also significant implementation challenges, especially for smaller buy-side firms. Three-quarters of respondents reported substantial difficulties with automation, while half said they would be unable to meet the end-2026 deadline for the timing of transaction allocations and confirmations.

An industry speaker drew parallels with the US transition to T+1 two and a half years earlier, which was broadly seamless despite similar challenges with automation and less-prepared smaller buy-side firms. Second-quarter 2026 readiness data confirm the need for further progress in Europe. However, automation and standardisation solutions are already available in the market, including affordable options for smaller firms, and could help address these challenges and improve settlement efficiency.

Another industry speaker confirmed the custodian community's commitment to implementing T+1 by October 2027, with the focus now shifting from regulation to practical delivery.

3.2 T2S adaptations

An official outlined planned T2S changes to support T+1 settlement, including an extended settlement window and a new 'gating event' mechanism allowing certain settlement instructions to be held until a predefined time before becoming eligible for processing, in order to improve settlement coordination and liquidity management. Through AMI-SeCo, the T2S community is also pursuing initiatives under its harmonisation agenda to improve efficiency ahead of T+1, notably by encouraging wider use of T2S's existing advanced liquidity-saving and optimisation functionalities. The postponement of Swift's planned November 2026 update to financial messaging standards, particularly for securities transactions, risked complicating T+1 testing in T2S, but cooperation between the T2S operator, its users and the wider European post-trade community helped identify a way forward to minimise disruption to the transition.

3.3 T+1 as a catalyst for broader market transformation

An official highlighted that T+1 settlement affects the entire transaction chain, beyond settlement, providing an opportunity and incentive for the industry to improve process efficiency and automation and harmonise practices throughout the chain.

An industry speaker presented T+1 as a strategic

opportunity to redesign post-trade workflows, improve efficiency and connectivity across the post-trade chain, and contribute to MISP's objectives of greater market integration and efficiency. The shorter settlement cycle encourages greater automation, facilitating closer integration between different stages of post-trade processing, including trade matching, settlement instructions and related processes. These improvements could also support further harmonisation and prepare markets for digital solutions and potentially real-time settlement. T+1 may also create additional opportunities, including new clearing flows. From a broader perspective, the coordinated transition to T+1 across the EU, UK and Switzerland demonstrates effective cross-border cooperation and could serve as a blueprint for future EU–UK collaboration.

4. Implications of on-going market developments for post-trading

The panellists identified four key market developments expected to further impact securities markets and the post-trading space: T+0 settlement, extended trading hours, tokenisation and the development of private markets.

4.1 Post-trading implications of T+0 settlement and extended trading hours

An industry speaker observed that T+0 can refer to different settlement models, including end-of-day or atomic settlement, the latter implying a substantially different market structure. The implications for securities inventory, transaction funding, automation, securities lending and foreign exchange all need to be anticipated and discussed before determining next steps.

The industry representative observed that extended trading hours could also take different forms, including 24/7, 23/5 or 24/5 trading. In the US, extended trading hours are expected to be introduced by the end of 2026. This potentially transformative development makes it necessary for Europe to assess whether extending trading hours would be desirable or necessary, without necessarily moving towards implementation. Such a move could significantly affect cross-border post-trade processing, liquidity windows, the management of volatility and potentially lead to wider bid-ask spreads. The future market structure required to support extended trading should also be considered collectively after MISP.

Another industry speaker noted that trading already operates around the clock during the business week in foreign exchange and certain derivatives markets, and that the feasibility of settling transactions involving US Treasuries outside normal Fedwire operating hours has been demonstrated. However, extending trading and settlement hours more broadly across securities markets presents greater post-trade complexities.

4.2 Tokenisation and digital market models

An industry speaker emphasised that Europe's market structure needs to evolve to also support tokenisation and other digital models, which present both opportunities and challenges. These models could simplify issuance, improve transparency and securities servicing and make collateral and settlement arrangements more efficient. Private-sector participants should also make greater use of digital technologies to simplify processes, improve information flows and support integration. However, innovation and market activity in these areas are already gaining momentum outside Europe. Europe therefore needs to accelerate the development and implementation of new digital market models, overcoming existing fragmentation, to ensure that these activities can also develop at scale in Europe.

4.3 Private markets

An industry speaker highlighted the post-trading and securities services implications of the growing convergence between public and private securities markets. As private assets become more accessible to a wider range of investors, their administration and servicing increasingly need to interact with processes traditionally used in public markets, whereas private markets have traditionally relied on bespoke processes, manual administration, less frequent valuations and more restricted liquidity. Post-trade infrastructure needs to evolve to accommodate these characteristics while supporting closer interaction between the two markets.

Wrap-up

The Chair noted that the panel showed broad agreement on the challenges facing European post-trade markets and the potential contribution of MISP. The analysis underpinning MISP has been completed, but the challenge now is to translate the proposals into effective measures to improve connectivity, harmonise market standards and automate procedures, thereby supporting greater integration, competition and efficiency. While MISP cannot resolve every obstacle, significant progress is possible with sufficient effort and a willingness to make the right decisions. The Eurosystem's ongoing initiatives in the context of T2S can also contribute to improving connectivity. However, longstanding legal, tax and insolvency barriers, already highlighted in the Giovannini report more than 25 years ago, remain to be addressed. MISP's reference to a possible 28th regime offers an additional avenue for consideration in this regard.

Regarding T+1, the Chair stressed the importance of delivering the transition successfully by October 2027, with ESMA supporting the industry's preparations. Beyond shortening settlement cycles, T+1 offers opportunities to improve automation, efficiency and cross-border cooperation. Industry readiness surveys indicate that further work is needed, while the postponement of Swift's securities messaging update and the changes to T2S illustrate the importance of close cooperation across markets. Finally, time and investment are needed to prepare for emerging market developments, notably real-time settlement, extended trading hours and new digital market models, which are no longer distant prospects.

Digital innovation in post-trading

The Chair highlighted the potentially transformative impact of distributed ledger technology (DLT) and tokenisation on European post-trading, quoting an ECB official who described tokenisation as a "Copernican revolution", potentially challenging established market practices and structures. Interest in these technologies has increased significantly in recent years, raising the question of how to move from experimentation towards large-scale adoption within Europe's existing post-trade ecosystem.

1. Progress in the adoption of DLT and tokenisation in post-trading

An industry speaker considered that Europe needs to accelerate the adoption of DLT and tokenisation in response to competitive pressure from other jurisdictions and agile fintech newcomers. A transition from prolonged debate towards implementation is necessary as entrants without legacy systems, established client bases or entrenched market positions can already execute transactions through atomic settlement and challenge incumbent market structures.

A second industry speaker considered tokenisation to have moved beyond experimentation, with digital securities issuance gaining momentum. As securities are tokenised where they are issued, post-trade infrastructures have a central role in this transformation. Collateral is the main near-term institutional use case for DLT, while clients will determine the pace of adoption. Competition from the US is increasing pressure on Europe to accelerate tokenisation and interoperability, while the Eurosystem's Pontes initiative and the development of wholesale central bank digital money offer important opportunities to strengthen Europe's competitive position.

A third industry speaker outlined plans pursued by their infrastructure to make existing securities available in tokenised form. A separate digital exchange demonstrated technical feasibility, but the greater opportunity now lies in integrating tokenised assets into the traditional CSD. The objective is to enable seamless mobilisation of securities, whether originally issued digitally or tokenised subsequently, through a single connection to both environments.

An official explained that the UK is moving from experimentation towards regulated digital securities activity through a staged sandbox approach designed to help projects progress from proof of concept to permanent market activity, while allowing authorities to learn from practical experience. Tokenisation, however, has not yet reached critical scale. Digital Gilt Instrument (DIGIT), the most advanced initiative, will provide an opportunity to test the full lifecycle of a digitally issued government security, including issuance, ownership, trading, settlement, custody and use as collateral. As a credible sovereign asset, DIGIT could encourage platforms and market participants to invest in new digital infrastructure. It would also provide policymakers with evidence from real transactions to inform a longer-term issuance framework, rather than relying solely on theoretical analysis or proofs of concept.

2. Benefits and challenges associated with DLT and tokenisation

2.1 Operational efficiency, asset mobility and programmability

An industry speaker highlighted the potential for DLT to provide a common, trusted transaction layer instead of multiple institutions maintaining and reconciling separate records. Smart contracts could automate settlement, coupon payments, redemptions, corporate actions and collateral substitution. The measure of success should be less the amount of business moving onto blockchains than the reduction in reconciliation, messaging, manual intervention and immobilised collateral. Combining digital securities and cash on interoperable infrastructure could enable atomic, potentially instantaneous settlement at a fraction of existing costs, while faster collateral mobilisation could reduce funding costs and capital tied up during lengthy settlement periods.

A second industry speaker presented Pythagore, expected to begin operations in December 2026, as an initiative to enable the tokenisation of existing short-term commercial paper, with other asset classes to follow, starting with fixed income. Digital issuance of Negotiable European Commercial Paper (NEU CP) could offer faster and cheaper issuance and potentially greater liquidity. Investors could reinvest cash received in the morning later the same day, a flexibility unavailable under current arrangements, potentially stimulating investor demand and encouraging further issuance. The existing largely OTC short-term paper market is already efficient and used extensively by banks, but less by corporate issuers. Investors seeking early liquidity generally rely on buybacks by financial institutions, which corporate issuers are less willing to provide. Greater liquidity could therefore attract more corporate issuers to the market.

The industry speaker added that beyond reducing back-office costs and complexity, DLT should enable a more efficient use of securities through more automated and effective liquidity pools. The technology offers significant opportunities, including 24/7 asset mobility, instantaneous information sharing and, above all, asset programmability, whose benefits remain largely unexplored.

A third industry speaker agreed that the benefits of tokenisation go far beyond automating individual, already efficient tasks. Programmability offers the possibility of redesigning workflows so that actions can be linked and executed conditionally, providing greater predictability in their interaction. As a concrete example, meeting a CCP margin call requires identifying eligible assets, determining the cheapest way to deliver it, potentially arranging foreign-exchange or repo transactions, transferring cash to the CCP and updating several systems. While these individual steps are already quite efficient, the connections between them are not necessarily seamless or fully predictable, creating uncertainty and a need for costly operational buffers and verifications. Programmability could reduce this uncertainty and hence the need for operational buffers and even regulatory capital buffers, although the latter remains more uncertain. The main opportunity is therefore to improve the outcome of the overall process rather than simply the efficiency of its individual steps.

A regulator identified tokenised collateral as the most tangible near-term DLT application in the clearing space. Its potential benefits still need to be tested against practical outcomes: less reconciliation, greater collateral mobility and deeper cross-border liquidity, alongside the associated regulatory implications.

2.2 Legal conditions and fragmentation challenges

An official identified three key requirements for digital securities: legal certainty over ownership, settlement finality and insolvency treatment; interoperability so platforms do not become isolated "walled gardens"; and trusted settlement arrangements supported by operational resilience. These requirements remain essential regardless of the technology used.

A regulator similarly stressed that tokenisation changes processes but does not eliminate existing credit, liquidity, concentration or wrong-way risk. Fragmentation, whether visible or hidden, is another major challenge. Multiple ledgers, bridges, smart contracts and identity layers may develop alongside already fragmented legacy systems, with digital and conventional infrastructures likely to coexist for a long period. This coexistence requires authoritative records, reliable reconciliation and conversion between digital and conventional forms of assets, and tested fallback arrangements. Legal certainty over ownership, control, settlement finality and insolvency treatment, together with interoperability between DLT platforms and legacy systems, remains essential.

3. Conditions for scaling DLT and tokenisation in the post-trading space

3.1 Interoperability between DLT platforms and with traditional infrastructures

An industry speaker argued that Europe's objective in post-trading should not be to replace existing financial market infrastructures (FMIs), custodians and other regulated intermediaries, but to reduce operational duplication and fragmentation between them. If digitalisation produces incompatible DLT networks, tokenisation platforms and settlement assets that cannot communicate effectively with one another or with legacy infrastructures, it will merely perpetuate existing complexity. Some fintechs are developing horizontal interoperability layers connecting existing infrastructures, offering a faster way to improve post-trade efficiency and integration than consolidating infrastructures. Interoperability also offers more immediate opportunities in post-trade than in trading.

The industry speaker also stressed that part of the efficiency of the US market can be attributed to the integration of the Depository Trust Company (DTC), the National Securities Clearing Corporation (NSCC) and the Fixed Income Clearing Corporation (FICC) within the DTCC group, which was influenced by public authorities. In Europe, consolidation among major market operators was also envisaged during the development of T2S but did not materialise. Europe could benefit from comparable integration, but such consolidation does not appear likely in the short term. Greater interoperability across existing infrastructures offers a more realistic near-term approach, but Europe is moving too slowly, while clients continue to face high post-trading costs and settlement delays.

A second industry speaker explained that hybrid models are already available to bridge traditional and digital assets, allowing clients for example to hold cryptoassets through a CSD or make traditional assets available in the digital environment. Interoperability between digital and traditional assets is essential in this perspective. Their infrastructure has a two-year plan to digitise and tokenise existing securities and make them available on digital infrastructure according to client demand, with smart contracts offering significant potential for improving existing processes.

The second industry speaker also emphasised that European post-trading infrastructures already benefit from significant technical interoperability through T2S and the Euroclear–Clearstream Bridge. Common standard-setting work with DTCC and a planned link to its collateral platform will also strengthen connectivity with the US. The main issue is the lack of incentives for using T2S, as its pricing mechanisms do not sufficiently encourage its use and settlement penalties are stricter on T2S than outside it, creating an unlevel playing field. New technically interoperable DLT networks could similarly create additional fragmentation unless appropriate incentives and a level playing field encourage market participants to use shared infrastructure. The speaker also noted that the number of European CSDs overstates the degree of market fragmentation, since the market is largely organised around a few competing groups.

A third industry speaker distinguished technical fragmentation, with activity taking place across multiple ledgers, from fragmentation at the level of legal entities and governance arrangements. FMIs could play a key role in connecting these different ledgers and facilitating transactions across them in a safe, scalable, reliable and supervisable manner, as they already do across different technologies.

3.2 Common standards, incentives and level playing field

The Chair noted ongoing work for approximately 15 years on interoperability and standards including corporate-action standardisation and questioned how this convergence work could translate in the digital environment.

An industry speaker agreed that substantial progress has already been made on standardising corporate actions in conventional markets. Work is also progressing on common standards for interoperability between digital and traditional market infrastructures, including initiatives undertaken jointly by leading post-trade providers. but faster advances require incumbents, newcomers and regulators to agree common objectives and how rules should evolve. Some initial fragmentation is a normal part of innovation as competing DLT platforms demonstrate their capabilities. It becomes a more serious risk when markets seek scale and digital networks cannot interoperate with each other or with conventional infrastructures.

3.3 Achieving scale and commercial viability

An industry speaker considered that achieving sufficient scale in tokenised markets is essential to realise the full benefits of interoperability between digital and traditional infrastructures. While interoperability should be built into new infrastructures from the outset, projects such as Pythagore also need to attract a critical mass of on-chain assets and investor activity to support broader adoption of tokenisation.

Another industry speaker agreed that greater scale is needed, but stressed that this requires significant multi-year investment, legal certainty and commercial viability. Business models must apply to a sufficiently wide range of assets, whereas current applications under the DLT Pilot Regime are restricted to a small number of newly issued digital securities, which cannot justify the necessary investment. Mobilising traditional and tokenised securities through hybrid infrastructure is therefore essential.

A regulator observed that Europe has no shortage of digital projects, but still lacks a credible path from experimentation to large-scale adoption.

4. Policy framework for scaling DLT and tokenisation

4.1 A common roadmap and regulatory framework

An industry speaker called for a common European roadmap towards integrated digital securities trading and settlement, including the cash leg, to accelerate progress and keep pace with innovation elsewhere. While the transition will take time and must be managed safely, greater post-trade interoperability should be an immediate priority, followed by further work on primary markets.

Another industry speaker warned that slow progress in developing tokenised markets could leave Europe increasingly dependent on technologies, operating models and rules developed in other jurisdictions, creating strategic vulnerabilities. To unlock the value of more automated liquidity pools, Europe needs to act promptly in defining the regulatory framework, rules and standards for tokenisation, including clarifying how existing regulations apply. The growing awareness of the risks of inaction could itself help accelerate decisions and implementation.

The Chair noted that the Eurosystem's Appia initiative aims to bring together public and private market participants to develop a common vision, standards and roadmap for an integrated European tokenised financial ecosystem.

4.2 DLT Pilot Regime

The Chair asked whether the MISP proposals to adapt the CSDR to DLT, including allowing existing CSDs to use the technology and the possible separation of certain CSD core services, go far enough to facilitate tokenisation.

An industry speaker welcomed these proposals but emphasised the need for timely clarification of how CSDs can tokenise securities under their existing licences. The DLT Pilot Regime should also place greater emphasis on interoperability with existing infrastructures holding a substantial stock of conventional securities. However, technical connectivity alone is insufficient to ensure adoption: appropriate incentives and a level playing field are also needed to encourage activity to converge into common liquidity pools.

4.3 The potential contribution of a 28th regime

A regulator indicated that while a common regime would be preferable to ensure legal certainty in cross-border environments, a 28th regime would be the best fallback option if comprehensive harmonisation proves impossible.

An industry speaker supported a 28th regime as a potential step towards greater securities-law harmonisation, provided it remains transitional and serves the longer-term objective of one regulatory framework for both conventional and digital securities and infrastructures.

5. Digital settlement assets and collateral rules

5.1 CBDC and other digital settlement assets

An industry speaker described wholesale central bank digital currency (CBDC) as essential for institutional adoption of tokenisation, although other forms of digital money may also have a role. In Switzerland, Project Helvetia has moved beyond experimentation and questions of technical feasibility to a pilot in which the Swiss National Bank provides wholesale CBDC to settle tokenised securities on SIX's DLT-based infrastructure. In parallel, a separate Swiss financial-sector initiative is exploring a Swiss franc stablecoin fully backed by central bank money. Different forms of digital money could

coexist, provided they can be used safely.

Another industry speaker stressed that tokenised securities would bring limited benefits without an integrated digital cash leg. Switzerland and the US are likely to rely primarily on private-sector solutions rather than digital central bank money, with initiatives such as a tokenised Swiss franc providing alternative cash legs. In Europe, central bank money should remain the ultimate risk-free settlement asset and serve as a foundational layer of trust for wholesale digital settlement, with the ECB's Pontes and Appia initiatives playing an important role in this area. However, central bank money should coexist with other forms of digital money, including tokenised commercial bank deposits, regulated stablecoins and programmable money available around the clock.

A regulator observed that central bank money remains the safest settlement asset, although the PFMI principles for financial market infrastructures recommend its use "where practical and available", rather than requiring it in all circumstances. In cross-border, multi-currency environments, efficiency considerations may justify using other tokenised settlement assets, such as tokenised commercial bank money or MiCA-regulated e-money tokens.

The Chair noted that Pontes, the Eurosystem's short-term solution linking market DLT platforms to existing TARGET Services to enable wholesale settlement in central bank money was about to go live and questioned whether synchronisation with a near-24/7 RTGS system could meet the needs of digital securities markets without requiring fully on-chain wholesale CBDC.

An official confirmed that the Bank of England is initially exploring this approach to assess whether it can meet market needs, before determining whether fully on-chain central bank money would ultimately be necessary.

5.2 Tokenised collateral eligibility and use

An industry speaker called for a rapid review of the Eurosystem's single collateral list and related procedures. In particular, tokenised government bonds still need to be converted into a form compatible with conventional settlement systems before being mobilised as Eurosystem collateral. Tokenised cash similarly needs to be converted for settlement through conventional arrangements. Removing these conversion requirements could allow securities and cash to remain in digital form throughout transactions, encouraging wider adoption, with the ECB acting as a facilitator. The Chair indicated that work is underway in this area. The industry speaker also highlighted the need to facilitate the use of tokenised securities as collateral at CCPs.

Another industry speaker pointed out that securities tokenised within a CSD can already be accepted as Eurosystem collateral, provided they meet the eligibility requirements.

A regulator stressed that tokenised collateral used by CCPs should meet the same risk-management principles and regulatory standards as conventional collateral. This requires legal certainty over ownership, applicable law and settlement finality, as well as the ability to access and liquidate collateral promptly in the event of a default and to recover operations following a system compromise. These requirements may be more difficult to meet on permissionless blockchains than on private ledgers.

6. Concluding priorities

Responding to the Chair's invitation to highlight one key priority for advancing DLT and tokenisation in European post-trade, the panellists highlighted: (i) the need for stronger cooperation among incumbent firms, newcomers and regulators around common objectives and implementation; (ii) the establishment of a common roadmap and investment plan for the whole ecosystem; (iii) learning from T2S, particularly the non-technical implications of new technologies for market structure and risk management, including centralisation and counterparty credit risk; (iv) a more active role for regulators in facilitating innovation and recognising it as an objective in its own right to accelerate progress; (v) a proportionate path from experimentation to adoption at scale, while maintaining trusted risk-management foundations and ensuring interoperability across the emerging ecosystem; and (vi) common, technology-neutral standards covering legal certainty, interoperability, data, governance and resilience.

The future of asset management

1. Key market trends

1.1 Overall market growth trends and prospects

An industry speaker observed that financial markets have reached new highs, partly on optimism about AI, despite geopolitical uncertainty, supply-chain pressures and inflation. These risks could rapidly change the outlook, but economies have avoided contraction so far, consumer spending has held up and Europe's core businesses remain resilient. Europe nevertheless faces major investment needs in digitalisation, defence, infrastructure and energy-system transformation, as identified in the Draghi report. Deepening European capital markets and channelling more household savings into productive investment would help finance these priorities, while boosting productivity, growth and competitiveness.

Another industry speaker added that an environment of greater volatility, higher interest rates and inflation, and geopolitical fragmentation is likely to accelerate consolidation in asset management, creating a major opportunity for the strongest active managers.

A regulator noted that the European fund sector grew by around 6% in 2025, a positive but unexceptional performance.

Another regulator observed that Spain's collective investment industry is performing strongly despite market uncertainty, with assets under management rising by 13% in 2025 to almost €500 billion, alongside increasing retail investor interest.

1.2 Asset management industry dynamics

An industry speaker emphasised the persistent pressure on asset managers' margins. Lower fees and the spread of open-architecture distribution, through which firms offer third-party funds, benefit investors but constrain managers' revenues. The industry therefore needs to adapt its business models while continuing to serve investors and finance Europe's economic transition.

Another industry speaker observed that fund rationalisation and industry consolidation are creating greater scale, benefiting investors. Despite the UCITS framework and its cross-border passport, Europe however still lacks a genuinely integrated investment fund market, resulting in less favourable outcomes for investors than in the US.

A regulator noted the high concentration of Germany's fund market: its ten largest fund management companies account for more than 70% of assets, while the ten largest custodians safeguard more than 90%.

1.3 Retail investor needs and behaviours

An industry speaker presented a survey of 17,000 households across nine EU countries on saving motivation and behaviour, showing that fear of losing money and lack of financial knowledge are the main barriers to investing. Fewer than a quarter of respondents had a clear retirement-funding plan, while almost a third expected the state to finance their retirement entirely, an expectation particularly prevalent in more highly indebted countries. More than a quarter held all their long-term capital in cash and many considered cash the best-performing long-term investment. Europeans have accumulated an additional €2.8 trillion in savings since the pandemic; had that money been invested in global equities, its value would now be €5.4 trillion. This illustrates the opportunity from deeper capital markets. The industry speaker further warned that failing to mobilise savings into productive investment could exacerbate wealth inequality and, ultimately, political discontent, rather than strengthen household financial resilience and finance European innovation.

A second industry speaker stressed the growing importance of individual retirement solutions. Meeting investor needs requires not only suitable products but also a simple investor journey that builds confidence and encourages investment.

A third industry speaker highlighted demand for greater product choice, simplicity, accessibility and outcome-oriented solutions, alongside access to private markets that were previously largely reserved for institutional investors.

1.4 Product trends

An industry speaker emphasised that the asset management market is becoming increasingly polarised around passive strategies, particularly through ETFs, and more innovative active strategies, alongside a cautious expansion of retail access to private assets.

Another industry speaker observed that ETFs are becoming a preferred investment structure and are no longer confined to passive strategies. Investors are now more focused on the types of assets they want to invest in and the products through which they can access them, rather than on the distinction between active and passive management.

A third industry speaker stressed that active and passive management remain complementary, while warning that excessive reliance on passive investing could increase concentration risks. ETFs are investment wrappers rather than investment strategies in themselves and now provide access to a broad range of assets and strategies, including equities, fixed income, commodities, thematic and ESG investments, as well as active management. The growing role of private markets, including private equity, private credit, infrastructure and real estate, also complements public equity and bond markets in financing the productive economy. Retail investors could benefit from the higher long-term return premiums associated with these private assets, provided access is structured responsibly, for example through large, diversified vehicles with limited private-asset

allocations. A further trend is the growing demand for outcome-oriented solutions addressing retirement income, inflation protection, capital guarantees and wealth accumulation, rather than focusing solely on investment performance.

A regulator reported that ETFs accounted for two-thirds of net inflows into open-ended mutual funds in 2025 in Germany. Momentum behind ESG products has slowed considerably. Launches of new funds with sustainable investment objectives under Article 9 of the SFDR 1 have almost stopped. The launch and distribution of closed-ended retail funds investing in tangible assets have also declined sharply.

Another regulator observed that Spanish investors still favour traditional instruments, with open-ended vehicles representing 77% of the market. Their expansion reflects strong equity-market performance, including record levels for the IBEX 35 in 2025 and 2026, and demand for ETFs offering diversification, lower costs and transparency. Private equity and venture capital are also growing by around 15%, although they remain a relatively small market segment. Retail interest in ELTIFs and evergreen funds, which have no fixed termination date, is also rising from a small base, pointing to gradual diversification beyond traditional products.

1.5 Digitalisation trends

An industry speaker noted that digital distribution of investment products is accelerating, citing a projection that digital players could handle two-thirds of global wealth by 2032. The digitalisation of assets is another emerging trend. AI is also reaching a turning point in the investment fund sector: individual, bottom-up applications have delivered isolated efficiency gains, but most firms remain far from the anticipated 20–30% cost savings. Asset managers are therefore moving towards top-down transformation of trading, investment, research and marketing processes. This could generate greater efficiencies while addressing organisational and cybersecurity challenges. The economic implications of AI also require scrutiny, since the cost of AI usage, including token-based charges, may rise and undermine the viability of some applications.

Another industry speaker explained that AI is increasingly changing both asset managers' operations and their interactions with clients, while tokenisation raises wider market-infrastructure and regulatory questions, notably regarding the consistency of rules across jurisdictions. Although tokenisation could ultimately bring many benefits including around-the-clock trading, greater transparency and improved liquidity, the route to achieving these benefits remains uncertain. Tokenised money market funds (MMFs) are widely recognised as a promising initial use case that investors can understand, particularly following extensive regulatory work on the MMF regulation. Initial developments of tokenised MMFs are under way in Ireland, Luxembourg and the UK.

A regulator observed that these technologies are at different stages of maturity: DLT is comparatively well understood, while tokenisation and AI still raise important questions.

A second regulator pointed to the emerging tokenisation of securities, particularly bonds, as a potential means of modernising Spain's financial market.

A third regulator described tokenisation as an emerging area in the UK, although adoption remains slow, and confirmed that tokenised MMFs are a promising use case because they provide investors with yield, unlike some other digital assets. The UK's first digitally native fund, investing in short-duration fixed income, was authorised in 2026, and regulatory guidance on fund tokenisation has been published. Modernising market infrastructure through tokenisation could also improve speed, efficiency and operational resilience.

2. Areas for improvement in the EU fund regulatory and supervisory framework

2.1 Modernising the UCITS and AIF framework

The panellists emphasised that UCITS has become a global standard for investment funds, providing strong investor protection and supporting the international development of the European fund industry. The framework should preserve these strengths while evolving to accommodate innovation, changing market conditions and new investment opportunities.

A regulator stressed the challenge of making regulation sufficiently flexible to accommodate market developments while remaining sufficiently clear and robust to provide appropriate guidance and protect investors. In addition, the lengthy preparation of Level 2 and Level 3 measures risks producing rules that are outdated by the time they take effect. ELTIFs illustrate the importance of flexibility. The first framework failed because it was too restrictive, whereas the more flexible ELTIF 2.0 is supporting market development, although care must be taken to preserve investor safeguards.

An industry speaker emphasised that while adapting the UCITS framework to market developments is important to ensure that European asset managers remain competitive and investors benefit from new opportunities, the key features of the framework must be preserved. In particular, reversing the existing presumption of liquidity for certain eligible securities could impose substantial additional obligations on managers and fundamentally change the UCITS framework. More broadly, regulation needs to be simpler and more holistic, with impact assessments addressing the cumulative effects of different measures rather than examining each in isolation. Greater supervisory convergence, a shared European vision and a forward-looking international perspective would support this approach.

A regulator advocated a consistent assessment of the eligibility of underlying assets, whether UCITS funds invest in them directly or gain exposure through other instruments, in line with ESMA's proposed look-through approach.

An industry speaker emphasised that regulatory stability has been central to UCITS' success and investors'

confidence in the framework. Targeted evolution could nevertheless provide greater diversification for retail investors provided this does not introduce excessive complexity. In particular, the application of look-through requirements deserves consideration: where a UCITS fund invests in a product already governed by a dedicated framework, such as an ELTIF, it might not be necessary to examine that product's underlying assets separately for eligibility purposes.

Another industry speaker observed that the UCITS brand has achieved global reach, with cross-border distribution extending well beyond Europe, particularly into Asia-Pacific. Preserving this success requires the framework to evolve with market developments. In the speaker's view, the review of UCITS eligible-assets rules should take a more holistic approach, focusing on whether funds can deliver the key features investors expect, particularly daily liquidity, rather than assessing the eligibility of individual investment exposures too restrictively. Experience in other jurisdictions shows that ETFs can provide access to a wider range of assets, including private markets, while maintaining daily liquidity.

2.2 Consistency of the EU asset management framework

A regulator called for consistent regulation and supervision, without gaps, overlapping requirements or national gold-plating, which make European markets less attractive and could constrain innovation relative to the UK and US. Recent reviews of UCITS and the AIFMD have brought improvements in delegation, liquidity risk management and depositary requirements. MISP and SIU could also improve capital allocation across Europe, reduce costs and increase efficiency, although these potential benefits remain to be demonstrated.

Another regulator also noted that differences in how national supervisors apply UCITS provisions call for greater harmonisation and supervisory convergence.

An industry speaker similarly highlighted the scope for more consistent national implementation, citing differences between Member States over whether exchange-traded commodities (ETCs) qualify as eligible UCITS investments.

2.3 Adapting the framework to tokenisation

A regulator advocated a technology-neutral regulatory approach to digitalisation and tokenisation that also addresses operational resilience. Tokenisation must not change the requirement for underlying assets to meet UCITS standards on liquidity, valuation and transparency, preserving investor protection and the credibility of the UCITS label, particularly as more complex investment products become accessible to retail investors.

An industry speaker suggested that greater regulatory clarity is needed on how fund rules designed for traditional operating structures apply to tokenised funds. More closely coordinated approaches across jurisdictions could help create a scalable tokenisation ecosystem, building on the initial use case of tokenised MMFs.

3. Supporting retail participation in investment funds

An industry speaker stated that regulation must look beyond investor protection and low fees to encourage long-term retail participation, capital accumulation and risk management. Savings and investment accounts and pension reform are important tools: in particular, pension reform could help address Europe's growing retirement-funding gap while directing more equity investment towards young, innovative companies.

A second industry speaker stressed that Europe has an investment problem rather than a shortage of savings. Savings and investment accounts could channel more household funds into capital markets, building on experience in the UK, Sweden and Japan that demonstrates their potential to increase retail participation.

A third industry speaker distinguished two routes to greater retail investment. Financial literacy and education are essential but take time, whereas private pension reform and automatic enrolment offer a faster way for people to participate in capital markets and benefit from long-term returns, even without previous investment experience. Countries that introduced such arrangements early, including the US and several European countries, have achieved higher retail participation and pension outcomes. Current pension reforms in Ireland and Germany are encouraging in this perspective.

A regulator agreed that recent reforms to Germany's private pension system could increase the role and attractiveness of investment funds.

Another regulator supported wider retail participation across investment vehicles. Beyond UCITS, selected categories of alternative investment funds might also be made accessible to retail investors, drawing on the experience of ELTIF 2.0. However, extending access to such alternative investments requires appropriate protections.

A fourth industry representative added that simplifying the investor journey should be a regulatory priority to encourage more households to invest.

4. Evolution of the UK fund regulatory and supervisory framework

A regulator noted that UK asset management is experiencing many of the same trends as the EU market, which are also reflected in its supervisory priorities. Industry consolidation, often accompanied by cost-cutting and outsourcing, requires supervisors to ensure that firms identify and preserve their critical operational controls during reorganisation. The growing use of AI raises additional supervisory concerns about operational resilience, particularly cybersecurity, while the expansion of passive and especially quantitative strategies requires

attention to the robustness of modelling environments and associated controls.

In private markets, particularly for firms entering these activities for the first time, supervisors need to address conflicts of interest and ensure reliable valuations. Increasing retail access also requires suitable investment vehicles and clear information about liquidity. Indeed, using daily-dealing funds to provide access to less-liquid or illiquid private assets can create liquidity mismatches, potentially leading to adverse outcomes. The UK's long-term asset fund (LTAF) is designed to accommodate such assets through appropriate liquidity arrangements, but distribution platforms generally prefer daily-dealing products and investors may resist products with scheduled redemptions. Greater investor education is therefore needed to explain the liquidity characteristics of assets and why asset liquidity and redemption terms must be aligned. Real estate provides a familiar comparison, as an assessed property value does not mean the asset can immediately be sold at that price.

The regulator also outlined UK regulatory initiatives. Final rules have been published to strengthen and clarify fund liquidity requirements, while consultations have been launched on reforming the UK alternative investment fund manager regime and fund data reporting. A further consultation launched earlier in 2026 proposes allowing UK-authorised retail funds, including UK UCITS, to invest in cryptoasset-linked exchange-traded notes (ETNs). The proposal remains under consideration, given the various issues and trade-offs involved.

Wrap-up

The Chair highlighted the international success of UCITS and the need for the framework to evolve with market developments and new investment opportunities while preserving its strengths, particularly investor protection. Reducing fragmentation in European investment markets is also important to realising the full potential of UCITS. Greater retail participation remains a priority, particularly given the limited retirement planning among European households and the expectations placed on public pension systems. Tokenisation offers considerable potential, but policymakers face the practical challenge of finding a safe and effective path towards its adoption. More broadly, regulatory simplification and a more outward-looking European approach are important to supporting innovation and the competitiveness of European capital markets.

Asset management and the MISP

The Chair framed the discussion around whether the MISP could improve the integration of Europe's asset management market. The discussion would focus first on cross-border fund distribution and the depositary passport, followed by group structures and supervision.

1. Current state of EU asset management market integration

1.1 Progress in cross-border fund distribution

A regulator noted that ESMA's January 2026 report on cross-border fund distribution under the Cross-Border Distribution of Funds (CBDF) framework shows substantial cross-border activity and broadly similar distribution patterns across the EU. This suggests that the existing fund passport works reasonably well, providing investors with greater opportunities to diversify across regions, asset classes and issuers. Germany, Italy, France and Spain, in that order, receive the largest numbers of funds from other Member States. In Italy, funds from other EU countries account for more than 80% of funds marketed by number. Although these funds originate from several Member States, Luxembourg and Ireland predominate, accounting for approximately two-thirds and one-quarter respectively in Italy. Around half of passported funds are marketed to retail investors and half to professional investors. European-domiciled funds represent 50% of total assets under management and 57% of assets managed by banks.

An industry speaker observed that significant barriers persist despite progress in fund passporting. The CBDF framework has removed certain requirements, notably those relating to paying agents, but other local obligations remain, such as facilities agent arrangements and distribution reporting, which may erode the benefits of passporting.

1.2 Potential benefits of further market integration

An industry speaker observed that European investors increasingly compare the investment products available across Member States and question why their choices differ. Removing unnecessary cross-border barriers would broaden investor access, reduce costs, facilitate capital flows and support innovation and digital distribution.

Another industry speaker emphasised that reducing fragmentation in the EU fund market would broaden investor choice and enable firms to operate more quickly and efficiently across Member States. Marketing documents can contain three pages of disclaimers for a single page of promotional content, which may overwhelm prospective investors and put them off investing. Cross-border fund notification procedures also impose substantial administrative burdens. For example, completing notifications from Luxembourg to the 22 EU destination markets in which their firm operates takes about 40 minutes to do the registration per country, equating to roughly 14-15 hours in total.

A regulator stressed that greater regulatory harmonisation and supervisory convergence are also necessary to help European firms achieve the scale required to compete internationally.

An industry speaker observed that improving cross-border fund passporting would deepen the single market, but would not necessarily enhance the competitiveness of asset managers. Competitiveness is fundamentally a political objective that should be addressed primarily through Level 1 EU legislation. This objective should guide MISP and future regulatory initiatives more explicitly.

2. MISP proposals for cross-border fund activities

2.1 Improving the fund distribution passport

An industry speaker considered that although the existing fund passport already works well, the MISP proposals could further strengthen the integration of the EU fund market in two ways. First, transferring provisions from directives into directly applicable EU regulations would reduce differences arising from national transposition. This would continue a long-term movement towards regulatory harmonisation dating back to the Lamfalussy reforms. The UCITS and AIFMD frameworks could eventually be converted into regulations, although this is not part of the current proposals. Second, transferring more responsibility for cross-border fund distribution from host-country to home-country authorities, while reducing host supervisory powers where possible, would help remove national obstacles to distribution.

A second industry speaker emphasised that MISP should prioritise removing conflicting national requirements that complicate cross-border fund distribution. A centralised notification system, as envisaged in the proposals, could also help move towards a one-stop-shop approach, eliminating duplicated procedures and reducing the time, cost and complexity of marketing funds across the EU.

A third industry speaker emphasised that, while the SIU provides the strategic vision for developing and integrating European capital markets, MISP should improve the regulatory and operational framework needed to achieve it, including supervisory arrangements and rules on delegation and eligible assets. Its success should be measured by tangible outcomes for investors, particularly the extent to which European households gain access to investment opportunities and participate

in capital markets through savings and investment accounts.

A regulator welcomed MISP's objective of improving cross-border fund distribution and removing unjustified barriers. Some national restrictions may have protectionist effects and can be challenged individually by the European Commission. Others create technical obstacles, notably through differing documentation and transparency requirements. Establishing a single data hub would also be a significant improvement. However, the regulator considered that the MISP proposal to concentrate supervisory powers in home-country authorities, as an alternative to unified EU supervision, is not the right approach. Home-country supervisors are primarily accountable to their national political authorities and do not necessarily have sufficient incentives to protect investors in other Member States. A recent example illustrates this concern: a fund already experiencing liquidity pressures was converted into an ELTIF and marketed to retail investors as open-ended, with documentation suggesting that investors could have access to their money. A few months later, the fund was suspended for two years. Because the fund was not distributed in its home jurisdiction, the supervisor responsible for authorising the fund and its distribution had no direct stake in protecting the affected investors. While recognising the difficulties asset managers face in dealing with both home- and host-country supervisors, the regulator supported simplifying these arrangements but considered that host authorities must retain the ability to intervene to protect local investors until a genuinely unified EU supervisory framework is established.

2.2 Introducing a depositary passport

A regulator emphasised that the objective of greater European market integration and scale also applies to depositary services. Although depositaries perform sensitive functions essential to investor confidence, they are already regulated and supervised entities. A European depositary passport could facilitate the development of fund industries in Member States where a shortage of local providers limits their growth. However, depositary activities remain governed by differing national legislation and supervisory practices, including restrictions on the types of alternative investment funds (AIFs) that individual depositaries can service. The regulator therefore considered that greater regulatory harmonisation should precede the introduction of a general depositary passport. The Irish Presidency's compromise proposal, which would allow Member States to decide whether funds could appoint depositaries established elsewhere in the EU, could be a first step building on the limited flexibility already available under AIFMD. However, this arrangement would not resolve existing regulatory differences, as depositaries would remain subject to different home- and host-country rules, with supervisory responsibilities divided between national authorities. Its discretionary nature could also perpetuate fragmentation and create opportunities for regulatory arbitrage, both when management companies choose where to establish funds and when they select depositaries operating under different national supervisory practices.

Another regulator stressed that depositaries perform an independent oversight function essential to investor protection. Allowing depositaries to provide services to funds established in other Member States would complicate the exercise and supervision of this function, as the applicable national laws governing custody, property rights and insolvency are not harmonised. These difficulties would be particularly significant where the fund, its manager and its depositary are established in three different Member States.

The regulator recognised the difficulties faced by Member States with insufficient domestic depositary services in developing local funds and questioned whether it would be preferable first to review the criteria for the existing AIFMD 2 exemption, which allows certain funds to use depositaries in other Member States, rather than immediately introducing a general passport. Before moving towards a broader passport, several issues require attention: greater harmonisation of depositary authorisation conditions, a clear allocation of responsibilities between home- and host-country supervisors and legally binding information-sharing obligations between national authorities. The legal status and enforceability of ESMA peer reviews should also be strengthened, particularly in light of the findings of an earlier review of depositary supervision, which suggest that further supervisory convergence is needed.

An industry speaker emphasised the fundamental investor-protection role of depositaries and the importance of allowing Member States to develop their own depositary businesses. In Ireland, for example, domestic banks began building depositary services and expertise in the 1980s, laying the foundations for today's industry. Similar developments should be encouraged elsewhere in Europe, while maintaining robust supervision, clear accountability and strong investor-protection safeguards.

3. MISP proposals for asset management groups and delegation

A regulator explained that the MISP proposals seek to facilitate the sharing of functions and resources within EU asset management groups by allowing certain intra-group arrangements to be treated differently from delegation to third parties and exempted from the corresponding regulatory requirements. However, limiting these exemptions to delegation within EU groups could create an uneven playing field with non-EU arrangements, while delegation oversight should remain proportionate to the risks involved. An alternative could be to adopt a more risk-based approach, using objective criteria for lighter oversight under which membership of an EU group would be taken into account alongside other factors. This could facilitate intra-EU delegation without unduly disadvantaging arrangements with non-EU partners, reflecting the need to consider the wider international dimension of European asset management.

An industry speaker highlighted the diversity of asset managers' corporate structures, including bank- and

insurance-owned businesses, listed and private companies, partnerships and fund-hosting operations. Their activities may fall under UCITS, AIFMD or MiFID licences, the latter notably used for segregated institutional investor portfolios. These groups often share resources and capabilities across European and global operations to achieve scale and efficiency, within established delegation and oversight arrangements. However, the proposed definition of EU asset management groups, based on specific regulatory authorisations, may be too restrictive to reflect this diversity of structures and activities, potentially limiting the scope of the proposed intra-group delegation exemptions. Existing UCITS and AIFMD delegation requirements can impose disproportionate constraints on integrated groups. However, ESMA's principles for supervising third-party risks already recognise a risk-based approach, which could allow lighter oversight of intra-group arrangements as an alternative to the formal exemptions under MISP. Such arrangements generally present lower risks because information and shared systems are more readily accessible. Indeed, the practical benefits of legislative exemptions should not be overstated, since management companies would remain legally responsible for delegated functions and continue to apply core risk-management practices.

Another industry speaker noted that some European groups have used the management-company passport to convert EU subsidiaries into branches, eliminating the need for formal legal delegation between these entities. For such groups, the principal remaining difficulty concerns delegation to subsidiaries outside the EU, including to portfolio managers based in the markets in which they specialise. Under UCITS and AIFMD, delegation to these subsidiaries is subject to the same oversight requirements as delegation to unrelated third parties, despite their integration into the group's governance and daily operations. This appears disproportionate and calls for a lighter, risk-based approach to delegation to non-EU subsidiaries. The Commission's current proposals do not address this issue, although delegation arrangements may be more consequential for the international competitiveness of EU asset managers than improvements to fund passporting.

A regulator emphasised that MISP should focus on simplifying delegation between regulated EU entities, particularly prior supervisory approval requirements, rather than addressing the separate and more complex issue of delegation to third countries. The framework should also remain neutral towards different corporate structures. While some asset-management groups have converted EU subsidiaries into branches, others continue to operate through separate legal entities across Member States, a structure likely to persist as the European industry consolidates. These groups should be able to benefit from simplified intra-group delegation arrangements without having to undertake unnecessary corporate reorganisations.

An industry speaker cautioned that intra-group delegation arrangements should be assessed according to their actual risks rather than whether delegation occurs between entities inside or outside the EU.

4. Supervisory convergence and coordination

An industry speaker supported greater supervisory convergence and coherence to help asset managers grow and achieve scale, improve investor access and facilitate efficient capital allocation across the EU at reasonable cost. The international and enduring success of UCITS demonstrates that the existing supervisory model works and allows managers to innovate and respond to changing investor needs. Operating across borders and dealing with multiple national supervisors does not, in itself, prevent effective business activity. However, cooperation between authorities could be strengthened through existing supervisory convergence tools, such as peer reviews and voluntary supervisory colleges, and the additional arrangements proposed under MISP, including collaboration platforms and coordination colleges. Existing voluntary colleges illustrate the benefits of such cooperation. They bring together relevant national authorities to discuss firms' cross-border activities and common supervisory issues, including operational resilience, technology, AI, thematic developments and emerging risks. These exchanges give supervisors a more comprehensive view of a group's activities across jurisdictions, helping them identify potential risks and concerns at an early stage and establish common supervisory priorities. Building on this experience, the coordination colleges proposed under MISP could further strengthen information exchange between national supervisors and ESMA on firm-specific issues and promote supervisory convergence. These arrangements could be made more effective in several ways. ESMA should play an operational coordinating role in setting priorities, organising the work and consolidating findings. Participating firms should have clearer rules of engagement and opportunities to contribute to college agendas. More frequent exchanges during periods of market stress and more structured, outcome-focused feedback would help improve their effectiveness.

A regulator observed that ESMA's existing voluntary supervisory colleges concern only a limited number of large cross-border financial groups. These colleges have proved useful in improving communication and supervisory convergence among national authorities and also interactions with participating firms.

An industry speaker supported greater supervisory convergence and the removal of duplication, rather than centralising supervision. Supervisory colleges could contribute to this objective, but reforms should avoid creating an additional, parallel layer of supervision that would increase complexity and potentially stifle innovation. The priority should be simpler, faster and more efficient supervisory arrangements that benefit investors and encourage households to move their savings from cash into investments.

Another industry speaker emphasised the importance of clear, predictable and proportionate supervision, which has been a strength of the European framework over the preceding decade or more, during which the

Irish fund industry in particular expanded considerably. Greater supervisory convergence is desirable, but should not result in duplicated supervision. Cooperation, information-sharing and more effective coordination between authorities will remain important beyond MISP.

A regulator cautioned against judging future mandatory supervisory colleges solely on the experience of existing voluntary colleges. However, the findings of supervisory colleges could help improve supervisory practices across the EU, benefiting the wider asset management industry rather than only the large groups directly involved.

Another regulator emphasised that a more unified European supervisory architecture remains desirable in the longer term and should not be lost sight of. Under the current framework, disagreements between national supervisors often have to be resolved through negotiations at ESMA level. The need to prevent divergent interpretations and application of EU rules also contributes to an increasingly detailed and complex regulatory framework for market participants. The convergence process is furthermore slow and reactive, as measures are generally developed only after supervisory problems have emerged. A more unified supervisory system could help address these shortcomings. However, the Commission's decision not to pursue such a reform under MISP at this stage is understandable, as asset management rules remain less harmonised than those governing market infrastructures, national transposition continues to play a significant role, and supervision must cover both asset management companies and the investment funds they manage, adding to the complexity of establishing a unified supervisory system. In the meantime, strengthening ESMA's intervention powers, as proposed under MISP, could accelerate supervisory convergence within the existing framework of national supervision.

Retail participation: are the SIU proposals sufficient?

1. Priorities, KPIs and market timing

The Chair explained that the Savings and Investments Union (SIU) includes a range of initiatives aiming to increase retail participation in capital markets, improve returns for European citizens and channel more risk-bearing capital to European businesses: the Retail Investment Strategy (RIS), Savings and Investment Accounts (SIAs) and the Financial Literacy Strategy.

The panellists generally welcomed the SIU proposals to increase retail participation and highlighted the opportunity to channel more of the estimated €10 trillion in European household savings held in bank accounts into capital markets, rather than leaving these funds in deposits where their value may be eroded by inflation. They proposed several indicators for measuring the success of the SIU in terms of retail investor participation: the level of financial knowledge and literacy; the proportion of people confident about investing for their long-term goals; the number of investment accounts active in Europe and awareness about them; the share of household bank savings redirected towards capital market investments; and financial wellbeing measured by people's ability to manage their financial needs, withstand shocks and pursue their financial goals supported by greater financial awareness and literacy. The panellists were optimistic about the prospects for significant improvements in retail participation over the next five years, provided the proposed initiatives are effectively implemented and the conditions for greater participation are met.

The Chair raised the risk of encouraging retail investment at an unfavourable moment, when markets are at all-time highs amid considerable global uncertainty.

An industry speaker acknowledged the timing risk but argued that there will always be reasons to postpone investing. Historical evidence demonstrates the resilience of capital markets and the potential benefits of investing over the long-term, despite periods of market correction. A study simulated an investor who invested only at exceptionally unfortunate times: immediately before the dot-com crash and the global financial crisis, during the previous autumn's tariff episode and immediately before the outbreak of the war in Ukraine. Despite investing only at these particularly unfavourable moments over 30 years, the investor would have accumulated six times as much wealth as by holding cash, illustrating the potential benefits of a long-term investment outlook.

Another industry speaker agreed that capital markets will continue to deliver long-term value, with even relatively defensive portfolios capable of outperforming inflation and other forms of saving. Greater capital market investment also supports Europe's growth prospects.

An official stressed that the effective implementation of SIU measures should now be the priority, with scope to learn from experience and recalibrate measures where necessary. Drawing on an April 2026 OECD report on protecting and empowering consumers to enhance financial wellbeing, the official identified four conditions for greater retail participation: financial consumer protection, good-quality products, financial literacy and clarity on tax. European regulators should assess their frameworks against the G20/OECD High-Level Principles on Financial Consumer Protection, which provide a global benchmark. EU consumer-protection frameworks are generally strong, although they could be simplified and improved. Fraud and scams remain a particular area of concern, requiring a more effective, holistic response.

2. Improving financial literacy and investor empowerment

An industry speaker considered financial literacy essential to increasing retail participation over the medium to long-term, by enabling people to understand and assess their financial choices independently. European policy should aim to foster habits of actively managing money and building wealth over the long-term, as PISA results on functional literacy suggest that formal education does not adequately equip Europeans to make informed financial decisions. Without stronger formal and informal financial education, people may become overly reliant on AI-generated guidance, without the knowledge needed to assess its reliability or make informed decisions independently.

The industry speaker highlighted that school and workplace financial-literacy programmes run by their bank have reached millions of people. The expected improvements in financial knowledge have not yet been achieved, but recent testing suggests that people are interested in financial issues, even if some remain hesitant or reluctant to engage. Developing participation requires sustained efforts to explain the value of investing and help people take control of their financial future. Financial institutions and public authorities have a role in encouraging active money management from an early age. Many of the necessary tools and initiatives already exist, therefore effective implementation is the priority.

A regulator considered that insufficient financial literacy is a persistent barrier to retail investment. Greater financial knowledge is needed to encourage a shift from

deposits and savings to capital markets. Rather than another retail strategy, Europe needs to turn existing financial-literacy initiatives into practical empowerment, concentrating on two groups. For younger people, financial education in schools is increasingly important as neobanks and neobrokers lower barriers to capital market participation. This can be complemented by measures such as the tax-free investment account for under-18s recently announced in Austria. People over 50 are the second priority: they hold substantial wealth in deposits but may be uncertain about capital market opportunities and risks, limiting their willingness to invest.

A public representative emphasised that the priority is to equip savers with the knowledge and confidence needed to invest, fostering a gradual shift from a culture of saving to one of investing. One way to encourage investment habits from an early age is to provide children with digital investment accounts, as illustrated by initiatives in the US and plans in Austria and Ireland, helping them become familiar with investing and understand the benefits of long-term investment. This cultural shift will take time, and success should be assessed over several years rather than 12 months, with investment-account growth driven by knowledge and confidence rather than short-term profit seeking.

3. Improving investor information, guidance and disclosures

3.1 Providing timely and trusted information

An official suggested that EU and national financial-literacy strategies should be more situational: beyond raising general knowledge, they should ensure that relevant information is provided at the moment it can prompt action. Research on mortgage switching illustrates this approach, showing that consumers are much more likely to switch when shown concrete calculations of their potential monthly or annual savings. Firms in Ireland are now required to include such worked examples in annual statements, and mortgage switching has increased significantly. Alongside ongoing EU regulatory simplification efforts, financial services firms should also streamline their customer journeys to remove unnecessary complexity.

The Chair acknowledged the importance of providing relevant information at the point of investment, since financial education received at school may have been forgotten by the time people make their first investment decisions.

A public representative emphasised that without greater confidence and empowerment, households will leave their savings in banks. Previous financial-literacy campaigns in Ireland in particular, have not substantially changed behaviour or investment culture. Financial information should be simpler and target people who may feel excluded from investing through familiar, trusted channels, including finfluencers. Successful approaches in the UK illustrate the value of widening the range of communication channels.

The official agreed that responsible finfluencers, in particular, can reach hundreds of thousands of people and play an important role in raising awareness. The relevant test for trusted information sources is whom the public trusts, rather than whom institutions trust.

An industry speaker added that a major barrier to investment is the perceived complexity of investing, which discourages potential retail investors from entering capital markets. Small changes for example in the way warnings about investment risk are communicated to customers can make a substantial difference: replacing the warning "Your capital is at risk" with "Investments can go up or down, but over the long run they tend to go up" increased new-account completion rates by 25%.

A regulator also observed that trusted, well-known financial-literacy ambassadors could also help translate financial-literacy strategies into practical empowerment.

3.2 Making regulatory disclosures clearer and more effective

An industry speaker suggested that effective regulatory disclosures can help build financial literacy if they are designed around investors' needs. Information should be easy to understand; layered so investors can move from essential points to greater detail; easily accessible through different channels so no investor is excluded; and proactively pushed to users through digital notifications. Firms should also seek to actively monitor delivery of the information and user engagement.

These principles could be applied to existing disclosure requirements, such as the PRIIPs Key Information Document (KID), and could also inform approaches to value-for-money assessments under the RIS and investor information under MiCA. Such an approach could benefit all stakeholders: regulators and policymakers by encouraging greater retail engagement in capital markets, financial services firms through increased investment flows, and retail investors by improving their understanding of investment opportunities and encouraging more informed participation.

4. Developing Savings and Investment Accounts and tax incentives

An industry speaker argued that SIAs could make a significant difference if designed for mass adoption across the EU, ideally based on a common type of investment account. Increasing retail participation is particularly urgent given deteriorating demographic trends and growing pressure on public budgets and state pension systems. To achieve widespread adoption, SIAs should be simple, require no minimum investment, avoid excessive product restrictions beyond individual investors' risk tolerance, offer attractive tax treatment and be portable across Europe. The industry representative also questioned how existing constraints,

including national responsibility for taxation, could be overcome to develop investment products in line with European citizens' rights and freedoms.

A public representative considered that SIAs, such as the new investment account due to be launched in Ireland, can make a significant difference in shifting savings into investment, provided they remain simple and tax attractive.

Another industry speaker emphasised the importance of tax incentives in influencing investment behaviour, although taxation remains a national matter. Almost one-third of flows into UK Individual Savings Accounts (ISAs) occur in the six weeks before the tax deadline, including about one-quarter in the final three days. Similarly, most flows into US Individual Retirement Accounts (IRAs) occur within a month of the tax deadline. These patterns illustrate how strongly investors respond to tax incentives. The industry speaker cautioned, however, against overly restrictive rules on eligible SIA investments. International experience suggests that accounts offering broad access to global investment opportunities achieve much higher participation rates than those limiting eligible assets. Excessive restrictions should be avoided, as they could discourage participation in SIAs by prompting investors to choose alternative investment routes.

The Chair added that tax incentives, while powerful drivers of investment behaviour, can also encourage investment in unsuitable products, as past experience in the Netherlands has demonstrated.

An official supported the Commission's recommendation to create investment-account wrappers, noting that, while several Member States already have such accounts or are putting them in place, some standardisation of SIAs would be beneficial. Governments may legitimately decide which investments qualify for tax incentives, but SIAs should allow access to a broad range of products already authorised for sale to retail investors, rather than impose unnecessary restrictions. In addition, good-quality investment products already exist in Europe, so there is no need to develop new, potentially complex products specifically for SIAs. Fees, charges and value for money should also be transparent to ensure that costs do not erode investment benefits.

The official added that tax arrangements must be clear to investors and simple to administer, while cautioning that concentrating tax incentives excessively on particular products could distort consumer choice. Although direct capital market participation remains limited in Ireland, households appear considerably more invested when structured products, insurance products and property are taken into account. SIAs can help address the gap in direct capital market participation, but these investments should not become the sole focus of household financial decisions. Consumers need to be able to identify suitable investments that meet their broader financial needs, including pensions and mortgages, which requires appropriate guidance from regulated financial service providers and trusted sources. The ultimate objective should be to improve overall financial wellbeing through greater financial awareness and literacy, rather than simply increasing capital market participation.

5. The role of digitalisation, AI and tokenisation

5.1 Digital platforms and AI guidance tools

A regulator considered digitalisation an important opportunity to increase retail participation. Neobanks and neobrokers can lower entry barriers and simplify customer journeys through interactive tools, personalised guidance, real-time risk alerts and responsible interface design. These channels are particularly effective at reaching younger investors.

An official highlighted AI's potential to improve financial literacy by making basic information easier to access, provided people understand its limitations. As with health information, online sources and AI can help answer basic questions, while more serious concerns require professional expertise. Similarly, investors can use digital tools to obtain information but should ultimately invest through safe, regulated providers or platforms.

An industry speaker considered that conversational AI could significantly improve access to investment guidance and help investors make better-informed decisions. However, current models may produce different answers to identical questions across models or repeated queries. Combining AI's conversational capabilities with robust deterministic models that deliver consistent answers could potentially be transformational for retail investors, with substantial progress expected over the next few years.

A public representative recognised AI's considerable potential but cautioned against considering AI tools as a possible substitute for proper advice or for empowering savers to make their own decisions. A poor initial experience with AI-enabled retail investment services could permanently undermine investor trust, making a cautious approach essential.

5.2 Preserving trust in a digital environment

A regulator stressed that trust is essential to retail participation, takes considerable time to build and can disappear quickly. First-time investors therefore need positive experiences on legitimate, trustworthy platforms, particularly as digital channels become more important.

The regulator added that growing digitalisation also requires greater EU supervisory convergence and more effective tools against illegal online platforms. Supervisory powers remain uneven: in Austria, for example, the financial supervisor can issue warnings about fraudulent securities but lacks equivalent warning powers concerning crypto-asset providers, despite increasing illegal activity in this area. The Digital Services Act provides supervisors with additional competence to block illegal websites and additional tools, including the trusted-flagger mechanism, which

enables recognised expert authorities to report suspected illegal content for priority handling by online platforms. These measures can strengthen and improve the consistency of action against online financial fraud, helping prevent negative first experiences that could permanently deter investors from capital markets.

A public representative emphasised the importance of basic Know Your Intermediary (KYI) checks by online platforms before accepting advertisements, as a complement to anti-fraud campaigns and detection technology, to help prevent fraudulent investment promotions and publicity.

5.3 The prospects of tokenisation

An industry speaker identified tokenisation as a major potential trend in the retail space. Successful capital market innovation depends on trust, transparency and clear rules. Exchange-traded funds (ETFs) illustrate this relationship: their development in the US was supported by the Investment Company Act of 1940, daily net asset value (NAV) calculations and transparent information, providing a robust foundation for innovation.

Tokenisation, by contrast, is at a crossroads because the applicable rules remain unclear, transparency is limited and investors may lack the information needed to understand the characteristics and risks of tokenised assets. The private sector can contribute by developing guidelines and standardising data across different types of tokenised assets, helping investors assess and use them more effectively. MiCA also provides an opportunity to broaden retail participation in tokenised markets, which currently remain predominantly institutional.

Wrap up

The Chair concluded that the panel was broadly optimistic about the prospects for increasing retail participation, with financial education and literacy playing a central role. Keeping investment simple is important for maintaining investor trust, while financial innovation should benefit investors rather than expose them to additional risks. Particular attention is needed to fraud and scams, which are themselves becoming increasingly sophisticated.

New retail investment models: is the EU regulatory framework fit for purpose?

1. Current trends, obstacles and objectives for EU retail investment

1.1 Current market status and trends

An industry representative noted that only around 17% of EU household assets are invested in financial securities according to European Commission figures, significantly less than in the US.

Another industry representative contrasted investment participation of more than 80% in the US and more than 70% in the UK with around 60% in the EU.

A regulator observed that retail investment trends are increasingly common across European jurisdictions rather than fundamentally national. Three developments stand out: (i) the shift from traditional brokerage relationships towards app-based and automated investment journeys, including investment in ETFs supported by regular savings plans and fractional investing; (ii) sharply lower barriers to entry, with investors able to participate with very small amounts, fostering greater inclusion; and (iii) the growing influence of social media and finfluencers. These developments can broaden participation, but are also blurring traditional boundaries between products, services and distribution channels. They may also expose less experienced investors to new forms of influence and more complex products, creating new investor protection and supervisory challenges.

A second regulator highlighted the rapid increase in retail participation in France, notably among younger investors, supported by digital distribution, product innovation and technologies such as AI and tokenisation. In 2025, 2.4 million French retail investors made at least one market transaction, compared with 1.5 million in 2021. ETFs and cryptoassets are growing strongly, alongside structured products and the retailisation of private equity. Cryptoasset ownership has risen to 12% of French citizens from around 9% two or three years earlier, while an AMF survey found that 11% of French retail investors already consult AI before making investment decisions.

A third regulator noted that insurance-based investment products (IBIPs) are experiencing many of the same trends, including an increasing use of digital tools, AI-supported sales and more personalised customer journeys, but the transformation is more evolutionary because these products remain predominantly advised and intermediated. Bancassurance remains the dominant distribution channel for IBIPs, accounting for around 70% of premiums according to EIOPA's latest annual report on costs and past performance. In addition, these products often include insurance protection and other forms of guarantees. Online sales of insurance products including IBIPs remain below 10% of premiums in most markets and are concentrated in simpler products. The evolution of IBIPs is therefore likely to be less towards fully self-directed app-based investing and more towards digitally enabled hybrid distribution combining technology with human advice, alongside a continued shift towards unit-linked investment solutions.

1.2 Obstacles and enablers of further retail participation

An industry representative considered that retail participation has historically been constrained by high distribution costs, fragmented markets across the EU, complex investment journeys and limited financial literacy.

A second industry representative pointed to a recent survey of retail investors showing that costs and market access remain the main barriers to investing: 60% of respondents had wanted to buy a share but found the price unaffordable, 47% had abandoned trades because of the fees and 48% had been unable to trade because markets were closed. Conversely, around 40% cited fractional investing, 45% lower fees and 49% the ability to trade at any time as factors that could encourage participation. This suggests that many potential investors are constrained by market design rather than lack of interest.

A third industry representative stated that Europe's main problem is not insufficient savings but ineffective intermediation, with around €10 trillion held in low-yield banking and savings accounts rather than being effectively channelled towards investments that could generate higher returns for households and finance the economy. Several obstacles need to be addressed in the EU, including business models that benefit from higher-cost products or idle deposits, insufficient financial literacy and, in some cases, incentives encouraging lower-yield investments such as bonds.

A regulator agreed that the cost of investing remains an important issue in Europe and that fees should be transparent, relevant and not excessive. The regulator also identified women's participation as a persistent weakness and a "dark spot" for the SIU. In 2025, only 24% of women invested in stock markets compared with 45% of men. The AMF has therefore launched a specific women-and-investment action plan and is encouraging financial firms to adapt their approaches to engage this potential investor base more effectively.

1.3 Objectives for growing retail investment

An industry representative suggested that more European savers should be encouraged to move from low-yield savings towards diversified, long-term and low-cost investment products. New products such as cryptoassets and prediction markets may help attract savers, but should not distract from this priority.

A regulator stressed that investing should also become easier and less costly while maintaining appropriate

investor outcomes. In this respect, EIOPA's mystery-shopping work indicates that longer and more elaborate sales processes do not necessarily lead to better outcomes.

Another industry representative stated that wider access is not sufficient. Successful retail participation should be measured not only by the number of accounts opened or trades executed, but also by the number of households investing, the extent to which investment is sustained over time and diversified, and the net returns achieved after costs.

1.4 Key risks and challenges to address

An industry representative noted that closing Europe's advice gap is essential. Investors may not fully understand new investment products and the associated risks, for example the composition of the indices underlying ETFs, reinforcing the need for appropriate financial education and guidance. At the same time, traditional personalised advice can be unaffordable for households with relatively modest assets. Digital platforms could help close this gap by providing risk assessment, asset allocation, product comparison and behavioural support at much lower cost.

A regulator warned that the same digitalisation that can broaden participation may also facilitate fraud and scams through AI and gamification. The growing scale of these risks is becoming a major regulatory concern and may also have implications for financial stability. Maintaining investor confidence is essential in this evolving market context.

Another regulator added that digitalisation is also increasing operational and concentration risks: almost 80% of surveyed insurers outsource cloud data storage to big-tech providers, illustrating growing third-party dependencies.

2. The role of digitalisation in developing retail investment

Panellists identified digital platforms, tokenisation and AI as the main technologies capable of broadening access to retail investment and changing the way investment services are provided.

2.1 Digital-native platforms and new distribution models

An industry representative emphasised that digitally native platforms are increasing retail participation by making investing more accessible and affordable and attracting a different customer base from more traditional financial firms. The average age of customers on their digital investment platform is around 36, about 75% are from Gen Z and millennials and roughly one third are women.

A second industry representative noted that digital distribution can also serve very different customer groups. Some fintechs provide relatively simple products, including cross-border savings accounts, ETFs and pension products, to more mature customers. On their platform for example, customers have an average age of around 55 and assets of approximately €200,000.

A third industry representative stressed that digital platforms can do more than make investing faster, simpler and cheaper. ETF savings plans, for example, can enable investors to invest regularly and build diversified portfolios over time.

2.2 Tokenisation and AI

An industry representative identified tokenisation and AI as the two main technologies capable of lowering barriers and reshaping retail investment. Tokenisation of real-world assets and financial instruments such as stocks and ETFs can support fractionalisation, lower costs through on-chain settlement and enable always-on markets. AI can also democratise access to strategies previously available mainly to wealthier investors, with tools providing real-time market analysis and insights, which can reduce information and education barriers. Agentic trading tools can also allow investors to define permissions under which agents execute trades on their behalf. The industry speaker encouraged regulators to develop sufficient understanding of these technologies and provide a framework that allows retail investors to benefit from them.

Another industry representative agreed that AI could make competent financial guidance affordable on a mass-market scale. However, the quality of AI-enabled guidance depends on the information available about the investor: general training data does not capture a client's objectives, risk tolerance, existing holdings or personal circumstances. Digital platforms may also use features such as gamification, social trading or personalised prompts to increase investor engagement and activity, rather than focusing on better investment outcomes. AI should therefore complement rather than replace appropriate investment advice and human oversight. The most promising model would combine digital distribution and automated diversified investing with affordable AI-assisted guidance and professional advice where needed, making sophisticated financial guidance scalable for ordinary consumers.

A regulator noted that the use of AI is accelerating in insurance. EIOPA's 2025 survey found that almost two-thirds of surveyed insurers were already actively using GenAI, although mostly at proof-of-concept stage. Generative AI is increasingly being used through chatbots and sales tools, illustrating how AI is beginning to affect customer interaction and distribution as well as internal processes.

3. Regulatory and supervisory implications of new retail investment models

3.1 Balancing innovation and investor protection

A regulator emphasised that regulation needs to balance investor protection and investor interests with the benefits of innovation, through adapted and simplified regulation and stronger financial literacy. In France, growing cryptoasset ownership has led the AMF to update its doctrine so that cryptoassets are no longer treated as unusual assets. This does not mean that the regulator

encourages them but recognises that they have become a significant market component. The AMF has also authorised retail distribution of crypto exchange-traded notes (ETNs) subject to limitations, to address investor demand within an appropriate protection framework. Emerging products such as prediction markets likewise require careful assessment: classification is a first step, as some may qualify as investment products and, in this case, possibly fall within the product intervention framework applicable to CFDs.

An industry representative supported the SIU objective of shifting savings towards investment, but considered that the EU remains too risk-averse in pursuing this objective and gives insufficient weight to investor autonomy. The EU has been a leader in providing regulatory clarity for digital assets and tokenisation, but further progress is needed to place tokenised instruments on an equal footing with traditional financial instruments if Europe is to maintain its leadership in this area. Other jurisdictions, including the UAE and Singapore, are moving forward, while further regulatory action is also expected in the US, even though the Digital Asset Market Clarity (CLARITY) Act is unlikely to advance at present. Novel instruments such as perpetual futures and prediction markets should not be dismissed either, as they may help attract a new generation of investors. Investor protection should therefore focus on improving risk literacy and access to investment opportunities rather than unnecessarily restricting participation.

3.2 Adapting the regulatory framework to digitalisation

A regulator considered that technology does not fundamentally change the objectives of regulation, but changes how risks emerge and therefore how existing rules need to be applied and supervised. Existing IDD requirements on conduct, suitability, advice, product oversight and governance should remain the starting point, as they provide a broadly sufficient and technology-neutral foundation. Greater clarity is nevertheless needed because the directive does not comprehensively address digital channels or provide detailed guidance on AI-supported advice. As customer journeys become increasingly digital and automated, the regulatory focus should also shift increasingly from processes to outcomes. Digitalisation can make customer journeys shorter and more efficient, but automation can also increase the scale of poor outcomes. EIOPA has already identified online processes that failed to collect sufficient information to establish customer demands and needs properly. AI also creates governance risks including bias, limited explainability, poor data quality, hallucinations, inappropriate recommendations and insufficient human oversight. These risks call for a proportionate, risk-based approach that complements rather than duplicates the AI Act.

The regulator added that the same approach should guide the treatment of digital cross-border models, AI-driven personalisation, finfluencers, gamification and automated customer journeys, where responsibilities and supervisory reach can become less clear. The priority should be to ensure that existing safeguards remain effective as business models evolve, rather than responding to every new model with additional regulation, while avoiding unnecessary obstacles to innovation.

Another regulator agreed that Europe already has extensive regulation and should focus on using existing rules more effectively and simplifying them to support competitiveness, rather than fundamentally increasing the overall regulatory burden.

An industry representative noted that MiFID II investment advice rules already apply to both traditional players and fintechs, but AI is changing the landscape and regulation needs to keep pace. Investor protection must cover the entire user interface, not only the financial product, including algorithms, recommendation engines, AI assistance, gamification, social-media feeds and influencer marketing. Clear governance and accountability are therefore needed for AI-driven advice, with responsibility for suitability, conflicts of interest and investor protection remaining clearly assigned to regulated entities even where AI performs part of the advice process.

An industry representative emphasised that national gold-plating should be avoided and that EU regulation too often responds to risks through additional documentation, including across GDPR, AML and IT-security requirements, rather than addressing the underlying risk directly.

3.3 Supervisory implications

A regulator noted that supervisors will inevitably lag behind fast-moving markets and bad actors, as markets evolve faster than legislative and regulatory processes. The main challenge, as activities become increasingly digital and cross-border, is therefore to make supervision more effective, notably through greater supervisory convergence and cooperation. Supervisors should also make better use of existing data rather than collect more, extracting relevant signals more effectively. This may require examining whether GDPR rules allow available data to be used more efficiently for supervisory purposes.

An industry representative stressed that fraud provides a practical example of the need for more effective supervisory and enforcement cooperation. Better data exchange, identification and blocking of fraudsters, and effective cooperation with law-enforcement authorities would be more useful than further documentation.

4. Policy measures to support retail investment

4.1 RIS implementation

A regulator considered that the RIS can help adapt investor protection to evolving retail investment models, notably in areas such as digital disclosure, marketing, value for money and conflicts of interest.

Another regulator highlighted the cost of investing as an important issue addressed by the RIS, notably through the concept of value for money and the requirement for tangible improvements in customer service where inducements are paid.

An industry representative supported the simplified suitability framework introduced by the RIS for advice on diversified, non-complex and cost-efficient investment products, considering it an opportunity to promote straightforward and cost-effective retail investments. Digital business models should be able to benefit from this framework, and activities such as portfolio management should not be excluded because of narrow definitions of advice.

4.2 Simplification of the investor journey

A regulator highlighted the simplification of the investor journey as a major ESMA priority on which a specific initiative has been launched. Although there is broad agreement that investors may receive too much insufficiently focused information and be asked too many questions, simplification can be difficult to implement in practice, while firms may be reluctant to modify established IT systems and compliance processes. The challenge is therefore to achieve meaningful simplification of the investor journey, while maintaining an appropriate level of investor protection.

4.3 Tax incentives

An industry representative noted that tax-advantaged savings vehicles such as 401(k) plans in the US and ISAs in the UK help support higher investment participation. Similar models already exist in some European countries, including Sweden, and should be developed more widely to support long-term savings and adequate pension outcomes. Recent pension reform in Germany is a step in this direction.

The industry speaker also supported the Faster and Safer Relief of Excess Withholding Taxes (FASTER) regime. Implementation should be accelerated rather than waiting until 2030, since inefficient withholding-tax relief procedures remain a significant burden for retail investors.

Wrap-up

The Chair emphasised that retail engagement is central to the success of the SIU and that investors' relationships with markets, intermediaries and platforms are changing exceptionally rapidly, including the channels they use and the products and features they value. The development of European retail markets also has strategic implications for the position of EU capital markets relative to the US and Asia. Digitalisation can be an important enabler of greater retail participation but should not be treated as an end in itself.

The discussion also raised several issues that need to be addressed with increasing digitalisation. One is how to balance greater investor choice with encouraging retail investors towards appropriate investments. Another is how to reconcile investor protection and investor interests with the benefits of innovation. This also raises the question of how much further regulatory change is needed when the RIS has not yet been implemented, particularly where digital tools themselves may provide effective responses to emerging risks such as fraud.

Developing supplementary pensions and long-term savings

Developing supplementary pensions has become increasingly important in Europe in the face of demographic pressures and significant long-term investment needs. The discussion highlighted the need to broaden participation in supplementary pension systems while building trust through stable national frameworks, simple and transparent products and appropriate incentives. It also emphasised the importance of scale, professional investment management and strong long-term performance, as well as the respective roles of national reforms and EU initiatives.

1. Developing supplementary pensions to address demographic pressures and Europe's long-term investment needs

1.1 Developing supplementary pensions requires combining EU initiatives with national reforms

1.1.1 Supplementary pensions are essential for individuals and European capital markets

The Chair noted that supplementary pension coverage varies significantly across member states. 41% of Europeans do not contribute to a supplementary pension, while private pensions account for more than 10% of total social pensions in only four of the 27 EU countries. This is a challenge both for individuals and for Europe, which needs long-term capital to deepen capital markets.

1.1.2 EU initiatives need to be translated into effective national reforms

The Chair commented that the Commission's supplementary pension package will need to be translated effectively into national reforms, alongside the proposed revision of the Institutions for Occupational Retirement Provision (IORP) Directive and recommendations on pension tracking and auto-enrolment. As part of this, the respective roles of the EU and member states must be clarified. Key tools, including tax incentives, auto-enrolment systems and labour-market arrangements, remain largely in national hands, leaving significant scope for action at member-state level.

1.2 Demographic pressures make stronger supplementary pension systems increasingly necessary

1.2.1 Demographic pressures are putting state pensions under increasing strain

A regulator observed that pensions have become increasingly prominent on the European agenda, reflecting both social concerns – one in five people is at risk of poverty in the EU, with women facing a 30% higher risk – and Europe's investment needs. Nearly one in three Europeans will be aged 65 or older by 2050, compared with one in five today. At present, €2.1 trillion, equivalent to 12.3% of total EU GDP, is spent each year on pensions. Given demographic trends, pension expenditure would have to increase to maintain current pension levels, making a decline in state pension levels likely. Women aged over 65 already receive on average around 25% less than men. There are currently three people working for every person receiving a pension, but this ratio will soon fall to 1.5. Although this is a slow-burning challenge that is not perceived as the most urgent problem, it must be addressed.

1.2.2 Supplementary pensions require greater participation, transparency and effective pension products

A regulator noted that state pensions alone will not be sufficient, requiring every member state to develop second and third pension pillars. On average, around 21% of Europeans have a supplementary pension in pillar 2 and around 19% in pillar 3. However, these EU averages are significantly skewed by high levels of participation in the Netherlands, Sweden and Denmark. Greater transparency is needed, whether through dashboards for governments or pension tracking systems for individuals. Inertia can be overcome through auto-enrolment. Transparency on costs will ensure that people's savings benefit them. Savings products must not be confused with pension products: although both involve long-term saving, savings products are liquid, whereas pension products pay out as pensions, which is what is needed.

1.2.3 Complementary pensions can help maintain retirement incomes and mobilise long-term savings

An industry representative emphasised that pension sustainability will be a defining economic and social challenge of the coming decades. Public pay-as-you-go systems will remain the backbone of European pensions, but demographic pressures make complementary schemes essential. Caisse des Dépôts (CDC), entrusted by the state with managing 70 public-sector schemes, has first-hand insight into the need for diversified retirement income. Its dual mandate of securing retirement incomes and mobilising long-term savings for the French and European economies illustrates how supplementary pensions can support both retirement security and Europe's long-term financing needs.

1.3 Developing supplementary pensions can help meet Europe's long-term investment needs

1.3.1 Europe needs to develop pillars 2 and 3 to mobilise more long-term capital

An industry representative observed that pillar 1 is generally well developed across Europe and forms part of

the welfare state. However, the development of pillars 2 and 3 remains uneven, particularly outside of Sweden, Denmark and the Netherlands. This is illustrated by pension assets representing around 140% of GDP in the US and 100% in the UK, compared with around 35% in Europe. Beyond demographic pressures, Europe's significant funding needs make developing pension schemes and mobilising long-term investment increasingly important.

1.3.2 National reforms and defined contribution schemes can support greater equity investment

An industry representative commented that defined benefit schemes, unlike defined contribution schemes, tend to lead towards long-term fixed income products. While fixed income investment is not in itself a problem, Europe needs more investment in equities, and pension funds are well suited to this purpose. Developing pillars 2 and 3 is primarily a responsibility for national governments. Moving towards defined contribution schemes will avoid investment being channelled towards fixed income products from the US. Instead, Europe needs to invest more in European equities, take risk and direct investment towards its own funding needs.

2. National reforms and long-term frameworks are key to broadening participation and building trust

2.1 Security, design and trust are essential to gain public support

An industry representative stated that public support depends on three elements: security, design and trust. Security requires diversified portfolios invested with a long-term perspective. Effective design requires scale and simple, carefully designed products. In France, the Plan d'Epargne Retraite (PER) has become an important supplementary retirement savings vehicle. The pan-European personal pension product (PEPP) is an opportunity to build on successful national experiences. Trust can be fostered through shared governance. The French Ircantec pension scheme, managed by CDC, provides a model in which worker and employer representatives, together with public-sector representation, oversee fund management.

2.2 Sweden's pension system combines automatic participation, strong defaults and professional management

2.2.1 Long-term political support and successive reforms have built trust and financial sustainability

An official emphasised that the fundamental purpose of a pension system is to provide financial security in retirement. Sweden developed its multi-pillar pension system progressively rather than through a single reform. Pillar 1 is a pay-as-you-go system that includes a funded premium pension component, while occupational pension coverage is also very high. The system relies on trust, transparency and automatic participation, alongside strong defaults, low costs and professional investment management. Long-term political support for the pension framework has helped build trust through a sustained commitment to making the system work. Reforms have included the introduction of equities into investment management and the shift from defined benefit to defined contribution schemes. These developments contributed to higher returns and greater financial sustainability, while fostering an equity culture.

2.2.2 Automatic participation, strong defaults and transparency support high pension coverage

An official observed that Sweden, alongside the Netherlands and Denmark, stands out for its high participation rates. Automatic participation ensures that people save. Under Sweden's premium pension system part of the pillar one, 2.5% of each individual's pensionable income is set aside, meaning that 6.5 million savers are required to save for retirement. A strong default option is available for those who do not wish to make active investment choices. In pillar two large, professionally managed occupational pension schemes cover around 90% of Swedish employees. These systems ensure that Swedish workers save for retirement. The minPension tool, a comprehensive pension tracking system, increases transparency, providing individuals with an overview of pensions and associated fees across all pillars and allowing them to simulate future pension outcomes.

2.3 Germany is reforming its pension system to broaden participation and increase capital market investment

An official indicated that, for Germany, reforming both occupational and private pensions represents an important milestone. Scale matters: S&P estimates that, due to the large number of pensioners and potential private pension investors in Germany, the reforms could generate €26 billion to €56 billion in additional annual pension investment flows. The occupational pension reform took effect at the beginning of 2026, while the private pension reform will take effect on 1 January 2027. A key element of the private pension reform is the introduction of a simple standard securities account with a cost cap. Although the cap is not particularly low, competition among financial market participants is already emerging. Tax incentives have been simplified and strengthened. In addition, self-employed people will be able to participate, unlike under the former Riester product.

A commission in Germany has proposed introducing a model inspired by Sweden's AP7 approach for pillar 1. The government is now considering how a part of the pillar 1 pay-as-you-go system could be developed in a similar way to the Swedish model.

2.4 Simple and accessible pension systems can build trust and support long-term investment

An industry representative emphasised that a simple pension system helps build trust. Sweden's system has developed over many years, supported by political consensus as well as trade unions and employers' organisations. Financial education is also important in creating trust. Swedbank, a leading bank in Sweden, Estonia, Latvia and Lithuania, with around 7.5 million private and 500,000 corporate customers, contributes to

financial education by teaching, informing and advising customers. This long-standing focus on financial education has helped build financial competence in Sweden, where even children are familiar with funds and equities.

Under Sweden's premiepension (PPM) system, 2.5% of income is automatically invested. The industry representative illustrated the benefits with his own experience: without requiring active investment decisions, his state fund had delivered average annual growth of 16% over the past 10 years, which compares favourably with other available options. A successful pension system must be simple, attractive and accessible. Such a system can support a financial market in which pension funds invest in society and contribute to economic growth, benefiting the economy and pensioners and creating a win-win situation.

2.5 Long-term predictability is essential to build trust in pension systems

An industry representative stated that the EU will not solve pension challenges on its own. Each member state needs to take responsibility. Germany is making progress, while Sweden has developed its pension system over many years. Long-term predictability is essential to maintaining trust, as demonstrated in Lithuania and Estonia, where recent major changes to pension systems undermined confidence in the system's stability and predictability. A similar concern arose in political debates ahead of the Swedish elections, when proposals to increase taxation on Sweden's investment account were discussed. Pension systems should remain simple, predictable and stable over the long-term in order to build and maintain confidence.

2.6 Early investment experience can build financial literacy and increase pension participation

An official observed that trust and financial literacy are needed to enable people to make good choices. As part of Germany's pension reform, an early-start pension system will be introduced in 2027, under which young people will receive €10 per month. The money can only be invested in a standardised, low-fee account, which can later be transformed into a private pension product. The approach was inspired by Ulrike Malmendier, an economist at Berkeley, who argued that allowing young people to experience directly how their investments can grow or decline teaches them more than relying solely on financial literacy initiatives. For young people whose parents do not invest the money or open an account, a fallback option will be available with the central bank. The initiative provides a starting point for bringing more people into the private pension system.

2.7 Pension reform requires political courage, a European mindset and simple solutions

2.7.1 Long-term societal dialogue can help move reform beyond political cycles

A regulator observed that 'national specificity' is often a dominant consideration in negotiations among the 27 EU member states. Making progress will require political courage, including communicating the difficult reality that state pensions alone will not be sufficient. This message has long been embedded in countries such as Sweden, Denmark and the Netherlands, but is not yet equally established across all member states. Far-reaching pension reform also requires moving beyond the political cycle. Experience from Sweden and the ongoing transition in the Netherlands shows the value of a whole-of-society dialogue, although this can take around a decade. Such dialogue should be kept at some distance from day-to-day political confrontation, creating a legacy beyond political cycles.

At EU level, minimum harmonisation should provide member states with a 'menu' rather than requiring fully harmonised systems. Countries with well-developed pension systems may question why they should change their pension statements or support initiatives such as PEPP. However, insufficient progress elsewhere in the EU can indirectly affect their own economies. These countries should take a more European mindset and accept some limited changes to progress the broader EU pension agenda.

2.7.2 Auto-enrolment and simple pension products can accelerate participation

A regulator commented that, in countries where urgent action is needed, auto-enrolment is a practical place to start, ensuring that self-employed people are not forgotten. Successful pension systems do not require everyone to be highly financially literate, receive advice and make an active choice. Instead, individuals need simple products they can trust, supported by effective supervision and value for money.

PEPP could also be given a simpler and more intuitive identity, such as 'Europension', with the label itself helping to build trust. Younger generations are already accustomed to moving money through apps into ETFs, coins and stocks with a single click. A Europension should therefore also be simple and accessible in one click, while remaining a genuine retirement product. Achieving this may require giving up some of the margin associated with advice, but the objective should be to think at the European level and make retirement investing simple and accessible.

3. Effective pension products require scale, simplicity, transparency and strong long-term performance

3.1 Effective pension systems should make saving simple while preserving professional investment decisions

3.1.1 Dashboards, strong defaults and auto-enrolment can help overcome saver inertia

An industry representative stated that a typical European saver first has to appreciate the importance of saving. While some national markets have succeeded in making citizens understand this, the majority have not. Dashboards can overcome inertia by showing individuals the retirement income they can expect. Savers need products that address their long-term goals, whether retirement, paying off a mortgage or funding their children's education. Once

citizens understand why they should care about saving, they need guidance on how to achieve their objectives. Default options can play an important role. In the US, for example, regulatory changes have made lifecycle strategies a default option, with a glide path that increases fixed income exposure as savers approach retirement. Such defaults can provide guidance without requiring individuals to make all investment decisions themselves. Auto-enrolment can also help overcome inertia.

3.1.2 Greater scale and cost transparency should not constrain professional investment decisions

An industry representative advised that cost transparency and appropriate tax incentives are needed. At present, pension products are predominantly national and do not fully leverage the single market, limiting the potential benefits of European scale. While policy can help address these issues, it should not determine where or in which asset classes pension savings are invested, whether advice is required or the exact level of fees. Asset allocation should be left to professional investment managers, as policy intervention in these areas can sometimes have the opposite effect to that intended.

3.2 Pension products should deliver strong real net returns and demonstrable value for money

3.2.1 Performance and value for money should be central to pension products

A consumer representative commented that, while low costs, low fees and simplicity are important, performance and real net returns are equally critical. Sweden has been one of the few positive outliers identified for several years in Better Finance's annual research on the real net returns of long-term and pension savings. Pension managers should not be constrained in terms of how, where or in what they invest. Better Finance's research over the past decade has shown that most EU pension products persistently underperform. The 2025 findings showed a median real net return of only 0.3% over the previous 10 years for the products analysed, with 0.4% for occupational pensions and -0.4% for private pensions. Greater financial literacy will lead savers to question what they are receiving in return for engaging in the investment process.

Better Finance strongly supports the Commission's proposals on IORP and PEPP, including the prudent person principle. However, some amendments currently under discussion in Parliament may undermine the value-for-money framework. Given the persistent underperformance of many European pension products, weakening this framework would be difficult to justify to savers. A strong value-for-money framework will be particularly important for PEPP following the removal of the 1% fee cap.

3.2.2 Standardised information can improve comparability and help savers assess outcomes

A consumer representative noted that the Commission's proposals emphasise the provision of information. Pension tracking dashboards and an improved Pension Benefit Statement (PBS) would show savers how much they have accumulated, paid in costs and earned, alongside their expected retirement income. Opposition to standardising at least the core information provided in the PBS is therefore difficult to understand. Once the reforms have been implemented, their success should be assessed according to the additional retirement income savers receive for every euro they contribute.

3.3 Strong defaults, competition and transparency can deliver value for money

An official observed that Sweden already benefits from significant scale, due to high participation rates and large occupational pension schemes. From a product perspective, value for money is key. AP7 Såfa is an example of a strong default solution. It is a low-cost, professionally managed and globally diversified fund that has delivered strong long-term results. Strong defaults matter because most people are not investment experts.

The Swedish premium pension system also allows individuals who want to make an active choice to select funds through a dedicated platform. Fund managers compete through a procurement process to be included on the platform. This competition, in combination with the large schemes and collective bargaining of occupational pensions, puts downward pressure on fees while supporting quality. This has resulted in very low fund management fees and higher returns in Sweden, while professional investment management has supported good performance. Transparency around investments, risks, exposures and fees helps individuals make choices. The minPension digital tool is important in this respect.

3.4 Scale and long-term public investors can strengthen complementary pension systems

An industry representative remarked that the European regulatory landscape remains too fragmented. Behavioural biases need to be addressed, including through financial literacy. Trust also depends on transparency, sound governance and an appropriate investment policy. Larger and more diversified collective pension funds can reduce costs, improve long-term investment performance and increase available resources. Scale can therefore strengthen complementary pension systems and mobilise long-term savings. Long-term public investors can play a crucial role. National promotional banks and institutions such as CDC combine a public policy mandate with recognised expertise in long-term investment and are well placed to support the development of complementary pensions.

3.5 Long-term performance and global diversification are essential to building trust

An industry representative stated that the primary concern of savers is the return on their pension funds. Costs depend on the fund's investments, so fees should be assessed against the underlying strategy. Global diversification is particularly important. Since the financial crisis, the S&P 500 has delivered annual returns of around 12%, compared with around 6% for European equities. A European fund invested 60% in equities and 40% in bonds would have generated a return of only around 4.6% to 4.8% before costs. Funds tend to over-invest in their local region, which is problematic when Europe as a whole is underperforming.

The industry representative noted that Europe is likely to operate in an environment in which high sovereign debt may create incentives to maintain favourable financing

conditions. In this context, fund investment policy and proper management will be particularly important. Trust is built by sustained strong performance rather than a single good year, while poor performance undermines it. Financial literacy remains limited in practice and often overstated in survey responses.

3.6 A successful PEPP requires scale, value for money and accessible distribution

3.6.1 Basic PEPP should combine lifecycle defaults with value for money

An industry representative agreed that a better name is needed for the PEPP. The Commission's proposal is welcome, but there are concerns that critical elements could be overturned during negotiations in the Council and, especially, the European Parliament. Through the Basic PEPP, pan-European pension products will reflect different investor needs and levels of financial literacy. The default option for the Basic PEPP should be a lifecycle strategy. The objective should be high value for an appropriate fee, not simply the lowest possible cost. Fees are what savers pay, while value is what they receive. The appropriate fee will also depend on the type of product structure. In her view, the fee cap was a key factor in the failure of the first iteration of PEPP.

3.6.2 Mandatory advice and insufficient tax incentives could undermine take-up

An industry representative stated that mandating advice should be reconsidered. Younger generations are accustomed to opening an app and investing immediately, including in cryptocurrencies, rather than going to a bank to receive advice. For a simple Basic PEPP invested in listed equities and fixed income through a balanced lifecycle strategy, she questioned the need for mandatory advice. Mandatory advice would increase costs, making it difficult to reconcile with the objective of an accessible basic product. Tax incentives will be critical. Although taxation remains a national competence, the Commission has proposed that PEPP should receive the most favourable tax treatment available nationally. However, a similar approach did not survive the previous negotiations and could again be rejected in the Council and potentially the European Parliament.

3.7 PEPP needs a level playing field and products that deliver for savers

A consumer representative challenged the view that PEPP failed because of the 1% fee cap. A paper by EIOPA's Occupational Pensions Stakeholder Group (OPSG) identified discrimination against PEPP by member states as a main reason why the product has struggled. This extends beyond taxation: PEPP has not operated on a level playing field with competing products. Despite this, PEPP is working in the countries where it is available, with growing subscriber numbers and reasonable financial performance, although the track record remains short. Better Finance advocated for the Basic PEPP default option to be simple enough to be offered without mandatory advice. However, once an advice requirement was included in the proposal, the industry argued that the cost of providing such advice would make the product too expensive.

Member states should incentivise providers to deliver good returns. Products should compete on performance, cost and quality of service, rather than on fiscal advantages. From the saver's perspective, products should be comparable, perform well and be simple enough to understand. Delivering good returns can ultimately help build trust and increase participation.

The discussion highlighted the need for a long-term approach to pension reform, while recognising that auto-enrolment can provide a practical starting point where more comprehensive reform takes time. Building trust, developing simple products and delivering strong long-term returns emerged as key priorities, with performance itself helping to reinforce trust and participation. A more European mindset, combined with effective national reforms, will be crucial to developing supplementary pensions.

Reviving European securitisation

1. Securitisation: a risk-sharing infrastructure, not just a funding mechanism

A public sector representative argued that the debate has been about making securitisation more than a funding mechanism, namely a risk-sharing infrastructure at the crossroads of banking, insurance and financial markets, from which both the banking union and the savings and investment union (SIU) would benefit. Supervisors should also see it as an opportunity to enhance the resilience of the financial sector as a whole. The Chair agreed that this is not just a game or a facility given to the financial sector: the aim is to finance EU priorities and to mobilise long-term capital.

1.1 Europe lacks not savings, but channels to productive investment

For a public sector representative, investment needs linked to the green transition, digitalisation and defence are simply too large to be financed through bank balance sheets alone. Europe does not suffer from a shortage of savings; it suffers from a shortage of mechanisms that efficiently channel savings into productive investment. Another public sector representative agreed, pointing to a well-known investment gap and to fragmentation, which prevents savings from being mobilised at scale.

Securitisation was therefore described as a strategic, market-based financing channel that can expand banks' lending capacity, attract pension funds and insurers, distribute risk more broadly and mobilise private capital for strategic priorities. Policymakers now see it as a key component of the broader savings and investment union.

1.2 Not a single penny lost, yet penalised beyond the underlying risk

The Chair recalled that, although not a single penny was lost on European securitisations, post-crisis rules introduced penalties out of proportion to the underlying risk. Japan, having banned re-securitisation, required issuer retention and supervised rating agencies, set aside the reforms that were taken in urgency after the crisis, which are completely blocking the market. The package, even if we go a bit less far, aims simply to follow suit. The guiding principle should be the reality of risk: Why should we artificially increase the risk beyond the reality?

Its purpose has long been understood very narrowly, as a balance sheet tool for banks, a public sector representative noted. An industry representative called for removing some of the stigma and approaching the subject technically. A public sector representative saw the proposed removal of due diligence sanctions, already covered by sectoral legislation, as a signalling point: we are changing our cultural attitude towards securitisation.

1.3 Securitisation, covered bonds and private credit: different means for different purposes

Speakers agreed that these instruments are not competing. An industry representative put it this way: Securitisation provides risk capital; covered bonds provide liquidity and funding. We need both… they are two sides of the same coin. A public sector representative concurred: with covered bonds the risk stays on the bank's balance sheet, so securitisation is the risk-sharing tool of a complete financial ecosystem.

An industry representative stressed that banks remain the primary providers of credit to our economy: Europe will not reach a US-style capital market model for many years, if not decades. Another industry representative warned, however, that there is no level playing field between asset-based instruments and that, unless this is fixed, alternatives to covered bonds and ABS will grow.

2. A positive movement, but big steps are needed, not small ones

An industry representative who had consistently been pessimistic admitted to being a little bit more optimistic this time, while remaining sceptical of a dramatic change. Public sector representatives considered the text more risk-sensitive and more proportionate, and an important milestone that cannot transform the market overnight. Another industry representative judged the Commission's initial ambition right, but feared technical details may prevent it from materialising.

The scale of the stakes was illustrated by mortgages: of around €8 trillion held by European banks, less than €30 billion – under 0.5% – has been securitised, against around 50% risk-shared through the US agencies. A public sector representative warned that small or tiny steps will not achieve any of our goals. The final judgement will depend on the whole picture, including the LCR, UCITS and Solvency II, an industry representative argued. Capital requirements are a necessary but not a sufficient condition, another industry representative added.

2.1 The senior risk weight floor: a political floor, not a risk question

An industry representative described the senior floor as decisive for bank behaviour: at 6% for STS resilient transactions, less than 10% of mortgages would be worth securitising; at 5%, more than 15%; at 2%, 50%. This is not a question of risk… This is a political floor, and where it is set will be a political decision. The Chair concurred that where floors are set will probably

determine the extent of the market's revival. A public sector representative cautioned that a very small change, or an unworkable threshold, can have unintended consequences.

An industry representative warned that a lower floor would support synthetic transactions but not necessarily bank demand for cash securitisations, because the EU accepts ABS and MBS in the LCR with such high haircuts that it is technically not used. Another industry representative called for aligning the prudential treatment of originators and investors if they are exposed to equivalent risk, as key to broadening the investor base.

2.2 Insurers' retreat: not the product, but the treatment

An industry representative challenged the view that European insurers do not want securitisation: a study of listed insurers over 17 years shows they sold their holdings shortly before Solvency II, as the risk-adjusted return on capital simply does not work in their favour. Their securitisation share fell from 10% to 3%, whereas it remains major in the US, Japan or Australia: That is not due to the product; it is due to its regulatory treatment.

Another industry representative described insurers as the natural investors of long-dated mortgages. The Parliament's removal of the alignment between insurers' STS and resilient eligibility, maintained in the Commission proposal and the Council text, would deprive banks of their natural counterparties and leave the idea without any value. Further inconsistencies were flagged: four likely categories (STS or not, resilient or not) not reflected in Solvency II from January 2027; a 10% UCITS cap that quickly depletes holdings of an amortising asset, whereas raising it would boost demand for senior tranches suitable for retail investors; and a resilience concept that should include the investors as well.

2.3 An operational burden that must be simplified

A public sector representative welcomed simplified due diligence, rationalised disclosure and improved third-country treatment as ways to make the framework less complex and less burdensome. An industry representative stressed operational burden: private securitisations should not face public-style repository reporting, and the public category should be restricted to transactions requiring a prospectus. The Chair acknowledged that this burden is there for reasons but may need to be simplified.

3. Unfunded credit protection: the opposite of a monoline?

A public sector representative identified unfunded credit protection in STS synthetic transactions as a key trilogue issue: Collateral is a way to cater for risk, but there are a number of different other ways. For the Chair, whether insurers provide unfunded protection or direct funding does not matter that much.

3.1 The lessons of the monoline failure must not be forgotten

A supervisor, while agreeing that broadening the risk-sharing pool is for the benefit of everyone, expressed reservations: It is important not to forget the lessons from the global financial crisis, when unfunded credit protection provided by monoline insurers failed and significantly contributed to aggravating the crisis. Unfunded protection increases counterparty default risk and may increase the systemic risk and could be detrimental to policyholder protection; limiting eligible insurers would only partially address that concern. The same speaker also noted that ESRB and the ECB have also raised concerns about the increase of systemic risk that unfunded credit protection by insurers for synthetic securitisation could result in.

A policymaker framed the trade-off: It is a risk if we do not move forward… but then again we need stable and resilient financial markets. The hardest thing is to know what you do not know, notably climate risks, which are probably going to hit faster than we guess. Hence a bit of a cautious approach to securitisation more broadly: the resilience of financial markets and our pensions should go first. The Chair agreed that risks must be reassessed regularly, but on their substance, avoiding artificially distorting the assessment of risk.

3.2 Safeguards calibrated with common sense, tested at origination

An industry representative rejected the monoline analogy: a globally diversified insurer's biggest risks are windstorms in Europe, earthquakes in Japan and hurricanes in the US… We are not a monoline. We are the opposite of a monoline. Safeguards are important, but if they exclude most of the leading global groups, common sense requires asking whether they have been calibrated correctly. Another industry representative added that concentrating protection sellers into a small group of private companies is not the right solution either, given Solvency II ratios averaging 2.5 times requirements, while a third noted that sharing risk inevitably creates correlation: it is natural.

To avoid cliff-edge effects, eligibility criteria should be tested at origination and then remain in place: a €10 billion size threshold could be lost simply because a balance sheet fluctuates. Nor should a one-notch downgrade cost the bank its capital relief: assessing counterparty credit quality is the core business of a lending bank.

3.3 Capital is not the primary issue holding insurers back

A supervisor argued that capital requirements are not the primary issue: misalignment with long-term liabilities, a less attractive risk-return profile and lack of expertise matter more. An industry survey, carried out by the Joint Committee of the European Supervisory Authorities in 2022, found it simply too cumbersome and too complicated for many insurers. Most insurers' holdings are in non-STS securitisation despite higher charges, suggesting that investors do not look at the capital charge; the average SCR ratio of EU insurers is 253%. Lower standard-formula charges mainly affect

small and medium-sized insurers, as the largest use internal models. Uptake should therefore be conscious, not stimulated by either capital reliefs or modification to risk weight.

An industry representative partly agreed that capital is not enough: insurers also need transparency and data, proportionate and risk-sensitive due diligence and reporting requirements, liquidity and standardisation. A public sector representative similarly stressed governance capacity, expertise and investment in human capital and technology.

4. The regulator is a turtle, real life a cheetah

On whether the reform gets it right, a policymaker answered definitely not, because the regulator is always a turtle and real life is a cheetah: regulatory reaction time is about five to seven years. The answer lies in being prescriptive around what the outcome should be and giving supervisors a bit more leeway, without allowing interpretations totally against the political will.

4.1 No integrated market without European supervision

A policymaker considered supervision the toughest issue in the trilogues: there will be no market with transparency, predictability and resilience without European supervision. For some Member States it remains an ideological issue of competences; the challenge is to let everyone save face while still achieving sensible supervision. A public sector representative confirmed that supervision and sanctions remain open; investors value predictability and confidence, requiring consistent interpretation across Member States.

4.2 Success means a small bank accessing investors as efficiently as a large one

Public sector representatives agreed that success should not be measured by issuance volumes. It should be measured by whether a small bank in a smaller Member State can access capital market investors almost as efficiently as a large bank in the largest economies. The Chair added that, for SMEs, securitisation might be the only way to indirectly access capital markets.

An industry representative nevertheless insisted that volume matters. Volume means liquidity, and liquidity means lower pricing. Europe is falling behind: China issues around €300 billion a year. Another industry representative saw scale as the first priority, while a third warned that Europe could lose another ten years, falling further behind the US and China. I do not think we can afford that.

4.3 A European platform as a catalyst for private risk-taking

A public sector representative argued that a European platform would increase investor confidence, lower due diligence costs and support scale. It should act as a catalyst and accelerator for private risk-taking until the market stands on its own feet, as experience with market-priced public guarantee schemes has shown – but it must be European. An industry representative saw it as a way to standardise processes and support new or smaller issuers, while another public sector representative highlighted a single point of access to high-quality information. The Chair concluded: it must be European if it exists.

Sessions

III

BANKING AND INSURANCE REGULATION

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EU banking competitiveness: what policy priorities?

The discussion focused on two closely related dimensions of EU banking competitiveness: simplifying the prudential and regulatory framework to strengthen banks' financing capacity, efficiency and scale, and advancing the Banking Union to overcome market fragmentation. Throughout the debate, panellists considered how to pursue these objectives while preserving financial stability and the resilience of the European banking system. The Chair invited panellists to identify reform priorities, assess their impact and timing, and consider the role of banks' business models and the macroeconomic environment.

1. Strengthening EU banking competitiveness: simplification, financing capacity and scale

1.1 Recalibrating the prudential requirements will support financing and competitiveness

1.1.1 Prudential delayering as an enabler of growth

Banks as catalysts for growth and strategic autonomy

An industry speaker welcomed the Commission's communication as an opportunity to transform EU banks into catalysts for growth. He stated that the first priority remains capital requirements "right sizing", i.e. selective downsizing without harming financial stability. As the economy's main source of finance, banks must be able to support the European priorities of growth and strategic autonomy. European economic growth has averaged around 1% annually over the past decade, while outstanding loans grew by only 1% in real terms, a weakness he attributed largely, though not entirely, to rising capital requirements. Banks provide around 75% of financing to the European economy. Europe cannot afford another decade of underinvestment. He also emphasised banks' role in the Savings and Investments Union (SIU), notably through market-making, derivatives and securities lending.

Removing conservative regulatory layering will unlock lending capacity

An industry speaker argued that the conservative layering caused by EU 'gold-plating' should be removed. The Basel rules did not create Minimum Requirement for Own Funds and Eligible Liabilities (MREL), multiple Pillar 2 layers, multiple maximum distributable amount (MDA) triggers, software accounting adjustments, non-performing loan (NPL) backstops or prudential valuations. Eliminating these layers will significantly simplify the regulatory framework. He illustrated the potential impact with a €10 billion gap between BNP Paribas' IFRS own funds (net of goodwill) and prudential own funds, which he estimated could support around €100 billion in additional loans, all else being equal. He also called for better treatment of unrated corporates and specialised lending. Europe's prolonged economic weakness has made this an urgent priority. Unfortunately, supervisors have not been incentivised to tackle these problems. To address this, he suggested giving the EBA a dual mandate so that competitiveness and growth receive greater attention in future supervisory work.

1.1.2 Preserving resilience while restoring EU competitiveness

An industry representative stressed that European banks are resilient, have passed the EBA stress tests and are not seeking a reduction in current capital requirements. However, falling requirements across the US, UK and Canada are creating competitive tailwinds for non-EU banks. Productive investment and European strategic autonomy depend on the EU having strong defence, energy, technology, health and agricultural sectors, which require strong banks. The implementation of the output floor could lead to capital charges that reflect the structure of banks' balance sheets rather than their risk profiles. While welcoming efforts to simplify regulation and reduce complexity, she called for action to reverse the competitive dynamics favouring non-EU banks and supported giving the EBA a dual mandate.

1.1.3 Adapting and simplifying prudential rules to support European investment

An official emphasised the urgent need to take action. The EU prudential framework needs to be tailored to Europe's risk profile, but it must align with international standards and take account of what other jurisdictions are doing. Any increase in capital requirements must be justified by underlying risk, particularly for unrated corporates and residential mortgages. The reality of international competition demands a renewed discussion of market risk. Moreover, the prudential rules must support Europe's strategic financing priorities, notably specialised lending, infrastructure finance and trade finance. Simplification must go beyond reporting requirements; there must be a comprehensive review of the accumulation and interaction of capital buffers.

1.2 Simplifying regulation without undermining financial stability

1.2.1 Simplifying regulation rather than lowering capital requirements to improve competitiveness

There is no evidence that capital requirements are the main constraint on competitiveness

A regulator cautioned against equating greater competitiveness with lower capital requirements. Currently, there is no empirical evidence of credit supply constraints preventing EU banks from supporting economic growth. On the contrary, banks are benefiting

from favourable operating conditions. In these circumstances, reducing the requirements could encourage excessive risk taking, particularly when some credit markets are showing signs of exuberance. Indeed, capital constraints do not explain the competitive disadvantage of EU banks compared to their American competitors. The US banks are dominant in capital light segments such as custody services and mergers and acquisitions (M&A) advisory, suggesting that their dominance cannot solely be attributed to capital requirements.

Three priorities for a simpler and more proportionate regulatory framework

The objective of reform should be to address the excessive complexity and density of Europe's regulatory framework. First, the capital stack must be simplified. The existence of multiple overlapping requirements has created considerable complexity. Secondly, regulatory proportionality should be strengthened. A more proportionate framework would support a more diverse and competitive banking sector. Thirdly, the European Supervisory Authorities (ESAs) should be given fewer mandates to develop level 2 and level 3 rules, which have contributed to the proliferation of detailed rules. The regulator also cautioned that greater competitiveness should not come at the expense of market competition, as oligopolistic banking structures can harm both customers and financial stability.

1.2.2 Prioritising practical regulatory simplification and securitisation

An official commented that targeted simplification could improve competitiveness quickly. Poland's efforts to remove excessive regulation and national 'gold plating' have highlighted that many of these constraints emerge from EU legislation. Poland strongly supports simplifying MREL, the macroprudential buffers and the capital stack. Ultimately, the regulatory approach and the application of the rules may matter more for competitiveness than the requirements. Additionally, it is important not to forget the potential benefits of securitisation, which was a priority of the Polish Presidency of the Council of the EU. It should be possible to make relatively rapid progress on this file.

1.2.3 Completing the Banking Union rather than reducing capital requirements

A public representative took a different view of EU banking competitiveness, emphasising that the banking sector is 'more or less fine'. There should not be any general reduction in capital requirements given the ongoing uncertainty being caused by the wars in the Middle East and Ukraine, the disruption in the energy market, the general transatlantic uncertainty and the ongoing concerns over AI and the debt levels of AI firms. It does not make sense to remove EU 'gold-plating' while not directly implementing the Basel rules. The most effective way to boost banking competitiveness is to complete the Banking Union, which would reduce fragmentation, simplify the framework and strengthen competitiveness without a general reduction in capital requirements. He nevertheless saw scope for targeted adjustments, including applying the output floor at consolidated level and unlocking an estimated €100 billion in capital and liquidity trapped behind national borders through unused waivers.

The debate also extended beyond regulatory reform to the structural factors shaping European banks' competitiveness.

1.3 Achieving scale, efficiency and competition in European banking

1.3.1 Strengthening EU banking competitiveness through scale, investment and regulatory simplification

Structural challenges to EU banks' competitiveness and economies of scale

A regulator noted that the ESAs would not object to being given fewer legislative mandates. The European retail banking market remains highly bank-centric, but the wholesale market is increasingly dominated by non-banks and third-country players. Banking is crucial to the EU's strategic autonomy and economic security. EU banks need to be able to compete with non-EU players in the wholesale markets and achieve economies of scale in retail. Cross-border transactions and lending have grown by 30% over the past five years, with most of this growth coming from the wholesale sector. In this segment, EU banks face intense competition from third-country banks and non-banks that benefit from greater economies of scale. The EBA has been developing key performance indicators (KPIs) to measure banking competitiveness, which remains poorly defined. EU banks manage more assets per employee at a lower cost than their US counterparts but generate less revenue per employee. This reflects the fact that the US banks operate in more profitable markets, pay higher salaries and prepare for the future by investing extensively in new technology, including cyber-defence and new AI models.

Preserving resilience while simplifying prudential requirements

EU banks must therefore invest and scale up while preserving resilience. He favoured maintaining existing capital levels while allowing targeted adjustments in internationally competitive activities, notably through the adaptations already made to the Fundamental Review of the Trading Book (FRTB). The EBA is working to remove unnecessary market frictions and reduce costs. It is undertaking a comprehensive review of its rulebook to determine what can be simplified and it has proposed simplifying the capital framework. It is considering remuneration and governance and has proposed a 50% reduction in reporting requirements. It will take a comprehensive package of measures to eliminate existing frictions.

1.3.2 Reducing fragmentation and regulatory complexity to achieve European scale

An industry speaker argued that reducing fragmentation will enable banks to achieve scale. A simpler framework would allow capital, liquidity, technology and talent to be deployed more efficiently across the Union. There should be a holistic assessment of the regulatory requirements to distinguish those that genuinely strengthen resilience from the duplicative constraints. He also emphasised

that a genuinely integrated Single Market and completion of the Banking Union would provide the foundation for a proportionate, predictable framework.

1.3.3 Simplifying banking regulation while preserving competition and financial stability

An official highlighted the importance of ensuring that banks can support both large corporations and small and medium-sized enterprises (SMEs). The regulatory and supervisory framework needs to be streamlined. The accumulation of rules and requirements has created excessive complexity, and Europe needs better regulation rather than deregulation. Completing the Banking Union will involve difficult negotiations, particularly over the home/host arrangements. The host countries remain reluctant to relinquish control over banking activities within their jurisdictions, and there are also difficult unresolved issues around the European Deposit Insurance Scheme (EDIS) and sovereign exposures. In this context, simplifying the regulatory framework should be the immediate priority, alongside advancing the Banking Union and the Savings and Investments Union (SIU). He also called for competition policy to adapt to changing market conditions.

Summing up the first part of the debate, the Chair observed that speakers differed on the relative importance of fragmentation, regulatory implementation and simplification. With no clear consensus on priorities, he invited panellists to identify the most important step towards completing the Banking Union.

2. Advancing the Banking Union: market integration, supervisory trust and compromise

2.1 Building trust and simplifying the institutional framework

2.1.1 Building supervisory trust and reducing regulatory complexity

A regulator stressed the need to strengthen trust among supervisors and build on Europe's existing institutions, particularly the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB), in making progress towards EDIS and overcoming the home/host issue. He also called for fewer EBA legislative mandates and a collective effort to reduce regulatory complexity.

2.1.2 Simplifying the capital stack while pursuing gradual progress on home/host issues

A regulator reiterated the importance of simplifying the capital stack. Reducing the number of institutions with regulatory powers and the range of those powers will free up the considerable resources that are currently devoted to managing this complexity. Given the consensus on the need for change, simplifying the capital framework should be relatively straightforward. The home/host issue will require a gradual approach, however. It will only be possible to reach an acceptable compromise through incremental progress.

2.1.3 Keeping European integration as the ultimate goal and avoiding divisive capital debates

An official emphasised the need to maintain constructive relations with EU member states outside the Banking Union. The Banking Union is not an end in itself: the ultimate objective is European integration and a genuine single market. Reopening the debate on capital requirements will only raise questions that are irrelevant to the banking sector's present or future competitiveness. He noted that some EU member states will remain outside the Banking Union for the foreseeable future.

2.2 Reconciling national safeguards and completing the Banking Union

2.2.1 Advancing the Banking Union through safeguards and practical compromises

An official stressed that progress on the Banking Union depends on recognising the need for safeguards. The safeguards provided by the common supervisory and resolution frameworks must be acknowledged, and the concerns of host member states must be taken seriously. Practical agreements are needed on intragroup support, liquidity in resolution and deposit guarantee schemes. Progress is possible, but it will require political will and a focus on concrete solutions.

2.2.2 Making progress on EDIS a condition for regulatory simplification

A public representative emphasised the need to overcome the distrust between home and host member states, which results from the misalignment between supervisory responsibilities and the costs of bank failure. Correcting this imbalance will require some form of European deposit insurance. Restoring trust will facilitate the use of capital and liquidity waivers, allow greater proportionality and reduce the uneven playing field created by fragmentation, thereby releasing capital without increasing risk. Regulatory simplification and Banking Union reform must therefore be negotiated together. He made clear that his political group would only negotiate a new package if it included genuine progress on the Banking Union and a proposal for EDIS. He compared objections to EDIS with those previously addressed when establishing the now fully mutualised Single Resolution Fund (SRF), claiming that the continue parallel demands on risk-reduction prior to establishing a EDIS where never an issue when establishing the SRF, and called for a legislative proposal in 2027.

2.2.3 Rightsizing capital requirements and taking a pragmatic approach to Banking Union completion

An industry speaker stated that the capital requirements should be 'rightsized' rather than 'downsized'. There are many obstacles that the Banking Union cannot overcome, including cultural attitudes and differences in bankruptcy laws. Nevertheless, an industry representative welcomed the Commission's renewed efforts on EDIS while advocating a pragmatic approach to completing the Banking Union, which he considered less urgent than other reform priorities. Since the original 2015 EDIS proposal, there has been significant progress on resolvability. The remaining needs should be identified and addressed by targeted measures. The establishment

of a credible liquidity backstop in resolution is the main priority and is complemented by an alternative to EDIS for the liquidation of smaller banks.

The discussion then turned to how greater market integration could strengthen banks' scale, technological capacity and competitiveness.

2.3 Unlocking European scale while preserving competition and banking diversity

2.3.1 Overcoming market fragmentation while fostering competition and digital banking

An official stressed that overcoming fragmentation in the banking market will allow EU banks to achieve greater scale and efficiency. However, cross-border consolidation alone will not improve competition. Both smaller local banks and larger groups need to compete effectively, particularly in lending to the real economy. Digital banks have grown rapidly and could soon expand into lending. The regulatory framework must accommodate these emerging sources of competition.

2.3.2 Achieving European scale to absorb technology costs and compete internationally

An industry speaker remarked that immediate action is necessary to eliminate the duplicative elements of the regulatory framework, even if broader reforms are implemented gradually. By operating at European scale, banks will be able to spread their fixed costs in technology, cybersecurity, operational resilience and AI. Citing figures mentioned during the discussion, he noted that Bank of America spends $14 billion on technology, including $4 billion on new initiatives including AI. He also observed that, even after recent US regulatory easing, US standards remained above international minimum requirements.

2.3.3 Strengthening competitiveness through scale, proportionality and banking diversity

An industry representative stressed that greater scale and progress on the Banking Union would strengthen banks' competitiveness and their ability to finance productive investment. Any implementation of risk-based proportionality should reflect the fact that sectoral and geographical diversification is a source of resilience and enables cross-border banks to absorb shocks. She also stressed that the industry was not seeking lower capital requirements but wanted to avoid further increases or new obstacles to financing the European economy.

Conclusion: a reform package to strengthen competitiveness and preserve resilience

No single solution: balancing reform priorities and trade offs

The Chair noted that no clear consensus had emerged on the relative priority of fragmentation, regulatory implementation and simplification, or on any single measure, including EDIS. The debate confirmed that progress would require a comprehensive package of reforms, difficult trade-offs and substantial work within a short timeframe. Public authorities remained open to discussing capital requirements, particularly in the context of the Banking Union, but banking competitiveness depends on much more than capital requirements alone. He recalled that the Commission had deliberately remained neutral on the relative importance of the three pillars of its reform package, acknowledging that any compromise would require concessions from all sides.

Macroeconomic constraints and the need for banks to absorb shocks

Unlike in 2008, fiscal policy has very limited room for manoeuvre, while monetary policy must prevent inflationary pressures arising from deglobalisation from becoming embedded in expectations. Although banks are more resilient than before the financial crisis, macroeconomic policy has less capacity to absorb future shocks. Banks must therefore act as shock absorbers rather than transmit shocks to the real economy. The Chair also noted that Europe tends to recover more slowly than the United States from comparable shocks because of structural differences. Any reassessment of capital requirements must therefore consider the broader structure and current condition of the banking system, reinforcing the need for the comprehensive approach proposed by the Commission.

Breaking the deadlock on the Banking Union

The discussion considered why Banking Union remains incomplete despite progress in strengthening the resilience of European banks. The participants examined the persistent fragmentation of the banking market, the restrictions on the movement of capital and liquidity and the political obstacles arising from the home/host dilemma. They discussed how to increase competitiveness and integration in the banking sector while implementing credible safeguards for host countries and preserving the diversity of banking business models. The debate explored the prospect of immediate improvements and the conditions for designing a comprehensive reform package with broad political support.

1. Banking Union: progress, fragmentation and financing the real economy

The panellists reflected on the progress achieved since the launch of the Banking Union and highlighted the key structural obstacles limiting its effectiveness. The fragmentation of capital and liquidity, the evolving nature of risk and Europe's financing needs are key challenges in the effort to strengthen competitiveness and to preserve resilience and the diversity of European banking models.

1.1 Progress achieved and challenges ahead

1.1.1 Completing the Banking Union: building on progress and renewed momentum

A regulator explained that the establishment of the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) represents substantial progress on Banking Union, but neither of these pillars is complete. The outstanding issues include the free movement of capital and liquidity within banking groups, liquidity in resolution, the common backstop and the sovereign bank nexus. The European Commission's communication on competitiveness has created renewed momentum to address these longstanding obstacles. Without resilience, the banking sector cannot support the economy or strengthen European competitiveness. The challenge is to preserve resilience while enabling the sector to contribute more effectively to growth.

1.1.2 Completing the Banking Union: trust, recognising risk and safeguards for host countries

Lessons from the Banking Union's history: resilience and the role of trust

An official observed that the Single Resolution Fund (SRF) was progressively mutualised between 2016 and 2023. It is possible to overcome distrust between Member States through gradual integration and active political decision making. In contrast, the elegant 2015 proposal for a European Deposit Insurance Scheme (EDIS) failed because it lacked a mechanism for building trust.

A more diverse banking system facing a broader set of risks

It is now well recognised that local bank networks are essential to Europe's broad base of small and medium-sized enterprises (SMEs). SMEs account for around two-thirds of EU GDP, compared with approximately 40% in the US, underscoring the importance of resilient less significant institutions (LSIs). In parallel, the risk environment has broadened beyond financial resilience. Physical threats, such as power blackouts in Spain or drone incursions in Lithuania, Latvia and Poland, can disrupt payment systems and prevent citizens from buying goods in shops. The risk landscape is also changing as payment systems take on some of the roles traditionally played by banks.

The concerns of host countries are a major political obstacle

The home/host debate remains a politically sensitive topic. In a country such as Lithuania, the subsidiaries and branches of foreign banks are small from a Europe wide perspective but systemically important domestically. Host governments need credible assurances that these entities are safe. Subsidiaries face solo requirements whereas branches do not, which creates a significant asymmetry. If a major foreign bank decided to close its Lithuanian branch, its rural ATM network could disappear, seriously affecting access to cash. These political and societal concerns cannot simply be disregarded.

1.2 Removing capital and liquidity barriers to strengthen European banking competitiveness

1.2.1 Trapped capital and liquidity constrain banks' lending capacity

An industry speaker noted that European banks have become safer and more resilient, but the priority now is to strengthen their competitiveness. UniCredit's subsidiaries hold approximately €15 billion in excess capital. Assuming a CET1 ratio of 13% and an RWA density of around 50%, €1 billion of capital could support approximately €12 billion in loans. Although not all excess capital can be deployed efficiently and lending depends on sufficient risk-adjusted demand, under optimal conditions €15 billion could support around €100 billion in lending to businesses and individuals. Similarly, approximately €50 billion of liquidity is trapped across UniCredit's subsidiaries. These constraints prevent the efficient allocation of capital and liquidity.

1.2.2 Genuinely single supervision is needed to overcome the home/host dilemma

These inefficiencies undermine European banks' competitiveness relative to foreign institutions,

particularly large US banks operating in the EU market. Cross border groups would benefit from genuinely single supervision. The home/host dilemma remains a practical reality. Reconciling EU and national supervision is essential to overcoming the fragmentation faced by European banks.

1.3 Financing the economy through diverse banking models

1.3.1 Completing the Banking Union while preserving Europe's diverse banking models

Regional and relationship banks are essential to financing the European economy

An industry representative emphasised that one objective of Banking Union must be to finance European businesses. The UN has highlighted a global "missing middle" of companies and households lacking access to finance. Many EU firms are too small to access the capital markets but too important to overlook. Germany's Mittelstand, including SMEs, family businesses and start-ups, needs financing for investment in energy, digitalisation and new production lines. Investing in these businesses requires local knowledge of their ideas, activities and needs, which only local banks can provide.

European integration should preserve banking diversity and build on the existing ecosystem of IPSs

Fragmentation, complexity and competitiveness are interconnected. Europe needs large cross border groups and strong decentralised networks of regional and relationship banks supported by institutional protection schemes (IPSs) operating in an integrated ecosystem. European integration has never meant uniformity. Indeed, the single market was built by connecting national industries through mutual recognition, not by abolishing them. In accordance with the principle of subsidiarity, the EU should act where it adds value and preserves arrangements that already work. IPSs already provide some of the protection that EDIS is intended to offer. Recognising their value is an application of the European method, not a national reflex. The EDIS proposal should build on the existing IPSs rather than replace them.

1.3.2 Large banking groups value their smaller subsidiaries and serve local economies

An industry speaker challenged the suggestion that large cross-border banking groups regard their smaller subsidiaries as unimportant. He cited a Slovenian subsidiary with approximately €2 billion in assets, compared with around €800 billion for UniCredit as a whole, which still requires close management attention. Large banking groups are also major providers of finance to small businesses. UniCredit operates over 4,500 branches across Europe and follows a universal banking model. Large size does not imply an exclusive focus on large clients. Customers do not complain because a bank is a branch rather than a separately incorporated subsidiary. UniCredit's experience in Slovakia, where it has operated through a branch for 12 years without complaints about its legal status, illustrates that the branch model can work in practice without adversely affecting customers.

2. Trust, shared responsibility and safeguards: the conditions of integration

The differing perspectives of large cross-border groups and regional banks highlight the importance of mutual trust, a clear allocation of responsibilities and credible safeguards for host countries in overcoming the home/host dilemma.

2.1 The home/host dilemma and host country concerns

2.1.1 Overcoming the home/host divide through European governance and stronger safeguards

A regulator challenged the suggestion that the Banking Union had encouraged nationally biased decisions. On the contrary, the Banking Union was designed to prevent such decisions. It is also important to remember that progress towards the Banking Union and the resilience that came with it were achieved thanks to considerable efforts by the banks. In fact, the banking sector funded the SRF, which amounts to around €81 billion. Banks also issued minimum requirement for own funds and eligible liabilities (MREL) eligible securities and worked on their resolvability in general. They are now more resilient. This hard-won resilience must be preserved.

Against this background, it is surprising to see that the distinction between home and host still persists. The SRB, responsible for around 110 significant institutions and other cross-border groups, does not represent home countries or host countries; it is there to preserve financial stability across all participating Member States. Banking Union governance ensures the fair representation of all Member States around the table. The home/host relationship is only relevant with external jurisdictions. Completing the Banking Union will require an approach which recognises the complexity of a bank failure. The Commission's proposal rightly considers financial stability, resilience and the safety net together. Making the use of liquidity waivers more frequent through the introduction of additional safeguards, such as including intragroup support agreements, could reinforce resilience while enabling more efficient allocation of capital and liquidity. These objectives are compatible; achieving them depends on political willingness.

2.1.2 Overcoming the home/host dilemma: shared responsibility and a clear definition of success

Building trust through shared responsibility and EDIS

An official described the home/host dilemma as a prisoner's dilemma rooted in a lack of trust: a fully-fledged Banking Union would benefit home and host countries, the industry and the EU as a whole. There are political and economic aspects to this dilemma. At the political level, power must come with responsibility. A clear and credible EDIS proposal is essential to further progress. The Commission's communication was less clear and less ambitious than expected, particularly on EDIS. Given that EDIS is a clear priority for the industry, now is the time for the Commission to show greater leadership and courage in this area.

Addressing host country vulnerabilities and defining success

At the economic level, many host countries depend heavily on bank financing. In Slovakia, banks provide virtually all financing and three banking groups dominate the market. Subsidiaries that are relatively insignificant at group level can be crucial to host economies. The concerns of host countries are also connected to the home bias in European banks' sovereign bond holdings. While the Banking Union's objectives are widely shared, it is not clear whether the right instruments are being used to achieve them. As Didier Cahen's paper suggested[1], there needs to be greater clarity on what a successful Banking Union looks like and how success should be measured.

2.2 Designing a balanced package and fostering trust in European resolution

2.2.1 A workable package will seek to balance greater integration with safeguards for host countries

A regulator strongly supported a comprehensive package encompassing both simplification and integration measures—a holistic approach rather than isolated "quick wins". The Commission's package, if kept together, offers a unique opportunity to move towards a simpler, more harmonised framework.

Responding to another participant's comment, a regulator pointed out that the SRB works intensively on all local subsidiaries, irrespective of their size. Also, representatives of the relevant national resolution authorities participate in the SRB's resolution planning process, from drafting to approval. Also in a crisis, decisions are taken collegially within the Single Resolution Mechanism. The SRB and both home and host country authorities are directly involved in the process. The SRB's responsibility is to safeguard financial stability across Europe. Work on local subsidiaries is critical for a good resolution planning. The perception that the European resolution framework overlooks host countries' concerns is ever less justified.

2.2.2 Testing the resolution framework and finding a pragmatic compromise

An official commented that the European resolution framework has not been sufficiently tested by real crises to demonstrate that it protects host countries. A regulator disagreed, arguing that real resolution cases have demonstrated that the framework is functioning well. Resolution necessarily involves losses, including to shareholders and creditors.

An official maintained that further evidence will be needed to build confidence over time. Given the political constraints, a fully-fledged Banking Union is unlikely to be immediately realisable. Progress should therefore be evolutionary rather than revolutionary. There should be a pragmatic compromise which makes progress on EDIS and relaxes individual requirements through waivers. This would require concessions from host countries, but it could be a workable middle ground. Reducing banks' home bias in sovereign bond holdings and EDIS should be a prerequisite for progress on waivers. A comprehensive package could reconcile these objectives, but the broader simplification agenda should not be held hostage to disagreements over the institutional completion of the Banking Union. It is also unclear why the use of branches works in the Nordic and Baltic countries but is contentious elsewhere. The large US banking groups operate through branch networks rather than separate subsidiaries.

3. A comprehensive and phased agenda for completing the Banking Union

The debate then turned to the conditions for making progress, combining immediate improvements within the existing framework with a comprehensive reform package, credible safeguards and phased implementation. Speakers also emphasised the importance of simplification, proportionality and renewed political commitment in a changing geopolitical environment.

3.1 An ambitious package addressing competitiveness and consumer needs

3.1.1 Completing the Banking Union requires ambition, political trade offs and cultural change

An ambitious approach is needed to strengthen competitiveness

An official welcomed the Commission's communication, noting that Europe remains heavily dependent on bank finance. To allocate capital and liquidity effectively, European banks need to be efficient and globally competitive. There are different views on how to make progress on the Banking Union. Some industry representatives favour targeting the quick wins, while others have proposed splitting the reform into its component parts. However, it is not clear that these limited proposals would materially improve competitiveness. To make significant progress, the necessary reforms will have to form a more ambitious package. Member States calling for greater ambition need to be prepared to confront difficult issues.

Political trade offs and safeguards are essential to deeper integration

As the Commission's communication emphasised, completing the Banking Union will necessarily entail trade offs. Greater competitiveness may come at the expense of resilience; deeper integration may reduce national discretion; and cross border banking may require stronger safeguards. The home/host dilemma must be understood in the context of national political reality. Member States must understand what they will be giving up, what they will gain and what safeguards will be available. This is particularly important for

1. D. Cahen with C. Duperat and H. Moulaoui, "Breaking the Banking Union deadlock: challenges and path to a holistic solution", Eurofi Regulatory Update, September 2026

countries which are heavily dependent on bank financing. These trade-offs also have a wider societal dimension, such as access to cash, which politicians must consider. Simplification does not equal deregulation.

A change in compliance culture could deliver immediate progress

The official challenged the industry's compliance culture. Banks ask for fewer rules, less red tape and greater legal certainty, but these demands are not always compatible. More proportionate regulation will require banks to exercise their judgment and accept a degree of uncertainty. A change in industry behaviour could deliver immediate improvements without any legislative change.

3.1.2 A comprehensive package will have consumer benefits and be phased in over time

Overcoming the practical barriers for consumers

An official noted that the Savings and Investment Union (SIU) calls for an integrated approach. The comprehensive approach proposed by Didier Cahen in the Eurofi Regulatory Update is consistent with the Commission's communication. Some of the practical obstacles for consumers could be addressed quickly. Opening a bank account abroad remains difficult, and barriers to cross-border payments persist. The official illustrated this with his son's difficulties paying for accommodation in Amsterdam from a Lithuanian account with a non-Dutch IBAN. IBAN transferability could help address these obstacles and should be included in the package. Consumer benefits should be fully reflected in the Banking Union debate.

Phased implementation and credible safeguards are essential to building trust

Although the package should be comprehensive, its implementation must be phased. It took seven years to mutualise the SRF, demonstrating how gradual integration can help politicians build mutual trust.

One of the major concerns for host governments is the risk of a liquidity crisis when a bank encounters difficulties. Alongside EDIS and the SRF, the role of intragroup support needs to be further clarified. In practice, intragroup support does not operate straightforwardly. The existence of difficulties elsewhere in a group can ultimately have consequences on a separate local branch. To reduce these tensions, ring fencing and solo requirements should be relaxed progressively rather than removed at once, potentially retaining some of the requirements at a lower level for locally active subsidiaries.

3.2 Immediate improvements, simplification and proportionality

3.2.1 Legislative reform and immediate progress within the existing framework

Completing the Banking Union requires legislative reform and a change of mindset

An industry speaker highlighted that the key measures which will advance the Banking Union are waivers, EDIS and intragroup large exposure rules. Although legislative progress will take several years, tangible improvements could be achieved now if there were a genuine shift in Banking Union culture within the SSM and NCAs.

Three immediate priorities for improving capital mobility

Several improvements are possible on the capital side. First, banks face management buffers at both consolidated and subsidiary levels. NCAs and the SSM expect capital holdings above the maximum distributable amount (MDA) and Pillar 2 Guidance (P2G), effectively imposing an additional buffer. The ECB clarified in its July Internal Capital Adequacy Assessment Process (ICAAP) guide that this is no longer intended practice. Secondly, the macroprudential requirements should be harmonised using the discretion and competencies already available under the existing framework. Thirdly, the practical obstacles to upstreaming capital should be removed. In some Banking Union countries, this process, which should take around five weeks, can take up to nine months. These obstacles do not originate in Frankfurt. Greater ambition and a change of mindset among NCAs could deliver significant improvements before any new legislation is adopted.

3.2.2 Advancing the Banking Union through ambitious simplification, EDIS and a change in mindset

Combining long-term integration with immediate progress

An industry speaker agreed that the industry should pursue medium- and long-term objectives alongside the quick wins. Alongside simplification, the completion of the Banking Union is essential for many cross-border banking groups. In a rapidly changing geopolitical environment, Europe is working together on several important issues. This is an example for the Banking Union. Banks have evolved, diversifying their business models and strengthening resilience. The European Systemic Risk Board (ESRB) has positively assessed the diversification of banks' sovereign bond exposures. Banks do not always need a regulatory incentive to reduce risk, given their direct interest in their own stability and that of the wider system.

Addressing financing constraints and designing a pragmatic EDIS

Simplification must go beyond streamlining procedures, speeding up processes and reducing reporting. SMEs are the backbone of the European economy. Requiring external ratings for all such firms is unnecessary. The treatment of unrated corporates and the output floor must be addressed urgently to preserve Europe's financing model and support growth. Regarding EDIS, some ECB members have suggested that participation could be limited to banks directly supervised by the SSM. This could offer a pragmatic solution, depending on its design and implications for national DGSs. These schemes are largely funded by bigger banks but used by smaller ones. Preserving this solidarity in the system is essential. The design of EDIS is an important political issue which will require dialogue with the industry. Ultimately, progress on Banking Union will require a change in risk culture and mindset. Cross border banking groups face substantial operational inefficiencies. A shift in mindset within the existing framework would be an

important step forward that industry and public authorities could pursue together.

3.2.3 Proportionality and preservation of effective banking models

An industry representative stressed that any Banking Union package should benefit regional and relationship banks as well as large groups. Alongside the recognition of IPSs, proportionality is essential for smaller institutions. This should extend to Pillar 2 requirements, stress testing and the extensive documentation associated with Level 2 and Level 3 regulatory measures. The Banking Union is an orchestra performing a Beethoven symphony. A wise conductor would not replace the instruments that already work well. Similarly, any banking reform should preserve the effective elements of the existing framework while making the changes needed to improve the system as a whole.

3.3 Shared responsibility, stronger safeguards and renewed political commitment

3.3.1 Overcoming fragmentation requires a comprehensive and balanced package

While immediate improvements and simplification could deliver tangible benefits, a policy-maker stressed that lasting progress requires addressing the structural and political obstacles to integration. He described the Banking Union as a success story that is not yet finished. The framework will not be truly robust until it functions as intended. The EU has established collective decision-making mechanisms without determining who will pay for the consequences of these decisions. This perpetuates distrust in the Banking Union.

The Commission's report has been welcomed, but previous failed initiatives on Banking Union also received positive reactions. The central premise of the report is that there are no quick fixes: improving EU banking competitiveness requires a comprehensive approach. The fundamental problem is market fragmentation rooted in the home/host dilemma. International standards and regulatory simplification matter, but further progress will depend on addressing this underlying issue. Host countries will not accept deeper integration or simplification without confidence that resilience is protected. The reforms must therefore form a balanced package.

3.3.2 Cross border banking must work in life and in death

The central challenge is to make cross border banking work both in normal circumstances and when a bank fails. To realise the benefits in life, Europe needs credible arrangements for dealing with cross border banks in death. This raises the question of whether the responsibility for failures should be national or genuinely European. The creation of the SSM and SRB transferred supervisory and resolution responsibilities from national authorities to European institutions in Frankfurt and Brussels. However, these structures must be fully trusted. Completing the framework will require additional safeguards, including some form of deposit insurance.

There are non prudential barriers, particularly differences in insolvency and taxation frameworks, which also hinder integration. However, Member States are unwilling to address them. The removal of the entire insolvency chapter from the EU Inc. proposal demonstrates this. If prudential reforms are already contentious, non prudential reforms will be even harder. Policy-makers should therefore focus on reforms capable of securing political agreement rather than relying on more ambitious changes that currently lack sufficient support.

3.3.3 Greater banking scale and proportionality must preserve diversity and resilience

A policy-maker rejected the suggestion that the Commission wants to eliminate smaller banks. The EU has approximately 4,500 banks, but only one or two are large enough to compete globally. The problem is the lack of large and internationally competitive banks. Removing the barriers to cross-border growth would create scale while preserving the viability of smaller institutions. Stronger EU banking groups could compete globally and within their own markets. The US custodian banks are steadily gaining European market share partly because their greater scale is supported by a large domestic market unavailable to European competitors. Preserving banking diversity and facilitating the growth of European banking groups are therefore compatible objectives.

The meaning of proportionality is still somewhat contested. Anything that increases proportionality should be welcomed, if it does not reduce resilience. Reducing the requirements for documentation, for example, might need to be balanced by increasing capital requirements. The reality of such trade offs must be recognised; it should not be assumed that simplification is cost free.

3.3.4 A changed geopolitical context calls for reconsidering national red lines

A policy maker concluded that the Commission's report provides a broad strategy for integrating the European banking market while ensuring that all Member States, including host countries, can trust the safeguards. These issues have been debated for years, and the national red lines remain firmly entrenched. However, the geopolitical context in which these decisions must be taken has changed radically. Europe must be willing at least to reconsider its red lines. Otherwise, the prospects for European banking and the wider European economy will remain uncertain.

Reducing cumulative complexity in EU banking regulation and supervision

The discussion examined how the EU can reduce cumulative regulatory and supervisory complexity without weakening banking resilience. It addressed the practical scope for simplification, the conditions for sustainable competitiveness and deeper market integration, and the institutional and political challenges involved in delivering reform.

The Chair commented that banking simplification has been debated for many years, with recent initiatives and reports from the European Supervisory Authorities (ESAs) revisiting longstanding proposals. He framed the discussion around two questions: whether existing and proposed measures are sufficient and what further action is needed, and how simplification can be translated into the daily work of lawmakers and banks despite differing views on its scope.

1. Simplifying the regulatory and supervisory framework

1.1 Simplifying regulation without weakening prudential safeguards

1.1.1 Assessing cumulative requirements and regulatory overlaps

An industry representative stressed that simplification must not be confused with deregulation. Although individual rules may be justified, their cumulative burden must remain proportionate to their benefits. Each additional requirement should deliver sufficient value. Equivalent resilience might be achievable with fewer rules. An outcome-based assessment should determine whether requirements genuinely improve safety, or mainly add constraints, reporting and internal processes.

The leverage ratio and output floor are both designed as backstops, and their combined effect may become binding for ordinary banking activities. This raises questions about whether they still serve their intended purpose. Simplification should examine overlaps between capital requirements, leverage constraints, stress-testing buffers and resolution requirements rather than treat each layer separately.

1.1.2 Improving reporting, supervisory judgement and banks' responsibilities

An industry representative stated that supervisory reporting should focus on information genuinely needed to assess risks, rather than every potentially useful data point. The rulebook should impose clear, targeted requirements, including for emerging risks such as artificial intelligence, and focus on banks' ability to identify, contain and explain risks instead of perpetuating reporting obligations for their own sake.

Supervisory practice should allow greater discretion in order to reflect different business models and risk profiles. The boundary between binding requirements and non-binding guidance must be clearer, so that bank boards know when compliance is mandatory and when judgement is expected.

Simplification also requires reciprocal responsibility: banks must demonstrate that they can use the greater flexibility prudently and manage their risks effectively.

An industry representative observed that European authorities tend to focus on their respective mandates. She welcomed the European Central Bank's (ECB) initiative to establish its own task forces without waiting for the European Commission, but there should be coordination across authorities and Levels 1, 2 and 3 of the regulatory framework. An authority should take overall responsibility for fundamentally reassessing how rules are designed, with all relevant stakeholders contributing to this Europe-wide effort.

1.2 Improving regulatory coherence and supervisory coordination

1.2.1 Reviewing cumulative requirements and strengthening cooperation

A regulator highlighted that the European Banking Authority (EBA) had issued 21 recommendations over the preceding year to improve the regulatory and supervisory framework. The Commission's communication is a transparent and constructive assessment, and he hoped that most, if not all, of its proposals would be implemented.

After 15 years of successive reforms, an assessment is needed of whether the cumulative framework delivers its intended outcomes while preserving its achievements. Improvements could involve legislative amendments, regulatory adjustments or practical changes in interactions between competent authorities, resolution authorities and other stakeholders. Home-host arrangements remain central. The EBA has strengthened deposit guarantee schemes (DGSs) through improvements to funding arrangements, stress-testing guidelines, peer reviews and revised guidance on cooperation and coordination.

Greater consistency and information sharing are needed across microprudential supervision, macroprudential oversight and resolution. Progress in cooperation between the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB) could be extended to other authorities, to make regulatory and supervisory assessments more consistent and predictable.

1.2.2 Reducing national divergences and improving regulatory practices

A regulator stated that divergent national transposition and the implementation of EU directives add complexity. Directly applicable EU regulations are preferable where appropriate, as they can reduce national divergences and delays. Supervisors and other authorities should continuously reassess their own practices alongside the banking sector and wider regulatory system.

1.3 Simplifying supervision and regulation while advancing banking integration

A Central Bank official argued that success should be measured through reduced undue complexity, greater cross-border banking integration and banks' improved ability to serve households, small and medium-sized enterprises (SMEs) and larger corporates.

1.3.1 Delivering more efficient and risk-based supervision

A Central Bank official added that the ECB, through its Next Level Supervision initiative, is improving supervisory efficiency, effectiveness and risk sensitivity without awaiting legislative reform. In the second quarter of 2026, capital-related decisions were processed in less than six days on average, while short-term supervisory reporting data points were reduced by around 20%. The ECB also reported a review of its supervisory guidance to clarify its non-binding status, address concerns, consolidate existing guides and withdraw outdated material, including work continuing in 2027.

1.3.2 Simplifying prudential requirements and completing the Banking Union

The ECB's high-level task force proposed consolidating five macroprudential buffers into two, including one releasable during stress, and improving the interaction between prudential and resolution requirements. Greater proportionality is also possible for smaller and less complex banks by adapting reporting and supervision to their business models and risks.

A central bank official saw no evidence that capital requirements currently constrain lending and cautioned that lowering them would not automatically stimulate productive investment. Strong balance sheets support lending, particularly during downturns. More efficient supervision alone cannot eliminate fragmentation. Without progress on integration, competitiveness gains will remain limited. Completing the Banking Union therefore requires removing barriers to cross-border capital and liquidity movements within banking groups, with appropriate safeguards, and advancing a European deposit insurance scheme (EDIS).

Beyond reducing regulatory and supervisory complexity, the discussion turned to how banking competitiveness should be defined and measured, and what would enable European banks to operate profitably and at scale.

2. Strengthening banking competitiveness through profitability, proportionality and integration

2.1 Sustainable profitability

An industry representative questioned how banking competitiveness should be defined, measured and translated into concrete objectives. Clear benchmarks are needed to assess progress over the next three to five years. A reasonable definition is for the banking sector to remain sustainable throughout the economic cycle and be globally competitive.

Sustainability requires banks to generate returns at least equal to their cost of equity over the long-term. Key indicators are return on equity (ROE) relative to the cost of equity and market valuations. In 14 of the past 16 years, European banks' ROE was substantially below their cost of equity, while valuations stood at around 50% of book equity. Although profitability had recently improved, sustainable returns over a 30-year horizon would require roughly doubling sector profits or ROE. Euro-area banks generated approximately €190–200 billion in profits the previous year, implying around €200 billion in additional annual profits. The speaker did not consider halving equity requirements a viable alternative.

2.2 Competitiveness, profitability and financial responsibility

2.2.1 The consequences of insufficient profitability

The Chair highlighted the argument that higher capital requirements could strengthen competitiveness by signalling stability. An industry representative rejected that argument, citing his experience with investors, who did not assess competitiveness in that way.

An industry unable to cover its cost of equity sustainably faces three possible outcomes: acquisition by more competitive external players, nationalisation or disintegration into smaller, potentially viable activities.

2.2.2 Burden-sharing and financing bank resolution

An industry representative argued that complexity itself is not the main problem; the issues are regulatory implementation and efficiency, alongside the political division of responsibilities between member states and the European level. The central question was who ultimately bears the cost of bank failures.

Resolution funds have finite resources. He cited past sovereign-guaranteed bond issuance, repaid by banks over 10–20 years, and questioned whether a depleted European resolution fund could issue further bonds and which sovereign, if any, would guarantee them. The Chair clarified that the European resolution fund can issue bonds within certain limits and benefits from a backstop, but not a sovereign guarantee. Bail-in allocates losses to creditors rather than taxpayers, an innovation the speaker supported.

2.3 Proportionate, harmonised and effective regulation

2.3.1 Recognising international banking models and reducing fragmentation

An industry representative stressed the growing contribution of non-EU-headquartered banks to the European economy, particularly by providing access to overseas investors and liquidity amid substantial investment needs. The Commission's ambitious proposals to facilitate group-wide capital and liquidity allocation, reduce national gold-plating, address prudential-resolution overlaps and improve the treatment of intragroup exposures are welcome. Their success, however, depends on political commitment to overcoming national approaches and local agendas.

Proportionality should better reflect different business models and risk profiles, particularly those of international banks operating predominantly wholesale, cross-border businesses managed regionally or globally. While the proposals include useful proportionality measures for less significant institutions (LSIs), they should better accommodate diverse business models. Greater recognition of equivalent regulatory regimes and stronger home-host cooperation would also reduce unnecessary duplication. Simplification and financial stability are complementary: eliminating duplication and fragmentation allows banks and supervisors to focus on material risks.

Greater harmonisation is also essential. A recent example is that despite its objectives, the Capital Requirements Directive 6 (CRD6) risks producing 27 different national implementations.

2.3.2 Improving implementation and accountability

An industry representative suggested that regulatory changes require better coordination and sequencing. As an example, under the Digital Operational Resilience Act (DORA), Level 2 and 3 guidance arrived only weeks before implementation, complicating the implementation and internal projects of banks. A holistic review of forthcoming requirements would enable more realistic deadlines, prioritise urgent risks and defer less pressing changes. Regulators should also systematically balance prudential objectives against economic costs and unintended consequences, supported by clear mandates and appropriate checks and balances.

Although the objective and benefits of a single market are widely recognised, the path to achieving it remains unclear. Given Europe's economic challenges and substantial financing needs, a genuinely integrated market is essential to a competitive financial sector.

2.4 Combining banking resilience, competitiveness and European integration

A regulator stressed that competitiveness and resilience are compatible objectives. She set out three guiding principles: maintaining current capital requirements to preserve resilience, implementing international Basel standards through the European single rulebook while allowing proportionate supervision, and eliminating unnecessary regulatory and supervisory gold-plating.

Competitiveness also requires banks to finance the real economy more effectively, particularly the green and digital transitions and defence. The regulator suggested considering an extension of preferential treatment from short-term to medium-term trade finance exposures.

Banks are also essential to developing European capital markets and delivering the Savings and Investments Union (SIU). With non-EU banks accounting for around 60% of capital markets and investment banking activity in Europe, measures are needed to reverse European banks' declining market share.

Greater integration is needed to finance EU-wide climate, defence and digital priorities. Banks must be able to operate at European scale, manage liquidity across groups and benefit from capital and minimum requirement for own funds and eligible liabilities (MREL) waivers to allocate resources efficiently, subject to safeguards that reassure home and host authorities.

2.5 Reconciling cross-border banking integration with financial responsibility

2.5.1 Addressing home-host tensions

A regulator argued that cross-border capital and liquidity allocation are about European market integration and financial responsibility rather than regulatory complexity. Poland is a host country outside the Banking Union; capital held by local subsidiaries is not trapped but supports local activities and risks. Centralised capital and liquidity management requires adequate safeguards and a corresponding centralisation of financial responsibility, including progress towards EDIS. As long as responsibility for bank failures remains national, host authorities must retain control over sufficient resources.

In a crisis, parent-company directors and home supervisors cannot be assumed to support a distressed foreign subsidiary. Directors have obligations to their own institutions, investors and creditors, while host supervisors may be unable to enforce intragroup transfers. Clear allocation of ultimate financial responsibility is essential to resolving home-host tensions.

2.5.2 Integration and supervisory judgement

A regulator recognised the need for European banks to achieve global scale and questioned whether Europe is prepared to accommodate larger groups. There could be a dedicated framework for the largest cross-border banks that combines integrated operations with centralised accountability and financial responsibility.

He favoured principle-based rather than excessively prescriptive regulation, provided it is underpinned by mutual trust and responsible judgement by banks and supervisors. In his view, capital requirements are not the principal constraint on lending or global competitiveness. European banks' participation in investment banking consortia alongside US institutions reflects differences in expertise, capabilities and tools more than capital constraints alone. Strengthening these capabilities is therefore essential.

EDIS would permit greater flexibility in home-host arrangements but would not necessarily eliminate all concerns. There is a distinction between subsidiaries and branches. Branch deposits are covered by the home-country deposit guarantee scheme, whereas subsidiary deposits fall under the host-country scheme. Centralised group capital and liquidity management could make this distinction less meaningful in practice. EDIS would facilitate integration, but the implications for different forms of cross-border presence would still require attention.

The exchanges highlighted that deeper banking integration depends not only on simpler rules but also on credible arrangements for sharing financial responsibility and managing bank failures. The discussion then turned to the role of resolution mechanisms, institutional trust and political commitment.

3. Building institutional trust and political commitment

3.1 Credible resolution and regulatory simplification

A resolution authority representative argued that the adoption of the Commission's proposals as one package would substantially address regulatory complexity, fragmentation, integration and competitiveness. The priority is to ensure political commitment to deliver a complete package rather than selective amendments.

The official questioned why European authorities should have less confidence in one another than in non-EU counterparts. Under the single point of entry (SPE) resolution strategy, European authorities already host US, Japanese and Swiss banking groups and rely on their home resolution authorities. European subsidiaries of US banking groups alone represent more than €230 billion, which underscores the importance of credible cross-border arrangements.

Mutual trust depends on resilience and a credible regulatory and resolution framework. Full and fair implementation of international standards, alongside a holistic review of additional EU-specific requirements, should identify scope for simplification and removal of internal barriers without weakening resilience.

Europe has multiple prudential and macroprudential requirements, MREL, the international total loss-absorbing capacity (TLAC) standard, and there is the 8% TLOF threshold for access to the Single Resolution Fund. These many features merit reassessment to ensure equivalent resilience, stability and trust with a simpler framework; the speaker also noted constructive cooperation with Poland's Bank Guarantee Fund.

Branch deposits are protected by the home-country deposit guarantee scheme, whereas subsidiary deposits fall under the host-country scheme. Existing supervisory and resolution tools, including resolution arrangements, limit the differences between these two types of protections. These differences should be assessed against available safeguards rather than regarded as insurmountable barriers to integration.

3.2 Advancing a comprehensive simplification agenda

3.2.1 Building political support for reform

A policy-maker acknowledged substantial differences among member states, including in the Economic and Financial Committee (EFC), but reaffirmed the Commission's determination to pursue urgent simplification. The process remained at the consultation stage, drawing on contributions from the ECB, EBA, SRB and other stakeholders, with the Have Your Say consultation open until 17 September 2026.

Detailed proposals and continued dialogue could help overcome resistance. Some member states' red lines have remained largely unchanged for 15 years, despite major economic and geopolitical shifts. The Commission will continue explaining its proposals and seeking political support.

3.2.2 Combining simplification, resilience and market integration

A policy-maker stressed that simplification is not deregulation. Reducing undue complexity and improving proportionality can strengthen competitiveness without compromising resilience or financial stability, which remain prerequisites for sustainable competitiveness.

He outlined three pillars: removing single-market barriers, so European banks can achieve global scale; faithfully implementing Basel standards while reflecting European specificities; and simplifying rules through greater proportionality. These reforms must be accompanied by a more risk-based supervisory culture that recognises different business models and risks.

Progress must also extend to completing the Banking Union and the SIU. Cross-border integration requires credible common safeguards and a clear allocation of crisis-related financial responsibility: banks should not be 'European in life but national in death', benefiting from integration at EU level while failure costs remain national.

The Commission's proposals are an interconnected package grounded in economic, legal and political considerations. Their benefits depend on advancing simplification, safeguards and institutional reforms together, rather than selectively implementing individual measures.

Beyond the proposed reforms themselves, the closing discussion considered whether EU banking authorities should have an explicit secondary competitiveness mandate, revealing differing views on institutional responsibilities and accountability.

3.3 Should EU banking authorities have a secondary competitiveness mandate?

The Chair referred to the UK Prudential Regulation Authority's (PRA) secondary competitiveness mandate as a framework for discussing prudential trade-offs, including capital requirements, and asked whether EU banking authorities should have a similar mandate.

3.3.1 Arguments against

A policy-maker opposed the proposal, considering it incompatible with the EU's institutional architecture and not worth the political effort required. A regulator also opposed a formal mandate, although the EBA could undertake tasks supporting the Commission's wider competitiveness objectives. A resolution authority representative appointed out that a competitiveness mandate for resolution authorities, whose primary responsibility is financial stability and effective resolution, makes little sense.

A regulator argued that a separate mandate is unnecessary, as competitiveness is already reflected in the need for resilient, sustainable banking business models. A Central Bank official opposed the proposal, emphasising that the PRA operates within a different UK legal and institutional framework.

3.3.2 Arguments in favour

A regulator supported the proposal, noting that Polish legislation has included a financial market development objective for approximately 20 years. An industry representative supported a mandate, depending on its design, as a way to strengthen incentives for meaningful simplification.

An industry representative called for clear accountability to achieve an independent, globally competitive European banking sector within 15 years. With unchanged capital requirements, European banks would need approximately €200 billion in additional annual profits over the next 14 years to achieve sustainable competitiveness. Without explicit responsibility for this objective, sufficient progress was unlikely. An industry representative supported a mandate subject to appropriate checks, balances and accountability. While European banks have considerable strengths, they need stronger capabilities, particularly in investment banking. Greater simplicity, a genuine single market and improved skills would help strengthen their competitiveness and market share.

Overall, the discussion highlighted broad support for reducing unnecessary complexity while preserving resilience but also showed that deeper banking integration will require credible financial safeguards, greater institutional trust and sustained political commitment.

Banking diversity and digitalisation: banking model and supervisory framework evolution

The discussion focused on how the EU regulatory and supervisory framework can preserve banking diversity while maintaining common prudential standards and financial stability. Participants examined how this framework could better reflect cooperative and mutual business models, before turning to the challenges of digitalisation. A central question was how cooperative banks can preserve their local anchoring and distinctive value while achieving the scale and investment capacity required to address AI, cybersecurity and other technological developments.

1. Banking diversity and proportionality: reconciling common rules with differentiated supervision

The Chair invited the panel to assess whether the current EU regulatory framework recognises the specific features of cooperative and mutual banks and whether this is sufficiently reflected in supervisory practice. This is particularly relevant in the context of accelerating digitalisation. Discussions about AI, cloud technology and cybersecurity have intensified since the concerns surrounding Anthropic in April. The question is whether banks with different ownership and governance structures, including smaller, locally focused or less hierarchical institutions, are equally well equipped to address these challenges. Proportionality should reflect different risk profiles and business models, not be pursued for its own sake.

1.1 Embedding banking diversity in supervisory practice

An industry speaker argued that there is a growing awareness of the necessity to preserve banking diversity at the highest levels of European policymaking, but this is yet to be reflected in day-to-day supervision. In response to the Commission's consultation, the European Central Bank (ECB) stated that new regulatory initiatives should acknowledge the diversity of the EU banking sector as a source of systemic resilience. Similarly, a recent joint non-paper from France, Italy and Spain called for greater recognition of cooperative banks in the Supervisory Review and Evaluation Process (SREP). Supervisory practice is falling short. The latest version of the ECB's draft governance guide still raises concerns for cooperative banks, notably over the independence of board members. The SREP does not appear to use key performance indicators (KPIs) to assess the preservation of business-model diversity. European supervision is deeply embedded in the underlying legal framework. Changing supervisory practice therefore requires an appropriate legal basis. To address this issue, a recital could be added to the Capital Requirements Regulation (CRR), potentially through the Commission's simplification proposal expected in March, to clarify that supervision should have full regard to banking diversity and its contribution to systemic resilience. Secondly, the SREP could incorporate KPIs aimed at monitoring the preservation of business model diversity.

1.2 Adapting supervision to the specificities of cooperative and mutual banks

1.2.1 Nuanced benchmarking and comparable peer groups

An industry representative welcomed the ECB's recent improvements to the SREP and its next-generation supervision agenda. SREP letters have become shorter, clearer and more tightly focused on supervisory expectations, but the specificities of cooperative models are still not being adequately recognised. Peer review is a powerful tool, but overly simplistic benchmarking can produce misleading conclusions. Return on equity (ROE) and cost-income ratio are core metrics used by analysts, shareholders and supervisors to evaluate bank performance. Below-average ROE or above-average cost-income ratio can be interpreted as signs of a weak business model, but the retained earnings of cooperatives can create substantial reserves and strong capital buffers. The resulting larger equity base mechanically lowers ROE: a large EU cooperative bank, for example, has over 20% Common Equity Tier 1 (CET1) capital and €15 billion of excess capital. Separately, cooperatives may maintain investment through the cycle, even when income is constrained, rather than prioritising short-term cost cuts; this can affect their cost-income ratios. Additionally, the creation of a SREP peer group for cooperative banks would enable true like-for-like comparisons between cooperative banks such as BPCE, Rabobank and Crédit Agricole.

1.2.2 Hardwiring proportionality into supervision

An industry representative emphasised that proportionality should be better taken into account into the regulatory framework, given the volume of regulatory and supervisory activity faced by smaller cooperatives. Supervisor-mandated activities, such as SREP requirements, on-site inspections (OSIs) and 'Dear CEO' letters, consume management bandwidth and IT budgets and risk crowding out banks' own judgement. Despite SREP improvements, OSIs remain burdensome and generate too many findings, potentially

displacing banks' own risk-management judgement and leaving insufficient room for boards. Incorporating more nuanced performance metrics, dedicated peer groups and greater proportionality into the reform of the SREP and the development of the next-generation supervision agenda would benefit cooperatives of all sizes.

1.3. Maintaining the level playing field while recognising cooperative specificities

1.3.1 Common prudential standards and proportional supervision

An industry speaker explained that the Canadian prudential framework is largely principles-based and takes account of an institution's size, complexity and risk profile. Desjardins Group supports harmonisation between federal and provincial regulation and supervision. Although provincially regulated, it competes with federally regulated peers and is assessed by investors and rating agencies; it also accesses international debt markets. Desjardins is designated as a domestic systemically important financial institution (D-SIFI) in Québec. AMF Québec applies the same capital, total loss-absorbing capacity (TLAC), bail-in, recovery and resolution requirements as those applied to other Canadian banks. Although Desjardins is a cooperative and does not issue public CET1 instruments, it must demonstrate the same resilience, financial strength and risk-management capabilities as larger financial institutions.

1.3.2 Recognising effective governance and long-term value creation

An industry speaker remarked that the specificities of cooperatives become particularly relevant when supervisors evaluate business models, governance and long-term sustainability. Governance structures should be assessed on the basis of effectiveness rather than legal form. This assessment must focus on competence, independence, oversight and the ability to challenge management. At Desjardins, two-thirds of board members come from the caisse network and one-third are independent directors selected for their expertise, with separate Chair and CEO roles. Its business model focuses on members' evolving needs rather than maximising short-term shareholder returns, while ensuring long-term resilience and sustainability. This approach influences strategic decisions, earnings retention, capital generation and risk appetite. Ultimately, the supervisory lens must be the same. It should assess asset quality, capital adequacy, liquidity, funding, earnings sustainability, governance and the effectiveness of risk management. Strong regulation should ensure a level playing field, while effective supervision should recognise how cooperatives create value, build resilience and serve members over the long-term.

1.4 Advancing proportionality while preserving prudential objectives

1.4.1 A risk sensitive and dynamic approach to proportionality

A Central Bank official noted that regulatory and supervisory frameworks need to be continuously reviewed to ensure they are fit for purpose and their objectives are being achieved as simply as possible. The fundamental objectives of regulation are resilience, financial stability and protection. Any measures designed to increase proportionality or simplification must not undermine these priorities. Risk-based supervision is inherently proportionate because supervisors with finite resources necessarily focus on the most important risks. However, they also need to maintain appropriate safeguards and have a holistic view of risk. If a simpler rule is less risk-sensitive or limits the amount of information available to supervisors, it could require higher prudential standards: Irish credit unions, for example, face higher capital requirements despite not being subject to a CRR-equivalent rulebook. Size alone is not an adequate measure of risk. Small institutions can have complex business models and can cause significant harm individually or collectively—the "too many to fail" concern. This is why the EU focuses on small and non-complex institutions (SNCIs), rather than simply small institutions. The fact that smaller entities innovate and grow rapidly makes it even more important to supervise their governance, controls and risk management.

1.4.2 Proportionality without fragmentation

A Central Bank official emphasised that further progress is underway. The work on next-generation supervision, the Commission report and the ECB's High-Level Task Force on Simplification have all considered the expansion of proportionality under the SNCI regime, including OSIs, supervisory processes and reporting. Changes to inspections may take time to become visible because inspections are scheduled well in advance. The regulators are open to the idea of greater proportionality, but there are different views on what it means in practice. The supervisors take a holistic view of the banking system and differentiate between business models, but proportionality calibrated from a system-wide perspective may still be perceived as disproportionate by individual institutions. Ultimately, proportionality must be reconciled with harmonisation, integration and the level playing field. Any effort to reduce fragmentation and complexity in the rulebook will likely conflict with the establishment of separate regimes for different types of business model. Greater proportionality should be pursued within a harmonised framework; otherwise, it may lead to greater regulatory fragmentation.

1.5 Preserving banking diversity within a common supervisory framework

A regulator commented that the creation of the EU single rulebook has provided significant benefits. The single rulebook supports financial stability, as illustrated by recent instability elsewhere, notably in the US, and enables the free movement of capital and services across the EU. National competent authorities (NCAs) complement the European risk-based supervisory approach. Business-model diversity is beneficial to financial stability and should be preserved, but supervisors should not prescribe an arbitrary level

of diversity. Appropriate KPIs should assess whether business models remain resilient in the long-term and can fund the real economy. Return on equity (ROE) alone may be misleading; organic capital generation, earnings stability and sound risk management are more informative. Governance and risk management can be a particular challenge for cooperative banks, which need to reconcile their local anchoring to customers with the effective central management of risk, capital and liquidity. For this reason, supervisors pay close attention to risk and capacity management at central level. The SSM and Eurosystem illustrate how local anchoring can coexist with central functions.

The Chair observed that supervisors understand the importance of banking diversity and do not intend supervision to be 'one size fits all'. However, this differentiation in treatment is not yet sufficiently clear to all banks. Supervisors should communicate more clearly the differences in treatment between different institutions and reflect this differentiation in the legal texts governing supervision. Any measures designed to increase proportionality must be risk sensitive and able to evolve over time. Greater proportionality should not depend solely on an institution's size or governance structure; it should reflect factors such as resilience, capital formation and risk profile.

2. Digitalisation and scale: preserving cooperative value while adapting to technological change

2.1 Preserving cooperative value through digitalisation

Opening the digitalisation discussion, the Chair asked whether cooperative and mutual banks have the scale, investment capacity and governance structures to compete with neobanks, fintechs and big tech and meet the AI challenge. An industry speaker remarked that digitalisation presents both opportunities and risks. Large cooperative groups such as BPCE have the scale and investment capacity to combine digital services with local presence and can learn from new entrants about digital customer proximity. When problems arise, however, customers also need a trusted person with whom they have a long-term relationship. The main risk of digitalisation is greater standardisation of business models. The value of the cooperative model lies in its local anchoring and its ability to serve all customers and communities, including vulnerable ones. If this is not recognised in regulation and supervision, mutualisation could be undermined and some vulnerable clients could be left behind. The introduction of a cooperative bank or banking diversity test could help to address this issue. All new regulations or supervisory practices could be assessed for their impact on the value of cooperative business models.

The Chair noted that this proposed banking diversity test echoes the Commission's call for a more holistic approach and closer assessment of regulatory and supervisory actions. He then asked how banks could achieve scale when they bear the costs of trust and infrastructure while other players may capture an increasing share of the value created.

2.2 Achieving scale to meet the challenge of ever increasing IT investment needs

2.2.1 Scale and growing pressure on IT investment

An industry representative noted that scale is becoming a major challenge for banks. JP Morgan has an annual IT budget of €18 billion. No European bank generates as much in net profit. Santander comes closest with around €14 billion. The scale challenge comes not only from fintechs and big tech companies but from the large US banks, which are playing an increasing role in Europe.

Cooperatives face particular challenges around consolidation and scaling up, especially in IT investment. IT budgets are fiercely contested and there are difficult choices to make between funding regulatory projects, creating new services for customers, 'run the bank' spending or decommissioning legacy systems. Cybersecurity is the immediate driver of the pressure on IT budgets, alongside the emerging challenges posed by frontier AI. Banks preparing responses to the ECB's 'Dear CEO' letter face major spending requirements and reprioritisation towards faster patching, tougher segmentation and defensive AI capabilities. Andrew Bailey's Financial Stability Board (FSB) letter similarly refers to the need for 'bare metal solutions', which would be a type of air-gapped 'bank in a box' or minimum viable bank that could be restored following a catastrophic cyberattack. Such solutions could be very expensive, particularly for smaller cooperatives.

2.2.2 The AI investment challenge pushes the limits of proportionality

An industry representative stated that pressure on IT budgets will only intensify as AI plays a greater role in banks' commercial operations. Banks will need to invest if their own agentic AI is to become the main customer interface rather than ceding that space to other players. One cooperative bank client wants management accounts to distinguish operating expenses (OPEX), capital expenditure (CAPEX) and a separate "tokens" line for computing costs; these costs could eventually exceed employee salary costs. These developments will test proportionality; cybersecurity requires a minimum level of investment regardless of an institution's size. This exacerbates the challenges of consolidation for cooperatives, which need to preserve their local anchoring while achieving scale through common platforms and shared investments. As the need for investment in cybersecurity and AI increases, scale will become increasingly critical.

2.3 Combining scale with local anchoring

An industry speaker explained that Desjardins Group's members increasingly prefer to use digital channels for day-to-day banking. Its network has declined from around 600 caisses in the early 2000s to approximately 190 today, while technology has developed that helps it serve members more effectively, efficiently and

accessibly. Following the 2008 financial crisis and Desjardins' domestic systemic-importance designation, the framework evolved to reflect the group's integrated structure and financial solidarity. Close collaboration with AMF Québec and alignment with federal supervision have helped integrate its cooperative model into the regulatory and supervisory framework. Desjardins combines strong local anchoring with centralisation in areas such as IT, finance and treasury. These functions have significant fixed costs but limited direct interaction with clients. Meanwhile, the group's local caisses are the heart of its member relationships. They understand communities, support households and small businesses and even decide how to invest community development funds. In this way, digitalisation can reinforce rather than weaken cooperative identity. With the support of regulators, cooperative banks can combine the benefits of scale and technology with the benefits of local proximity.

2.4 Trusted digitalisation, strategic autonomy and innovation

A regulator explained that the ACPR is working with banks to develop digital services that preserve trust and customer proximity. In AI, fairness and transparency—including fair credit distribution and onboarding and transparent algorithms—are key; the ACPR is developing a best-practice framework as a frontier supervisory initiative. Sovereignty and strategic autonomy are equally important. While scale matters for individual cooperative groups, maintaining European strategic autonomy in areas such as cloud, AI, cyber-defence and other digital products requires cooperation at a sectoral or cross-sectoral level. Additionally, cooperative banks should seize the opportunities offered by tokenisation. Tokenisation could contribute to the Savings and Investments Union (SIU) by helping small and medium-sized enterprises (SMEs) access capital markets and low-cost tokenised equity, broaden funding opportunities and address the funding imbalance in Europe's real economy.

2.5 Adapting regulation and bank operating models to digital transformation

A Central Bank official noted that the proposal to impact-assess new rules, resembles the cost-benefit analyses and regulatory impact assessments that already take place. The CBI has a consultation underway and has discussed approaches with peer jurisdictions. While quantitative metrics are difficult to apply, ex ante qualitative assessments can help regulators anticipate policy impacts and explain their reasoning transparently. Digitalisation has entered a new phase in which institutions increasingly face 'run, fix or change' decisions. This presents both risks and opportunities; failing to invest, innovate or seize opportunities is itself a risk. The use of shared platforms can help institutions to address these challenges, although this is clearly not a universal solution. In Ireland, legislation passed with the government introduced the concept of a credit union service organisation, enabling credit unions to collaborate to address the challenges of scale, technology and capability while continuing to add value and serve their customers.

Conclusion

The Chair observed that the need to achieve scale and invest in IT calls for the adoption of new approaches, including resource pooling. Banks need a strong digital presence. Cooperative banks' distinctive role in serving all communities should be preserved, and new solutions such as tokenisation can enhance their ability to serve customers. The challenge of digitalisation extends beyond cooperative banks. It raises wider issues of sovereignty and cross-sectoral cooperation. The importance of these priorities is reflected in the approach to the implementation of the Digital Operational Resilience Act (DORA). The European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) have been pooling resources to ensure that DORA can be applied on a cross-sectoral basis. More broadly, digitalisation requires an ecosystem-wide response. This approach will involve actors beyond banks and supervisors, as illustrated by the warning on AI published by the European Systemic Risk Board (ESRB) in June 2026. Europe should facilitate the emergence of players capable of supporting financial institutions in managing these challenges.

Basel III divergence: why are standards diverging and is Europe disadvantaged?

Growing differences in Basel III implementation have intensified debate over their implications for European banks' competitiveness and the international level playing field. While panellists broadly supported preserving Basel as a common global anchor, they also highlighted scope for simplifying and recalibrating the EU framework where appropriate. The discussion therefore focused on the implications of global divergence, possible adjustments to the European prudential framework and the broader structural constraints on EU bank competitiveness.

1. Preserving the benefits of global standards in a more fragmented Basel landscape

1.1 Assessing the implications of Basel III divergence for EU competitiveness

The Chair noted that one of the three areas of focus of the Commission's July banking report was the revision of the EU implementation of Basel III. This raises the question of how Europe's Basel III implementation would change, after having implemented it very faithfully, and the implications for the international level playing field. The Commission is gathering further views, proposals and data to develop concrete legislative measures. A banking package is expected by March 2027, possibly earlier.

Panellists were invited to assess the rationale and implications of the current prudential and supervisory framework and how Basel divergence affects banks' competitiveness, both overall and for specific portfolios or activities.

1.2 Lessons from the crisis: a common anchor matters more than lower requirements

1.2.1 A common prudential anchor is essential

Drawing on his experience at the Swiss Financial Market Supervisory Authority (FINMA), the Federal Reserve, the European Central Bank (ECB) and the Basel Committee, a regulator recalled that, since 1988, Basel has aimed to harmonise minimum prudential standards, rather than national supervisory practices or Pillar 2 requirements. Its purpose is twofold: to ensure a minimum level playing field and to provide a common anchor for comparing capital adequacy across jurisdictions on an 'apples-to-apples' basis.

The global financial crisis demonstrated the importance of this anchor. Once markets lost confidence in the risk-based framework, they gravitated towards the leverage ratio. In Europe, institutions with leverage ratios below 4% were very likely to fail or require support, while those above 4% tended to fare relatively well. Renewed national fragmentation could similarly undermine confidence in the common framework and push markets back towards leverage ratios in the next cycle, to European banks' detriment. Jurisdictions should therefore implement Basel as quickly as possible. Pillar 1 cannot compensate for differences in Pillar 2, since they serve different purposes.

1.2.2 Undercutting global standards would not improve competitiveness

A regulator noted that a previous ECB exercise concluded that applying US requirements to EU banks would significantly increase their requirements. Following recent US adjustments, however, the US and EU frameworks are probably now reasonably comparable. There is no evidence that undercutting global standards improves competitiveness, nor that capital currently constrains credit. More fundamental shifts in competitive positions occur during deep crises than when the economic tide is rising. The level playing field should therefore be assessed throughout the cycle, rather than only at its peak.

1.3 Preserving global standards while simplifying their application in Europe

A central bank official observed that the global financial crisis demonstrated the value of international standards in an interconnected financial system and the need to keep jurisdictions engaged in the Basel process. Basel was originally designed primarily for internationally active, cross-border banks, but the EU extended it to all banks through the single rulebook, contributing, in the Bundesbank's view, to considerable complexity. A high-level task force identified scope for simplification, and the Bundesbank has proposed a radical simplification of the capital stacking order. This issue is also reflected in the Commission's competitiveness report and should be taken forward by the co-legislators.

Comparisons with other jurisdictions should be fact-based. The US applies a more tailored, size-based approach than the EU, while direct competition between US and European banks is limited to certain banks and markets. Europe should therefore monitor US plans carefully before deciding whether to change its own framework. Greater proportionality is particularly warranted for small and medium-sized banks and non-complex institutions. Switzerland and the UK already have specific regimes in this area. The Bundesbank supports a small-bank regime or, at a minimum, greater proportionality and reduced bureaucratic burdens.

1.4 A holistic approach to preserving Basel's credibility and reducing EU complexity

1.4.1 Growing fragmentation could undermine the global benchmark

A regulator observed that US developments illustrate the broader risk of fragmentation as jurisdictions implement Basel III differently in timing, scope and domestic adjustments. The concern is not individual changes but a gradual loss of consistency and predictability in the international framework ultimately undermining confidence. Outcomes should therefore be assessed across the framework as a whole, rather than requirement by requirement. Cross-jurisdiction comparisons are more complex than headline capital ratios suggest. Stress testing, Pillar 2, leverage ratios, buffers, supervisory practices and different tiering interact with Basel requirements to create different constraints. In Europe, the greater role of Pillar 2 may also make future capital requirements less predictable, affecting capital management, investors and market valuations.

1.4.2 The EU should preserve resilience while reducing unnecessary complexity

A regulator advised that the EU should prioritise the preservation of both the long-term benefits of consistent international standards and the resilience built over the past 15 years, which is itself a source of competitiveness by strengthening confidence among investors, depositors and other market participants. Greater divergence would weaken Basel as a common global benchmark. The EU therefore has a strategic interest in limiting regulatory arbitrage, supporting cross-border banking through a level playing field and promoting convergence through the Basel Committee and other international fora. It should also assess its own framework holistically to preserve resilience while reducing unnecessary complexity. The European Banking Authority (EBA) supports the Commission's analysis and is developing a more proportionate and transparent framework to support a competitive banking sector.

1.5 Basel divergence should be assessed by outcomes rather than differences in implementation

1.5.1 Current divergence should not be overstated

A central bank official commented that, while divergence is a risk, Basel implementation across the US, UK and EU still shows more similarities than differences. Overall compliance with the global framework remains good. Recent US proposals, including changes to Global Systemically Important Banks (G-SIB) buffers and the leverage framework, would arguably bring the US closer to the underlying Basel standard. Concerns about the absence of an output floor are also somewhat misplaced: removing the relevant modelling means that US banks would effectively be at 100% of the standardised approach, rather than the Basel floor of 72.5%, making an output floor unnecessary. Divergence needs to be monitored, but is not yet as significant as is sometimes suggested.

1.5.2 Different approaches can remain consistent with Basel if outcomes are comparable

A central bank official saw grounds for optimism. On issues such as the Fundamental Review of the Trading Book (FRTB), major jurisdictions are seeking to implement similar approaches on broadly similar timetables. Basel is a minimum standard rather than a target and deliberately leaves some areas to national regulators. Different approaches can therefore remain consistent with the framework if they produce broadly comparable outcomes. The UK's immediate priority is preparing for Basel III implementation in January 2027. A period of stability would help assess its effects. The framework should then be assessed through Basel's ex post evaluation process.

The Chair noted that public-sector panellists had broadly reaffirmed the rationale for Basel, while identifying caveats, notably complexity and proportionality, that the Commission is examining.

1.6 Regulatory convergence facilitates capital allocation within international banking groups

An industry representative noted that divergence complicates his discussions with SMBC's Tokyo head office over capital allocation to the EMEA region. Japan has already fully implemented the Basel standards. Although Japanese private-sector firms were still actively pushing back against full implementation a year ago, they have since adapted and are learning to manage the resulting divergence. However, this remains painful and costly, particularly for capital allocation within international banking groups. Basel should remain the global baseline. Japanese regulators are proud of having fully implemented the standards, an achievement that the speaker himself has also come to value. Jurisdictions should see convergence, rather than divergence, as worth preserving.

1.7 US developments do not justify an across-the-board reduction in EU capital requirements

1.7.1 The US framework is changing, but is not necessarily more lenient than Basel

An official noted that regulatory fragmentation can affect banks' competitive positions across jurisdictions, reinforcing the rationale for international standards. Significant deviations by a major jurisdiction inevitably trigger debate elsewhere over the trade-offs between competitiveness and financial stability and the appropriate response. Policy responses should begin from a careful assessment of the facts. FSI analysis, consistent with work by other European organisations, indicates that current US proposals would significantly reduce capital requirements for US banks, including G-SIBs. This is largely due to the alleviation or removal of US-specific requirements, including the supplemental leverage ratio and the specific calculation of the G-SIB buffer, alongside changes to the stress-test capital buffer. Some measures also deviate directly from Basel, including through risk weights, regulatory-capital deductions and elements of the FRTB.

Nevertheless, the resulting US framework cannot be considered more lenient than full Basel implementation.

The US proposals include a particularly strict approach to internal models, banning their use for credit risk and therefore increasing requirements sufficiently to more than offset less stringent deviations elsewhere. The absence of a Basel output floor is another deviation, but, with credit-risk internal models prohibited, such a floor would not bind any US G-SIB even if introduced.

1.7.2 US developments should therefore be used cautiously when recalibrating the EU framework

An official emphasised that applying the emerging US framework to European G-SIBs does not support the conclusion that the EU framework is significantly more stringent. The US proposals therefore do not, by themselves, justify an across-the-board reduction in capital requirements for European banks, particularly large banks. Nor does the absence of a US output floor justify eliminating or significantly reducing the EU floor, since the US ban on credit-risk internal models is more stringent in practice. This does not preclude efficiency-enhancing changes to the European framework, including measures already proposed by the Commission. The question is how the EU framework can be simplified and recalibrated where necessary, while preserving resilience and the benefits of global standards.

2. Simplifying and recalibrating the EU framework without weakening resilience

2.1 Europe should recalibrate capital requirements where they are disconnected from risk

An industry representative argued that Europe should focus on its own needs rather than follow the US and that, for unrated corporates, trade finance and speculative lending, capital requirements can be disconnected from the actual cost of risk and constrain lending and investment. This matters particularly in Europe, where banks provide nearly 75% of financing needs. 90% of EU banks' retained earnings have been absorbed by additional supervisory capital requirements, leading to higher prices, greater selectivity, fewer clients and the relocation of activities. As an illustration, Airbus obtains 50% of its financing capacity outside Europe from Chinese banks. Basel remains essential but should not be untouchable: where capital requirements are clearly misaligned with observed risk, they should be adjusted. Banks want to enable growth, not slow it.

2.2 Resilience and growth should be mutually reinforcing

An industry representative observed that some jurisdictions are applying Basel through a broader lens, taking greater account of competitiveness, growth and economic resilience. Banks must also be able to support investment, trade and economic growth. The challenge is to preserve confidence in Basel as a global standard while maintaining broadly comparable outcomes across jurisdictions. The final phase of Basel III implementation is taking place in a different economic context from that in which the agreement was reached. Resilience and growth are not competing objectives: a strong, well-regulated banking sector is a precondition for both.

2.3 Simplification and targeted recalibration can strengthen the EU framework without weakening resilience

An industry representative advised that overlaps and duplications in the framework should be eliminated and buffers no longer appropriate to Europe's current economic situation reviewed. Targeted adjustments are needed on trade finance and speculative lending. These are strategic for Europe and have a proven low-risk profile; their requirements could be adjusted as separate balance-sheet silos without threatening the system as a whole. To encourage digital investment and strengthen protection against cyber-attacks, deductions of software investments from common equity tier 1 (CET1) should be removed. Investment, rather than capital, protects against cyber-attacks. This would release at least €30 billion of CET1, corresponding to nearly €200 billion of additional financing capacity. Evidence-based adjustments that do not threaten systemic resilience should not require compensatory tightening elsewhere. Such changes would constitute monitored recalibration rather than deregulation, involving banks, regulators and supervisors.

An industry representative emphasised that Basel remains a common foundation for prudential regulation across markets, even as jurisdictions respond differently to similar challenges, reflecting domestic priorities and risks.

Simplifying domestic frameworks, particularly where requirements are duplicative or inconsistent, could enhance the effectiveness of this common global framework. Requirements should be transparent, risk-based and aligned with their intended policy objectives.

2.4 Simplifying the overall EU capital framework could deliver greater benefits than revisiting individual Basel standards

A regulator observed that the cumulative interaction of Pillar 1, Pillar 2, macroprudential buffers, Minimum Requirement for Own Funds and Eligible Liabilities (MREL), Total Loss Absorbing Capacity (TLAC) and national measures has created significant complexity. Simplifying the framework as a whole could deliver greater benefits than revisiting individual Basel standards. Simplification means better governance, greater proportionality and more coherent interaction between requirements, not deregulation. Areas where Europe has gone beyond Basel should be reviewed on an evidence-based basis to assess whether they remain justified or could be addressed more effectively, with EBA analysis informing the Commission. Targeted recalibrations may be warranted where evidence shows an imbalance between costs and benefits but should not become a default response to divergence.

A simpler, more transparent and proportionate framework could reconcile resilience and competitiveness,

strengthening banks' capacity to finance the EU's needs without undermining financial stability.

2.5 Simplification and recalibration should preserve global convergence and regulatory stability

2.5.1 Simplification and recalibration can be combined within international standards

A central bank official stated that, within the current framework, there is no need to choose between simplification and targeted recalibration, as several UK initiatives demonstrate. The voluntary 'Strong and Simple' regime for small firms simplifies Pillar 1, elements of Pillar 2A and buffers, while significantly reducing disclosure and reporting requirements without lowering standards. Three-quarters of eligible firms have joined the regime. The UK is reviewing its capital stack to make buffers more usable. Its capital review identified areas where the leverage framework made the UK an outlier, prompting adjustments within international standards that brought it closer to global standards. The Bank of England plans to consult on automatically updating hundreds of rulebook thresholds for proportionate treatment, to avoid a framework that becomes progressively self-tightening as the economy grows.

2.5.2 Lessons from divergence should ultimately be brought back to Basel

A central bank official stressed that lessons from differing national implementations should feed back into Basel through ex post evaluation. Maintaining a level playing field benefits international banks by reducing costs and facilitating cross-border operations.

An industry representative observed that excessive complexity can result in banks prioritising rules over innovation. Simplification is welcome where it promotes regulatory convergence, but consistency, clarity and stability should be preserved. Rather than making repeated 'screwdriver adjustments' to the framework, the aim should be one tangible simplification that promotes convergence.

Simplifying and recalibrating the prudential framework can support EU banks' ability to finance the economy, but regulation alone does not explain the competitiveness gap. The discussion therefore also highlighted broader structural constraints, particularly fragmentation within the EU banking market and the limited integration of European capital markets.

3. Addressing the structural constraints on EU bank competitiveness

3.1 Europe's competitiveness gap is primarily driven by internal fragmentation, not Basel divergence

A central bank official commented that Basel divergence is only a real concern where EU and US banks compete directly, which represents only a limited share of business. A greater constraint is internal EU fragmentation, including restrictions on cross-border capital and liquidity mobility, missing economies of scale and insufficient proportionality for smaller banks. The capital stacking order is a high-value target for simplification where interactions between Pillars 1 and 2, macroprudential buffers, MREL and TLAC can cause double counting, misaligned incentives and limit the availability of capital buffers in stress periods. A clearer stacking order, separation of going- and gone-concern requirements and greater capital and liquidity mobility within cross-border groups could improve efficiency without weakening resilience.

The competitiveness gap cannot be explained by minimum capital requirements alone. Bundesbank analysis shows that profitability margins in US capital markets are nine to 10 times higher than in European capital markets for the same capital operation. Addressing this gap requires broader political action, including the development of deeper and more integrated EU capital markets through the Capital Markets Union (CMU) and Savings and Investments Union (SIU), rather than changes to capital requirements.

3.2 Cutting capital requirements will not address Europe's structural competitiveness gap

A regulator stated that a slow pace of implementation risks creating detrimental fragmentation. Reducing capital requirements will not materially improve European competitiveness. Tail risks have accumulated and are now higher than before the last financial crisis, making any sacrifice of resilience a mistake. There is scope for simplification without damaging the fundamental system, as illustrated by the analogy of removing barnacles from a ship's hull without damaging the hull. Simplifying the capital stack could also bring benefits, provided aggregate capital is not reduced. The US-EU competitiveness gap largely reflects structural differences. The US has had an integrated banking market since the 1980s, alongside a massive integrated capital market and a large securitisation market, notably cash rather than synthetic securitisation, as well as common laws and consumer-bankruptcy rules. Europe should similarly improve the fungibility of capital and liquidity. Reducing Europe's capital requirements in response to perceived lighter US standards would weaken resilience while failing to address the underlying source of the competitiveness gap.

3.3 Better policy coordination and resolution funding could improve EU bank competitiveness

An official agreed on the need for simplification and proportionality but highlighted two issues that had received less attention from the panel and, to some extent, in the Commission's communication. First, better coordination is needed between micro- and macroprudential policies. Microprudential responsibilities are mainly exercised at European level, while macroprudential responsibilities remain largely national. Although they pursue different objectives, both use capital requirements as an instrument. Insufficient coordination can result in excessively high average capital levels, with adverse consequences for

competitiveness. Second, although the prudential framework for large EU banks is not necessarily stricter than in the US, European resolution requirements are more stringent than those elsewhere. MREL applies to all significant banks, whereas TLAC applies only to G-SIBs. Even for G-SIBs, MREL requirements exceed TLAC by more than six percentage points of risk-weighted assets, while eligibility requirements also differ. Reducing these requirements would require more flexible access to external funds in resolution. The forthcoming review could provide scope for a compromise bringing Europe closer to other jurisdictions. More flexible access to mutualised resolution funding could also help remove ring-fencing and support a pan-European banking system.

The Chair concluded that there is no real divergence on the ultimate objectives. The Commission will reflect the views expressed in its proposals, which will represent an initial compromise, before further compromises are reached through the legislative process.

Despite differences regarding the appropriate degree of simplification and recalibration, panellists broadly agreed on the need to preserve resilience and retain the benefits of international standards while improving the efficiency of the EU framework. The discussion also suggested that strengthening EU bank competitiveness requires addressing broader structural constraints, particularly fragmentation and limited market integration, rather than focusing primarily on capital requirements or Basel divergence.

Simplifying the EU macroprudential framework

The session examined how the EU macroprudential framework could be simplified without undermining the resilience achieved since the global financial crisis. The discussion focused on the relationship between prudential requirements and European competitiveness, different options for streamlining macroprudential buffers, and the governance and supervisory arrangements needed to ensure a more coherent, transparent and effective framework.

1. Preserving banking resilience while addressing Europe's competitiveness challenges

1.1 Simplifying the macroprudential framework while preserving resilience

The Chair began by situating the simplification of the EU macroprudential framework within the broader debate on reducing regulatory and supervisory complexity. Although the framework has significantly strengthened European banking resilience over the past decade, it has become increasingly complex due to the proliferation of instruments, heterogeneous national implementation and differences in calibration across Member States. While some diversity reflects legitimate differences in financial structures and systemic risks, it raises questions about transparency, proportionality, comparability and overall coherence. The debate has therefore shifted from whether simplification is desirable to how it should be implemented.

The objective is to make the framework simpler, more coherent and more usable without compromising the resilience achieved. The panel was invited to consider how the buffer architecture can be redesigned to that end.

1.2 Europe's main financing challenge is equity, not bank capital requirements

A regulator questioned whether the macroprudential framework needs to be redesigned, arguing that the idea that capital requirements constrain growth is largely a myth. Europe does not face a shortage of bank lending but rather a shortage of equity financing. Credit, which requires repayment of principal and interest, cannot provide the patient capital needed for long-term investment, business expansion and innovation. The European defence consortium KNDS, producer of the Leopard and Caesar systems, reportedly failed twice to launch a joint IPO in Frankfurt and Paris seeking €20 billion in 2026, highlighting Europe's difficulty mobilising equity to develop and scale up businesses in strategic and technologically advanced sectors.

European banks are already strong, and post-crisis reforms have largely achieved their objectives. While reducing regulatory complexity could address administrative burdens, it would not resolve Europe's fundamental economic challenges. Macroprudential capital buffers have not caused significant economic problems, making their simplification a relatively minor priority compared with the need to develop alternative sources of financing.

1.3 Strengthening banking resilience and competitiveness through risk governance and regulatory consistency

1.3.1 Risk governance as a foundation for resilience and sustainable profitability

An industry representative stressed that banks experience the regulatory rulebook not as separate buffers, floors or supervisory measures, but as a cumulative framework affecting their ability to serve the economy and compete. While this framework is essential to long-term financial stability, regulation should give as much attention to risk governance as to capital strength.

A bank's first means of absorbing losses is its earnings, followed by capital. Supervisors should therefore pay particular attention to risk governance, which underpins long-term stability and sustainable profitability. Without it, banks risk adopting a short-term perspective. Capital requirements should provide incentives for sound risk management and recognise banks' efforts to mitigate risks.

1.3.2 Consistent risk assessment and buffer calibration to support cross-border banking

An industry representative stated that banks need sustainable profitability and a level playing field to compete and expand across jurisdictions, particularly as global financial markets evolve. Supporting European competitiveness requires banks to provide effective financing solutions and authorities to assess and interpret risks consistently.

While underlying risks may differ between countries, the principles and methodologies used to define and measure them should be aligned. Greater consistency would facilitate cross-border banking activities and help banks scale up across Europe. Upper limits on macroprudential buffers should be considered alongside the existing lower bounds to ensure that comparable risks result in broadly consistent capital requirements across jurisdictions.

The Chair noted that banks have clearly conveyed their concerns about the cumulative impact of requirements to the ECB. The holistic view is addressed in the ECB's high-level taskforce report, including the interaction

between macroprudential, microprudential and resolution perspectives.

1.4 Preserving resilience and aligning instruments with prudential objectives

An official highlighted the progress made in banking regulation and resilience since the global financial crisis. The perceived trade-off between competitiveness, growth and resilience is largely a false dichotomy. Banks must be able to support economic growth, particularly during difficult periods. Without stronger post-crisis regulation, the financial system would probably not have weathered recent shocks, including the rapid rise in interest rates following the inflation surge around the Covid crisis.

A major achievement was the integration of macroprudential policy into regulation, recognising that what is prudent for an individual institution may not be appropriate for the system as a whole. This policy has both a cyclical dimension and a cross-sectional dimension, reflecting differences in institutions' systemic importance.

The capital stack serves three distinct objectives: microprudential soundness, macroprudential stability and orderly resolution. Instruments should correspond to these objectives rather than pursuing simplicity for its own sake. Macroprudential risks also differ between those affecting the economy as a whole and those concentrated in particular sectors, explaining the coexistence of the countercyclical capital buffer (CCyB) and systemic risk buffers (SyRBs) in the EU.

Against this background, the discussion turned to the design of macroprudential buffers and the different approaches proposed to reduce complexity, improve consistency and ensure that capital can be released when needed.

2. Redesigning macroprudential buffers to improve simplicity, consistency and usability

2.1 Consolidating buffers around a substantial, fully releasable cycle-neutral component

An official argued that risks could be addressed through a single macroprudential buffer, with flexibility to adjust requirements for different categories of risk-weighted assets at different times. Macroprudential buffers should be consolidated around a substantial cycle-neutral component. He referred to BIS analytical work published approximately a year earlier in support of this approach.

The Covid crisis demonstrated the need for capital that can be released in response to systemic shocks. The buffer should be large enough for its release to provide meaningful relief, while ensuring that banks' remaining capital does not fall too far below the levels expected by markets.

Such an approach would also clarify the distinction between prudential objectives. The macroprudential buffer should be fully releasable during a systemic crisis; the microprudential buffer should remain in place and not be releasable; and resolution resources, including bail-in debt, should absorb losses only in resolution, not support banks as going concerns.

2.2 Simplifying macroprudential buffers by removing overlaps and harmonising requirements

2.2.1 Reducing uncertainty, overlapping requirements and regulatory fragmentation

An industry representative argued that the main weakness of the current framework is uncertainty. Banks may suddenly face an additional 100 or 200 basis points of capital requirements without knowing when they must be met. Complexity and uncertainty increase with the number of jurisdictions in which a bank operates, creating regulatory and supervisory risk. Broad discretion in setting SyRBs also creates overlaps within the capital stack, while no authority has overarching responsibility for aggregate capital requirements. A Nordic banking group illustrates these challenges: it operates through branches in four Nordic countries, yet its macroprudential buffer requirements are roughly twice the SSM average, without necessarily reflecting a correspondingly higher risk profile.

In her view, the EU has significantly gold-plated Basel standards on the macroprudential side, affecting international competitiveness. Greater clarity on buffer releasability and a more level playing field across the EU are needed.

2.2.2 Removing the SyRB before harmonising and potentially merging other buffers

An industry representative argued that insufficient transparency and overlapping requirements cannot be resolved simply by combining existing buffers under a new name. Such an approach, without genuine harmonisation, could aggravate the problem.

The SyRB should first be removed, as it is not a Basel instrument and is a major source of overlaps and inconsistent application across the EU and European Economic Area (EEA). In particular, it is unclear what residual systemic risks the SyRB addresses beyond the credit, market and operational risks already covered under Pillar 1.

Only after removing the SyRB should authorities consider harmonising and potentially merging the remaining buffers, based on common metrics and methodologies and, ideally, a single calibration exercise across the EU and EEA. The objective should be reasonable macroprudential buffer levels applied consistently across jurisdictions.

2.3 Merging the CCyB and SyRB to improve clarity and releasability

A central bank official suggested that, although the CCyB and SyRB have distinct purposes, the SyRB has increasingly been used to address various risks, while the CCyB has been activated in many jurisdictions and has partly evolved towards a positive neutral buffer. This approach is more precautionary than strictly countercyclical, reflecting the need for releasable

capital in response to unexpected shocks unrelated to credit booms, such as the Covid-19 pandemic and the Russia–Ukraine crisis. In her view, the resulting overlap in objectives and ambiguity around activation indicators justify merging the two buffers. This would improve clarity and simplicity, allow authorities to build macroprudential space by maintaining buffers in normal times, and facilitate reciprocity. She favoured targeted changes rather than a major overhaul and set aside G-SII and O-SII buffers for separate consideration.

Beyond the design of individual buffers, participants also examined how a more holistic assessment of capital requirements, clearer institutional responsibilities and more consistent supervisory practices could improve the framework's effectiveness.

3. Strengthening macroprudential governance, supervisory consistency and accountability

3.1 Assessing aggregate capital requirements at a sufficiently high level

A central bank official advocated a holistic, evidence-based assessment of aggregate capital requirements across banks and jurisdictions, considering financial stability, broader economic effects and the extent to which differences in requirements reflect national economic and financial cycles.

Such an approach requires oversight at a sufficiently high level, with an important role for the ECB's Governing Council. While supervisory agencies are well-established and effective, they tend to focus on microprudential issues. Bodies such as the European Systemic Risk Board (ESRB) offer a broader macrofinancial perspective, encompassing the effects of capital requirements on growth, credit and financial system resilience.

3.2 Turning holistic assessment into clear accountability for eliminating overlaps

The Chair noted that the ECB's high-level taskforce report addresses the respective roles of the Governing Council and the Supervisory Board in macroprudential governance. There is a need to balance convergence and consistency with national specificities and flexibility.

An industry representative supported a holistic assessment of capital requirements and considered the ECB and SSM natural candidates to provide it. Microprudential supervisors have detailed knowledge of individual banks' risk profiles, while the ECB also has macroprudential powers to impose additional capital requirements. However, creating another discussion forum would not be sufficient: clear accountability is needed not only to identify overlaps in the capital stack but also to ensure their elimination.

If macroprudential decisions remain at national level, quantitatively identified overlaps must be addressed. This could involve including national macroprudential authorities in supervisory colleges to facilitate comprehensive assessments and corrective action. Although establishing such accountability may be challenging, it is essential to build confidence that the framework can effectively identify and eliminate overlaps.

An industry representative agreed with the holistic approach to capital requirements, while recognising the legitimate domestic perspectives of national authorities. Capital regulation is one of several obstacles to cross-border competition and banking activities. Nevertheless, consistent application of the common rulebook at national and European levels would remove a key barrier to market integration. There should be a mechanism to prevent excessive divergence in national interpretations while preserving the ability to reflect domestic specificities. Greater regulatory consistency would facilitate cross-border banking and contribute to a more integrated European capital market.

3.3 Audience questions on buffer usability, climate risks and supervisory expectations

The Chair invited questions from the audience. One participant referred to a recent ECB working paper examining market stigma and its implications for the effective releasability of capital buffers and asked how to ensure that banks are willing and able to use their buffers when needed.

Another participant questioned how removing or merging the CCyB and SyRB would affect climate-related risks, given that the latest revision of the Capital Requirements Directive allows the SyRB to address systemic risks associated with climate change that may be difficult to capture through other instruments.

A third participant referred to the SSM's revised Internal Capital Adequacy Assessment Process (ICAAP) guide, published in July, and its discussion of the management buffer. The participant asked how the management buffer might influence the Supervisory Review and Evaluation Process (SREP) and the approach taken by Joint Supervisory Teams (JSTs) when assessing banks' capital adequacy.

3.4 Improving buffer usability, avoiding overlaps and ensuring transparent calibration

An industry representative stressed the need to determine whether risks are double counted in microprudential and macroprudential capital requirements. Regulators should explain which risks they assess and how requirements are calculated, including for climate-related risks covered by the SyRB and the management buffer considered under ICAAP. Banks should also understand how to mitigate risks and demonstrate that mitigation has been effective, so that capital requirements reflect their actual risk profiles. Greater regulatory transparency would strengthen incentives for sound risk management and help avoid unnecessary overlaps.

An industry representative called on regulators to communicate their expectations concerning buffer releasability in advance, particularly the circumstances and extent of possible dividend restrictions. Greater predictability would give banks more confidence to use

their buffers when needed.

Regarding climate-related risks, she argued that climate change is primarily a driver of existing credit, market and operational risks rather than a separate risk category. Banks have already substantially integrated climate factors into their risk models and credit risk management, particularly for credit risk. These risks are therefore largely addressed under Pillar 1, while the Capital Requirements Directive (CRD) VI also enables supervisors to address them under Pillar 2. In her view, there is insufficient evidence of residual climate-related systemic risk beyond these two pillars to justify an additional macroprudential buffer.

An official warned that insufficient capital may be available for release when most needed. The CCyB was designed to address the unwinding of credit booms and is built up when excessive credit growth is detected. However, unexpected shocks unrelated to credit cycles may occur before sufficient releasable capital has accumulated. A higher cycle-neutral starting point would provide a substantial amount of capital that could be released during systemic shocks. The buffer must be large enough to offer meaningful relief, taking into account market pressures and the capital levels investors would expect banks to maintain.

A central bank official considered it premature to incorporate climate-related risks into the SyRB. The priority should be to help banks identify, measure and mitigate climate-related risks, including through actions supporting transition and adaptation rather than relying solely on capital buffers. She noted that the NGFS had not discussed this approach.

Authorities should explain differences in requirements across jurisdictions, justify calibrations through robust methodologies and indicators, and clearly communicate the circumstances triggering buffer activation or increases. Bodies such as the ESRB could contribute to greater consistency and transparency. Capital requirements should not increase without corresponding justification based on identified risks.

A regulator recalled how the macroprudential debate has evolved over the past 15 years. The SyRB, sometimes referred to as the "Swedish buffer", had been strongly advocated by Stefan Ingves, then Governor of the Riksbank, and the Swedish government over concerns that other countries might not impose sufficiently stringent requirements. He noted the irony that Nordic authorities had previously opposed maximum harmonisation under the CRD and CRR, while Nordic banks are now concerned about differences in national requirements.

Macroprudential buffers have generally been too low rather than too high. In a major systemic shock, such as a war, releasing buffers of only 1%, 1.5% or 2% would provide limited relief. This limitation had not been adequately anticipated when the CRD and CRR were designed, as their primary objective was to smooth financial cyclicality within a framework then considered largely complete.

As a cause of European banking fragmentation, differences in buffer levels are relatively small compared with more fundamental legislative and political obstacles. Greater harmonisation may be useful, but harmonising macroprudential buffers alone will not complete the Banking Union.

3.5 Simplifying supervision and macroprudential requirements while preserving resilience

3.5.1 Clarifying supervisory expectations and improving supervisory practices

The Chair explained that feedback received during the ECB's simplification work has revealed that some supervisory guidance was perceived as more binding than intended. The ECB has therefore reviewed its guidance and expectations, removing outdated elements and clarifying their non-binding nature. In particular, the management buffer discussed in the revised ICAAP guide is a matter for banks' own management, not a binding supervisory requirement. She distinguished clarifying the wording of the ICAAP guidance from ensuring its appropriate application in supervisory practice. The ECB's broader next-level supervision reforms are aimed at changing supervisory practices and culture to make supervision more risk-based, effective and efficient.

3.5.2 Aligning prudential instruments with their objectives while supporting competitiveness

The Chair concluded the discussion by highlighting the considerable progress achieved since the global financial crisis, with European banks significantly more resilient. It is important to focus on Europe's broader challenges, particularly expanding equity financing, supporting innovation and addressing strategic priorities such as defence, climate change and digitalisation.

While preserving financial resilience and international regulatory standards, prudential instruments must remain aligned with their distinct objectives. The discussion has identified opportunities to simplify and improve the macroprudential framework by reducing overlaps, assessing capital requirements holistically, improving decision-making and buffer usability, and strengthening predictability, transparency and accountability. These improvements could make the framework more coherent and effective, allowing resilience and competitiveness to reinforce each other.

The role of insurance in the EU economy and the SIU

1. Insurers are already financing the European economy on a very large scale

1.1 The investment landscape

Opening the discussion, the EU regulator set out the figures: Do not ask AI; ask EIOPA. They have the data. At the end of 2025, EEA insurers held €10.5 trillion of balance-sheet assets, of which €9.7 trillion was reported as investments — €2.8 trillion of it unit-linked. Some 80% of total investments are in securities: 24% government bonds, 26% corporate bonds, 30% equity; 38% is invested in the home country, 34% in other EEA countries and around 28% outside the EEA — of which 14% in the United States. General-account portfolios are predominantly invested in fixed-income securities with good credit quality, with longer durations for life than for non-life insurers, while unit-linked portfolios carry a much higher equity allocation. Pension funds (IORPs) add €2.9 trillion of assets. 80% of the government bonds they hold directly are issued by EEA countries. Against this stock, the additional investment needs that the SIU is meant to help finance are estimated, as in the Draghi report, at €750–800 billion a year by 2030. Insurers and pension funds can help on both sides: as investors — although their funds are already largely invested in the EU, so meeting the target also involves moving funds — and as product providers. The share of assets invested outside the EEA should not be a concern — it is a global business and large international players need to be invested globally; the real question is how insurers can invest differently, maybe with more equity. At the same time, if people moved savings from bank accounts into investment products, this could generate additional capital, at least 75% of which would, on past patterns, be invested in the EU.

1.2 The mutual model: long-term, European, non-erratic

An industry representative offered the perspective of a mutual group, noting that a third of the financial and insurance industry in Europe is mutual: private, non-profit companies governed by representatives of their policyholders, which shapes the way they invest. They are long-term investors, with a duration perspective of roughly ten years, even when we make the promise of liquidity to our policyholders; they invest mostly in Europe — 95% of the group's €150 billion; and their approach is not erratic: when rates turned negative in 2019, many listed players divested from equities for solvency and share-price reasons, while the speaker's group was among those that maintained their exposure. The allocation has shifted massively: only 25% of the group's assets are now in government bonds — half the level of fifteen years ago — meaning 75% is invested in the direct economy of Europe, a massive change that is not very well known, as insurers still have the image of being entirely invested in government bonds. Two concrete illustrations: a €1 billion fund, launched through the group's private-equity arm, dedicated to producing biomethane equivalent to the output of one nuclear power plant in France — only €1 billion from everything we invest, but it is a concrete example of what we can do — and the financing, through its private-debt arm, of the creation of five data centres in 2025. Joint efforts between the public and private sectors are more efficient still: the group works with public financial institutions and State-led initiatives such as Tibi and can bring money to investments when there are clear industrial policy choices, as there have been in France — choices that may be still lacking in Europe.

1.3 Patient capital rests on trust

The industry representative stressed that the debate is not about a potential role for insurers, as they are already financing the European economy on a very large scale: the speaker's group invests 85% of its assets in Europe, more than half of them financing European companies, infrastructure, innovation and the energy transition. For a life insurer, the responsibility is to strike the right balance between three key objectives: protecting policyholder savings according to their risk appetite, ensuring the liquidity they expect, and delivering attractive long-term returns — through the right balance between euro-denominated and unit-linked funds and tight risk, liquidity and solvency management. This limits the room for illiquid investments, yet it is precisely where well-selected, appropriately priced illiquid assets can enhance long-term returns while financing projects strategic for Europe, such as infrastructure, the energy transition, innovation and technological sovereignty. The Solvency II review, insurers' sustainability commitments and the growing need for retirement savings solutions all create a more favourable environment. But market depth remains the critical issue: Europe has sizeable markets in infrastructure, private debt and private equity — the issue is scale, with significant funding gaps in growth capital and scale-up financing, precisely when European companies need capital to become global champions. The challenge is not only investors' capacity to invest; it is the availability of sufficiently attractive European assets at scale. The key issue is not a radical shift in insurers' asset allocation but the continued growth of life insurance and retirement savings: the more long-term savings insurers manage, the more they can finance the European economy while keeping a risk profile consistent with their commitments to policyholders. Ultimately, growth in assets under

management depends on one essential factor, which is trust: patient capital can only exist if savers have confidence in products and frameworks — simple, transparent products, high-quality advice and, above all, a stable regulatory and tax environment.

2. The room created in Solvency II — maximise its use

2.1 A promise to deliver on

Without making predictions, the EU regulator noted that the review, which applies from 30 January 2027, is permeated — at least in law — by one expectation, and perhaps a political hope: more capital flowing into EU equity. Much of the review followed the industry's statement, If you do this, we can invest more in equity: There was therefore something of a promise made. I hope you can deliver on that promise, because there is an expectation. The mechanics: more equity with the same capital, through lower capital charges and wider recognition of long-term equity; a category for large EU investment projects involving the EIB or other EU entities, where charges drop further still; and reduced capital requirements for securitisation — though the speaker candidly doubted that capital charges were ever what stopped insurers entering that business: more is therefore needed here, even if the political signal in favour of EU securitisation is important. Reduced reporting should also free up resources. The closing message to industry was to make use of what is there, noting that non-EU players keen to enter the market and serve EU consumers know the narrative better than we do sometimes, and inviting insurers to consider what competitors are doing and whether they could do the same: the room created in Solvency II — not always supported by the supervisor — should be maximised to help the EU attract investment where it is needed.

2.2 A milestone without compromising policyholder protection

The national supervisor framed the review as a milestone that could have a positive impact on the competitiveness of the European insurance industry, without compromising policyholder protection and without compromising financial stability, with three benefits for a market described as not very mature. First, supervisory convergence: with many insurers operating under freedom of services and freedom of establishment, better coordinated supervision between home and host supervisors, more coordination from EIOPA, joint inspections and information sharing will strengthen policyholders' trust — this is the open passport of European countries... something that is working well and can be enhanced even further. Second, simplification: proportionality becomes tangible for small and non-complex undertakings, with fewer reporting and governance requirements, lower costs, no duplicate reporting and ultimately products that are more competitive for consumers. Third, capital relief: long-term equity investments and the recalibration of the risk margin will free capital, the question being how it is reinvested in European projects — the green transition, digitalisation, AI, innovation and defence. Protection is preserved through two additional layers: the harmonisation of minimum standards for insurance guarantee schemes, on which EIOPA is working, and the Insurance Recovery and Resolution Directive, implemented in the same time frame. Two further prerequisites for the SIU — value for money and financial literacy — are developed in Part 3.

2.3 No full single market for insurance

A mixed view came from an industry representative whose group, after a reorganisation completed some ten years ago, operates in the EU through a single hub and freedom-of-establishment branches, for which home–host relationships have all worked very well. The strengthening of cooperation in the review puts a little bit of paper behind what has already been happening, but can also be read, from a non-EU perspective or by new investors, as a warning indicator: it does point out the fact that there really is not a single market for insurance in Europe. The complexity is practical: for cross-border customers — for instance a French resident buying a summer house in Portugal with a mortgage — covering the same two countries could in theory require up to four licences. The Pan-European Personal Pension Product is another such indicator: with a true cross-border market, the PEPP would in many cases become largely redundant. Things need strengthening, but in many ways, they should really be seamless... There are curse words, and then there is 'minimum harmonisation', which is at the top of my list of worst words. The EU regulator agreed the single market is not there yet, for investors and consumers alike, while correcting a point of accuracy: freedom of services requires no licence, only a notification. Asked by the Chair whether the United States works on a single-licence basis, the same industry representative explained that regulation there is state by state, but that the divergence is not comparable to Europe's.

3. It is not value for money; it is money for value

3.1 Governments need to be brave

On distribution and conduct, the EU regulator pointed first to digital by default — while some consumers still need something else, a whole new generation would love digital, and change will move faster. Two changes are ultimately needed. First, the insurance guarantee scheme debate should be viewed from a different perspective: telling individuals to move money from a bank account into an insurance product means asking them to give up the guarantee of getting it back if things go sour — available for bank deposits but not, on a harmonised EU-wide basis, for insurance products — which is not helpful and calls for a better dialogue. Second, and more important, though outside a supervisor's remit, governments need to be brave and have the discussion with their population that simply

Pillar 1 state pensions, pay as you go, will not make it on an ageing continent — awareness, a push, perhaps with a tax carrot, so that people save for later. As the national supervisor had noted earlier, European citizens save around 14% of income — against a little under 4% in the US — so the question is how savings are transferred to the real economy. The value-for-money initiative, part of the retail investment strategy (Omnibus Directive) and well advanced in the co-legislative process, should help cut costs and generate risk-adjusted returns, closing the pension protection gap; money has to be spent wisely in the economy where it is really needed.

3.2 Security is part of the demand of the population

An industry representative argued that you do not create an evolution in regulation without considering what the policyholders demand — the introduction of unit-linked products in France decades ago succeeded because people understood why they needed to take more risk. The group's own annual surveys of French life insurance policyholders show, consistently over time, a demand for balance between yield and security. The reason is demographic: 75% of savings in France or in Europe are held by people aged 70 and over. More value should therefore be attached to the two guarantees embedded in insurance-based investment products: liquidity — insurers invest long-term while providing constant liquidity — and the capital guarantee. Had all French policyholders sought to withdraw their money at the peak of the crises, the capital guarantee would have represented €124 billion in 2020, during the COVID-19 crisis, and €229 billion in 2022, at the peak of interest rates. Acknowledging the value-for-money approach spreading across the continent, and that as an industry, we have a great deal to do, the speaker proposed renaming it: It is not value for money; it is money for value, and security is a part of the demand of the population on that, calling for a more comprehensive approach.

3.3 Public resources as a catalyst, not a substitute

The expert began by distinguishing non-life from life: given climate-related needs, little can be expected from the property and casualty side, whereas longer life expectancy and demographics make life insurance well suited to long-term investment. The first principle is that the client has to have full trust in the investment of his company, which explains the bias towards government bonds that the Solvency II reform has reduced. The condition for long-term investment is the safety and credibility of a market allowing companies ultimately to sell their stakes; drawing on experience in infrastructure, the expert noted that pension funds can easily invest around 15% of their resources long-term. Such a market exists for brownfield and greenfield infrastructure, but not with the same safety for listed and non-listed products; and pressure is rising, as artificial intelligence is likely to increase litigation and claims costs, and hence insurers' need for secure long-term investments. In France, the Treasury created a market for innovation, without spending public money, by labelling dedicated funds sufficiently numerous to capture investors' trust: They can not only buy but can sell it. This is a guarantee of liquidity. Within four to five years, the Tibi initiative has thus greatly increased investment in funds dedicated to start-ups and scale-ups; it is a largely pedagogic system, increasing companies' trust in a market that could be extended across Europe. The Chairunderlined that, while no public money was involved, public efforts fostered the initiative, and that a public guarantee need not involve capital: it can also take the form of labels. The industry representative described Tibi: launched in 2019 by the French government to fund high-growth French and European tech companies at the growth capital and scale-up stage, it has mobilised close to €31 billion since 2020, including €13 billion under its third phase launched in June 2026, over €5 billion of it from insurers. Three drivers of success: close co-construction between public authorities and institutional investors, respecting solvency, liquidity and asset-liability constraints; flexibility — a collective ambition but not a uniform allocation framework; and strong insurer involvement, the euro-denominated fund bridging the gap between risk-averse policyholders and illiquid assets. The result is a positive ecosystem — the first two phases led to the accreditation of over 160 funds across growth capital, deep tech, healthcare and the ecological transition — replicable at EU level. Europe is already moving in this direction, with the Scaleup Europe Fund, launched and supported by the European Commission, and the European Tech Champions Initiative, led by the EIB and the EIF. Reaching the next level of scale also requires European funds of critical size, asset managers capable of supporting scale-ups through their growth journey, and more European-oriented benchmarks and rating frameworks: otherwise, parts of European savings will continue to finance assets outside the European Union. For the highest-risk projects, targeted public guarantees can share risk: The objective is not to replace private capital with public money, but rather to use public resources as a catalyst for private investment.

4. If you build it, they will come — lessons from the United States

An industry representative drew three lessons from the United States. First, tax: It is part of our origin story — from the tax on tea and the Boston Tea Party (probably why most of us drink coffee instead of tea) to the tax incentives of the Inflation Reduction Act, and the 401(k), a term that comes not from retirement legislation but from the tax code: tax is built into American culture. Second, the far more mature private credit market, where the speaker's group has been investing for over 100 years, from agricultural lending to financing the Empire State Building: European insurers already finance ports, airports and wind farms, but a century of practice has built the expertise needed for proper risk analysis. Third, something slightly vaguer... somewhere between hope and belief: a virtuous circle in which, once things get started, people and companies believe the structure is set up for growth — a messaging issue, that psychological thing. In Europe, to quote the American baseball

movie, if you build it, they will come; the remaining question is whether building the infrastructure alone will be enough to get them to come.

Conclusion — trust as the common denominator

In a closing round, each speaker gave their single priority for the sector: financial stability, with US Treasury yields at 5% — because it is trust, an industry representative echoing the expert; legislation that demonstrably furthers European integration (an industry representative); building savers' and companies' trust (an industry representative); trust and efficient supervision, through Solvency II (a supervisor); deciding and planning beyond the political cycle (a regulator); and security, with better risk education among retailers (an expert). The convergence on trust echoed the thread running through the session: patient capital, single market credibility and public support as a catalyst all rest on it.

Insurance in a polycrisis

The discussion concentrated on three structural developments that may determine insurers' and reinsurers' resilience: the move into private credit and other illiquid assets; the growth of cross-border, asset-intensive and funded reinsurance; and the rise of operational and technological risks with a systemic dimension. A fourth risk — longevity — was also acknowledged: as one industry representative noted, it is probably the slowest-moving, affecting the level of claims rather than investment yields, and the industry has a long history of developing ways to deal with this. It would merit a dedicated discussion.

1. Not insurance in polycrisis, but how insurance responds to a polycrisis world

1.1 The insurance sector is an underpinning of resilience and a driver of confidence

A regulator set the session's framing: we are not talking about insurance in polycrisis; rather, we are talking about how insurance responds to the opportunities of a polycrisis world, and how insurance should be regulated in such a world. The crises of this world really are many and rapidly changing: at the political level, a loss of trust and of cohesion in our political discourse; at the geopolitical level, war, fragmentation and disrupted energy supplies; at the geoeconomic level, old trading patterns breaking down and being recreated and energy price shocks — while technology is bringing with it many potential benefits as well as uncertainties. In such a world, insurance has an enormously important role to play – in particular as an underpinning of resilience and a driver of confidence, whether for individuals, households, corporates, societies or economies — a role that requires insurance to be well regulated and well supervised. The Chair closed by reaffirming the importance of insurance from a societal point of view.

1.2 Risks that spread across balance sheets, reinsurance chains and operational infrastructures

For the Chair, the defining feature of today's uncertain macro-financial backdrop is interconnection: risks may spread across balance sheets, reinsurance chains and operational infrastructures, producing non-linear effects that can seriously test the resilience of firms and systems. A regulator grounded this in group realities: cross-border risks emerge through complex group structures and intra-group links, including reinsurance arrangements, loans, guarantees, outsourcing agreements and dividend flows — so that the risk profile of any individual insurer can only be understood within the wider group context.

1.3 We can grasp the polycrisis concept simply by looking at claims

An industry representative traced the concept back thirty years, to a 1993 post-Cold War world of increased communication and trade whose founding text also looked at border-crossing events such as Chernobyl and the 1991 eruption of a volcano in the Philippines, whose effects had spread around the world within three weeks. Thirty years on, we can replace CNN and McDonald's with AI, cloud computing and software, and the concept of polycrisis becomes much bigger. From a reinsurance perspective, however, we can grasp the concept simply by looking at claims. Their illustration was the semiconductor industry in Taiwan, on which the most sophisticated AI technology today depends 90%: an earthquake in 1999 and a historic drought in 2021 both halted production — the first through the electricity grid, the second because production requires not only electricity but also water for cooling. The result is an economic dependence combined with a geographical risk exposure — the latter documented by a recent Swiss Re Institute study showing that the areas where the plants are located are exposed to extremely high earthquake risk. Their prescription: We cannot address interconnectedness simply by disconnecting... The answer ultimately lies in understanding the dependencies, diversifying them where we can, stress testing the system and being prepared with a contingency plan.

2. Private equity and asset-intensive reinsurance: limited in the EU today, but certainly something to monitor

2.1 Money looks for where it can earn a better return

A regulator observed that the move towards alternative investments is nothing new — most prevalent in the life and annuity sectors and driven primarily... by the long period of low interest rates. Money looks for where it can earn a better return – it is nothing other than that. Around 140 private equity-owned insurers have been identified in the US and are being monitored, while around $1 trillion more capital has been invested in alternative or illiquid assets. Private equity-owned insurers tend to allocate more heavily to private credit and structured securities because these offer higher returns, even though they are less liquid. These strategies bring benefits — improved returns and support for the growing retirement sector — but supervisors are seeing greater complexity in the valuation of these assets, while liquidity monitoring and risk management are posing challenges for us as regulators.

A regulator situated the phenomenon in the wider financial system: More and more of those who need capital to grow are finding solutions outside the banks... It is an alternative to banks, but it remains very much part of the financial world. A regulator balanced the ledger — opportunities (diversification, better asset-liability management and potentially better returns on capital) against risks (a lack of transparency, valuation challenges, uncertainty about how these assets behave in stress situations); on asset-intensive reinsurance, capital or regulatory arbitrage, overall risk profiles that are not coherent, and conflicts of interest. As of now, at the global level, we do not see these developments as systemically concerning, but there may well be pockets of activity that warrant close scrutiny.

2.2 Together, 11% of insurers' assets

A regulator put EU exposures in proportion. Private equity ownership of insurers is not a big part of our market: the number of entities has gone from 37 to 26, which is fairly stable. Private equity and private credit together amount to around €1.2 trillion, or 11% of insurers' assets: around 6% in private equity and around 5% in private credit — falling to 2% if you exclude real estate and mortgages. That number does not lead us to call this a crisis, but it is certainly something to monitor, life portfolios being often somewhat riskier and more opaque, while on the non-life side there are structures involving a great deal of reinsurance that goes cross-border, including outside the EU.

On funded reinsurance, the same speaker began from principle — reinsurance is a very healthy and important part of insurance, and it can only work if it is global — before noting that Solvency II's recognition of reinsurance as risk mitigation has incentivised the use of reinsurance not so much in its traditional role of transferring risk, but to optimise regulatory capital. When that starts to happen, we become interested. When it starts to happen cross-border, particularly outside the EU, we become even more interested. In the EU the phenomenon is really very limited and so far intra-group, but the standard formula probably does not capture the risks adequately: these arrangements fall under the reinsurance module, which only looks at counterparty default risk, whereas I think asset-intensive reinsurance involves additional, different risks. EIOPA will be publishing a consultation on this question.

A regulator added national data: in Italy, private credit amounted to €26 billion in 2025 — 2.5% of insurers' investments, against a European average of around 5%. This gap is partly due to the still low level of insurance and financial literacy in Italy, with results in the OECD's PISA assessment not very encouraging in Europe more broadly. Industry voices were more sanguine: for one industry representative, private investment globally does not seem to be an issue. The question is rather where there are pockets of genuinely unreasonable behaviour, and there, I think, supervisors should play their role — while the reinsurance sector is used to managing shocks – that is its job. Especially in non-life, I do not see any risk, and funded reinsurance schemes are, on the whole, a good thing. I am less sure about certain areas of life reinsurance.

2.3 Not only their size, but how these risks are measured

A regulator identified the core supervisory challenge: private credit exposures — unlisted loans, private debt funds, real estate debt, structured products and other assets with no clear secondary market — are difficult to assess, and the main supervisory concern is not only their size but how these risks are measured, because without a clear underlying market, estimating fair value becomes complicated. Because these assets sit mainly on life balance sheets, a mismatch with liabilities may mean that in a period of severe stress in particular, unexpected policyholder surrenders may occur; they also urged supervisors to harmonise the definition of private credit, because there are still national specificities.

A regulator added that most asset-intensive reinsurance is pursued for capital recognition, which involves the supervisor, which means dialogue – ex ante dialogue... If you do a huge longevity swap, the wise ones involve their supervisors early.

3. Of these three risks, the most pressing is the technological one

3.1 A very rapid shift in the fundamental features of the insurance business model

For one industry representative, there is no doubt that, of these three risks, the most pressing is the technological one. First, cyber risk — certainly increasing – perhaps dramatically, we do not yet know — is a major operational threat and a threat to data protection, and therefore to confidence in the insurance sector. Second, AI will probably drive a very rapid shift in the fundamental features of the insurance business model: customer use of AI may disrupt the competitive landscape; it will probably increase information asymmetry, leading to inadequate pricing and perhaps reduced insurability; and the sector may face a very large increase in litigation facilitated by AI, which could mean a major shock for casualty insurance. Taken together, the uncertainty is very high, and the uncertainties arising from technological change resonate with those in the economic, financial and geopolitical situation. Yet, recalling that when the first insurers tried to insure motor vehicles, they had no data, but they did it, this speaker remained confident the sector will cope thanks to two fundamental qualities: resilience and agility.

An industry representative had earlier identified technology as the risk intensifying fastest. Analysing risks through the three assumptions on which premiums are set — investment yield, level of claims and operating costs — this speaker linked private credit and asset-intensive reinsurance to elements that affect actual yield, and longevity to actual claims.

Technology affects at least actual operating costs, which it hopefully will help us bring down, and also actual yields: at the macro level through the real growth rates of our economies and inflation, and at the micro level through the performance of the companies and sectors in which we invest. A regulator framed the supervisory challenge: Technology is everywhere… what it means for the insurance business, in a world where policyholders increasingly have support from and access to high-performing AI systems; what it means for cyber resilience; and what it means for outcomes for policyholders — with so wide a landscape, where we put our resources will be key, and we need to collaborate on that. A regulator saw AI as a tremendous opportunity, but there is also tremendous potential for abuse.

3.2 3,383 major incidents reported in the last year

A regulator welcomed DORA: In a world where one might ask whether the EU is doing too much regulation, I am really happy that we have DORA. Its benefits are direct dialogue with critical third-party providers, identified after a tremendous exercise… in which literally every financial entity had to report to us the services it uses — whose spirit they captured in the words of a small non-life insurer: this is not for the regulator – it is to keep the EU resilient; visibility of ICT concentration, which is definitely occurring, and I think it is good that we can see it; incident reporting — We had 3,383 major incidents reported in the last year; and the EU-SCICF, through which we can immediately establish communication with all the central banks and supervisors, ENISA and CERT-EU — for instance in the event of something like the questions raised by Anthropic or last year's outage in Spain, Portugal and the south of France. The direct dialogue with critical providers is new, but it is working. Yet DORA in itself is certainly not solving… the crisis that is unfolding in AI and cyberspace; that is where my concern lies. But we at least have a mechanism in place.

3.3 Operational dependencies that are not immediately visible on the balance sheet

A regulator stressed that liquidity, cyber and AI risks demand recognition that operational dependencies can create vulnerabilities that are not immediately visible on the balance sheet. The main challenge is not only to identify where these exposures sit on the balance sheet, but also to pay very close attention to the interconnections between financial, operational and technological risks. A regulator (EIOPA), agreeing with the industry's call for answers on data protection (see 4.2), added that on the IT side there are some very critical questions that cannot be answered by those of us sitting at this table, but we need those answers, and that we must ask the right questions of the right entity, and with some urgency. The industry can tell supervisors which answers are critical to preserving the sector's reputation and to acting in a united way as the EU, which together represents a market of 450 million consumers; critical third-party providers also need to engage in a proper dialogue.

4. Supervisory and industry responses: regulation, dialogue and cooperation

4.1. We may need a reverse stress testing mindset, since the future may differ from the past

An industry representative proposed going beyond conventional stress testing: we may need a reverse stress testing mindset in this kind of environment, since the future will most likely differ from the past — to think about what could bring our business down in one go, and to work back from there. This means focusing on the big events that could bring our business down, prioritising among them, assessing how likely they are to happen and preparing contingency plans. Since regulatory frameworks are all based on certain assumptions which may or may not hold in the future, we must think about what might happen outside those assumptions. This is an area where I think we have to think hard, be imaginative and draw on different experiences and methodologies. A regulator endorsed the approach: in the 2008-10 crisis, the firms that fared best were very often those that were best at reverse stress testing.

4.2 Not regulated through rules, but handled through dialogue

A regulator argued that much of the response lies in existing principles and dialogue rather than new rules: Solvency II provides the prudent person principle, which is, in fact, common sense — does the chosen risk profile match the actual portfolio, and can it be explained to the supervisor? If that principle is applied well, much of this does not need to be regulated through rules but can be handled through dialogue between the supervisor and the supervised entity.

An industry representative pressed two demands on authorities: regulators should be adaptive, tackling new issues — DORA being clearly pertinent in every respect — while easing the pressure on issues where there is probably not much risk today; and industry needs answers from the authorities — because of a US executive order, nobody today is able to fulfil their GDPR obligations, and I have heard nothing on this from the EU or national authorities… it creates a reputational risk for the EU financial sector. A regulator asked to hear more about the GDPR issue outside the panel.

4.3 Better cooperation, stronger information sharing, more common supervisory tools

A regulator closed with the priority they considered the most important: to strengthen cooperation among supervisors through effective home-host coordination for cross-border insurance groups, using a shared dataset and common metrics — the most effective way to address private credit, cross-border, cyber and AI-related risks. A regulator set out three roles for the international standard-setter: monitoring systemic and emerging risks globally, working very closely with the Financial Stability Board (FSB), through the Holistic Framework, an approach that depends absolutely on

data; creating an appropriately consistent international, cross-border environment — not about one size fits all… but about having an appropriate level of confidence and consistency that business is being conducted to achieve similar outcomes across jurisdictions; and an outcomes-based approach supporting its 200+ members on protection gaps and on AI. A regulator noted that cross-border reinsurance is an area in which the NAIC is seeking to refine its capabilities by working with our partners, with a clear mission: to ensure that obligations to policyholders are protected when risk is transferred outside the United States — and, on AI, global cooperation so that whatever entity is being regulated is held accountable in its jurisdiction. Regulators must communicate to companies how we will hold them accountable for their use of AI.

The Chair noted a great deal of alignment between the private sector and the public authorities and concluded that there is a lot of work ahead, both in monitoring and in responding to what is happening — with AI and technology perhaps meriting a session of their own.

Sessions

IV

EU AND GLOBAL SUSTAINABILITY AGENDA

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- SFDR 2.0: making the new product framework workable across asset classes 125
- Sustainability risk: supervision, data limitations, scenarios, transition execution 128

Sustainable finance: challenges in the global context

Sustainable finance initiatives were continuing despite political uncertainty, but speakers stressed that progress depended on stable policy, investable projects and decisions that translated information into action.

1. The transition is continuing around the world

1.1 Multilateral action is necessary to address climate change

A public authority representative argued that multilateral action was necessary, although insufficient, to address climate change. Europe's decarbonisation illustrated the EU's role. The Emissions Trading System had delivered results; its changes needed careful assessment. A changing political narrative should not obscure effective measures or continuing international support.

A public authority representative highlighted practical cooperation through the Coalition of Finance Ministers for Climate Action, with 100 participating countries, and the OECD's Inclusive Forum on Carbon Mitigation Approaches, involving 60 countries and 1,600 policy instruments. Technical assistance, exchanges between Member States and green budgeting, including expenditure tagging and assessment of tax expenditure, connected public finances with climate objectives.

A public authority representative described transition and sustainable growth as shared challenges. He reaffirmed the UK's commitment to working with the EU and highlighted opportunities for wider multilateral cooperation.

The Chair stressed that geographical remoteness did not insulate any country from climate change.

1.2 Geopolitical uncertainty reinforces the case for transition

A public authority representative linked climate change and nature loss to changing energy systems and supply chains. Heat and wildfires exposed physical climate costs. Geopolitical uncertainty, energy security concerns and artificial intelligence (AI) were changing investment priorities, but far from weakening the case for transition, these developments reinforced it. Sustainable finance needed to direct investment towards long-term competitiveness and resilience.

An industry representative distinguished political uncertainty from structural legal change. In the US, Supreme Court decisions had altered the framework for policymaking, making a return to the approach of the Biden administration less likely. Genuine Commission engagement with the private sector nevertheless suggested that political challenges in Europe need not be insurmountable.

1.3 European financial institutions remain committed to net-zero trajectories

An industry representative rejected the idea that political backlash justified retreat. European groups remained committed to net-zero trajectories and 2030 objectives: retreat would be irresponsible and commercially mistaken. One banking group had reduced oil and gas investment by 81% since 2020, releasing investment capacity despite foregoing profitable investments.

An industry representative described alignment between climate objectives, resilience and clients' needs. Home renovation, for example, could lower energy bills while generating business opportunities.

Another industry representative saw encouraging technological change among energy providers and utilities adopting longer-term, sustainable practices. These developments supported the business case for transition.

2. We need certainty to continue

2.1 Regulatory stability matters even more than simplification

An industry representative considered simplification useful for enabling investment, but regulatory stability more important. Large groups needed clear targets across their businesses; repeated changes undermined planning.

Another industry representative called for reforms already in the pipeline to be completed, providing the certainty needed to plan and develop strategies.

A civil society expert stressed that certainty had to extend beyond financial regulation to public policy as a whole. Institutions needed clear industrial trajectories to support clients, plan their activities and manage risks. The central message was: We need certainty to continue.

A public authority representative linked consistency with regulatory credibility and identified a shift in sustainable finance from investor protection towards financial stability. Work on the Sustainable Finance Disclosure Regulation (SFDR) 2.0 had attracted support from industry, regulators and the Council. He hoped it would improve investment in sustainable economic activities.

The Chair challenged instability on both sides of the Atlantic and urged policymakers to stop throwing legislation under omnibuses.

2.2 We can finance projects, but we cannot create them

An industry representative distinguished portfolio decarbonisation through withdrawal from financing the transition of essential industries. Exiting oil and gas could make a target easier to achieve; harder-to-abate sectors vital to European sovereignty required investable projects. We can finance, but we cannot create the projects. Public policy had to build the pipeline, including through the Clean Industrial Deal and Industrial Accelerator Act.

A public authority representative explained that practical barriers varied across markets: grid capacity, planning systems, infrastructure, skills and supply chains. Emerging markets and developing economies also faced high capital costs and currency risks. The UK's industry-led Transition Finance Council brought government and industry together to develop thinking on how to scale transition finance.

A civil society expert argued that financial institutions could not deliver the transition alone. Countries also needed to implement commitments to end harmful activities, including fossil fuel subsidies. Finance should press for these measures, not merely fewer reporting obligations.

The Chair recalled commitments under the Kunming–Montreal Global Biodiversity Framework to reduce harmful subsidies, warning against overlooking the wider policy context.

2.3 Stable public support and bankable projects are essential

An industry representative identified stable public support and bankability as prerequisites for investment. Blended finance offered an existing, applicable model, illustrated by the Commission-backed Global Green Bond Initiative fund. Agricultural finance also required public cooperation and diagnostic information: financing capacity alone did not create suitable projects.

A civil society expert emphasised that financial institutions nevertheless had influence: engagement with clients, participation in projects and efforts to influence behaviour could help projects continue and become bankable. Clear policy direction was needed to support these efforts.

3. Investors do not invest blind

3.1 Sufficient and comparable information without duplication

A representative of the International Sustainability Standards Board (ISSB) explained that investors do not invest blind. Reliable information enables them to price risk, identify companies and allocate capital based on that information. More than 45 jurisdictions (counting the European Union as one) have adopted or are in the process of adopting standards aligned with ISSB requirements. This demand reflected the need to assess companies' resilience to climate across different time horizons.

An industry representative welcomed global standards and interoperability guidance from the European Financial Reporting Advisory Group (EFRAG) and the ISSB. The objective was sufficient, uniform information without duplication, not resistance to reporting itself. The firm's preparations under the Corporate Sustainability Reporting Directive (CSRD) had exposed practical challenges, although it was ultimately not required to produce that report. He expected a stronger focus on financial materiality, particularly in the US.

A public authority representative supported ISSB-based interoperability and high-quality, consistent and comparable sustainability information. UK Sustainability Reporting Standards were presented as one means of improving investor confidence. The constraint was not the availability of capital, but whether investors had the information, certainty and confidence needed to deploy it effectively.

A civil society expert distinguished more disclosure from genuinely comparable risk assessment. In her assessment, despite extensive reporting, reliable, widely agreed climate risk metrics and methods for comparing financial institutions were still lacking. Duplication could obscure essential findings. She called for agreement on common methodologies and a clearer focus on essential information.

3.2 Climate and nature are two sides of the same coin

The ISSB representative stressed that climate and nature were two sides of the same coin. Existing climate disclosure requirements already covered water stress, flood risk and other nature-related dimensions, not just greenhouse gas emissions. Most jurisdictions were starting with climate before extending reporting to all sustainability-related risks and opportunities that could affect company performance, as required by the ISSB's foundational S1 standard.

The ISSB representative outlined proposals on nature-related disclosures, which she said would be published for consultation in October 2026. The aim was to link nature impacts and dependencies with financial risks and opportunities, including supply-chain resilience. The ISSB is drawing from the Taskforce on Nature-related Financial Disclosures (TNFD) Framework.

A public authority representative described work in Ireland on natural capital accounting, using the EU's NACE classification of economic activities to connect emissions and economic contributions with air, water and soil quality. The next step was to assess what each sector drew from natural capital. Clean water could determine industrial investment; soil and air monitoring could inform environmental and health assessments. Ecosystem services still received insufficient attention in policymaking.

An industry representative linked agricultural resilience with sovereignty and the ability of farmers to earn a living. Information on soil quality, water shortages and future scarcity helped financial institutions support changes in farming practices. A resilience perspective clarified the transition's practical value.

A civil society expert stressed that climate and nature degradation created compounding risks and cascading second-order effects, reinforcing the need to assess them together.

3.3 The Global South wants to attract capital for transition projects

The ISSB representative highlighted strong adoption of ISSB-aligned standards in the Global South as well as developed economies. Reliable information can attract capital for transition projects and generate trade benefits by demonstrating resilient businesses to suppliers and customers. Reporting can support credibility, supply-chain relationships and access to finance.

4. This is not about compliance but strategy

4.1 Reporting must lead to changes in behaviour

The Chair questioned whether the number of initiatives and disclosures risked creating excessive optimism about the speed and scale of actual investment.

A civil society expert argued that disclosure had to be judged by its consequences. A review of major European banks' CSRD reports found extensive data, but her team could not infer from those reports a consistent understanding of risks and the actions required. Whether behaviour had changed was the decisive test. Without demonstrable change, reporting risked remaining a compliance exercise rather than effective risk management.

A civil society expert sought evidence of action from environmental, social and governance (ESG) risk management and prudential transition planning, particularly in banking, which she described as more advanced than other European financial sectors in this area. Standards needed to translate into action. We do not care about compliance. We care about real-world action.

An industry representative described how ESG data collection had revealed nature-related opportunities, prompting the group to announce the creation of a natural capital business line in its medium-term plan. Biodiversity credits and forest restoration capable of increasing land value illustrated potential economic models. Execution could turn a compliance burden into a business opportunity.

The ISSB representative explained that information collected for reporting also helped companies identify vulnerabilities in their own operations and supply chains.

A public authority representative argued that reforms should be completed, and their effectiveness assessed against evidence: It is not about compliance; it is about genuine change. He also called for clear communication of sustainable finance's practical purposes, from clean energy to nature restoration.

4.2 We need a longer-term perspective and shared responsibility

A civil society expert called for planning against a baseline incorporating climate change. Heavy reliance on historical data in models and a focus on the next quarterly earnings statement impeded forward-looking decisions. Policymaking, assessment and management needed longer horizons informed by scientific warnings.

The Chair stated that it is not about compliance; it is about strategy, including companies' businesses, risks and survival. The whole organisation needed to be involved: boards and those responsible for risk, strategy and human resources. Treating environmental issues as immaterial in agri-food reporting was unacceptable. System change required facing the facts without becoming overwhelmed and introducing the necessary adjustments.

The Chair added that the transition had social consequences and that responsibility rested not only with governments but also with companies. Strategy needed to recognise these consequences alongside business and environmental objectives.

4.3 We need to mitigate, adapt and prepare to absorb climate losses

The Chair rejected an ideological choice between mitigation and adaptation: both were necessary. Capital needed to support emissions reductions while enabling adaptation to the changes already under way. She stressed that ocean temperatures would take a very long time to stabilise even if emissions stopped immediately.

A public authority representative similarly stressed that adaptation would remain necessary even if emissions stopped immediately.

A public authority representative highlighted the private sector's difficulty in identifying a commercial financing model for adaptation. He called for governments, multilateral and bilateral development banks, UN funds and the European Commission's international partnerships directorate to increase their engagement. He referred to an often-equal funding split between mitigation and adaptation.

A civil society expert warned that, if transition efforts proved insufficient, the financial sector would need to prepare to incur those losses. Preparation could involve capitalisation, provisioning and accounting for foreseeable losses, to the extent possible. Although less attractive than financing new projects, it needed to consider effects on insurers and their transmission to banks. She cautioned that financial preparations could not offset the far more dramatic effects of climate tipping points. Transition remained preferable, but institutions could not ignore prospective losses: We do not have a planet B.

EU climate resilience framework: impacts and role for the insurance sector

1. Climate risk and the protection gap: shared responsibilities

The Chair stated that climate change was already affecting households, businesses and public finances. Climate-related losses were rising, with a significant share remaining uninsured. The question was how to address this protection gap and share responsibilities between insurers, public authorities and those who own and manage the risks.

An official agreed that the existence of the insurance gap was beyond dispute; the issue was how to reduce or eliminate it.

1.1 Climate risk affects the economy and public finances

An industry representative described rising climate risks in Europe and globally, with severe drought, heat and wildfires over the summer and forward-looking models pointing to a continuing trend. An industry representative noted that Ireland had experienced its hottest summer following one of its wettest springs. An official added that, although flooding was the main focus in Ireland, wind had damaged commercial forestry and forest fires had also occurred.

An official emphasised that climate risk had become a broader economic and financial issue affecting households, businesses, infrastructure and public finances, requiring action beyond recording losses after an event. An industry representative pointed to progressively larger insurance claims, higher credit risks for banks and pressure on governments to invest in adaptation and mitigation. An official stressed the simultaneous need to protect people, businesses and public budgets.

An official described climate risk as macro-critical because it was affecting budgets and economic growth prospects. In Ireland, investment under the national development plan was being prioritised in exposed core systems, including water, energy, transport and housing. The authorities were also looking at developing analytical tools for the budgetary process. Carbon tax could support the transition to a lower-carbon economy, but faced challenges with public acceptance, including in an inflationary context.

1.2 Sharing risk between the public and private sectors

An industry representative cited a recent paper projecting that climate risks could reduce GDP by around 15% in 2050. At that scale, neither the public nor the private sector could manage the risk alone. New financial instruments spanning both sectors were expected to emerge. Solutions needed to serve both: insurers could model flood risk, but government intervention was needed to build flood defences; private markets could factor the transition into pricing, but the public sector needed to provide the disclosure and accounting framework.

An official recalled that the core role of insurers was risk transfer.

1.3 Clarifying responsibilities and cooperation

An official stressed that each stakeholder had a distinct role and corresponding responsibility. Citizens, businesses, insurers and public authorities needed a common understanding of those responsibilities.

An official considered cooperation between insurers, supervisors, governments and EU bodies essential.

2. Prevention and adaptation to improve insurability

An industry representative identified prevention as the real solution. Helping people prepare for flooding was preferable to waiting for an event and paying claims afterwards. Beyond the models and numbers, flooding could be a deeply traumatic experience, damaging the home on which people relied for their sense of security.

An official agreed that the challenge extended beyond insurance to prevention and resilience.

An industry representative considered adaptation and mitigation key to effectively reduce both risk and the protection gap.

2.1 Linking prevention, premiums and insurability

An official considered that prevention was not sufficiently incentivised. A virtuous circle was needed in which policyholders implemented preventive measures and benefited from lower premiums, potentially creating the conditions for lower losses and improved insurability.

An official cautioned that this remained an ambition yet to be realised in some areas. Adaptation needed to be reflected in pricing so that property owners benefited when their own actions, or public measures, made properties more insurable.

An official said that the Solvency II review had adjusted the parameters for calculating capital requirements for natural catastrophe (NatCat) risks to help ensure that insurers remained sufficiently capitalised. On the investment side, the review had introduced a model of programmes under which national authorities could guarantee projects supporting climate adaptation. Their benefits would materialise once the new framework was fully in place. Further work on prevention and adaptation was needed, with the European Insurance and Occupational Pensions Authority (EIOPA) helping to identify possible solutions.

2.2 Asset owners' responsibility and insurers' advisory role

An industry representative stressed that asset owners, whether individuals or companies, were responsible for addressing their assets' vulnerability to climatic events. Insurers had an advisory role. Risk needed to be reduced and mitigated before being transferred to the insurance and reinsurance system.

An industry representative expected insurers increasingly to advise businesses on reducing risk, adapting to climate change and mitigating its impacts.

2.3 Data and modelling to guide resilience investment

An official observed that NatCat data remained limited and fragmented, but collecting more data was not sufficient. Data needed to be transformed into usable information to support decisions on infrastructure, investment, planning and adaptation, and to build a common understanding of risk.

An official agreed that data quality mattered more than collecting large volumes of data.

An industry representative highlighted insurers' ability to bring data to policy discussions, define the problem and compare solutions. This could help authorities assess the appropriate balance between grants to protect individual homes and national flood protection schemes.

An industry representative described climate risk modelling as a common language, noting that central banks were using NatCat models in their own risk assessments. Models combined the frequency and severity of events with building-specific vulnerabilities. Varying these inputs allowed the costs and benefits of different interventions to be assessed.

An industry representative illustrated the benefits of adaptation with studies of the Hawaii wildfires, which found that simple measures such as window shutters or metal roofs could halve risk. In Florida, one building survived a category 5 hurricane in 2018 while its neighbours were destroyed; it had cost around 10% more to build than the neighbouring buildings.

An industry representative cited a 2025 report estimating potential losses of €270 billion for global energy infrastructure under the most adverse weather scenarios. Incorporating resilience at the outset, with 2–3% additional capital expenditure, could halve those losses.

3. National insurance schemes: coverage, affordability and sustainability

An industry representative drew lessons from schemes in France, Spain and the UK, stressing the need for broad pooling and risk-based pricing. The level of subsidy borne by the population needed to be understood, and people needed to be persuaded that national solidarity was worthwhile.

An industry representative proposed five criteria for assessing national schemes: the comprehensiveness of the risks covered, insurance penetration, affordability, prevention and financial sustainability. Broad pooling and affordable premiums were important; within mandatory schemes, the preferred approach was a flat premium.

3.1 Ireland's proposal: adaptation grants and a flood insurance fund

An industry representative explained that Ireland started from a strong position: virtually every household had home insurance and 95% had flood cover. Flood mapping and insurers' data put the expected annual cost of floods at about €56 million, half of it associated with just 8% of households. Losses from a one-in-200-year event were estimated at just under €800 million. Defining this concentrated risk was the starting point for designing a solution.

An industry representative outlined the insurers' recent proposal to the Government. It combined four elements:

- A flood adaptation scheme, with public grants allocated using a building flood rating modelled on the building energy rating.
- A sustainable flood insurance fund linked to households taking adaptation measures, with support from government grants.
- Building standards and disclosure of the flood rating at the point of sale, to address the continued construction of homes in unsuitable locations.
- Continued investment in nationwide flood defences.

An industry representative estimated that an average contribution of €24 per household to the fund, equivalent to about 5% of the average annual home insurance premium, could enable full flood cover across Ireland. The proposal linked wider insurance availability to adaptation.

An official indicated that substantial public capital had been spent on flood protection, but progress remained insufficient in some areas. A flood insurance protection gap working group was being established and would consider the insurers' proposals alongside the wider measures needed. Insurance alone could not address the whole challenge.

3.2 Mandatory insurance needs incentives, prevention and transparency

An industry representative concluded from national experience that a law making insurance mandatory was not enough, it needs to be enforced with a high level of penetration. Compulsory cover needed affordable flat-rate premiums, simple underwriting and effective incentives or sanctions. A central principle was that state aid should differ according to whether an asset was insured.

An industry representative cited Romania, where mandatory home insurance covering specified natural disasters, including floods and landslides, provided an insured sum of €20,000 for an annual premium of €26 without underwriting. After 17 years, penetration had reached 25%, requiring €2.2 billion in reinsurance capacity, which was difficult to secure in the global market. Fines had proved ineffective; more effective measures included public education, banks requiring

insurance to finance an asset, and reduced state aid for uninsured assets.

An industry representative presented France as an example of a mature system, built around a mandatory NatCat surcharge, a state-owned reinsurer backed by an unlimited state guarantee, an observatory of insurability and public funding for prevention. Each euro invested in prevention avoided an average of €3 of damage. Even so, the NatCat surcharge, which stands currently at 20% on top of fire-related insurance, had needed to increase from 12% to sustain the system.

The Chair, commenting on the discussion of aid for uninsured assets, warned that such aid could be politically attractive but highly counterproductive for public-private partnerships.

An official considered that mandatory coverage and conditionality could help reduce protection gaps, but only up to a point. They could align incentives and reduce expectations of automatic ex post public support. Measures to increase coverage should preserve incentives for prevention and adaptation. Resilience also depended on stakeholders' behaviour. Recent Greek reforms sought to combine obligations, incentives and conditionality to strengthen preparedness and clarify responsibilities. Products needed to remain understandable and transparent so that citizens and firms knew what was and was not covered, avoiding an insurance illusion.

3.3 Preserving market signals and incentives for adaptation

An official warned that public action should not crowd out insurers or weaken incentives for adaptation. Risk-based pricing remained an important early warning signal, and moral hazard needed to be addressed.

An official also stressed public sensitivity to prices. Following reforms to expand supply, increase competition and reduce insurance costs, proposals involving significantly higher prices needed to be examined and tested.

4. The climate insurance alliance and the EU's role

The Chair described the speech delivered that morning by the President of the European Commission as a historic moment for climate resilience.

An official expected work on the newly announced alliance to begin soon, stressing the urgency of concrete and actionable measures.

4.1 Increasing uptake, encouraging prevention and expanding capacity

An official reported that the Commission President had announced a climate insurance alliance to explore solutions in three areas:

- **Increasing insurance uptake.** Measures would include greater risk awareness, transparency about what policies cover, quicker payouts, and work on affordability, availability and adequacy.
- **Incentivising prevention.** The alliance would explore models that could support prevention, including impact underwriting, linking preventive measures to premiums, as well as group insurance, parametric insurance and approaches to building back better.
- **Expanding insurance capacity**. This would involve exchanging good practices and examining instruments such as natural catastrophe bonds, without a commitment at this stage to that model.

An official said that the alliance was intended to bring together insurers, reinsurers, intermediaries, policyholders, risk modellers, investors, public authorities and EIOPA. All those involved in addressing the protection gap could contribute to the solution.

An official welcomed the alliance as an opportunity to clarify the responsibilities of the different stakeholders together and to enhance collaboration across different channels and market participants.

4.2 Common principles adapted to national circumstances

An official stressed that there was no single solution suitable for all countries, but common principles could be identified and tailored to national circumstances.

The Chair noted that climate risks differed greatly between countries. The question was where national solutions should remain different and where an EU framework could strengthen them.

An industry representative expected the alliance to develop principles for gradual implementation in national systems. Coverage needed to extend beyond floods and storms to include hail and drought; for example in France, the major climatic risk is now drought-related clay shrinkage and swelling with 12 million homes exposed. Consistent climate scenarios and return periods, expressing the likelihood of extreme events, were needed as a basis for modelling and financial sustainability. National governance should bring together risk-owner associations, bodies promoting effective prevention, insurers, reinsurers and the insurance supervisor.

4.3 Common standards and resilience alongside insurance payouts

An industry representative welcomed the EU's involvement. Standards such as a flood equivalent of the building energy rating could provide a common language across Europe. Experience from the UK scheme highlighted the importance of ensuring that resilience measures accompanied insurance payouts. Schemes needed to follow through on building conditions, building back better and resilience by design. The EU could help maintain a long-term perspective.

SFDR 2.0: making the new product framework workable across asset classes

The discussion focused on SFDR 2.0, the proposed revision of the Sustainable Finance Disclosure Regulation, and its three product categories: ESG basics, sustainable and transition. ESG refers to environmental, social and governance factors. Speakers broadly welcomed the direction of reform, while stressing the need for clear criteria, usable data and practical implementation across asset classes.

1. The new product categories and their investment criteria

A regulator was very supportive of categories, which would introduce a common sustainability language and allow investors to make better decisions. The direction of travel was positive, but a comprehensive assessment was difficult without the level 2 measures setting out detailed rules under the level 1 legislation. Success would depend on clear definitions, consistency across the EU and robust safeguards against greenwashing.

Another regulator gave a pretty positive initial review. Categories could improve comparability and reduce the risk of greenwashing. The speaker hoped that they would attract investor interest, supported by greater consistency and clear criteria rather than principles, while retaining some flexibility.

An industry representative set two objectives for the revision: enabling end investors to make informed decisions, which required categories that were clear and simple and allocating more investment to a more sustainable economy. This called for well-calibrated criteria, a clear list of exclusions and rules that were workable.

Another industry representative added that a sustainable product was still a financial product and had to be a viable economic product. The speaker also recognised SFDR 1.0's contribution to developing a common language on sustainability.

Another industry representative called for categories that were intuitive, mutually exclusive and anchored to the real objective of the product.

1.1 Building on the taxonomy and existing fund naming guidelines

A regulator noted that the proposal drew upon the European Securities and Markets Authority (ESMA) guidelines on fund names, which asset managers had already been implementing. The eligible assets were also well-known taxonomy-aligned investments, portfolios meeting the criteria for Paris-aligned benchmarks (PAB) or climate transition benchmarks (CTB), and use-of-proceeds bonds, whose proceeds finance specified projects or activities.

Another regulator considered that the sustainable category set an appropriately high level of ambition. The principles of the former definition of sustainable investment had been transformed into criteria, making the regulation more prescriptive. Flexibility was still needed for innovation, and the Council compromise text had struck a nice balance.

1.2 Calibrating criteria and avoiding overly narrow categories

A regulator observed that Article 8 had become almost a default category for products marketed to retail investors in certain Member States. Concrete minimum criteria for ESG basics were a step in the right direction.

Another regulator believed that ESG basics would accommodate Article 8 funds with credible sustainability claims, thanks to safeguards absent from the current framework. While recognising their role in accommodating innovation, the speaker warned that the catch-all provisions in the transition and sustainable categories, allowing other investments to qualify with appropriate justifications, might replicate the shortcomings of the current framework by giving participants great flexibility. It was surprising that general-purpose sovereign bonds were capped while catch-all investments were not.

An industry representative found the ESG basics proposals quite satisfactory and welcomed the fact that the elimination of the 20% lowest-performing securities had not been retained. A clarification, at least in a recital, that the 70% ratio can be calculated at portfolio level and not line by line is essential to avoid diverging interpretations.

An industry representative warned against empty or overly narrow categories. An investor asking for the transition category and finding no qualifying product would be very confused.

1.3 Applying the framework across asset classes

An industry representative stressed that discussions were centred on equity, whereas sovereign bonds were a big chunk of what insurers invested in. General sovereign bonds were already evaluated against ESG risks in practice, and the categories could build upon that.

Another industry representative agreed that the framework should be designed with asset classes in mind from the outset, with different criteria for listed equities and bonds, sovereigns and other investments.

A regulator was concerned by selective amendments allowing general-purpose sovereign bonds in the transition category but not in the others.

2. The transition category needs credible and workable criteria

A regulator warmly welcomed the category as a recognition that greening the economy is not a linear process.

Another regulator welcomed the category: there was no legal home for transition in the current framework, and demand for it was apparent in the investment markets of certain Member States.

An industry representative questioned whether exclusions should be at the heart of investor protection here. The category was meant to support everything that is more or less bad today in moving towards a greener model. Adding criteria upon criteria would produce complex products that nobody understood and make it impossible to invest in companies that needed the transition. A portfolio manager could manage against only a few key performance indicators (KPIs).

2.1 Defining credible transition plans and recognising different pathways

A regulator saw implementation as the main concern, as there was far less experience of transition under SFDR disclosures. Supervisory experience and the ESMA fact-finding exercise showed different shades of transition, beyond decarbonisation and climate mitigation, which the category had to capture. The critical question was how to define a credible transition plan when pathways differed and the data for quantitative assessments was not always available.

An industry representative suggested an adaptation category. Companies faced a dynamic adaptation risk that was not yet covered, as agricultural businesses such as wineries illustrated.

2.2 Workable exclusions and the role of engagement

An industry representative accepted the need for exclusions but doubted the workability of a condition in the Parliament's text. It required companies to allocate, over a rolling three-year period, a higher average share of their total capital expenditure to taxonomy-aligned activities than to new fossil fuel projects. At that stage, the data needed to verify compliance was unavailable.

The same speaker fully supported engagement, but as a tool, not a strategy. It could not be a standalone criterion for the transition category and did not suit all investment policies. Engagement targets should be described at entity level, and the Shareholder Rights Directive, soon to be revised, was the more relevant legislation for addressing engagement.

A regulator agreed that engagement was central to transition investing but was not always a precondition, nor an investment strategy.

3. Simplifying disclosures while preserving useful information

A public sector representative emphasised that everybody now agreed that simplification and ambition are not enemies. Indeed, ambition needs simple and workable concepts and frameworks. Discussions had been satisfactory in the Council and apparently in the Parliament.

A regulator found the Council compromise text more workable, simpler and less burdensome. Creating better regulation while cutting burdens was a pretty good achievement.

An industry representative acknowledged substantial progress on the simplification of disclosures, the second key element of the revision.

3.1 Relevant investor information and consumer testing

A public sector representative drew a lesson from SFDR 1: the sheer volume of information is not the point. Investors needed pertinent, targeted information at the right level.

A regulator welcomed shorter investor information capped at two pages, the removal of entity-level requirements overlapping with the Corporate Sustainability Reporting Directive (CSRD), and the move towards a product-based regulation.

An industry representative suggested information akin to food labelling, telling investors precisely what they were buying.

Another industry representative proposed consumer testing, for indicators and category definitions alike, to check what investors needed and really understood. The Chair found it strange that almost no consumer testing preceded such legislation.

3.2 Principal adverse impacts and sustainability data

A regulator supported removing mandatory entity-level reporting on principal adverse impacts (PAIs) while maintaining PAIs at product level, where they could help investors compare products.

A public sector representative also saw value in PAIs at portfolio level. Simplification did not mean taking everybody at their word: transition claims had to be proved with clear, relevant indicators and actions such as engagement or the exercise of voting rights, without adding indicator upon indicator.

An industry representative would have kept very limited entity-level reporting. At product level, a very limited common set of indicators for all categories was preferable to full flexibility, for comparability. These should be defined at level 2, as level 1 indicators would be difficult, not to say impossible to modify. For the biodiversity indicator proposed for the sustainable category, the data was not available at that stage.

The same speaker welcomed the new article on sustainability data and estimates, but not the initial

idea that responsibility for external ESG data should lie with its users. Council and Parliament proposals requiring providers to disclose information about their methodology and data quality on request went in the right direction.

3.3 Extending simplification to level 2

An industry representative welcomed the Commission's proposal for SFDR 2.0 and insisted that simplification had to go through at level 2 as well as at level 1. Current disclosures were hard to understand, even for supervisors, and were interpreted differently across regulators and sectors. Their volume was mind-blowing: 10 to 12 pages per product, and an umbrella fund prospectus that had grown from 300 to 1,000 pages. The speaker argued that ambition did not require highly prescriptive rules and called for courage on all sides.

4. Implementation, investor understanding and longer-term challenges

An industry representative used the example of an Italian retail investor who might be considering retirement to stress that the framework starts in our branches, where people face Markets in Financial Instruments Directive (MiFID) forms, sustainability declarations and questionnaires. The language had to be clear from the regulation down to the question asked in a small branch: Where do you want to invest, and what are your preferences? The speaker reported anecdotal evidence of heightened interest in sustainable investment among the institution's clients, which he linked to their experience of a long, hot summer.

Another industry representative stressed that legislators, supervisors, managers and distributors had to come together so that end investors really understood what they were investing in and that the products fitted their needs.

4.1 Aligning MiFID sustainability preferences with the new categories

A regulator described the alignment of MiFID sustainability preferences with the new categories as the essential precondition for greater investor clarity.

An industry representative warned against excessive prescription under MiFID. Investors did not know what being X% taxonomy-aligned meant. The question should stop at "Do you have sustainability preferences or not?", leaving the matching of products to those preferences to the distributor.

4.2 Positioning existing fund ranges under the new framework

A regulator saw opportunities in the recognition of transition finance and impact investing. The main difficulty would be positioning existing fund ranges under the new framework. Even strategies that fitted might need portfolio adjustments, and this would not be a trivial exercise: prospectuses, marketing communications and offering documents would need updating, and investor communication would have to be managed. Given the reclassifications under SFDR 1.0, financial market participants should monitor EU developments closely to anticipate the changes and prepare for implementation.

4.3 Changing priorities and emerging risks in global markets

An industry representative pointed to a discordance: sustainability rules were being redefined just as massive investment was called for in industries that were not very ESG-compliant, such as artificial intelligence (AI) and defence. AI, and data centres in particular, could have a significant negative environmental impact if not properly regulated and managed, even as data centres were becoming major investment assets. This argued for a dynamic approach adapting to priorities over time, with assessment at company or asset level. Sustainable finance could also help promote profitable growth and was not only lip service.

The same speaker raised an unaddressed risk: ESG compliance was becoming algorithm driven. The speaker called for an overarching review of how the algorithms determining investment eligibility were regulated, to guard against hallucination, data misuse, misinterpretation and bias detrimental to investors.

Another industry representative noted that capital markets were global and that a substantial share of capital was expected to come from the US, where sustainability was probably less of a priority. A global set of rules was needed; until then, SFDR would remain primarily a product or label regime, and investors would face a fiduciary dilemma of return versus sustainability.

4.4 Financial education and the responsibility to make products understandable

An industry representative saw education as the missing piece for making the framework a global success comparable to the UCITS investment fund framework (Undertakings for Collective Investment in Transferable Securities). It could be a phenomenal product for Europe, mainly for future generations. The speaker suggested that Europe probably lagged the US in financial literacy and called for education to help prevent mis-selling and enable investors to understand why these products mattered and that they also delivered returns.

A public sector representative cautioned that unsuccessful film directors will sometimes accuse the public of not being sophisticated enough. Financial education should not be invoked as if the public were too stupid to understand the beautiful work we have done. It is on us to produce something that is understandable and workable, and this should be the focus of the coming weeks.

Sustainability risk: supervision, data limitations, scenarios, transition execution

The discussion examined how banks, insurers and supervisors are integrating climate and nature-related risks into financial risk management. A recurring priority was to turn assessments into practical action while improving data and methods. Speakers also addressed transition execution, insurance protection and the financing of prevention and adaptation.

1. From identifying risks to managing them in practice

1.1 Integrating climate risks into supervision

A central bank representative stated that the focus is shifting from whether climate risks are relevant for prudential supervision to how they should be integrated effectively into existing supervisory processes. After around ten years of conceptual and analytical groundwork, the Network for Greening the Financial System (NGFS), which brings together around 160 central banks and supervisors, is turning to practical implementation. Supervisors increasingly embed climate considerations into their expectations on governance, risk management and transition planning. He announced that an updated NGFS guide for supervisors, covering climate and nature-related risks, would be published the following week.

The central bank representative added that nature-related risks are following a similar path, from conceptual understanding towards implementation, albeit at an earlier stage. The NGFS has published a nature package covering data, scenarios and supervision, and is developing nature-related scenarios and strengthening capacity building, particularly for developing countries. He described the shift as moving from identifying and measuring risks towards managing them in practice.

1.2 Regulation and supervision have turned awareness into action

Another central bank representative observed that physical risks are already tangible. In Portugal, rising sea levels threaten coastal areas, highly flammable eucalyptus forests increase wildfire risk, and floods and wildfires are increasing in frequency and severity. Each country is experiencing climate change and nature-related events in its own way, but all are affected.

The central bank representative noted that awareness is now very high among banks, insurers, companies and the public. Regulation and supervision have been instrumental over the last few years in transforming this awareness into action. Supervisory expectations for significant institutions and, in some jurisdictions, for less significant institutions have embedded these risks in banks' governance and risk management. The progress achieved is very substantial.

1.3 From the architectural stage to the execution stage

The central bank representative warned against complacency. The major challenge is now to move from the architectural stage into the execution stage, translating governance and risk management frameworks into day-to-day action. Progress is uneven, with some less significant institutions lagging behind, and the remediation of deficiencies identified by supervisors must continue.

A supervisor explained that, faced with banks claiming that they lacked data or a methodology, supervisors first asked them to assess how these risks could affect them over the short, medium and long-term. Banks have made marked progress in assessing and quantifying climate risks, although physical and nature-related risks remain particularly challenging. He reported that two-thirds of banks that had carried out an initial assessment of nature-related risks were still struggling to translate it into mitigation measures and policies.

2. Improving data availability through demand and cooperation

2.1 Improving loss attribution and access to company data

A supervisor pointed out that banks' internal data often fail to link losses to their causes. A bank may record the default of a small company without linking it to a physical event affecting its production site. He argued that data availability is often driven by demand: where demand exists, suppliers emerge, starting with proxies and refining the data over time. For banks, insurers and other risk managers, this information will eventually be necessary, whether obtained through proxies or other means and whether or not regulation requires it.

Responding to the Chair's question about the tension between supervisory data needs and the simplification agenda, the supervisor recalled that supervisors had counted heavily on structured, mandatory reporting to provide data to banks, insurers and other users. He was concerned that companies would instead face less structured and more diversified requests from different

stakeholders. He hoped for greater take-up of voluntary reporting, notably the framework being put in place for small and medium-sized enterprises (SMEs).

A central bank representative confirmed that collecting data is banks' major struggle, particularly when a large part of the corporate loan book is made up of SMEs. In Portugal, banks are working together towards a shared database of the information they collect from companies. He saw this as a way to improve efficiency.

2.2 A common lens to understand the risk

An insurance industry representative stressed that data is the foundation of both risk assessment and effective prevention. Insurers rely not only on their own loss experience, but also on climate-related information and detailed asset data, including characteristics such as building materials, construction type, and roof geometry, which are essential for accurately understanding and managing risk.

An effective data architecture for climate resilience cannot be built by a single actor; it requires cooperation among insurers, scientists and other stakeholders.

The insurance industry representative cited a collaboration launched that year with Copernicus and the European Centre for Medium-Range Weather Forecasts (ECMWF). It aims to combine insurers' climate intelligence and loss experience with scientific work and translate these insights into operational data for the whole industry. Such collaboration should create a common lens through which we understand the risk, grounding discussions in data.

3. Scenarios and transition planning under uncertainty

3.1 Scenarios are not forecasts

A central bank representative stressed that the NGFS scenarios are not forecasts. They explore plausible futures and their consequences for financial institutions, and have become a common reference for supervisors, financial institutions and non-financial corporates. They need to be adapted to jurisdictions, institutions and specific use cases, including stress testing. The NGFS is making them easier to adapt to local and sectoral contexts.

The central bank representative acknowledged that scenarios will never be perfect but stressed that imperfect data and models cannot justify inaction. Pragmatic approaches, proxies and new technologies are needed. He cited Project Danu, being developed by the Bank for International Settlements (BIS) from a prototype designed by the French and Dutch central banks. It maps flood zones against the location of non-financial corporates' assets and could be extended to wildfires. He referred to that year's heatwaves and said that the 1.5°C threshold had already been reached, underlining the need to adapt continuously.

A supervisor noted the difficulty of translating long-term exponential trends into short- and medium-term scenarios, particularly when capturing variability around those trends. He cited that year's events as an illustration.

The central bank representative underlined the importance of supervisory dialogue. Stress testing is the start of the discussion, allowing supervisors to examine how institutions identify risks, select scenarios, make assumptions, recognise limitations and integrate results into governance and decision-making. The Chair agreed that firms must be able to manage these risks operationally without seeking perfection.

3.2 Combining a common evidence base with local relevance

A banking industry representative observed some convergence across the Single Supervisory Mechanism (SSM), Japan and the United States in recognising climate and nature-related risks, but divergence on how transition assessment should influence lending and portfolio management. He described the gap between the SSM and the US as particularly material. The SSM places stronger prudential emphasis on transition risk, including exposures to high-risk sectors and clients whose transition is not progressing. The US approach is more market-driven and places greater weight on institutions' own assessments of financial materiality, risk and lending decisions. Japan sits in between, supporting transition through client engagement and sectoral roadmaps.

The banking industry representative emphasised affordability. A transition pathway may be technically credible but not economically feasible or executable if it leads to unsustainable increases in essential costs such as energy or food. Affordability affects demand, margins, debt-servicing capacity and the durability of policy support. These concerns should also be weighed against the cost of inaction, as physical and nature-related damage can reduce production and increase prices. Risk analysis and client assessment frameworks can therefore be globally consistent, while their consequences for pricing, lending conditions and exposure management require regional adaptation.

For food and agriculture exposures, the banking industry representative argued that transition, physical and nature-related risks must be assessed together, using granular geographic data. The objective should be a common global evidence base supporting locally appropriate financing and engagement decisions, rather than a single global pass-or-fail standard.

The Chair added that adaptation and prevention require local evidence and the involvement and leadership of national authorities, while excessive international divergence would not be helpful.

3.3 Keeping clients financeable amid policy uncertainty

The banking industry representative described transition execution risk as a key forward-looking challenge: the issue is how clients can remain financeable amid policy uncertainty and energy market disruption. Past financial performance alone is insufficient for assessing credit risk and must be

complemented by forward-looking judgements on policy, technology and market conditions. For food and agriculture exposures, changes in climate, water and soil conditions can affect production and ultimately borrowers' creditworthiness.

The representative's bank combines a top-down approach, through integrated climate and nature scenario analysis, with a bottom-up collection of use cases showing how physical risk has materialised in its portfolio and how clients are responding. Beyond financial risk management, he pointed to the role of academia and the public sector in understanding the links between climate and nature and their implications for sustainable production.

A central bank representative added that financial institutions must also integrate adaptation into their planning. At the request of the G20 Presidency, the NGFS published a report on how transition plans can also serve adaptation purposes.

4. Insurance protection and financing for prevention and adaptation

4.1 Some areas could become uninsurable

The insurance industry representative explained that the risk profile is deteriorating, with more severe and more frequent events. She reported that her mainly European insurance group, previously perceived as less exposed to natural catastrophes, had suffered significant losses in recent years, while the risk environment continued to worsen during the year under discussion. At the same time, regulation is driving demand, with a mandatory scheme introduced in Italy the previous year, France's scheme dating from the 1980s, and discussions elsewhere. Volumes are increasing while profitability is at risk. Insurers are investing in better modelling, pricing and portfolio management in response.

The insurance industry representative warned that, without stronger prevention, the situation would become unsustainable, pointing to California and Florida: We are not yet there, but it could come. Some areas could become uninsurable, or premiums unaffordable, creating risks for both the industry and society. She also warned that national budgets are increasingly becoming insurers of last resort, which is neither sustainable nor desirable.

4.2 Insurance protection and bank capital

A central bank representative stressed that banks, insurers and supervisors should remain focused on risk. If floods, storms, wildfires and heat stress can impair repayment capacity, reduce collateral values or disrupt operational continuity, they are material risks that banks should manage. He recalled that banks are already required to consider the adequacy of insurance coverage when estimating capital requirements and should hold additional capital where insurance protection is inadequate. This calls for coordination between bank and insurance supervisors, which are often separate authorities.

A supervisor reported on a workshop held with the European Insurance and Occupational Pensions Authority (EIOPA) and banks on hazard definition, insurability and the assessment of insurance protection. He said that the 2027 European Banking Authority (EBA) stress test was expected to include, for the first time, an informative climate module with no impact on Pillar 2 Guidance. The proposal that banks calculate losses before and after insurance is strongly debated. Some responses of 'Not possible' suggest that considerable work may still be needed. Supervisors will continue working on the geolocation of assets and on information about customers' insurance protection.

4.3 Financing prevention and broadening insurance coverage

The insurance industry representative argued that prevention is the name of the game, although implementation is difficult. Prevention ranges from protecting individual assets to investing in infrastructure that reduces risk across a country. Insurers cannot deliver this alone. She noted that most countries, even those with mandatory insurance schemes, have no public funds devoted to prevention and cited France's Fonds Barnier as an example of best practice despite its limitations. Leaving individuals to fund prevention would widen the gap between people in need and the wealthy. Policymakers could help mobilise resources at European level and develop common methodologies to channel limited funds where their impact would be greatest.

The insurance industry representative added that mandatory schemes are important but insufficient on their own. Expanding the insured population helps keep premiums affordable by pooling risks across more policyholders.

A supervisor noted that some insurers, including in the US, had offered substantial premium discounts to encourage adaptation or risk mitigation, judging these incentives less costly than potential future claims. Such solutions are rarer in banking, and supervisors are encouraging banks to provide financing for adaptation and mitigation.

The Chair stressed that climate risk should be addressed collectively and referred to the climate insurance alliance announced in the State of the Union address. In closing, she underlined that, as physical risk becomes increasingly visible, insurance alone will not do the trick. Mitigation and adaptation need financing, and the different actors need to work together.

Sessions

V

DIGITAL TRANSFORMATION AND DIGITAL ASSET INNOVATION

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Digital finance: is the EU keeping pace and is the EU framework fit for purpose?

The Chair framed the panel around whether the EU is keeping pace with the digital transformation of financial services globally and whether its regulatory framework remains fit for purpose as technologies and business models evolve. The discussion examined the main market trends, the enablers and obstacles to scaling digital finance in the EU, how EU digital and financial regulation can support innovation while addressing associated risks, and key implications of digitalisation, including technology dependency and third-party risk.

1. Digital finance adoption, enablers and obstacles

1.1 Digital finance adoption in the EU

A regulator observed that digital adoption in the European financial sector varies significantly by market segment. Europe performs relatively well in retail payments and ranks second only to Asia-Pacific in digital penetration, according to certain market surveys. Digital access for retail investors has also advanced, notably through neobrokers. In France for example, close to 25% of retail investors use mainly digital intermediaries, with considerably higher participation among younger investors. Digitalisation is less advanced in wholesale financial markets. Tokenisation and other forms of wholesale digitalisation remain relatively limited in Europe, although this is also the case in most other jurisdictions, with only a few markets moving more rapidly.

An industry speaker noted that technological change, illustrated by AI, is accelerating in the financial sector and that traditional finance and digital firms are increasingly converging as digital technologies become more integrated into financial services, progressively reducing the distinction between them.

1.2 Enablers and obstacles to further digitalisation

An official stressed that technology can create both opportunities and risks and that digitalising a service does not in itself improve it. Digital transformation is therefore not an end in itself: it requires reconsidering both the product or service and the way the institution providing it operates. This applies to traditional financial institutions and fintechs alike, as both increasingly rely on AI and data.

The official identified four factors that institutions need to consider when developing new technology-driven operating models. First, technology can no longer be treated simply as a supporting back-office function: developments in areas such as AI, cybersecurity and algorithmic modelling increasingly shape how institutions design and deliver their products and services and therefore need to be integrated into core business decisions. Second, data can be a major asset when consolidated and of high-quality, but a constraint on growth when corrupted or fragmented across silos. Third, institutions should use AI not only to reduce operating costs but also to support continuous adaptation and improvement as technology evolves. This is increasingly important as IT systems become obsolete more quickly and can constrain further innovation and growth. Fourth, institutions need to consider whether to limit themselves to responding to existing customer needs or seek to anticipate and shape how those needs and uses may evolve with technology.

An industry representative identified AI, secure data sharing and the modernisation of legacy IT systems, supported by scalable cloud infrastructure, as key foundations for a competitive, resilient and innovative financial sector. Europe largely has these foundations in place, alongside a supporting regulatory framework including DORA and the oversight of critical third-party providers (CTPPs). A recent survey nevertheless identified two barriers to benefiting from the next wave of AI that illustrate some of the obstacles to further digitalisation: 56% of companies reported insufficient access to digital skills, while 42% of technology costs are reportedly devoted to compliance, which is creating a particularly significant burden for smaller and growing firms.

2. Progress and conditions for effective digital finance regulation

The panellists generally considered the EU digital-finance and broader financial regulatory framework robust, developing positively and providing a strong foundation for digital innovation, while identifying several areas for improvement and conditions for enhancing its effectiveness.

2.1 State of digital finance regulation in the EU

A regulator considered that the EU has developed a digital finance regulatory framework that is more comprehensive than in most other regions. A 2025 IOSCO review of its recommendations for crypto and digital-asset markets showed a high level of implementation in Europe, with full implementation in around 90% of the areas assessed. MiCA, DORA and the DLT Pilot Regime form a regulatory combination that is largely unmatched elsewhere. By comparison, the US regulatory approach regarding digital assets has focused more on stablecoin legislation, while the CLARITY Act on digital-asset market structure has so far failed to advance in the Senate. DORA also illustrates the breadth of the EU approach, as one of the few

frameworks addressing digital operational resilience comprehensively.

An official also emphasised the value of common EU rules in providing a shared regulatory framework across a fragmented European market.

An industry speaker emphasised that the EU framework for e-money institutions illustrates how clear and forward-looking regulation can enable innovation even when future applications cannot be fully anticipated, a principle that should also apply to the digital euro. Passporting is another major strength, enabling firms established in one Member State to expand across the EU. However, while it works relatively well for simple products provided digitally across borders, scaling more complex services is much harder because of differing national implementation, gold-plating, legacy national laws and divergent supervisory approaches. This limits consumers' access to best-in-class products and services, greater choice and competitive prices. Credit illustrates the problem: products can formally be passported, but differences in national rules and in the availability and format of consumer and credit-history data make cross-border provision difficult in practice. These divergences limit the benefits of the Single Market and need to be addressed before adding further regulation, which would not in itself solve the underlying fragmentation problems.

Another industry representative agreed that the EU has established strong regulatory foundations and stressed that predictable, consistent and effectively enforced guardrails can create the conditions for business growth even if initially controversial.

2.2 Supporting innovation and scaling through dialogue

A regulator considered that the EU regulatory framework provides an appropriate environment for fintech innovation and can help build the trust needed for the adoption of digital solutions, while remaining compatible with consumer protection and financial stability. Supervisors should complement this framework through effective communication and dialogue with innovative, technology-driven firms, particularly as many new entrants are unfamiliar with regulatory requirements. They should clarify applicable rules, resolve questions quickly and provide identifiable points of contact, while ensuring that supervisory processes keep pace with rapidly evolving firms. Supervisors also need to keep abreast of technological developments such as AI-based models and quantum computing and assess their opportunities and risks, supporting proportionate, principle-based and risk-oriented supervision and a level playing field for fintechs.

An industry speaker suggested that digital innovation should be treated as a shared endeavour between industry and regulators, supported by dialogue with relevant market stakeholders. Industry should not focus solely on commercial gains while leaving regulators responsible for customer protection and risk management; continued dialogue and collaboration are needed to balance innovation and protection and ensure that innovation serves broader public objectives. Regulators should avoid excessive caution and make informed decisions through stakeholder dialogue and learning from other jurisdictions, focusing on the public interest rather than national considerations.

The industry speaker considered Europe to be progressing in this direction, notably regarding digital assets, in contrast with the US, where the regulatory debate had become excessively politicised, as illustrated by the latest developments regarding the CLARITY Act. Regulatory debates should remain focused on addressing risks while allowing innovation to develop in ways that serve the public interest. More specifically, regulatory responses to new market developments should be based on the risks arising from the activities involved rather than on the underlying technology. For self-custody wallets and decentralised finance, for example, this means examining how transactions operate and the role played by financial institutions, including whether they have custody of customers' assets.

An official similarly stressed the need for closer communication between regulators and market participants and faster regulatory action as technology evolves. Regulators should also avoid an excessively preventive approach: consumer protection remains essential, but focusing primarily on potential risks can impede innovation. FiDA illustrates this concern, as debate over the use of financial data has so far focused more on the potential implications of its use by big tech firms rather than on the broader opportunities from data sharing. Many protective requirements are already embedded in EU legislation. Rather than creating additional rules for individual parts of the financial sector, policymakers should make better use of the existing framework and ensure that rules are interpreted and applied consistently across Member States.

Another industry representative added that, given the speed of technological change and the time required to adopt formal regulation, continued dialogue between industry, regulators and policymakers is important to ensure that regulatory approaches keep pace with technological developments.

2.3 Regulatory overlaps and simplification

A regulator considered that the interaction between horizontal digital legislation such as DORA, the AI Act, MiCA, the DLT Pilot Regime, European data legislation and sector-specific financial regulation has become increasingly complex. Horizontal frameworks provide legal certainty for technology-based activities and common minimum standards that are particularly valuable for cross-border activity, but they need to be consistent with sectoral requirements and also proportionate and practically implementable. Duplicative requirements and unnecessary administrative burdens should be removed, notably when legislations are being reviewed, for example on the occasion of the Solvency II review process and the ongoing MiCA review.

The regulator considered the AI Act an example of horizontal regulation that can adequately complement

sectoral rules for AI use across sectors. Sector-specific regulation provides a sound basis for the implementation of the AI Act, particularly with regard to risk management and governance. This combination can help strengthen customer trust, which is important in insurance, and support wider adoption of AI while ensuring a level playing field.

An official agreed that policymakers need to consider not only individual pieces of legislation but also the overall coherence of the regulatory framework, including interactions between different rules and their cumulative effects. This broader perspective is insufficiently reflected in the current EU legislative process, as illustrated by overlaps between the AI Act, DORA, sectoral financial rules and cross-sectoral frameworks such as the Digital Markets Act (DMA) and Digital Services Act (DSA), which may hinder innovation and have unintended consequences for European competitiveness. The proposed Cloud and AI Development Act (CADA) provides another example of legislation that may pursue appropriate objectives but have effects that differ from those intended. The official welcomed the Commission's simplification agenda, including the digital omnibus package. National competent authorities can also contribute by removing unnecessary burdens and gold-plating within their remit, as illustrated by initiatives undertaken in the Czech Republic.

Another official also noted that regulatory simplification is already under way at both EU and national levels, but stressed the need to move faster in adapting regulation to technological change.

3. Remaining challenges and priorities

3.1 Scaling tokenisation and the DLT Pilot Regime

An industry speaker expected tokenisation of securities and real-world assets to continue expanding and considered this trend irreversible. Scaling tokenisation requires interoperability between digital and traditional finance across issuance, trading, custody, settlement and digital money. Regulators need to ensure that existing frameworks can accommodate evolving products and business models responsibly, using approaches such as pilots and consultations. Europe is moving in this direction by adapting the DLT Pilot Regime, alongside frameworks such as MiCA, MiFID and payments licensing that provide regulatory certainty for digital-finance activities. The DLT Pilot Regime should ultimately move beyond pilot status and become a more established part of the regulatory framework.

An official agreed that the proposed amendments to the DLT Pilot Regime under the MISP are a step in the right direction, helping to provide an appropriate environment for innovation to develop, and that the regime now needs to evolve beyond its sandbox phase towards a more normalised framework. The official added that the lack of common definitions across the EU, notably of a "security", is a major obstacle to scaling tokenisation. Tokenised securities may be treated under MiCA in some Member States, such as the Czech Republic, and under MiFID in others, such as Germany, where legislation has been adapted to allow their issuance. This fragmentation would continue to impede the development of EU-wide DLT markets even with an amended Pilot Regime.

Another official concurred, noting that the lack of a common definition of a security is a longstanding issue that needs addressing.

3.2. Technology dependency and sovereignty

Responding to a question from the Chair on dependency and sovereignty issues arising from increasing digitalisation and their regulatory implications, an industry representative emphasised that financial institutions want access to the best and latest technologies regardless of where providers are based. AI can evolve particularly quickly, so the regulatory framework must remain sufficiently flexible to preserve access to evolving models and tools. Sovereignty should be defined primarily in terms of verifiable and auditable control over service providers rather than by their physical location. CADA and the Tech Sovereignty Package have legitimate objectives in strengthening European computing capacity and reducing strategic vulnerabilities, but while measures that expand capability and infrastructure can be beneficial, excluding providers primarily because of where they are headquartered could increase costs, slow innovation and reduce competitiveness. This trade-off needs to be carefully considered. The approach should build on existing European technological and regulatory foundations, including DORA, which is harmonising regulation for technology providers across the EU.

A regulator noted that reliance on third-party technology providers is increasing with digitalisation. While most jurisdictions regulate financial firms' use of third parties, the EU and the UK are also implementing direct oversight of critical service providers. This allows authorities to look beyond financial institutions' firm-level compliance and assess risks concentrated in major technology providers. Competition and provider choice are important not only for better services but also for overall system resilience.

The regulator highlighted financial market infrastructures (FMIs), including trading venues, CCPs and CSDs, as an area where cyber incidents and third-party dependencies can become systemic. CPMI-IOSCO launched two consultations open until December on these issues. These initiatives could eventually influence EU frameworks such as DORA or EMIR as authorities gain better information on evolving risks and developments in other markets.

An industry representative agreed that financial institutions need access to best-in-class technology and suggested that Europe should strengthen its own technological capabilities while preserving access to leading global technologies. Firms should contribute to reducing dependency and concentration risk by developing their own capabilities, for example proprietary AI models.

3.3 Open finance and open banking

An industry speaker emphasised that open-banking APIs and customer-permissioned data sharing can support the provision of financial services and reduce barriers to cross-border activity by allowing providers to access relevant customer information held by other institutions. Although EU rules require banks to provide access to customer data through APIs, sufficiently common technical standards for implementing these interfaces are lacking, resulting in inconsistent and often ineffective access across Member States. API calls reportedly succeed only 18% of the time in some EU countries, compared with 68% in the best-performing EU country and 83% in the UK. Common standards, measurement and enforcement are therefore needed to make open banking work effectively across the EU. FiDA could extend customer data sharing to a broader range of financial data, thereby supporting greater competition and a more effective Single Market, notably in areas such as lending and credit. Reports also suggest that the use of open-banking or open-finance data can increase loan-application conversion rates by around 30%, while greater use of open finance data could help mobilise European citizens' savings and contribute to the SIU.

3.4 Fraud measurement and prevention

An industry representative warned that digitalisation has increased fraud risks, particularly following the acceleration of digital activity during Covid. Financial institutions invest heavily in fraud prevention, but many scams originate upstream through social media, telephone calls or SMS. UK data indicate that over 80% of online payment scams start through social media platforms and telecom networks. Europe is not doing enough to measure and address these sources of fraud, which may undermine trust in European financial services.

Scaling AI in the financial sector

1. AI adoption trends

1.1 Current adoption and maturity of AI use

An official observed that AI is now widely used across financial services, particularly to improve efficiency in areas such as software development, AML and compliance, customer support, chatbots and marketing. AI has shifted within a year from being a new opportunity to an indispensable technology in which firms feel they must invest. However, few companies are yet using it for genuine business transformation or product development. AI is also accelerating business activities such as product development, increasing the speed at which firms can bring new products to the market.

A regulator described generative AI adoption in insurance as swift and active but still cautious. EIOPA's 2025 survey of 347 insurers across 25 European countries found that around 65% of them are already actively using generative AI and another 23% are expecting to do so within three years. However, almost two-thirds of firms using AI remain at the proof-of-concept or experimental stage, showing that widespread adoption does not yet mean mature deployment at scale. Around two-thirds of reported use cases concern back-office applications, while consumer-facing applications are much less common. Customer service and claims management are among the areas with the highest adoption. Insurers expect generative AI to spread further across the value chain, including fraud detection, sales and distribution, gradually moving from employee-support tools towards customer-facing applications and core insurance processes.

An industry speaker noted that FMIs are also cautious in adopting AI because of their systemic nature. While AI itself has evolved over several decades, generative AI marks a new stage by making these capabilities much more accessible, which is accelerating adoption.

Another industry speaker also observed that current AI applications remain largely focused on operational efficiency and back-office processes, including document processing, customer service, KYC and AML, while decision-making remains primarily human-led.

1.2 Towards more autonomous AI

An official observed that some sectors are further advanced in autonomous AI than finance. Data on US autonomous vehicles operating without direct control or supervision indicate reductions in serious injury accidents of more than 90% after millions of kilometres travelled. Autonomous AI could similarly transform finance, with AI agents comparing financial products and their terms across the EU overnight, identifying the most suitable options for customers and asking them the next day whether to proceed. Achieving such autonomy would nevertheless require AI agents to have access to reliable data and interoperable systems, while addressing cybersecurity and legacy-system constraints. A sufficiently integrated Single Market would also be essential for agents to identify and act on financial opportunities across borders. The Chair observed that autonomous finance use cases may be close to being deployed in production in some areas of financial services.

An industry speaker noted that financial services are moving from being human-led to AI-enabled and towards increasingly autonomous and delegated AI services, which will require firms to adapt their operating and governance models.

2. Conditions and challenges for scaling AI

2.1 Firm-level conditions for scaling AI

An industry speaker identified data, computing power, governance and skills as key conditions for scaling AI, stressing that firms that have scaled successfully tend to treat AI as a transformation programme rather than an experiment, with executive sponsorship and centralised decision-making. Data is a first challenge: existing data architectures were generally designed for humans rather than AI agents and will need to evolve, as AI requires accessible, high-quality data rather than large volumes of data alone. Financial institutions hold large amounts of data, but it is often dispersed across legacy systems, jurisdictions, legal entities and product sets. Governance and control frameworks must also evolve: existing financial sector structures are strong, but model governance and monitoring need to be adapted to large language models and autonomous agents. Computing capacity is another requirement: AI requires scalable computing, semiconductors and specialised equipment, while much of this ecosystem is outside Europe. Finally, skills remain a bottleneck: beyond data scientists and engineers, firms need AI-literate risk officers, lawyers, compliance officers and auditors, who remain scarce.

A second industry speaker observed that some factors holding firms back in their AI adoption are also key enablers, notably a strong data foundation and a good understanding of their data. Firms that have invested in cloud services have generally had to organise their data, creating a stronger basis for AI experimentation and deployment. Having the skills to exploit this foundation is the next challenge and remains a significant constraint: 61% of surveyed customers said progress was initially slow because they lacked the necessary capabilities, despite providers' efforts to make AI low-code and easier to access. Greater regulatory clarity is also important for scaling AI,

particularly on how different layers of existing regulation apply to third-party risk management and how duplicative requirements can be avoided.

A third industry speaker added that scaling AI successfully requires capabilities for assessing and monitoring models, selecting the appropriate model and applying policies and safeguards consistently. Reliable data is also central to trustworthy AI and needs to be readily available to AI tools across the organisation. This includes macroeconomic data, indices, analytics and other decision-critical information, enabling employees to draw on a broader information base for decision-making in a consistent and scalable way. The economics of AI are also starting to matter, particularly the cost of using different models. Institutions therefore need to select the model best suited to each task, balancing the required quality against cost.

An official noted that firms are not yet focusing strongly on the return on their AI investments, although they recognise that the economics will eventually need to be assessed and that, for some tasks, using a human may prove less costly than relying on models. The benefits of AI investment may also take time to materialise, as illustrated by the so-called "J-curve of productivity": investment in genuinely transformative technology may initially reduce performance before delivering benefits. This is because technology alone is insufficient and most of the benefits - 70 to 75%, according to scientific evidence - depend on intangible factors such as adapting processes and developing the necessary skills, which are harder to change.

2.2 Access to capital and infrastructure

An industry speaker stated that the main external obstacles to scaling AI in Europe are not a shortage of use cases but insufficient risk capital and infrastructure. Transformative technologies have historically scaled where risk capital is available. Europe is relatively strong at incubation-stage funding but weaker at later-stage capital, while the US combines strong venture-capital and private-equity markets with a concentration of frontier-model developers, hyperscale cloud providers and semiconductor innovators, creating a reinforcing cycle of capital, talent and technology. This relative weakness in mobilising technology-enabling risk capital has thus increased Europe's reliance on non-European providers.

More autonomous, agentic and generative AI will also require substantially more computing power, data-centre capacity, energy infrastructure and semiconductor access than Europe currently has. The industry speaker cited Mario Draghi's observation that Europe has only around three times the AI computing capacity of a single data-centre site being completed in Malaysia. The next phase of AI scaling will therefore depend not only on individual institutions and regulation, but also on creating the appropriate enabling conditions, including access to the necessary infrastructure.

Another industry speaker noted that cloud service providers give financial institutions access to sophisticated foundation models and the computing infrastructure needed to adapt them to their needs, build AI applications and run them at scale.

2.3 Third-party dependencies and cybersecurity risks

An official identified growing dependence on third-party service providers as a major AI-related risk. Outsourcing already exists through cloud and other digital services, but AI will embed external providers more deeply into core financial services. The concentration of AI services among a limited number of providers also creates financial stability concerns: if one provider suffers a disruption or continuity problem, many financial institutions could be affected simultaneously. Financial institutions also face questions about their bargaining power, their ability to switch providers and their exposure to price increases when core functions are outsourced.

The official highlighted cybersecurity as another major risk associated with AI. AI makes identifying weaknesses in digital systems easier and cheaper, but geopolitical considerations may limit or delay access to leading technologies in some jurisdictions, creating additional vulnerabilities. The Mythos model, which was initially available to selected US banks but not EU banks, illustrates this risk, as delayed access to the latest technology can weaken the cyber defences of European institutions.

The Chair referred to a letter published at the end of August, calling for collective public-private action to strengthen cyber defences against increasingly sophisticated AI-enabled cyberattacks, highlighting the letter's call for cooperation between technology companies, regulators and public authorities as a possible response to these emerging risks.

3. AI value creation

Panellists identified growing value from AI in terms of productivity and operational efficiency, as well as opportunities to transform business processes, services and market activities.

3.1 Productivity, operational efficiency and market integration gains

An industry speaker stressed that AI's ability to create value at scale is already well established, citing the example of Singapore's Development Bank that expects to generate SGD 1 billion in value from AI during the year through 370 use cases and 1,500 models deployed at scale.

A regulator noted that generative AI is already delivering tangible efficiency and cost reduction gains in insurance, with applications including extracting information from documents, summarising customer enquiries, assisting software developers, helping underwriters and claims handlers find relevant information, and supporting customer service. Much of its transformative potential remains ahead however.

An industry speaker stated that personal productivity is also a major area of value creation for FMIs. The

speaker's firm has observed a 15% productivity gain from AI tools, equivalent to the workload capacity of around 1,000 additional people who can be redeployed to higher-value tasks. Rather than replacing jobs, AI is augmenting employees' capabilities and increasing engagement by allowing people outside technology functions to use technology directly. Technology modernisation and resilience is another area of value creation. New AI models can accelerate secure software development and help modernise legacy systems, thereby reducing risk. The third area, linked to the Savings and Investment Union, is market integration: AI can help address fragmentation by connecting issuers and investors more seamlessly despite insufficient legal harmonisation. Use cases include collateral optimisation, issuer services and action on settlement failures, with AI supporting more real-time processes and wider geographical reach. Additional areas of value creation are likely to emerge in the future notably with client-facing applications of AI.

Another industry speaker added that AI can help firms apply regulatory and internal requirements more consistently at scale by providing employees with relevant information from extensive regulatory and policy documentation at the point when a specific task is performed, rather than expecting them to absorb thousands of pages of material.

3.2 Transforming business processes and services

An industry speaker stressed that beyond augmenting existing tasks, creating greater value from AI requires an end-to-end reassessment of business processes and of whether AI could enable fundamentally different solutions. Existing processes often reflect the technological constraints under which they were originally designed. AI can potentially unlock broader use of data while improving auditability, control and scale.

Another industry speaker stated that the next step is to integrate AI more deeply into business processes, enabling costly or inefficient activities such as fraud detection and AML to be performed at previously unattainable scale and speed. Agentic AI, which can perform tasks more autonomously, is part of this next wave. Such systems can nevertheless remain controlled, as their actions can be logged and monitored.

An official noted that end-to-end integration of AI into fundamental business processes remains embryonic and requires processes to be redesigned, with clear decisions about which tasks should be performed by AI and which should remain with humans.

4. Policy and regulatory response to AI scaling

4.1 Relevance of the existing EU framework

A regulator stressed that existing insurance regulation is largely technology-neutral and already provides a relevant framework for the use of AI, notably through Solvency II on governance and risk management, the Insurance Distribution Directive on consumer protection and DORA on digital operational resilience. The AI Act adds a horizontal layer, particularly for high-risk AI applications, which needs to interact coherently and proportionately with these existing rules to avoid regulatory overlap. This also requires its scope to be carefully defined. EIOPA has, for example, called for long-established statistical models used by insurers for risk assessment and pricing, such as Generalised Linear Models (GLMs) and Generalised Additive Models (GAMs), to fall outside the AI Act's high-risk classification – or, where appropriate, from its scope altogether – given their transparency, explainability and established governance. The same principle underpins EIOPA's opinion on AI governance for systems not classified as high-risk: rather than adding new requirements, it clarifies how existing principles on data governance, fairness, explainability, cybersecurity and oversight apply to AI. With the main regulatory foundations now largely in place, the priority should be coherent and proportionate implementation and supervisory convergence, giving firms sufficient clarity to innovate and scale while maintaining strong consumer protection.

An official agreed that DORA, the AI Act and the sovereignty package provide an effective framework for addressing many of the risks associated with AI. Greater supervisory cooperation may also be appropriate for non-financial risks such as cybersecurity, where supervisors may need industry input to better understand emerging risks and how to address them.

4.2 Balancing innovation and risk mitigation

An industry speaker considered it difficult to judge whether Europe has found the right regulatory balance because AI is evolving rapidly and is expected to accelerate further. Despite calls to slow AI development, unilateral restraint is unlikely to work, creating a prisoner's dilemma dynamic. Industry and public authorities should therefore prepare for continued rapid development. Europe moved quickly with the AI Act, while the Draghi report emphasises innovation and competitiveness and the omnibus package seeks to balance these objectives. As AI develops from generative to agentic and eventually agent-to-agent systems, the regulatory framework will need to remain agile, building on existing rules that already address many of the associated stability, resilience and third-party risks. In addition, regulation should focus on the business service and apply a same-risk, same-rule approach rather than treating AI as a separate phenomenon, ensuring that equivalent services remain subject to appropriate safeguards regardless of the technology used. Addressing these rapidly evolving challenges will also require engagement across industry, regulators and the wider ecosystem.

An official cautioned against an overly conservative approach to AI, noting that failure to adopt AI may itself weaken financial institutions' competitiveness and resilience.

Another official added that the speed at which AI enables firms to develop new solutions creates challenges for regulators, who cannot move as quickly

as market participants and will need to adapt their approaches.

4.3 Addressing dependency and sovereignty issues

An industry speaker considered that AI-related third-party risks can be adequately managed within the DORA framework, which is technology-neutral, outcome-focused and based on proportionality. The approach should not fundamentally differ from that applied to cyber-resilience risks. Dialogue between financial institutions and supervisors would also help address emerging AI-related issues within existing frameworks rather than through new ones.

Another industry speaker noted that the upcoming Cloud and AI Development Act (CADA) will add a further dimension to the EU framework by addressing sovereignty. Rather than seeking full autonomy, which is unrealistic, sovereignty should be considered more granularly, including in relation to data and operational technology, with diversification across models and providers depending on the criticality of the services concerned.

An official agreed that sovereignty should not mean absolute independence, but should focus on the functions essential to institutions' minimum viable operations. While sovereignty may constrain access to best-in-class services, it can also strengthen resilience by reducing dependency risks. Clients can also strengthen their bargaining position vis-à-vis suppliers by coordinating their approaches, which discussions with competition authorities suggest is possible provided appropriate competition law principles are respected.

An industry speaker stressed that dependency on individual AI providers can be mitigated through greater model choice and technological flexibility. Firms can design their systems to switch between the multiple models and model versions available, while more complex tasks can draw on different models for different purposes. This diversification, which financial institutions already use in areas such as quantitative analytics, can also support technological sovereignty by allowing European models to be used alongside larger ones. Open technical standards can further reduce dependency by enabling systems from different providers to work together, facilitating switching and supporting interoperability and resilience.

Wrap up

The Chair concluded that AI progress cannot realistically be stopped and that the objective should therefore be to accompany its development while addressing the associated challenges. The discussion highlighted in particular the need to strengthen data, infrastructure and skills, while adapting governance to increasingly autonomous AI. The existing EU regulatory framework was considered broadly fit for purpose, provided it remains agile and is implemented coherently and proportionately as AI evolves. The need to mitigate third-party dependencies and cybersecurity risks, notably through diversification and closer cooperation between industry and public authorities, was also highlighted.

Agentic AI in financial services

1. Use cases, opportunities and risks

1.1 AI deployment and use cases

An industry speaker considered that perceptions of AI have shifted over the previous year, with a greater focus on opportunities than risks. AI has become a core capability at their firm, used daily across the organisation under an "AI-first" approach, meaning that activities should be supported by AI where relevant. AI is changing working methods, materially improving efficiency, strengthening risk management and compliance and enabling greater customer value in investment services. AI is also used in AML to gather relevant information, enabling analysts to decide more quickly and on a more comprehensive basis. Human oversight and testing remain in place, while AI is also used for quality assurance. AI deployment has progressed rapidly: around 90% of code at the firm is now written by AI, compared with 50% six months earlier. This has transformed the software-development lifecycle and increased developer productivity. Marketing compliance is another concrete example of where AI adds value in their firm, which serves customers in 75 countries with different local regulatory requirements. Whereas compliance staff previously reviewed marketing materials manually, an internally developed AI now checks them against applicable policies, procedures and market-specific requirements, immediately flags non-compliant wording and proposes changes. An audit trail enables compliance staff to review its use and verify outcomes.

The industry speaker added that generative AI is also used in customer-facing applications and may improve how people invest, potentially supporting greater financial inclusion in investment. More than 70% of incoming customer-support enquiries are handled end-to-end by generative AI. Given the sensitivity of customer-related activities, a second AI layer monitors the first, while humans review sampled interactions. An investment assistant also answers basic investment questions and analyses customers' portfolios, including risk, diversification, market developments and reasons for gains or losses.

1.2 Agentic AI deployment and opportunities

An industry speaker defined an agent as an AI system that can act rather than merely answer questions, accessing data and connecting to tools, applications and banking systems to perform actions, which creates both greater opportunities and greater risks.

The industry speaker distinguished between two agent deployment models. Custom-built agents address more complex use cases, such as customer-facing applications and regulatory initiatives, and require centralised engineering teams, stronger controls and several months to deploy, limiting deployment to tens of agents per year. Self-serve agents follow a more distributed model: low-code or no-code tools allow a much wider range of employees to create agents directly and therefore enable deployment at much greater scale. Combining these two approaches is particularly powerful. Their bank is developing both models on a general-purpose AI foundation available to employees worldwide with improved connectivity and increasingly capable models expanding the workflows that can be addressed. Custom-built applications include a customer-facing app assistant and applications used in contact centres and risk management. In the self-serve space, the bank has thousands of initiatives, including chatbot assistants used on very different scales across the organisation.

A second industry speaker emphasised that agentic AI is particularly valuable in banking because it can span multiple systems and multi-step processes involving different data sources and decision points. Connecting these previously separate elements expands the range of activities that can be automated or augmented by AI.

The industry speaker explained that their bank has been implementing AI and generative AI use cases for around 10 years. Existing applications include a mobile-app avatar that answers questions and can execute tasks such as cancelling credit cards, automated back-office document handling and machine-learning generation of risk signals. Agentic AI is expanding these applications further, with agents supporting software development and employees in their day-to-day work, as well as enabling the redesign and automation of end-to-end customer-facing and back-office processes. These use cases are starting to become an operational reality, including deployments in fraud prevention and across the AML chain from alert analysis through case analysis and handling. Their bank plans to make significant investments in AI over the coming years, aiming to free up and partially redeploy workforce capacity while delivering substantial recurring financial benefits in the longer term.

A third industry speaker agreed that agentic AI offers significant opportunities in financial services because it can dynamically reason, plan and securely connect across systems and databases, allowing complex processes to be automated that previously required substantial manual coordination. Three main use models can be identified. In investment and wealth advisory, agentic AI can automate and personalise services at scale while augmenting human advisers. In payments, protocols are being integrated to enable agents to transact securely across platforms. In risk management and compliance, agents can use real-time data analytics and modelling to tackle threats. Taken together, these developments could transform the customer delivery model from manual digital interfaces towards authorised AI intermediaries acting on customers' behalf across platforms.

An official also viewed agentic AI as an opportunity to provide consumers with trusted companion agents offering advice and acting in their interests.

1.3 Risks from agentic AI

A regulator explained that, because agentic AI can pursue objectives across chains of tasks and interact directly with other systems, it can generate major efficiency gains but also turn errors into incorrect transactions or decisions at machine speed. Traditional AI risks such as hallucination and bias remain, but agents can amplify their consequences. In particular, where an agent has direct access to data, systems or even capital, weak controls or malicious inputs can translate directly into actions with potentially negative consequences.

The regulator identified three categories of risk associated with agentic AI. At consumer or investor level, agents may take unsuitable or incorrect actions with an apparent degree of authority. Where an agent advises, trades or acts for a customer, it is important to determine whose interests it pursues and who is accountable. At firm level, conduct and operational risks arise because accountability may blur across automated chains, while auditability may be harder where systems do not necessarily reproduce the same output. The regulated firm nevertheless remains accountable for actions taken in its name, including where agents or underlying models are supplied by third parties. At market level, reliance on a small number of underlying models or providers could create correlated or herd behaviour. Interacting agents could also produce conduct resembling coordination without explicit agreement.

2. Key principles for the responsible use of agentic AI

Several panellists identified accountability, appropriate delegation, proportionality, technological neutrality, human control and demonstrable control as key principles for policy and governance responses to agentic AI.

An official emphasised three principles for the effective use of agentic AI. The first is strong accountability. Because agentic AI interacts with other agents, third-party providers and systems, boards and relevant functions need to allocate responsibility across key dependencies and ensure that decisions can subsequently be traced. Secondly, delegation of actions must be clearly established. As agents can initiate workflows, access services and perform tasks, rather than simply supporting decisions, firms need visibility over what is delegated to agents and where human oversight occurs. Delegated actions must remain traceable and responsibilities for which individuals must remain accountable should not be fully transferred to an algorithm. Proportionality is the third principle. Firms cannot apply the same level of oversight to every delegated action or algorithm and may therefore need to prioritise those affecting customer interactions, critical services and transactions. The level of oversight and control should reflect the risks and potential impact of an agent's actions, rather than restricting the use of agents as such.

The official also stressed the importance of technological neutrality, which means that supervisors should not prescribe a particular technological model or solution. Technological solutions may create different risks, which supervisors need to assess once a firm adopts a particular technology stack.

An industry speaker stressed that many governance and regulatory principles relevant to agentic AI are not fundamentally new, although they become more important as systems gain autonomy. A first principle is proportionality. Their bank has long applied risk tiering to AI, with requirements in terms of data protection, bias and fairness, and model risk varying according to the risks introduced by a system and the activities it performs. The same proportionality principle applies to agentic AI and is embedded in the EU AI Act's risk-based structure. Human control is a second key principle. Human-in-the-loop arrangements have long been applied to traditional and generative AI, but agentic systems make the issue more complex because they operate across longer chains of actions. The key question is where human supervision should be inserted as systems become increasingly autonomous.

An official observed that the use of an AI agent does not remove human decision-making: individuals ultimately decide whether and how to use such tools, including in relation to transactions and contractual commitments. The official also stressed that consumers should have access to trusted AI agents, with models that are certified or at least developed by trusted actors. Without reliable tools, consumers may turn to untrusted providers or solutions that could exploit them or act against their interests. Referring to the latest State of the Union address delivered earlier that day, the official cited model evaluation, verification, early warning and AI security as necessary safeguards.

A regulator emphasised that control of agentic AI systems must be demonstrable. Autonomy should not in itself be prevented, since financial services already have positive experience with automation, including algorithmic trading, but autonomy must remain governable and firms must be able to demonstrate that they retain effective control. The greater an agent's capacity to act and the potential consequences of its actions, the stronger the safeguards should be.

An industry speaker stressed that AI must be implemented responsibly and the associated risks appropriately managed. Proportionality is essential: some lower-level risks may need to be accepted and managed as part of the learning process when implementing AI, while major risks involving customer harm or personally identifiable information require close monitoring.

Another industry speaker observed that financial institutions are generally taking a risk-based approach to agentic AI deployment, testing and verifying controls in secure environments before increasing agents'

autonomy, in order to balance longer-term benefits with resilience and safety. In this context, DORA clarifies the respective roles of critical third-party providers (CTPPs) and financial institutions: the designation of major cloud service providers as CTPPs reinforces their role in providing secure and resilient infrastructure, while financial institutions remain responsible for oversight of workloads hosted on cloud platforms, including AI agents.

3. Regulatory and supervisory implications

3.1 Adequacy of the existing regulatory framework

An official considered that a new regulatory framework is not currently necessary for agentic AI. Supervisors cannot stop and wait for new legislation, as they need to supervise and take action as these technologies develop. Existing frameworks can already be applied, including the AI Act on transparency and customer protection, DORA on operational resilience, GDPR on data protection and prudential regulation supporting governance.

An industry speaker agreed that the existing regulatory framework is sufficient and that established principles of risk and compliance also apply to agentic AI. The focus should therefore be on effective implementation of the existing requirements, rather than on additional legislation. Firms are still learning which risks may materialise, but remain responsible for managing them prudently and accountable for acting in customers' interests throughout this learning process.

A second industry speaker concurred that Europe already has a strong regulatory foundation for AI through DORA, GDPR and the EU AI Act, although the speed and complexity of technological change make effective regulation challenging.

A third industry speaker emphasised the need for regulatory clarity, notably regarding the exemptions from high-risk classification under Article 6 of the EU AI Act for systems performing preparatory tasks, such as processing or organising information for a subsequent assessment or decision. As agentic AI increasingly enables systems to handle an entire process end-to-end, determining whether such exemptions continue to apply becomes more complex and requires further clarification for industry.

An official also considered that it will be necessary to assess how far the existing regulatory framework can be applied to agentic AI and whether it provides sufficient clarity.

3.2 Evolution of supervisory approaches

A regulator stated that supervisory approaches need to evolve alongside agentic AI, moving beyond primarily assessing outcomes towards understanding the systems and processes that produce them. Observability is central: if a firm cannot reconstruct what an agent did, including what information it used, what authority it had and why it acted as it did, neither the firm nor the supervisor can effectively control or supervise it. This leads to several practical supervisory requirements. Supervisors need visibility over where agents are used, so firms should be able to identify agents they use, their purposes and levels of autonomy. Auditability and record-keeping become increasingly important as autonomy rises, so that material actions and decisions can be reconstructed and challenged. Perfect explainability of every model parameter is not required, but firms must have sufficient information and understanding of how an agent acted to challenge its actions. Firms must also be able to intervene by imposing limits or suspending or restricting agents that behave unexpectedly. This requires meaningful human oversight covering system design, mandates, boundaries and performance rather than monitoring every individual action.

The regulator added that supervisors need staff who understand these systems and the data they use, as well as tools to analyse them, and should themselves be able to use AI tools. AI also offers opportunities for regulators by helping them identify patterns and make supervision more efficient.

An official noted that supervisory assessment should not be limited to validating individual models or algorithms but should examine the entire ecosystem surrounding agents. Supervisors need to consider not only what an agent is authorised to do at deployment, but also what it is technically capable of doing and could potentially be authorised to do. Prudential supervisors also need to follow risks as far as possible along the chain in which agents operate, including beyond the regulatory perimeter, to identify risks before they materialise. Once risks materialise, contagion can indeed be very fast, with interoperability potentially amplifying it. This creates a difficult trade-off between supporting innovation and interoperability and considering whether some degree of fragmentation might be necessary to mitigate risks.

The official stressed more broadly that supervisors should be involved from the outset in new developments, not to impede innovation but to support its safe development within the financial system. Their broader view of the market can help identify both positive outliers revealing good or best practices and negative outliers requiring intervention to mitigate systemic risk.

3.3 Regulatory and supervisory coordination

An industry speaker called for regulatory interoperability to limit global fragmentation and for coordination across authorities. Closer cooperation between financial, cyber and data-protection authorities and industry could enable joint testing of systemic risks such as multi-agent collusion, shift the regulatory posture from reactive towards proactive and support co-regulation, providing businesses with a clearer path towards safe, secure and trusted long-term adoption.

Another industry speaker called for stronger coordination among supervisors and across regulatory frameworks such as the EU AI Act, GDPR and banking frameworks to avoid overlaps and inconsistencies.

Incident reporting is a concrete example, as firms may face parallel requirements from financial, cybersecurity, AI and data-protection authorities. Common reporting could reduce duplication. Overlaps between DORA and the Cloud and AI Development Act (CADA) should also be carefully managed.

An official also agreed that cooperation between supervisors, industry and other authorities is important, with DORA providing a framework that facilitates such coordination.

A regulator added that, since agentic systems and model providers may operate across borders, common European supervisory expectations on accountability, auditability, testing and oversight would help avoid diverging national practices. These should build on existing technology-neutral rules and the AI Act.

An official observed that reporting in particular should be further coordinated and suggested that AI can support more integrated reporting systems, as illustrated by an ongoing Czech project to integrate reporting systems related to the Cyber Resilience Act. Referring to the OECD concept of responsible business conduct, the official also stressed the value of sharing good practices developed by individual market participants for responsible AI deployment and suggested that sharing and promoting effective practices could help establish broader standards of responsible behaviour. Promoting European best practices internationally could also help the EU contribute to shaping global standards.

4. Firm-level governance of agentic AI

An industry speaker emphasised that effective firm-level governance is needed but should be differentiated for custom-built and self-serve agents. The appropriate governance model depends on what an agent does and the risk associated with its activities. Beyond inventory, ownership, monitoring and evaluation requirements that should apply to all agents, two firm-level governance principles are essential. Agents should be governed according to what they do rather than the underlying technology and governance requirements should be proportionate to the risk associated with the actions they perform.

The industry speaker described a new governance framework that their bank is testing and deploying for AI agents, based on four dimensions: the type and sensitivity of information used, distinguishing public, internal, confidential and personally identifiable information, i.e. information linked to individuals; what the agent does with the data, such as reading it or acting on it; the impact of its actions, such as communicating internally or directly with a customer; and its level of autonomy and human involvement. These dimensions produce a matrix with six risk tiers, each carrying different lifecycle requirements. The operating model also matters for governance, including whether agents are built centrally or by teams close to the relevant process. Agent-builder profiles create different risks. For self-service agents, a lower risk level may be applied, reflecting the fact that they are created by people who are experts in the relevant activity, although they are not engineers in the traditional project sense.

The industry speaker finally stressed that AI tools can be used to strengthen and scale governance processes and controls across large organisations, overcoming some of the limitations of traditional governance models that are often human-, document- and meeting-based and difficult to apply at scale.

Wrap up

The Chair noted that the discussion highlighted significant opportunities from agentic AI, both within financial institutions and in the provision of financial services, while also identifying new consumer, conduct, operational and market-wide risks as AI moves from supporting decisions to taking actions. Trust is an important consideration in this context, alongside the role of industry in ensuring that agentic AI is scaled responsibly while seizing the opportunities offered by the technology.

The Chair also emphasised that agentic AI has implications for the relationship between supervisors and supervised entities and for the way supervision is conducted. Supervisory coordination and cooperation will be important as these systems develop, while the regulatory framework may need to be adjusted or reviewed to keep pace with technological change. Translating governance and regulatory principles into practice remains challenging, but AI itself may also provide new tools to support supervision, including reporting agents.

Tokenisation use cases: how can tokenisation transform financial services?

1. Tokenisation market development and main use cases

1.1 Tokenisation and the transformation of capital markets

The Chair referred to the technical definition of tokenisation as the digital representation of financial instruments using DLT (distributed ledger technology), and the significant potential, behind that definition, to transform how markets operate, transactions are executed and settled and financial products are traded.

A regulator emphasised that tokenisation should be considered against the broader evolution of capital markets. Beyond transferring existing assets onto blockchain, tokenisation is part of a broader transformation towards 24/7 trading, on-chain execution, atomic settlement, new digital payment rails and digitally native products, with smart contracts and AI enabling increasingly automated and autonomous execution. Programmability and composability are the two core features of tokenisation that could change how markets are organised and operate. Programmability allows financial rules to execute automatically through smart contracts, while composability allows tokenised assets and contracts to interact as digital building blocks across markets. Together, these features can integrate and automate activities that currently take place on separate systems, including trading, payments, collateral management and settlement, potentially changing how trading takes place, prices are discovered, portfolios are constructed and risk is managed. This could support a shift away from discrete trading hours, traditional intermediaries, batch settlement and defined market boundaries towards more continuous, programmable, global and interoperable markets. Composability could also allow connected instruments such as a bond and a related swap, which currently operate on separate rails and under different margining arrangements, to be brought together and managed in a more integrated way.

The regulator pointed to the evolution of derivative markets as another major development in capital markets. Over the past 10 to 15 years, derivatives have developed from instruments used mainly for hedging into an integral and significant part of capital markets alongside cash instruments. Global derivative markets are now estimated at about $1.2 quadrillion in notional value. Derivatives play an important role in portfolio construction, allowing investors to create and rapidly adjust exposures without necessarily trading the underlying assets, and to transfer risks between market participants, including those related to volatility, credit spreads and convexity, while also contributing to price discovery.

1.2 Tokenised money market funds and collateral

An industry speaker stressed that tokenisation should be developed around concrete client needs rather than the technology itself. The most advanced use cases are emerging in highly liquid areas, particularly collateral management and money market funds (MMFs), with significant tokenisation activity also involving government securities and repo markets. Collateral management is a particularly important use case, as tokenisation could enable faster settlement and greater collateral mobility, while improving capital efficiency and reducing operational complexity. Traditional MMFs can already be used as collateral but remain underused because the process is cumbersome: fund shares generally need to be redeemed into cash, the cash posted as collateral and then potentially reinvested by the custodian in the same fund. Tokenised MMFs could remove these intermediate steps by allowing highly liquid funds structured under familiar regulatory frameworks, such as US Rule 2a-7 or the EU MMF Regulation, to be posted directly as collateral while continuing to provide market-based yield.

A second industry speaker added that tokenisation could fundamentally change the MMF market by giving MMFs greater secondary-market utility. Over the previous six to twelve months, the asset-management market has shifted from experimentation with tokenisation towards concrete use cases and assessment of business benefits, with engagement extending beyond digital-asset teams to cash-management, portfolio-management and distribution teams. The tokenisation of MMFs may now be reaching an inflection point, as digitally native tokenised MMFs, where the security itself is the token, could be used directly as collateral in repo transactions or posted with prime brokers, counterparties or central counterparties (CCPs), rather than having to be redeemed for cash.

A third industry speaker agreed that collateral is the first and strongest use case for tokenisation. The collapse of Lehman Brothers on a Friday in 2008, when market participants had to wait until Monday morning to determine how to liquidate collateral, illustrates the limitations of existing arrangements. By enabling real-time, 24/7 access to assets, tokenisation could support just-in-time risk and collateral management, both improving the efficiency of existing processes and fundamentally changing how risk and collateral are managed.

1.3 Tokenised securities and post-trade use cases

An industry speaker explained that in the US, DTCC is seeking to bring assets held in traditional custody onto blockchain rails so that programmability and smart contracts can expand how those assets are used.

Following SEC's no-action relief received at the end of 2025, DTC is authorised to offer this tokenisation service to its participants for three years. A first production test conducted in July 2026 covering eight use cases, ranging from collateral mobility and securities lending to real-time trading began to demonstrate the potential benefits of the technology. DTCC expects to launch the service at the end of October, followed by incremental development as additional features and functions are introduced.

Another industry speaker explained that their firm has launched a tokenised-equity product in several jurisdictions, including Europe, where it operates under the existing MiFID framework. Volumes remain limited but investor demand, including retail adoption, is strong and is expected to support further growth, demonstrating the potential of tokenised equities as a practical use case. Native tokenised issuance is also expected to develop in smaller markets, potentially reducing the cost of capital formation and improving market access and efficiency.

2. Potential benefits and impact on European capital markets

2.1 Efficiency and integration gains

An official stated that tokenisation could generate significant efficiency gains across the capital-market value chain, but the ambition should go beyond saving a few basis points to addressing structural inefficiencies and fragmentation in European capital markets. The greatest practical gains are likely in issuance, settlement and asset servicing, where programmable assets could enable greater automation and reduce reconciliations across systems and intermediaries, lowering processing costs and shortening settlement chains.

The official added that the benefits could be particularly significant for cross-border activities, where market participants continue to face substantial operational frictions. More efficient digital infrastructure could facilitate cross-border distribution of financial instruments and improve access to capital across the EU. Over the longer term, tokenisation could go beyond optimising existing processes by helping build more interconnected markets and supporting a more integrated European investment ecosystem.

An industry speaker agreed that tokenisation can both optimise existing processes and fundamentally change market operations.

A second industry speaker cited a treasury-management system used by 1,200 corporate treasurers globally as a concrete illustration of potential benefits. According to estimates, $250–300 billion in cash is effectively trapped in the system, generating no yield, partly because investing the cash in MMFs involves cumbersome subscription and redemptions processes on traditional rails. Surveys show that more than 60 to 70% of clients would be ready to invest this cash in tokenised MMFs when they become available, potentially generating additional yield for corporate clients while providing asset managers with greater and stickier assets under management.

2.2 Investor and issuer access to capital markets

An industry speaker stressed that tokenisation can support the SIU objective of developing deeper and more integrated EU capital markets by reducing market friction and fragmentation, expanding access, connecting markets and streamlining collateral management, with the longer-term aim of lowering costs for investors and issuers. For issuers, potential benefits include more streamlined issuance, improved record-keeping, simpler servicing, more efficient distribution and broader reach to investors across Europe, which together could increase their willingness to use capital markets as a source of funding. For investors, benefits include easier digital access, faster settlement, greater transparency and improved collateral mobility, particularly for institutional investors. The industry speaker cautioned, however, that faster or atomic settlement can increase pre-funding requirements because participants need the necessary cash and securities available in advance to complete transactions, creating a trade-off with the benefits of faster settlement.

Another industry speaker agreed that tokenisation can support capital-market integration and growth by improving both investor access and infrastructure. With many individuals in Europe not participating in capital markets and significant savings remaining outside them, tokenised equities could broaden access by lowering the amount investors need to invest through fractional exposure and expanding the range of international markets available through a given platform. Tokenisation and native issuance could similarly give SMEs that cannot access capital markets, or lack a liquid domestic exchange, alternative ways to raise capital and reach investors across the EU. Broader investor participation and improved access to funding could in turn stimulate investment, business activity and innovation in the EU.

An official noted that while tokenisation cannot solve all of Europe's capital-market problems or substitute for the broader reforms needed to deepen European capital markets, it can nevertheless provide an important infrastructure component for a more integrated SIU and help mobilise European savings for European investment.

3. Challenges and regulatory implications

3.1 Market adoption, scale and interoperability

An official stressed that technological readiness and market adoption should be distinguished: the technology supporting tokenisation already exists, but the greater challenge is achieving sufficient scale and market participation, with three main constraints to be addressed. First is market fragmentation. If platforms and standards develop in parallel without interoperability, Europe risks reproducing existing capital-market fragmentation in digital form and creating new silos rather than supporting integration. Second, tokenisation business cases remain uncertain because firms must invest in new infrastructure, processes and expertise while the benefits depend on broader adoption. This creates an adoption challenge:

investors require sufficient liquidity and market depth to participate, while liquidity and market depth themselves depend on sufficient investor and issuer participation. Third, broader adoption will depend on tokenisation demonstrating clear added value over existing arrangements. The most promising use cases are those that address recognised weaknesses in European capital markets and demonstrate tangible benefits, for example by reducing issuance and servicing costs, simplifying cross-border transactions, shortening settlement chains and improving operational efficiency, thereby supporting wider market adoption.

An industry speaker observed, drawing on the experience of a global asset manager active both as an issuer of tokenised funds and an investor in tokenised securities, that adoption is developing through a progressive and iterative process. The readiness of service providers remains uneven, while technological, regulatory and operational obstacles continue to delay projects. In addition, traditional and blockchain infrastructures are likely to coexist for a long transition period, potentially 10 or 20 years before the market moves substantially towards tokenisation, adding cost and complexity during the transition.

Another industry speaker stressed that putting an asset on blockchain is relatively straightforward; the greater challenge is making the tokenised product accessible to investors through effective distribution and making it usable as collateral.

3.2 New risks and supervisory challenges

A regulator identified three broad regulatory challenges arising from the market transformation associated with tokenisation, which regulators are seeking to assess and manage prospectively. First, markets are becoming increasingly global and interconnected across jurisdictions and product categories, while much of the regulatory architecture remains shaped by an equity-market bias that no longer fully reflects market reality.

Second, programmability and composability could create more complex combinations of assets and exposures, making it harder for regulators to understand the resulting risks and identify potential margin shortfalls.

Third, the growth of on-chain and decentralised markets creates a challenge for financial stability frameworks that have traditionally relied on centralised counterparties and infrastructures operating within defined trading, clearing and settlement cycles. The same economic exposure may increasingly trade both in traditional markets and on-chain, but under different liquidity conditions, trading hours and price-discovery processes. At the same time, tokenised assets and stablecoins, combined with smart contracts and oracles, can integrate and automate functions that are traditionally handled separately, including trading, collateral, payments and settlement. During the transition, traditional and digital markets will coexist on two different rails, making interoperability a key challenge and potentially creating basis risk (price differences between related exposures that would normally be expected to move together) and fragmenting market liquidity across the two environments.

3.3 Regulatory implications of scaling tokenised markets

An industry speaker stressed that firms need legal clarity on how tokenised products can be launched, while the regulatory framework should allow different models for different use cases rather than impose a one-size-fits-all approach. Continued dialogue between regulators and the market will be important as products evolve and different models develop across the EU.

The industry speaker considered Europe ahead of other jurisdictions in providing regulatory clarity, with the MiCA Regulation and the EU DLT Pilot Regime giving firms greater certainty to operate while supporting consumer protection. The DLT Pilot Regime pre-dated the current wave of tokenisation and has seen limited adoption so far, but the forthcoming MISP package could bring improvements. The Pilot Regime should continue to evolve to keep pace with innovation. As tokenisation develops rapidly and firms and platforms increasingly become multi-asset, interoperability between MiCA, the DLT Pilot Regime and MiFID is also becoming increasingly important.

An official agreed that further legal certainty is needed. Although the EU has made significant progress in creating a framework for innovation, market participants need confidence that rules will be applied consistently across jurisdictions, since divergent interpretations or supervisory practices can impede cross-border scaling and reduce single-market benefits.

Wrap up

The Chair noted that the discussion had highlighted both market progress and potential gaps to be considered by regulators and identified several key takeaways from the discussion. Tokenisation is not simply about putting existing assets on blockchain, but may represent a new way of organising markets. The use cases discussed illustrate its potential to support the development, greater integration and efficiency of European capital markets, while also pointing at risks that need to be well understood and managed. Regulators need to remain ahead of these developments while enabling the opportunities offered by tokenisation.

Scaling tokenisation: how can wider adoption be enabled to support the SIU?

The Chair framed the main challenge as moving tokenisation from isolated pools of innovation to deep, scalable and liquid markets. Achieving this requires calculated risk-taking that can foster a chain reaction of growth and competition, alongside efforts to address key operational and regulatory challenges: interoperability in a DLT environment, common standards, deep secondary-market liquidity, appropriate settlement assets and sufficient regulatory certainty to move from experimentation to scale.

1. State of play of tokenised markets in Europe

1.1 Key market trends

A regulator observed that tokenisation has moved beyond the experimental and niche phase. Large incumbent institutions are considering real-life use cases, while digital-native firms are expanding their offerings. The technology is now readily available, projects are better understood and there is market appetite, with significant use cases emerging across the private sector, public-sector initiatives and public-private partnerships, including in funds, collateral management, securities and settlement. Momentum is therefore building and tokenisation's potentially transformative role is increasingly acknowledged, although views differ on the speed and magnitude of the transformation. Continued dialogue between public authorities and market participants will be important in this perspective. The regulator also emphasised the potential scale of tokenisation in Europe: according to an ECSDA estimate, securities worth €80 trillion are held in European CSDs, representing a significant stock of assets that could be tokenised if the appropriate framework is put in place rapidly.

An industry representative expected a gradual progression towards native on-chain issuance, with wrapper structures playing an important transitional role in bringing existing securities on-chain. These structures need to ensure that the rights attached to the underlying security are preserved in its tokenised representation.

1.2 Public-sector initiatives and partnerships

An official highlighted Pythagore as an example of a public-private initiative moving towards implementation at scale. This Banque de France - Euroclear project, due to launch in December 2026, aims to tokenise the approximately €310 billion French negotiable European commercial paper market, the largest short-term market in continental Europe. The market's short maturities, frequent issuance, concentrated issuer and investor base (predominantly French issuers with 10% of non-residents) and limited corporate actions make it relatively easy to tokenise, as previous experimentation has indicated. Tokenisation is expected to attract additional issuers and investors to the market by enabling faster settlement, greater transparency and reduced friction, while Pontes will allow transactions to settle safely in central bank money. Some firms that do not currently issue commercial paper have already expressed interest in entering the tokenised market. Having involved a broad range of issuers, investors and depositors from the outset, the project expects to launch in December 2026 with around 60% market participation, followed by two further issuance waves in the first half of 2027 to progressively increase volumes, participation and liquidity as the platform develops.

Another official identified the eligibility of tokenised securities as collateral for monetary policy operations as another potential enabler of tokenised markets. Consistent with the principle of technological neutrality, the Eurosystem aims to broaden collateral eligibility so that tokenised securities can be accepted where they otherwise meet the same eligibility criteria and appropriate safeguards as other securities, while addressing legal and operational issues around their mobilisation. A first, limited step was taken in March 2026: the Eurosystem now accepts de-tokenised versions of DLT-based securities issued through CSDs (i.e. converted into a form compatible with existing settlement systems), although not yet the same assets directly in tokenised form.

1.3 Experience with the DLT Pilot Regime

A regulator considered that the DLT Pilot Regime can be viewed as both a success and a missed opportunity, but overall fulfilled its experimental purpose as a sandbox, by allowing the EU to test diverse use cases, gain practical experience with the technology and provide space for innovation. Take-up remains limited, however, with only six projects authorised and around €500 million in tokenised assets issued.

An industry representative observed that Europe remains largely in an experimentation phase. Although technological breakthroughs have occurred under the DLT Pilot Regime, market participants are still taking a wait-and-see approach. The regime needs to provide a credible path from experimentation to production before major institutions are likely to commit at scale. The UK offers a clearer route from pilot to production, while the US market continues to develop despite the CLARITY Act failing to advance.

2. Interoperability across DLT platforms and with traditional markets

2.1 Key dimensions of interoperability

An industry representative identified three dimensions of interoperability that need to be addressed for tokenised markets to scale: between on-chain and off-chain assets, across different blockchains, and across jurisdictions that may treat on-chain activity differently.

Connecting traditional, off-chain markets with on-chain markets is a major challenge. Assets held with a custodian or CSD need to be capable of moving on-chain, while regulated entities such as MiFID firms, market makers or broker-dealers need to be able to arbitrage away price differences between the traditional and on-chain markets. A recent case involved a tokenised equity paired with a meme coin in an on-chain liquidity pool. A surge in demand for the meme coin disrupted liquidity in the tokenised equity and caused a price dislocation between its on-chain price and the corresponding traditional-market price. Because this occurred over a weekend, when on-chain liquidity was insufficient and there was no effective mechanism to arbitrage between the two markets, the price difference could not readily be corrected. This demonstrates the importance of effective economic arbitrage mechanisms between traditional and on-chain markets to mitigate such risks.

Another industry representative added that interoperability must be considered at several levels. Technical interoperability between chains is necessary, but interoperability between assets and standardisation at the business level are equally important. Cross-border interoperability must also cover the cash leg of transactions. Stablecoins may play a role in this regard, while another approach could involve interoperable tokenised deposits for cross-border payments or settlement connected to CBDCs used for domestic settlement. These different forms of digital money can be complementary, but bridges are needed between cross-border and domestic settlement arrangements.

2.2 The need for common standards and rights portability

An industry representative stated that, from an operational perspective, interoperability requires open standards that allow multiple issuers to operate on the same blockchain and asset portability so that assets can move between different chains. This portability needs to cover both the asset and cash legs so that delivery-versus-payment (DvP) can occur atomically. Issuers need to be able to burn an asset on one chain and mint it on another. Crucially, the rights attached to the asset must also be preserved as it moves between chains, particularly for tokenised securities; otherwise, transferring the token does not amount to transferring the same financial asset.

A regulator agreed that, as tokenisation scales, it is essential to ensure that the rights attached to financial products remain clear and are preserved when they are tokenised, and that investors understand those rights so that innovation develops on a robust basis.

An industry representative emphasised that standardisation is one of the strongest tools available to prevent fragmentation. This involves some harmonisation of legal, operational and governance arrangements, as well as business standards covering the data used to define assets, their lifecycle and the roles and rights of the actors interacting with them. While technical standards exist, such as ERC-20, which standardises basic functions of fungible tokens on Ethereum, they do not cover these business-level elements, which are needed to ensure reasonably consistent characteristics and functionality across chains and issuers. Without such consistency, fragmentation will constrain scalability and the added value of tokenised assets. Existing messaging and reference-data standards from traditional finance provide a useful starting point, but more autonomous on-chain processes require a different approach to what needs to be standardised. Since traditional and digital infrastructures are likely to coexist for many years, standards also need to enable digital assets to interact with one another and business processes to operate seamlessly across both environments without loss of data or process integrity. Standards for tokenised markets should also be conceived globally from the outset to preserve cross-border interoperability, rather than developed independently in Europe and aligned with other markets later.

An official agreed that standards should build where relevant on those developed in traditional finance. Standard-setting should remain market-led, with the official sector facilitating coordination among stakeholders and European work aligned with international initiatives.

3. Conditions for increasing market liquidity

3.1 Building institutional investor participation

A regulator noted that developing deeper markets requires attracting institutional investors, which in turn depends on the availability of accessible, interoperable and predictable market infrastructure that can support scale without reproducing existing fragmentation.

An industry representative agreed that scaling tokenised markets requires competitive and accessible tokenised markets across Europe that can attract investors and support deep secondary-market liquidity. Market makers are ready to provide liquidity as demand develops but will allocate resources where the prospects of success justify the investment required. Their engagement will therefore depend on large institutions developing sufficient conviction in the future of tokenised markets in Europe.

3.2 Operational and regulatory conditions for institutional participation

A regulator identified four interconnected priorities for creating the conditions for institutional participation at scale. First, cross-border access to DLT platforms should be standardised so that participants do not need a new technical connection, contract or onboarding process for every DLT platform or jurisdiction, particularly in the EU, where tokenisation should help overcome rather than recreate existing national silos. Second, infrastructures and custody arrangements need to be interoperable, with clear rules on ownership, custody, client asset protection, transfer rights and responsibilities when problems arise, giving investors confidence that assets can be safely held and transferred across infrastructures. Equivalent risks should also be treated consistently regardless of the technology used. Third, the regulatory framework must support the entire lifecycle of tokenised securities, including asset servicing. This requires greater harmonisation across platforms and jurisdictions, supported by common data standards. Interest and dividend payments, redemptions, corporate actions and tax processing need to function reliably across platforms and jurisdictions, otherwise inefficiencies in asset servicing could offset the gains achieved through tokenisation at issuance and transaction execution. Fourth, settlement arrangements must support scale and liquidity without creating new fragmentation, including through reliable DvP and legal certainty around settlement finality.

An industry representative also identified regulatory asymmetry as a major obstacle to liquidity provision. A tokenised version of an underlying asset may face different prudential treatment simply because it settles on different rails, potentially being treated like bitcoin rather than according to the risk profile of the underlying asset. Differences and gold-plating across jurisdictions compound the problem, fragmenting liquidity and making effective market-making more difficult.

4. Policy priorities for scaling tokenised markets

4.1 Targeted regulatory relief to support innovation

A regulator emphasised that the public sector should provide a clear and predictable framework for market participants without compromising orderly markets or financial stability. The immediate priorities are legal certainty, interoperability and a workable cash leg for settlement, with the ECB working to address the latter. Regulatory responsiveness is also essential: the SEC no-action letter allowing DTCC to launch a tokenisation service for three years, within defined limits on eligible securities, blockchains and participants, illustrates how targeted action can provide legal clarity in a timely manner without waiting for broader changes to the regulatory framework. Europe lacks an equivalent mechanism and needs to consider how to provide such clarity when needed, to respond more quickly to market developments and support innovation.

An industry representative similarly emphasised the need for regulatory speed in allowing tokenised markets to operate at meaningful scale. Following the US Senate's failure to advance the CLARITY Act - a legislation intended to establish a framework for digital-asset markets and clarify the respective oversight responsibilities of the SEC and CFTC - the two agencies are expected to move ahead separately with initiatives that had been held back while the legislation was being considered. In particular, a forthcoming SEC "innovation exemption" is expected to facilitate on-chain trading of tokenised equities under targeted regulatory exemptions, a significant development for Europe to monitor when considering how to enable similar innovation.

4.2 Adjusting the DLT Pilot Regime and enhancing supervisory convergence

A regulator considered that the broadly consensual MISP proposals regarding the DLT Pilot Regime appropriately address several constraints identified through the experience with the regime so far, including its scope, eligible asset classes, project-size thresholds and procedural requirements. The proposed removal of its time limit would also give firms greater long-term visibility to make substantial investments and launch major products. One unresolved issue is what "graduating" from the DLT Pilot Regime should mean: whether two parallel systems would remain permanently available, including for large projects, or whether firms would eventually be expected to leave the pilot framework, and how any transition could be made seamless.

Another regulator noted that the MISP adjustments to the DLT Pilot Regime should provide greater flexibility for DLT market infrastructures and enable stronger supervisory convergence as these infrastructures grow and become more interconnected, within a framework that is more proportionate to risk, technologically neutral and capable of adapting as DLT markets evolve. Three priorities can be identified for the adjusted regime. First, the proposed removal of the current six-year limit on permissions to operate under the regime would provide greater regulatory certainty for DLT platforms to move from experimentation to sustainable market activity and encourage long-term investment in technology, governance and operational resilience. Second, requirements should become more proportionate and risk-sensitive, reflecting the scale, complexity and interconnectedness of each infrastructure rather than relying excessively on fixed thresholds. Third, the framework should better accommodate different operating models, including individual CSD services and smaller DLT infrastructures, while maintaining equivalent safeguards in a proportionate manner. This greater flexibility will require stronger supervisory convergence to ensure consistent application across Member States, particularly for cross-border infrastructures. This requires a clear allocation of supervisory responsibilities and coordination supported by ESMA, underpinned by data-driven supervision based on common EU standards and taxonomies, harmonised reporting where possible, timely machine-readable access to

relevant on- and off-chain data and common indicators.

The first regulator considered that supervisory convergence could be further supported by a 28th regime providing a single framework for firms using tokenisation across the EU. Such a regime could limit fragmentation and provide legal clarity, addressing cross-border issues including settlement finality, tax treatment and corporate actions. However, political appetite is limited and implementation may be challenging.

4.3 Providing appropriate settlement assets

An official noted that tokenised central bank money can help address liquidity trapped across isolated DLT networks by providing a common settlement asset. In the traditional system, transfers between customers of different banks ultimately settle in central bank money through the Eurosystem's RTGS system. Central bank money provides a safe and trusted settlement asset that can be made available at the scale required by wholesale markets; a tokenised equivalent can perform the same bridging function across DLT networks, as well as providing the cash leg of DvP transactions. The Eurosystem has moved rapidly to provide this solution through Pontes, which went live as a production-grade service in September 2026. Beyond providing tokenised central bank money for DLT-based settlement, Pontes makes the Eurosystem's commitment to tokenised markets tangible, providing visibility and institutional credibility that can help the market scale with more confidence.

The official emphasised that tokenised central bank money is not intended to replace private tokenised settlement assets but can support their development by bridging different banks and networks. If banks issue their own tokenised deposits, for example, central bank money can provide the interbank settlement asset, as it does in the traditional financial system.

Another official added that Pontes initially operates with limited opening hours, extending to TARGET Services hours by mid-2027 and to 24/7 operation within two years.

4.4 Appia: towards an integrated tokenisation ecosystem

An official explained that the Eurosystem Appia initiative is intended to complement MISP proposals addressing legal and regulatory fragmentation, by focusing on architecture and standardisation, with the objective of developing an open-access ecosystem of compatible platforms and services. Through practical experimentation with market participants, Appia is exploring alternative architectures for achieving this objective. One option is a unified ledger hosting both tokenised securities and the full range of settlement assets, including central bank money, stablecoins and tokenised deposits, providing integration by design. An alternative is a set of interoperable utility-like ledgers, open to competing services and designed to work together from the outset. Common standards supporting interoperability across DLT platforms and compatibility of tokenised assets, smart contracts and data formats are another component of the integrated ecosystem envisaged under Appia. The experience with TARGET2-Securities (T2S) illustrates the need to pursue integration across these different dimensions: settlement-level harmonisation can advance market integration but is not sufficient when fragmentation persists elsewhere in the post-trade environment. Alongside architecture and standards, deeper and more integrated tokenised markets will also require progress on legal certainty and harmonisation of corporate actions and tax treatment.

Another official added that Appia's development of common standards should help prevent new fragmentation as tokenisation initiatives multiply across the market. Appia will also need to accommodate a clearing layer for transactions between banks using their own tokenised deposits, with ultimate settlement in central bank money. This clearing function could be incorporated into Pontes or, preferably, provided by the private sector, as in traditional markets. Such an arrangement could replicate the existing two-tier monetary system, with private settlement assets such as tokenised deposits and, potentially, stablecoins used for transactions, while central bank money remains the ultimate settlement asset.

An industry speaker emphasised that interoperability requires an open architecture allowing multiple participants to use and build on the same infrastructure rather than limiting activity to closed, proprietary networks. Ethereum illustrates this model by providing a common rail on which multiple parties can build, including permissioned applications on top of a permissionless blockchain, without a single technology firm, bank or financial institution controlling the distribution and movement of assets. From a regulatory perspective, this requires regulated activity to be permitted on open networks and clarity on how permissioned and permissionless blockchain environments can connect.

Cryptoassets: how should the EU framework evolve?

1. MiCA 1.0 and scope of the MiCA review

1.1 Overall assessment of MiCA 1.0

A regulator described MiCA as a major success, noting that it has brought clarity, legal certainty and a predictable EU-wide rulebook, supporting investor confidence and a European common market for cryptoassets.

An industry speaker also considered MiCA a clear success, pointing to around 300 licensed firms in the EU and, more importantly, the diversity of local, regional and global firms, native crypto businesses and traditional financial institutions operating under the framework. Another industry speaker similarly viewed MiCA as a strong framework that was developed and implemented in a relatively short timeframe, while stressing that some targeted fixes are needed.

1.2 Priorities of the MiCA review

A policymaker explained that the Commission is approaching the MiCA consultation with an open mind. The exercise is intended as a first practical assessment of whether the framework is working as intended rather than a general reopening of MiCA. Although implementation is still recent, the market has evolved rapidly and in some respects differently from expectations.

The consultation focuses on five areas where practical experience may show a need for adjustment or greater legal clarity. The first is MiCA's perimeter and interaction with other EU financial legislation: the review is assessing whether greater legal certainty is needed on the classification of assets and services and how to maintain consistency with banking, MiFID, AML and payments frameworks while avoiding overlap. The second, probably the most substantial and politically sensitive, is stablecoins, including whether existing requirements remain appropriately calibrated to the risks and whether the framework adequately addresses global stablecoins, multi-issuance arrangements involving EU and non-EU issuers, and the interaction of these arrangements with third-country regulatory regimes. The third is whether the CASP framework is sufficiently risk-sensitive for the wide range of business models, from custody providers and exchanges to brokers and trading platforms. The fourth concerns activities currently outside MiCA, including DeFi, staking and crypto-lending and borrowing, and whether they should be brought within the framework in a future-proof and technologically neutral way. The fifth is the international competitiveness dimension, assessing whether MiCA remains fit for purpose and enables the EU to remain competitive as cryptoasset markets evolve and other jurisdictions develop their own regulatory frameworks.

2. Main areas for improvement in MiCA 1.0

2.1 Crypto activities outside MiCA 1.0

An industry speaker stated that MiCA does not need a fundamental overhaul, but targeted changes and a differentiated approach to activities not addressed in MiCA 1.0, including DeFi, staking, lending and borrowing, perpetuals and tokenised assets. Concerning DeFi, the boundary between genuinely decentralised and less decentralised platforms remains unclear. Regulated firms currently provide a bridge between their clients and DeFi services, an approach that may provide a workable solution for the time being. Staking is different because it is generally provided alongside custody of clients' cryptoassets, which is already regulated under MiCA, and may therefore require only limited clarification or adjustment of the existing framework. Lending and borrowing are largely outside MiCA and may warrant an extension of the framework, while perpetuals and tokenised assets are more comparable to traditional financial instruments and may fit better under MiFID or similar traditional financial regulation.

A regulator supported addressing activities that are not currently covered by MiCA. DeFi remains a relatively small and niche sector but raises investor-protection concerns. Staking activities should be subject to proportionate safeguards reflecting the service model and associated risks, whereas lending and borrowing may create greater investor-protection risks and warrant further attention, building on clarifications already provided by ESMA, including tailored conduct, disclosure and risk-management requirements.

Another regulator noted that the central challenge with DeFi is how to supervise services that are decentralised. Two relatively immediate measures could help: clearer guidance on the distinction between decentralised and centralised services, where Member States currently take different approaches; and creating an additional MiCA service category for entities providing access to decentralised services, subject to conduct requirements such as risk disclosure, product transparency, conflicts-of-interest management, operational and cybersecurity safeguards and AML/CFT obligations.

An industry speaker drew a parallel with the evolution of MiFID, which progressively provided the regulatory framework for firms to innovate and offer services across Europe, and considered that MiCA will similarly need to evolve as the cryptoasset market develops. Crypto innovation is nevertheless moving faster than the regulatory framework, and market demand already exists for products and services not covered by MiCA 1.0 and which may not all be addressed by MiCA 2.0.

Regulated firms need greater predictability about the regulatory roadmap and greater clarity on how they can operate while the MiCA review and subsequent policy development are underway. Without such clarity, firms may refrain from developing services or market demand may be met by offshore providers, disadvantaging regulated EU firms and potentially putting clients' interests at risk.

The industry speaker called for an interim approach allowing already-regulated firms to meet the demand for services not yet covered by the framework, with supervisors taking account of their regulatory status and established track record and firms applying self-regulatory safeguards developed through their experience in crypto markets until formal requirements are established.

2.2 Asset and service classification and definitions

A regulator noted that asset classification and consistency between different regulatory regimes require further work. MiCA applies only to cryptoassets that are not financial instruments under MiFID, but many operators span both regimes. Determining which regime applies requires case-by-case assessment and can result in NCAs taking different views on similar products or activities. Greater convergence is therefore needed, potentially by empowering ESMA to issue binding opinions on classification rather than only non-binding advice, to support consistent treatment and a level playing field across the EU.

An industry speaker noted that CASPs are increasingly becoming multi-asset businesses, with their activities requiring authorisations under MiCA, MiFID and electronic-money rules. As digital assets continue to evolve, a broader regulatory category should be considered for digital assets, or a framework in which appropriately licensed entities could act as trusted gatekeepers for a wider range of assets. This could make the framework more adaptable to new developments while helping keep clients within regulated channels rather than pushing them towards unlicensed tokens and applications.

Another industry speaker highlighted uncertainties in the definition of MiCA services compared with MiFID. MiCA does not include "dealing on own account" i.e. trading using a firm's own capital, as a separate service category, making it difficult for large EU-based liquidity providers carrying out this activity to be regulated as such, which also affects institutional clients that prefer to transact with regulated counterparties. The definition of MiCA's exchange services also creates uncertainty about how different trading and execution models should be classified, including dealing on own account, request-for-quote or request-for-stream activities and execution of client orders. A separate issue concerns settlement practices. Cryptoasset transactions are often assumed to settle instantly or atomically and therefore to require pre-funding, whereas in practice settlement is frequently delayed. Systematic pre-funding may therefore be sub-optimal for client-asset protection, particularly for professional investors and investment funds.

2.3 Stablecoin requirements

An industry speaker observed that MiCA's stablecoin framework was designed at a time when banks were not active in stablecoin issuance and therefore does not always take into account the specificities of banks and the regulatory requirements already applying to them. According to ESMA data, there are currently 23 issuers of electronic money tokens (EMTs) in the EU, including only four banks, and no issuers of asset-referenced tokens (ARTs), although some other banks have expressed interest in stablecoin issuance. The speaker's firm had recently begun issuing a stablecoin, initially for use as the cash leg for subscriptions and redemptions of UCITS and money market funds.

The industry speaker noted that roughly 40% of the MiCA review consultation questions concern stablecoins and argued that the review should take account of the existing regulatory framework for banks when assessing current MiCA requirements and possible changes. Credit institutions issuing EMTs are currently not required under MiCA to maintain a separate reserve of assets, although market participants may expect such a reserve and banks are in practice drafting their stablecoin white papers as if they were subject to one. A dedicated reserve broadly comparable to the approach used for covered bonds could be considered. Conversely, some MiCA requirements duplicate existing banking requirements. In particular, banks already have recovery plans and should not be required to draw up a separate MiCA recovery plan for stablecoin issuance.

The industry speaker also questioned the consultation's proposal to consider allowing electronic money institutions (EMIs) to hold stablecoin reserves with central banks, noting that no equivalent arrangement for banks exists at present. If such a measure were implemented, EMIs should be subject to the full scope of banking regulation, which they are not at present.

Another industry speaker called for unnecessary double-licensing requirements in the stablecoin sector to be removed, noting that NCAs have taken different approaches to whether and how such requirements apply.

2.4 Enforcement of CASP authorisation requirements and level playing field issues

An industry speaker stressed that enforcement against CASPs operating in the EU without the required authorisation and the resulting competitive disadvantage for regulated European firms is an urgent issue. Following the expiry on 1 July 2026 of the maximum MiCA transitional period for existing providers, around 5.7 million active users were still using applications of providers not licensed in the EU, with more than 350,000 new downloads of such apps since that date. Some global providers holding EU licences also continue to serve European clients through their global platforms. Licensed European firms therefore face competitors with substantial market share that do not bear equivalent regulatory costs. The industry speaker considered that making an app available through a local app store should constitute active solicitation because the provider is

making its services directly available to users in that market, rather than merely responding to clients approaching it on their own initiative, as required for reverse solicitation. Although NCAs have started imposing and publicising sanctions, Europe needs to enforce its rules credibly if it wants to be taken seriously.

A regulator agreed that enforcement against unauthorised providers is essential following the expiry on 1 July 2026 of the maximum MiCA transitional period, which Member States applied for different lengths of time. Firms that have not obtained the necessary authorisation by the applicable deadline can no longer provide cryptoasset services in the EU. Reverse solicitation, which applies where an EU client approaches a third-country provider on its own initiative, provides only a very narrow exemption from the MiCA authorisation requirement. ESMA is working with NCAs, which remain responsible for enforcement, to ensure a common approach to unauthorised providers and to the application of the reverse-solicitation exemption across the EU.

3. CASP supervision

3.1 Rationale and expected benefits of centralised CASP supervision

A policymaker explained that the MISP proposal provides for transferring CASP authorisation, ongoing supervision and MiCA enforcement for all CASPs to ESMA, reflecting the Commission's view that centralisation can address the current mismatch between inherently cross-border cryptoasset activity and largely national supervision, and that its benefits outweigh the challenges. MiCA passporting is also difficult to apply seamlessly where supervisory practices differ across Member States. The proposal is now being considered by the co-legislators.

The policymaker identified several expected benefits. Centralised supervision would better align the supervisory model with cross-border market reality, make the MiCA passport work more effectively and improve the monitoring of operational incidents, liquidity pressures and cyber risks that can spread across several Member States. ESMA could also obtain a more holistic view than individual NCAs. Combining a single rulebook with centralised supervision could also reduce regulatory arbitrage and allow firms to compete on merit rather than on differences in supervisory practice.

A regulator noted that more than 60% of authorised CASPs conduct significant cross-border business, illustrating both the need for consistent supervisory outcomes across all 27 Member States and the potential value of a more centralised supervisory approach.

3.2 Supervisory architecture and convergence

An industry speaker expressed strong support for deeper European market integration while remaining agnostic about whether CASPs are ultimately supervised by ESMA or NCAs. Both bring value: NCAs have built capacity and direct supervisory experience as MiCA has been implemented, while ESMA has helped ensure consistency across Member States.

The industry speaker identified two challenges in changing the supervisory architecture. First, responsibilities between ESMA and NCAs need to be clearly defined to avoid a patchwork in which firms are uncertain which authority supervises which activities or face dual supervision. Second, splitting CASPs between larger firms directly supervised by ESMA and smaller firms remaining under NCAs could create an uneven playing field, for example if firms supervised by NCAs can obtain approval for new products more quickly in some cases than those subject to a potentially more multi-layered ESMA process. Consumers should ultimately receive the same quality of supervision and access to services regardless of which authority supervises the provider.

Another industry speaker was also agnostic between NCAs and ESMA as supervisors but warned that centralising MiCA supervision could make the supervisory set-up more fragmented for multi-licensed firms: a company currently dealing primarily with one NCA could instead have to deal with ESMA for MiCA activities and the NCA for its other regulated activities.

A regulator considered the proposal to centralise CASP supervision premature, coming less than a year after MiCA entered into force. More time should have been allowed for NCAs to continue building expertise in cryptoassets and DLT. Maintaining this expertise is important because DLT is increasingly being used beyond cryptoassets, notably for the tokenisation of securities, and NCAs therefore need to remain capable of supervising activities based on this technology.

The regulator also argued that the broader architecture of European supervision deserves consideration. As financial firms increasingly provide services across sectors, including banking, investment services, cryptoassets and insurance, Europe should consider whether supervision should continue to be organised primarily by sector or evolve towards a model organised more around supervisory objectives. Europe already has long-established tools, dating back to the Lamfalussy framework and CESR, for addressing regulatory and supervisory arbitrage through supervisory convergence, and ESMA has built substantial expertise in this area, including through the Digital Finance Standing Committee. Rather than prioritising centralisation now, efforts should focus on strengthening convergence through common risk-based frameworks, common minimum engagement levels and common enforcement approaches. This would help address regulatory and supervisory arbitrage, while allowing NCAs to maintain expertise in the strategically important field of DLT and continue to safeguard financial stability and investor protection.

Another regulator agreed that if CASPs are split between those directly supervised by ESMA and those remaining under national supervision, the boundary between the two groups will need to be carefully defined and strong supervisory convergence will be needed for nationally supervised firms to preserve a level playing

field. Supervisory convergence has achieved much, but also has limits, given the time and effort required to achieve consistent outcomes across Member States. Direct EU supervision could provide a more efficient way of achieving such outcomes.

3.3 Implementation challenges

A policymaker acknowledged the implementation challenges raised by a further centralisation of supervision. ESMA will need sufficient skills, capabilities, technologies and tools, while responsibilities between ESMA and NCAs will need to be clearly divided to avoid a double layer of supervision. Effective coordination will also be needed between CASP supervisors and the authorities responsible for related areas, including MiFID, AML and payments.

A regulator agreed that effective cooperation between CASP supervisors and other relevant supervisors, including AML and e-money authorities, will be necessary. EU-level supervision will also need to draw on both ESMA's direct-supervision experience and the supervisory expertise accumulated by NCAs.

Wrap-up

The Chair highlighted several key takeaways from the discussion. MiCA provides a strong starting point, but rapid market developments justify targeted adjustments to the framework. There is no ideal solution, and strong stakeholder participation is needed to calibrate the response. The framework should provide greater regulatory predictability while remaining able to adapt to rapid innovation and should ensure consistency between different regulatory frameworks, while avoiding overlap and unnecessary double licensing. Several issues require careful calibration, including the treatment of stablecoins, the boundary between decentralised and centralised activities and the application of reverse solicitation, which also raises level-playing-field and investor-protection concerns. On supervision, the Commission's proposal for greater centralisation seeks to improve efficiency and consistency in a cross-border market, although the appropriate balance between EU and national supervision remains under discussion.

Stablecoins: combining innovation, sovereignty, efficiency and financial stability

Introduction: market developments in stablecoins and resulting strategic challenges for Europe

The Chair highlighted the growing prominence of stablecoins over the past 18–24 months, with a market capitalisation standing at $312 billion, compared with $300 billion in 2025. Around 99% are dollar-denominated, while euro stablecoins represent less than 1%, or approximately $325 million. Initially used for remittances, they are increasingly used for payments and liquidity management and are emerging as a potential settlement solution for wholesale capital markets. The dominance of dollar stablecoins raises strategic questions for Europe. While stablecoins offer 24/7 settlement and potentially safer, more efficient transactions, Europe must balance innovation and competitiveness with appropriate safeguards, financial stability and monetary sovereignty.

The discussion focused on two priorities: the strategic role of euro stablecoins in Europe's tokenised financial ecosystem, and the regulatory and prudential safeguards needed to support their safe development at scale. The discussion first examined market needs and use cases for digital money in Europe, then focused on the regulatory and prudential safeguards needed to preserve monetary trust, before turning to the interoperable infrastructure and international coordination required for adoption at scale.

1. Developing digital money and tokenised finance to meet Europe's economic and market needs

1.1 Digital money: mobilising European savings and supporting investment

1.1.1 Digital money's role in investment and settlement

An official argued that, with €15 trillion in savings deposits, Europe should prioritise using digital money to mobilise savings and finance investment. After strong growth the previous year, stablecoin market capitalisation has largely stagnated, but velocity has risen by 34 percentage points year on year, with the average monthly value of stablecoin transactions reaching $1.4 trillion, underscoring their transactional role. Use cases may expand beyond crypto-financing to remittances, treasury operations and settlement. This raises the question of whether stablecoins or tokenised deposits should lead Europe's settlement ecosystem.

1.1.2 Tokenised deposits and the role of central bank money

An official noted that tokenised deposits, as commercial bank money, operate within established supervisory and prudential frameworks, benefit from deposit safeguards and remain connected to bank lending and monetary policy, preserving macroeconomic functions. They can also provide remuneration alongside the programmability and efficiency of tokenisation. Europe should therefore develop tokenised deposits alongside stablecoins, recognising their potentially complementary use cases, with central bank digital currency (CBDC) providing the backbone of the broader digital finance ecosystem.

1.2 Scaling tokenised finance while preserving trust in the monetary system

1.2.1 BNP Paribas's tokenisation strategy and the emerging stablecoin market

An industry representative stated that BNP Paribas shares the tokenisation priorities outlined by other panellists. In December 2025, BNP Paribas joined Qivalis, a European-led consortium of 37 financial institutions from 15 countries developing a MiCA-compliant euro stablecoin to promote interoperability and avoid fragmentation. BNP Paribas also arranged and placed the eurozone's first sovereign digital bond for Slovenia in 2024, partnered with Lightning Stock Exchange (LISE) to develop trading venues for smaller companies and has participated in nearly all wholesale CBDC experiments. In the absence of a dominant standard, the bank is exploring multiple approaches, while assessing redemption, operational and illicit-finance risks, holders' legal rights and issuer insolvency.

A BCG analysis concluded that real-economy payments for goods and services account for only 7% of stablecoin transfers, despite reported year-on-year growth. Business-to-business payments represent 40% of this segment, or around $200 billion. Other use cases include cross-border remittances, gaming and digital subscriptions, and payments to Web3 workers and creators. Stablecoin adoption will depend on consumer and business demand. Given Europe's existing payment options, there may be limited demand for a retail digital euro or stablecoins. Corporate clients recognise the benefits of atomic settlement for cross-border transactions but are unwilling to bear the risk of a stablecoin losing its peg during a transfer. As the industry representative noted, money follows the assets and transactions it serves; so far, demand has been concentrated largely in cryptoasset markets, where stablecoins already serve an established purpose.

1.2.2 Preserving monetary trust and scaling tokenised commercial bank money

An industry representative emphasised that money depends on trust. The two-tier monetary system has historically supported monetary stability and the financing of Europe's predominantly bank-based economy. Innovation should modernise, not undermine, this framework. Eurosystem initiatives will enable central bank money to be used on tokenised infrastructures, with Pontes expected to go live on 21 September 2026. Tokenised commercial bank money will change the infrastructure, rather than the nature of money. Whether deposits are mirrored on a distributed ledger or represented by tokens held directly on-chain, they remain convertible at par, circulate among identified participants and retain their role in supporting bank lending and credit creation.

Scaling these solutions will require prudential and liquidity treatment equivalent to conventional bank deposits, together with a harmonised European legal framework. BNP Paribas is collaborating with other European banks to ensure interoperability and avoid fragmented national initiatives.

1.3 Developing stablecoin and digital euro payments around merchant needs

An industry representative explained that Stripe takes an 'all of the above' approach, enabling merchants worldwide to use whichever payment methods offer the greatest utility. As real-world applications of stablecoins have developed, Stripe has acquired a stablecoin company, now licensed in Luxembourg, to issue stablecoins and provide payment orchestration services. Under the Markets in Crypto-Assets Regulation (MiCA), Stripe recently issued a euro-denominated stablecoin for Revolut. Despite limited euro stablecoin volumes, Stripe expects growth and plans further issuance. Stripe is participating in the digital euro pilot as an acquiring payment service provider (PSP). As merchants may be required to accept the digital euro, Stripe is exploring how to build useful payment functionality on top of this public infrastructure, particularly for complex payment flows.

1.4 Meeting client needs through interoperable digital payment solutions

An industry representative explained that client needs and core banking activities drive Deutsche Bank's digital-asset strategy. As a European bank with a global network, Deutsche Bank is particularly interested in applications in cross-border payments and tokenised assets. Clients are primarily interested in the benefits delivered, rather than whether a solution relies on stablecoins, tokenised deposits or traditional financial instruments. They do not choose a currency or form of money in isolation, but the ecosystem that best supports their payments, liquidity, financing, settlement and risk-management needs. Deutsche Bank expects different solutions to coexist, requiring interoperability with established payment systems, particularly for cross-border transactions, and allowing network effects to support adoption and scale, while preserving regulated banking standards for liquidity, settlement, funding and risk management.

For the euro to remain relevant in the global digital economy, Europe therefore needs a competitive and internationally connected ecosystem that makes the use of the euro for trade, financing and capital-markets activity as seamless as possible across different forms of digital money.

1.5 Developing digital settlement markets while safeguarding financial stability

1.5.1 The ESM's perspective on tokenised securities settlement

An official explained that the European Stability Mechanism (ESM) follows digital finance as both a bond issuer and an investor. The evolution of sovereign and supranational bond markets, particularly the role of different forms of money in settling tokenised securities, is of direct interest to the ESM. The introduction of the Eurosystem Pontes initiative is a significant step forward. In the medium-term, the question is whether the settlement ecosystem will remain a hybrid model or evolve towards a long-term equilibrium of full digitalisation and tokenisation.

1.5.2 Financial stability safeguards and regulatory harmonisation

An official noted that the European Central Bank (ECB) has highlighted multi-currency stablecoin issuance as a potential source of instability through spillovers from US dollar-denominated stablecoins into the euro area. As stablecoins gain systemic importance, money-like instruments should face comparable safeguards. Stablecoin issuers should therefore not receive unrestricted access to central bank money without supervisory guardrails equivalent to those applying to commercial bank money.

Markets may solve interoperability challenges without full regulatory harmonisation. Differences between national frameworks can complicate operations for central securities depositories (CSDs), central counterparties (CCPs) and trading or settlement platforms, but commercial incentives may encourage solutions serving a broad client base. Harmonisation impacts on financial stability, not just operations. Harmonised rules and appropriate equivalence arrangements are needed to contain cross-border risks. The regulatory treatment of deposits remains fragmented across national jurisdictions. A more harmonised European framework for tokenised deposits would support scalability, interoperability and a broader range of use cases. The distinction is important: market-led technical interoperability may be achievable without identical rules, whereas cross-border spillovers from multi-currency issuance may require prudential coordination and equivalence arrangements.

These economic opportunities and infrastructure choices therefore lead directly to the question of how regulation and supervision should safeguard monetary trust without obstructing innovation.

2. Preserving monetary trust and financial stability through appropriate regulation and supervision

2.1 Adapting financial supervision to technological innovation

An official questioned whether institution-based regulation and supervision is appropriate for stablecoins and tokenised finance, which rely increasingly on code and distributed ledger technologies (DLT). While conventional financial risks remain relevant, these technologies raise additional questions about how trust is established and how the underlying infrastructure should be supervised. She asked whether regulators and supervisors sufficiently understand these infrastructures, particularly where their protocols are not readily visible, and whether authorities have the technical expertise or need different forms of oversight. Her intervention raised an open question rather than proposing a settled supervisory model: whether oversight should examine the code, protocols and governance mechanisms themselves, alongside the institutions using them.

A central bank official highlighted the need for regulators and finance ministries to understand technologies, operating models and market needs before responding to developments. MiCA is a sound overall framework that provides a solid foundation for private-sector innovation. Any adjustments in response to a review should be targeted and not a fundamental revision.

2.2 Balancing financial stability and competitiveness under MiCA

Overall, the panel concluded that MiCAR provides a strong regulatory foundation, while targeted refinements can help support the scalability, commercial viability and international competitiveness of euro-denominated stablecoins.

2.2.1 Reassessing central bank access and reserve requirements

An official stated that euro stablecoins should be welcomed as potential instruments for tokenised finance beyond payments. Europe needs a robust regulatory framework that also enables European-based operators to compete internationally. Two areas warrant further consideration. First, given the risk of runs on stablecoin issuers, access to central bank accounts and safeguards comparable to those available to banks, including lender-of-last-resort arrangements, merit examination. Second, MiCA's reserve requirements are overly stringent, particularly the obligation to hold a proportion of reserves in bank deposits, which favours banks over non-bank stablecoin issuers. A full MiCA revision would be premature given limited implementation experience; further experimentation and evidence from real-world use cases should come first. Stablecoins could become an important monetary vehicle for the broader tokenisation of finance, with the potential to strengthen the euro's international role.

2.2.2 Refining MiCA's rules on stablecoin remuneration and reserves

An industry representative stated that MiCA is a success, with 37 stablecoins issued under the framework, including 19 denominated in euros. Stablecoins should remain means of payment rather than stores of value with no direct or indirect remuneration for holding them. However, transaction-linked incentives, such as cashback on card payments, could be considered. MiCA's fixed requirements for holding a proportion of reserves in bank deposits should be reviewed. Greater diversification could reduce interconnections between stablecoin issuers and banks and limit potential contagion. Limited access to central bank accounts could be explored as an alternative to granting stablecoin issuers full-service central bank accounts.

2.3 Stablecoin issuers' access to central bank money: safeguards and macroeconomic implications

2.3.1 Risks to monetary policy and the monetary system

A central bank official distinguished existing access to Eurosystem payment systems from central bank accounts for safeguarding stablecoin reserves, which he opposed under current conditions. Allowing non-bank issuers to back their liabilities directly with central bank money could have significant consequences for the monetary system and monetary policy implementation. Stablecoins fully backed by central bank money could become synthetic CBDCs or create narrow-bank structures, potentially encouraging financial disintermediation, redistributing central bank reserves and complicating monetary policy implementation.

2.3.2 Applying the principle of 'same risk, same mitigation' to stablecoin issuers

An official stated that he agreed with the assessment of the risks outlined by the central bank official but challenged the conclusion. Since commercial banks also create money, stablecoin issuers facing comparable risks should be able to benefit from comparable safeguards under the principle of "same risk, same mitigation". He thus accepted the identification of potential financial stability risks but argued that comparable risks should be matched by comparable mitigating mechanisms, rather than necessarily excluding stablecoin issuers from central bank safeguards.

2.3.3 Assessing the macroeconomic implications of stablecoin reserves

An official commented that how stablecoin reserves are invested may have broader macroeconomic implications. If growing issuance results in funds being invested in short-term sovereign bonds rather than remaining in bank deposits, this could affect bank funding and the availability of credit to households and businesses. Although issuance remains small, these interactions warrant scrutiny as stablecoins grow. This was a question about possible future effects on bank intermediation and credit supply, not a claim that material displacement has already occurred.

Beyond the design of these safeguards, scaling European digital finance will depend on how public and

private infrastructures connect, how existing capital markets are integrated and how cross-border fragmentation is avoided.

3. Scaling a competitive and interoperable European digital financial ecosystem

3.1 Building a safe and interoperable European tokenised financial ecosystem

3.1.1 Preserving the two-tier monetary system through tokenised deposits and central bank money

A central bank official emphasised that tokenised finance must preserve the monetary system's foundations. The Bundesbank is analysing and supporting safe and regulated forms of tokenised commercial bank money. Tokenised deposits are particularly well suited to many euro-denominated use cases within the existing two-tier monetary system, provided that they remain redeemable at par into conventional deposits, are subject to robust prudential safeguards and can interoperate across institutions and infrastructures. For medium- to long-term private-sector use cases, they may therefore be preferable to stablecoins, while regulated euro stablecoins can play a complementary role where they provide clear added value.

Scaling tokenised finance requires safe, liquid and widely accepted settlement assets, with central bank money remaining the anchor for systemically important wholesale transactions. The Eurosystem Pontes initiative aims to provide a near-term solution for settling tokenised assets in central bank money, while Appia seeks to develop an integrated digital financial ecosystem over the longer term.

3.1.2 Developing an interoperable ecosystem through public-private cooperation

Pontes and Appia should provide a public settlement anchor without displacing private-sector innovation. By connecting tokenised market infrastructures with central bank money, they could support trusted settlement of securities, collateral and other wholesale instruments. However, the Eurosystem cannot build the ecosystem alone. Tokenised deposits and regulated euro stablecoins may serve complementary purposes, with stablecoins offering value in specific use cases where existing infrastructures lack sufficient speed, reach or programmability.

Avoiding fragmentation requires compatible technical and messaging standards, interoperable identity frameworks, legal certainty and effective public-private governance. International competitiveness also depends on cross-border interoperability. Ultimately, a coordinated, multilayered architecture is needed, in which central bank money remains the settlement anchor, while tokenised deposits and regulated euro stablecoins provide complementary private-sector solutions.

3.2 Scaling tokenised finance through proportionate regulation and existing market infrastructure

3.2.1 Enabling stablecoins to scale through proportionate regulation and interoperability

An industry representative highlighted Europe's trusted financial system and integrated payment infrastructures as foundations for tokenised finance. Moving beyond pilots to commercially viable solutions will require clear but proportionate regulation, legal certainty, consistent supervisory guidance and effective public-private partnerships. Given the international nature of many stablecoin applications, regulatory frameworks must support cross-border use and interoperability.

Reserve requirements should balance financial stability with commercial viability, with high-quality liquid backing assets to maintain trust without unduly constraining scale. The prohibition of passive interest raises questions about incentives for adoption and international competitiveness. Despite new supervisory challenges, established resilience, risk management and oversight principles remain relevant, with safeguards proportionate to the instruments' systemic significance. The principle of 'same risk, same rules' should guide decisions on stablecoin issuers' access to central bank reserves, starting with clarification of the purpose and risks of such access. If issuers are permitted to hold reserves at the central bank, they should face safeguards and regulatory requirements equivalent to those applying to institutions with comparable access.

Financial Stability Board (FSB) principles are currently unevenly implemented across jurisdictions. Resolving this would facilitate cross-border activity. As harmonisation will take time, international cooperation should begin now, with common principles supporting practical interoperability even where national regulatory frameworks remain different. The panellists did not suggest that regulatory frameworks must become identical: the priority was to begin coordination early enough to avoid future barriers to international use.

3.2.2 Connecting Europe's established capital markets to digital finance

An industry representative argued that the opportunity in capital markets lies in connecting existing infrastructures to digital finance. With approximately €80 trillion in assets held in European CSDs, Europe has considerable potential to achieve scale.

3.3 Building on MiCA to support safe and competitive euro stablecoins

An industry representative described MiCA as a strong regulatory foundation and international blueprint, noting that, despite differences in detail, frameworks in the US, UK and Singapore, as well as those being developed in Hong Kong and Australia, have converged on core principles similar to MiCA's. Following the failures of algorithmic and crypto-backed stablecoins, particularly in 2022, the market has moved towards fully backed stablecoins supported by safe and liquid reserve assets, an approach reflected in MiCA and other regulatory regimes.

A MiCA review should focus on practical uses and viable euro-stablecoin business models, not fundamental

redesign. Where holders cannot receive direct yield, alternative incentives may support adoption and distribution. That is the model being adopted by Open Standard, a new company launched by Stripe, Visa, Mastercard, Coinbase and several other founding partners to promote OUSD, a stablecoin issued by Stripe's subsidiary Bridge. Users seeking returns may favour tokenised money market funds over non-yielding stablecoins. MiCA's requirements to hold 30% of stablecoin reserves in bank deposits, rising to 60% for significant issuers, are difficult to justify at scale. Deposit-guarantee arrangements are poorly suited to such large holdings. Access to central bank accounts for settlement purposes, rather than for holding the entirety of stablecoin reserves, would strengthen settlement safety while preserving central bank money as a foundational asset. Full central-bank-money backing could create a synthetic CBDC without necessarily meeting users' settlement needs.

Although differences between jurisdictions do not yet appear to significantly constrain the market, immediate action is needed on international regulatory gaps. Unresolved questions concerning regulatory equivalence and multi-issuance under MiCA could eventually hinder cross-border payments using euro stablecoins; experience with post-crisis mutual recognition shows why coordination should begin before fragmentation becomes a practical obstacle.

3.4 Strengthening international coordination and market adoption of digital finance

An official emphasised the need for international regulatory coordination to support cross-border payments and capital flows. As MiCA has influenced regulatory approaches in other jurisdictions, it provides a useful basis for international dialogue. Europe can learn from developments elsewhere, including US legislation and approaches to permissioned and permissionless DLTs, despite limited political appetite for international coordination. Europe has been relatively slow to develop and adopt stablecoins. While the Pontes and Appia initiatives are encouraging, private-sector institutions, including banks, must also act to realise the opportunities of digital finance. Ultimately, demand and trust will determine adoption of stablecoins and other digital money.

Concluding remarks

The discussion highlighted how stablecoins and other digital money could improve payments, securities settlement and tokenised markets in Europe. Participants emphasised the importance of responding to genuine market needs, building on Europe's established financial infrastructures and preserving trust in the monetary system.

While MiCA was broadly recognised as a valuable regulatory foundation, different views emerged on the appropriate treatment of stablecoin reserves, access to central bank money and the timing of potential regulatory adjustments. This will require balancing innovation and competitiveness with stability, monetary policy and supervision. In particular, participants differentiated between access to central bank-operated payment systems for settlement, access to central bank accounts for safeguarding stablecoin reserves, and the broader question of equivalent risk-mitigation arrangements.

Interoperability, public-private cooperation and international coordination will help avoid fragmentation and enable scale. Ultimately, the adoption of euro-denominated stablecoins, tokenised deposits and other digital money solutions will therefore depend on if Europe can offer clear economic benefits, commercial viability and the confidence of users and market participants. Across the discussion, five cross-cutting messages emerged: adoption must respond to demonstrable client and market needs; tokenised deposits, regulated stablecoins and central bank money can play complementary roles; innovation must preserve monetary trust and the two-tier system; proportionate regulation must reconcile competitiveness with financial stability; and interoperability, public-private cooperation and early international coordination are essential for scale.

Sessions

VI

DIGITAL EURO AND PAYMENT SYSTEM EVOLUTIONS

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Digital euro: working towards the final legislation and preparing for the 2027 pilot

1. The digital euro: a public good on which the private sector can build

1.1 Correcting a market failure in a fragmented, non-European payments landscape

A public authority representative argued that the digital euro first and foremost corrects a market failure: for many reasons, the private sector has not managed to build a single, consistent solution for the whole of Europe, and solutions remain fragmented despite greater private-sector action.

The same speaker stressed the sovereignty dimension: in 13 countries, payment systems are entirely dominated by US providers, which raises not only economic but also geopolitical issues, sanctions being of critical importance given the very high uncertainty ahead. The digital euro is a way of establishing a European solution with European governance, operating in line with European values, legislation and frameworks.

The digital euro was presented as only part of a much bigger story, namely a broader payments policy strategy that also includes a wholesale arm, with Pontes soon to be announced as operational and Appia to follow, the aim being to create a whole ecosystem that improves Europe's payment infrastructure and prepares economies for future technological progress.

1.2 We do not have an instrument that works everywhere

A public authority representative described the problem to be solved: it is simply not possible today, across all euro area countries, to pay digitally in all relevant use cases using a European provider.

Very strong national solutions exist, the speaker acknowledged, but they leave gaps. A national debit card scheme may be probably perfect at the point of sale, yet it does not work in e-commerce and stops at the national border – and cash, likewise, cannot be used to pay on the internet. Since user behaviour increasingly means e-commerce, we do not have an instrument that works everywhere.

1.3 Complementing cash, not replacing it

A public authority representative was unequivocal: As long as society requires cash, we will provide it. The digital euro is a retail solution designed to complement cash, not to replace it.

An expert welcomed the fact that cash remains high on the agenda of the ECB and the national central banks as the most inclusive means of payment in existence today, while noting that society is moving ever further into digitalisation.

A public authority representative added that, just as the digital euro does not compete with cash, it does not compete with private solutions either.

2. Cooperation, not competition

A public authority representative summarised the approach as a two-pillar approach based on cooperation, not competition. The digital euro should be a public basic offering, with innovation built on top by the PSPs that customers choose for their specific needs: it is really about building railways on which we can all work together.

Another public authority representative concurred: the objective is to create a public good on which the private sector can build, adding, We are not in the business of taking business away from the private sector.

An industry representative stressed that the digital euro is not an isolated payment solution but part of the ecosystem of future payments in Europe, requiring robust schemes that complement each other and cooperation between the public side and banks on both the issuing and acquiring sides.

Another industry representative emphasised that this is not only a technology product, nor only a regulatory issue: consumers will have to change their habits and merchants will have to accept a new kind of account and payment method. The whole ecosystem must therefore move from talk to action, with significant cooperation and substantial investment from all the entities involved.

2.1 Leveraging existing infrastructures rather than duplicating them

An industry representative pointed out that 26 European countries, EU and non-EU, already have a local payment method, accessible to 94% of the EU population: alternatives provided by the private sector are very real today. These solutions and local infrastructures are critical, in cooperation with the Eurosystem, to the success of the digital euro.

Drawing on experience, the speaker warned that we must not underestimate the investment and complexity involved in launching a Europe-wide retail payment system. A domestic mobile solution launched ten years ago, now used by 90% of the banked population at the point of sale and online, required a huge investment and took a long time. Such well-known brands,

increasingly interconnected across borders, matter because it is not easy to change consumers' payment habits.

The speaker therefore called for leveraging existing infrastructures, connections and the solutions that already aggregate PSPs, with cooperation on standards, on the role of technical service providers, and on ensuring that private rails are compatible with, and complementary to the public means of payment. Benefits would include easier adoption, lower implementation costs and faster time to market, the challenge being to connect more than 5,000 PSPs within a defined timeframe.

A public authority representative agreed that a swift completion would avoid unnecessary, duplicative investment: market participants would build on top of the digital euro rather than duplicate it.

2.2 Interoperability with private schemes is the key to success

An industry representative described interoperability between private schemes and the digital euro as the key to the success of the digital euro, meaning that it must be integrated into banking apps and into Wero or domestic schemes. The digital euro does not need to cover every conceivable niche use case but should remain a simple digital means of payment.

A public authority representative pointed to non-proprietary standards as an example that will work very well: they work for everyone and will be rolled out even before the digital euro exists, giving both the Eurosystem and the market a head start.

2.3 A level playing field and a fair compensation model for issuing banks

An industry representative set a level playing field as the first precondition for cooperation: every participant, whether the digital euro or private solutions, should have the same opportunities in the market.

A public authority representative agreed on equal opportunities but added a nuance: central bankers bear a greater responsibility, because we do not choose our customers, who are all European citizens. You have a choice; we do not – and, to be clear, we do not want one.

The industry representative saw a fair compensation model as a key component: clients only accept a product if they see added value in it, so issuing banks must be incentivised to develop innovative products. Surveys show that clients remain hesitant, particularly where cash use is high, because they do not know the consequences of using the digital euro; offering it through banking apps is the way to overcome this.

A public authority representative noted that the final design, including the compensation model, is now up to the co-legislators, and that both technical and business aspects have to come together.

The Chair observed that these elements are covered in the legislative discussions and in the joint work of the Rulebook Development Group and noted a strong convergence of ideas.

3. Safeguards embedded in the law and enforceable

An expert stressed a shared responsibility of the public sector, the private sector and civil society to be very clear about what the project is about and about the safeguards embedded in the law – safeguards that are enforceable not only by regulators but also through the technology implementing the project.

3.1 The real test is whether consumers will want to use it

The Chair underlined that the real test is whether consumers will want to use the digital euro.

An expert recalled that, from the outset, the message had been that the digital euro must be something people are willing to use and endorse, because the entire success of this project depends on people actually using it.

According to a 2025 consumer survey cited by the speaker, expectations cover five dimensions: security and reliability, with strong fraud protection and privacy features replicating as far as possible the characteristics of cash; ease of use, including offline use and a physical card; universal acceptance, online and in shops, without having to ask "What am I going to pay with now?"; affordability, with low or no fees; and inclusiveness, which must be built into the work as electronic payments keep increasing.

3.2 The most private electronic means of payment ever

An expert argued that Europe must lead by example: the digital euro needs to become the most private electronic means of payment ever, to uphold the fundamental values of the EU.

The speaker highlighted the explicit prohibition on the Eurosystem identifying users or tracking individual transactions as both a safeguard and a very strong signal, which must be communicated against claims in some Member States that this is a surveillance project: it is designed to raise the floor for privacy features in electronic means of payment.

Privacy by design and by default must be translated into technology: offline transactions known only to the payer and the payee, and a default ban on storing transaction data on the user's device, since people tend not to change default settings.

The Chair confirmed that privacy is secured by law and has been integral to the design from the start: online, the Eurosystem would not be able to link a transaction to an individual, while offline privacy is very close to cash.

A public authority representative framed the choice frankly: someone will provide the infrastructure, and trusting the ECB rather than a third-country provider to safeguard data is a no-brainer, since the ECB can be held to account in a way a private provider cannot. Trust in the ECB and the euro is at record levels, above 80%.

3.3 A means of payment, not a store of value

An industry representative made financial stability a core principle: the digital euro is not a store of value or an investment asset; it is a payment solution, and large-scale deposit shifts must be avoided through a very low holding limit for individuals and a zero limit for legal persons.

A public authority representative agreed that it should not be used as a means of saving or investment, hence no remuneration, recalling that credit to the European economy is mainly driven by banks and that taking away their deposit base would destroy that.

The industry representative argued that low limits do not reduce usability, thanks to the reverse waterfall, which draws funds automatically from the linked bank account. Caution is particularly needed for the many small regional banks funded solely by deposits; if even one bank failed its liquidity coverage ratio (LCR), this could become a reputational risk for the project itself.

The public authority representative rejected the idea of holdings high enough to buy a new car as an extremely steep proposal: holding limits will be evidence-based and grounded in a methodology. The digital euro would not fundamentally change bank-run dynamics – nobody ran to the ATMs in the Silicon Valley Bank case.

The Chair confirmed that a model has been built to set an evidence-based holding limit.

4. From political debate to getting the product right

A public authority representative welcomed the move into pilot mode after more than three years of intense political debate: the right legal foundation is essential, but we need to get the product right, through genuine technical collaboration.

4.1 Time is money: dotting the final i's of the legislation

The Chair reported strong commitment to finalising the legislation this year, expressing the hope that the co-legislators are dotting the final i's.

A public authority representative warned that the length of the process is somewhat worrying: momentum may be lost and alternatives may emerge, so that we could end up building three railway networks instead of one. Parliamentary discussions sometimes seem very odd: since time is money, we are wasting money.

4.2 A pilot to find every flaw

The Chair reported that the pilot, due in the second half of 2027, will involve 36 PSPs and a group of merchants, complemented by a call for additional e-commerce merchants.

A public authority representative stressed representativeness: participants include all three pillars of a national banking sector, merchants and users. Testers will be Eurosystem staff, the most critical crowd you can imagine. They will find every flaw.

An industry representative explained that the pilot gives banks valuable time to assess implementation options, optimise architecture, leverage group synergies and design a cost-efficient digital euro, while large corporates are keen to prepare.

Another industry representative described the emerging role of technical service providers, which aggregate PSPs and help them certify and connect, using a back-end simulator and APIs. They can offload about 90% of a PSP's workload and almost halve its time to market, freeing PSPs to focus on customer experience and adoption. However, time is already short.

4.3 A staggered rollout, not a big bang

An industry representative warned that the pilot alone will not solve every problem, making the 24-month preparation period crucial. A big-bang launch could jeopardise the success of the whole project: once negotiations conclude at the end of 2026, banks need clear timelines, clear definitions and as few open questions as possible.

Another industry representative fully supported a staggered introduction of use cases, as with every successful domestic solution, noting that the 36 pilot PSPs represent less than 1% of all the PSPs in Europe: even over two years, this is very ambitious and requires a coordinated effort across many touchpoints, technologies, schemes and players.

Retail payment innovation

1. Innovation and resilience are not alternatives — it is both

The moderator framed the discussion around one question: how Europe can support innovation in retail payments while preserving trust, inclusion, resilience and sovereignty. The moderator concluded that innovation will succeed only if it strengthens, rather than weakens, trust.

1.1 New payment instruments need to earn consumers' trust in order to be durable

A central bank representative observed that consumers have proved willing, and indeed eager, to embrace innovation in payments whenever options such as mobile wallets were offered. The central bank representative stressed, however, that in one recent large-scale consumer survey, speed and convenience were not the top concerns, whereas security, fraud safeguards, trust and reliability ranked highest. The central bank representative therefore concluded that innovation and resilience are not alternatives — it is both.

1.2 Safety and security are not brakes on innovation — they enable it

An industry representative argued that innovation is not only about speed, reducing friction, or making things easier on the surface, but equally about ensuring that every user has confidence the system will continue to work under stress. The industry representative added that security allows innovation to scale with the trust it requires. The moderator concurred: innovation is not only about new technology, but also about trust, scale and governance.

1.3 Cash will remain a critical part of the payments' ecosystem

A central bank representative pointed to an apparent paradox: in one Member State, consumers have reduced their use of cash faster than the European average yet remain above that average in wanting the option to pay with it. The central bank representative described cash as critical for financial inclusion, but also, frankly, for resilience, being the ultimate payment method in the event of system-wide disruption, as we saw in the Iberian peninsula — hence the lesson is not innovative or traditional, but both. A central bank representative extended this resilience logic to the digital euro, which in their view should not be limited to online payment options, but should also support offline use.

2. A single, interoperable European payments system

The moderator described instant payments as the new normal and the new standard and saw the digital euro, Wero and EuroPA as underlining the need for pan-European solutions that are efficient, sovereign and scalable. A central bank representative called the transformation not single-dimensional but multifaceted: Europe is moving towards an integrated retail payments market, which calls for a holistic approach, for instance through national payments strategies building on European foundations.

2.1 The question this raises, is not only one of sovereignty but of resilience

A central bank representative noted that thirteen European countries depend entirely on non-European card payment schemes. The central bank representative compared this to a country's electricity depending on a neighbour through a single cable, raising the question of a backup. The central bank representative presented the digital euro as that backup: a European scheme backed by central bank money, which is not meant to replace existing card or payment schemes but to add one further option. The central bank representative welcomed Wero and EuroPA but judged them not yet fully pan-European today. The central bank representative summarised the objective as a single, interoperable system delivered through a combination of publicly run infrastructure and privately run initiatives.

2.2 The ability of all these different solutions to interoperate efficiently, at scale and in a resilient way

An industry representative rejected the idea that the future will be shaped by a single new technology, method or network. The industry representative argued that Wero, EuroPA, the digital euro and open banking will all be judged on the same test: creating economic value through a superior user experience, while ensuring resilience. The industry representative welcomed innovation, investment and increased competition as a source of consumer choice and productivity. The industry representative asked public authorities for a framework ensuring predictability and proportionality, a level playing field and greater investment in cybersecurity, anti-fraud solutions and interoperability.

2.3 Payments are not just about facilitating transactions

A central bank representative highlighted the macroeconomic stakes: payments can lead to new products and services, improve businesses' liquidity management and deliver the productivity gains Europe needs. The central bank representative turned the fragmentation of the European market into a real opportunity, citing studies showing that integrating payment systems increases trade with an effect broadly comparable to around half that of a new trade agreement — a foundation for strengthening the Single Market. The moderator likewise observed that payments are evolving from a largely technical service into a central interface between consumers, merchants, banks, payment providers and digital platforms.

3. Faster payments mean faster fraud

The moderator warned that faster, more frictionless payments can also mean faster fraud, and that AI-enabled scams and social engineering are challenging traditional fraud-prevention tools.

3.1 Criminals continue to find, and exploit, the gaps between institutions

An industry representative set out the scale of the threat: according to one industry estimate, US$4.4 trillion in illicit funds moves across the global ecosystem each year, including US$579 billion linked to fraud, and these funds ultimately come from ordinary people. The industry representative identified speed as the central concern, citing authorised push-payment fraud in the UK, now above 19% year on year, a pace at which our economies simply do not grow. An industry representative agreed that if payments are instant, fraud becomes instant too, calling for prevention, detection, authentication and clear liability design. The industry representative also noted a qualitative shift, from credential theft towards more sophisticated social engineering and manipulation, to be countered with systems based on behavioural signals and dedicated analysis. The industry representative explained how AI amplifies this: an individual fraudster can now operate at the scale of a large criminal consortium.

3.2 Should we then impose significant friction on the other 99,997 customers as well?

A central bank representative argued for proportionality: in one national market, around 2.5 payments in every 100,000 are linked to fraud, and imposing heavy friction on everyone else is probably not the answer. The central bank representative suggested distinguishing the speed of technology from the speed of transactions: should a credit disbursement reach an account within five seconds? Should a utility bill be paid that quickly? An industry representative added that younger customers expect payments to be instant and final — I want it here, I want it now, and that is the end of the story. An industry representative saw behavioural biometrics as a way to combine security and smoothness: inherence can be confirmed through the way someone holds their phone, or the speed at which they type, or through transaction patterns. The industry representative emphasised that this confirms authentication without disrupting the purchase journey, which is particularly valuable for people with disabilities, less digitally confident or older customers. The request of the industry representative was very concrete: that the EBA clearly recognise behavioural biometrics as a valid means of confirming inherence in the context of SCA, the technology having already been introduced at level 1 in PSD3 and the PSR.

3.3 Unless we operate as a network among ourselves we will inevitably lose ground

An industry representative identified an asymmetry: Criminals, unlike us, operate as a network, and they are not bound by regulation. The industry representative therefore called for regulation supporting information-sharing within a safe-harbour environment, near real-time action and a move from detection to a genuinely preventive approach, using AI in defence — fighting fire with fire — within a secure framework and sound governance. The industry representative stressed that consortium approaches, such as scoring counterparty risk across institutions, are not, strictly speaking, about sharing personal information, but about sharing risk insights, and called for collaboration rather than mere coordination, extending to law enforcement, telecoms and technology companies. A central bank representative illustrated the cross-sector dimension: in one small Member State, telecom companies block tens of millions of fraudulent calls and messages each year, and draft national legislation would ease information exchange between telecoms, banks and the police, since fraudulent funds cross borders almost instantly, whereas police authorities cannot. The central bank representative also urged more attention to beneficiary banks, and how they can prevent fraudsters from opening accounts and moving money further in the first place.

4. The history of payments has been one of partnership between the public and private sectors

A central bank representative recalled that throughout history payments have been built through public–private partnership. The moderator noted that AI can improve fraud detection and efficiency but introduces new risks around scams, automation, accountability and user control.

4.1 It is still early days, but it is happening

An industry representative described agentic commerce as one of the biggest shifts we have seen in e-commerce since its emergence in the early 2000s, with US use cases to reorder household essentials, pay bills, or compare prices and forecasts that it could represent between 10% and 25% of e-commerce by 2030. The industry representative listed the questions it raises: whether the agent is properly authenticated, whether the purchase matches the customer's actual intent, and who is accountable when something goes wrong. The industry representative explained that their international payment institution provides developers with tools to authenticate agents and verify intent, that the human is not taken entirely out of the loop, and that it remains accountable in case of fraud. The industry representative added that, as a human may be present at the start and the end, but not necessarily in the middle, authenticating both the agent and the underlying person will remain essential.

4.2 It is important that legislators do not move too quickly

An industry representative argued that agentic commerce is not a European question alone but a global one, and that rushing into disproportionate regulation risks creating a competitive disadvantage for

European players in a market that [...] recognises no real borders. The industry representative favoured observing initial use cases, considered that reopening the AI Act would not be the right approach, and suggested that the EBA address the issue through technical standards.

4.3 No single participant can, on its own, transform the overall payments system

A central bank representative cited fraud as a first example, where a national payments strategy can establish a coordination mechanism bringing together technology, financial services, telecoms and regulators, and where a central bank can obtain trusted-flagger status. The central bank representative then turned to system-level resilience, since individual resilience is a necessary condition, but not a sufficient one. The central bank representative finally cited public infrastructure: the Eurosystem's work on the digital euro and DLT-based wholesale settlement provides foundations that allow the private sector to do what it does best: interface with customers, innovate, compete for business and, ultimately, meet the evolving payments needs of households and businesses.

5. If you could change one thing in Europe's retail payments ecosystem by 2030

5.1 A genuine payments single market

An industry representative wanted consumers and merchants to move seamlessly from one country to another within a genuine payments single market, provided everyone is held to comparable standards of consumer and security protection. A central bank representative called for greater integration and greater diversity of payment rails, because choice matters, also for resilience, and a central bank representative fully supported this goal. The industry representative also committed their global payment scheme to completing, by 2030, its move to processing European transactions in Europe, on European soil.

5.2 Fraudsters are certainly not going to wait until 2030 to act

An industry representative wanted cross-border collaboration tomorrow, sharing at the very least shared insights, so that institutions work as a network, rather than as individual actors. A central bank representative endorsed this and added that society must find its own balance between convenience, speed and security, noting a study suggesting that when the internet freezes, the heart responds in much the same way as it does when hanging off a cliff edge.

5.3 I would ask legislators to continue to collaborate with industry

An industry representative recalled that their international payment institution had not waited for PSD1, 2 or 3 to focus on fraud management and has consistently maintained low fraud levels. The industry representative also insisted that the digital euro's business model makes commercial sense, as real innovation has come from those who listened closely to the market.

The EU payment single market

1. From an enabling legal framework to effective implementation

The Chair observed that the EU payments market is moving beyond harmonisation towards integration, innovation, resilience and strategic autonomy, reflecting the growing economic, geopolitical and technical significance of payments.

An EU official recalled that an integrated payment market has been a core EU ambition for some 20 years. Public authorities must provide a framework promoting competition, innovation and trust, alongside private initiatives. A regulator cautioned that a harmonised legal framework is not an end in itself, and it is not enough.

Summing up the first round, the Chair called for a coherent framework rather than more legislation, and for the private sector to contribute to shared objectives.

1.1 Instant payments are gaining ground

An EU official described the Instant Payments Regulation as a great success: close to 80% of EU payment service providers (PSPs) have joined the Single Euro Payments Area (SEPA) instant credit transfer scheme, and the share of instant payments in credit transfers has risen from 13% in 2022 to around 40% in Q2 2026. A regulator added that instant payments now provide a common European infrastructure for transferring funds within seconds, at any time.

1.2 The priority now is delivery and coherence, not more regulation

A regulator made delivery and coherence the priority, rather than more regulation. The third Payment Services Directive (PSD3) and the Payment Services Regulation (PSR) will bring more consistent rules and supervision, stronger competition and better fraud protection, but implementation will require considerable work over the next couple of years.

A policymaker identified regulatory fragmentation as a remaining obstacle, since divergences persist across member states; the PSR, being directly applicable, will foster convergence.

An EU official hoped for final adoption of the package by the end of 2026, with implementation in mid-2028. The framework must be technology-neutral and future-proof, notably regarding artificial intelligence (AI), and strengthen open banking to support innovation. She also highlighted access for non-bank PSPs to settlement services since 2025, removing their dependency on banks for that access.

1.3 Technical details can have unintended consequences

An industry representative acknowledged that Europe is world class in payments but warned against inadvertently favouring certain champions. He criticised a recent European Banking Authority (EBA) Q&A on the definition of e-money: in his view, its legalistic reading does not address any particular risk and threatens to upset an entire sector that has operated for over 20 years. This illustrated how apparently technical details can cause significant problems.

2. The remaining gap: effective pan-European reach at the point of use

A regulator identified the remaining gap as effective pan-European reach at the point of use, online and at physical points of sale. An industry representative contrasted this with an instant, convenient and frictionless digital economy: why should a refund take five to ten days, or a cross-border purchase differ from a domestic one?

2.1 End-user solutions remain too fragmented along national lines

A policymaker highlighted the lack of pan-European end-user solutions, while noting encouraging developments: the Eurosystem's strategy for EU-governed, market-driven solutions, efforts to make the European Payments Initiative (EPI) and EuroPA interoperable, and the digital euro.

An industry representative explained that offering local methods entails high cost and high complexity: each requires a separate integration yet serves customers in one member state. The 11 local methods her firm has enabled succeed domestically but lack pan-European reach; some still do not support subscriptions. Merchants are agnostic about payment methods, but these different rails should be allowed to compete fairly.

2.2 Common standards and infrastructure for interoperability

An EU official called for interoperability between private solutions and with the digital euro, based on common European standards and infrastructure: all these EU retail payment solutions need to speak the same language. She welcomed the EPI–EuroPA memorandum of understanding and the European Central Bank's (ECB) commitment to EU standards for the digital euro. A conducive regulatory framework combined with interoperability was the recipe for a truly integrated payment market.

An industry representative also welcomed the agreement between local national champions, noting that cards are what already works cross-border today, in a standardised way.

A policymaker cited cards linked to different schemes as an example of interoperability and ease of use. An industry representative said better integration of local methods into merchant-to-consumer payments would

help. The Chair also saw interoperability as key to a European payment product.

2.3 From interoperable infrastructure to customer adoption

An industry representative set out three conditions for scaling. First, interoperability and cross-border reach must be an intentional day-one design decision, not an afterthought: domestic interbank rails do not scale across the EU, whereas SEPA instant credit transfers do. Second, industry-level standards are needed, as with Pay by Bank in the UK. Third, she called for a compelling customer experience rather than mandated use: we need to work backwards from customer needs.

A regulator emphasised that SEPA instant provides common rails, but success requires broad acceptance, ease of use and a compelling proposition that customers and merchants can buy into and trust. This means PSPs, schemes and merchants working together, including on viable business models.

An EU official highlighted antitrust enforcement opening access to near-field communication (NFC) payment solutions, with Bizum Pay using NFC on Android and iOS. She saw such competition measures as potential game changers for user experience.

3. Payment choice, resilience and sovereignty

A policymaker considered the single market our best tool, but a single market does not mean a single way of paying: consumers want a variety of means of payment, including cash, and efficient domestic solutions must not be lost inadvertently – Wero and EPI themselves started out as more of a local solution.

An EU official called for cash, traditional cards and innovative methods to coexist, alongside work on stablecoins and deposit tokenisation. An industry representative stressed that cash remains a route into the digital economy through e-money instruments he described as low-risk, and that it adds safety.

3.1 Payments must work even when it rains

A policymaker described payments as a critical function in society that must work both in normal times and during disruptions. Digitalisation and network effects have brought efficiency gains, but heavy concentration can also create vulnerabilities. In Finland, around 80% of daily payments are by card, dominated by two international schemes, with no domestic card scheme. Cash accounts for less than 10% of daily payments, yet 60% of survey respondents still consider its use very important.

He noted that most card users are satisfied, but merchants face acceptance fees with very little choice, and these costs feed into consumer prices. Geopolitical risks also raise the question of how daily needs would be met if card infrastructure failed.

A policymaker advocated greater optionality through instant payments and the digital euro, although scale is hard to reach when customers do not realise that current payment methods are expensive. On resilience, he highlighted offline functionality, cash and contingency plans for extreme scenarios; it is not sufficient for only one participant in the value chain to prepare.

An industry representative said merchants live this operationally every day, pointing to the Iberian blackout discussed in the previous panel. An industry representative stressed that payments must always work, even when it rains, citing €11 billion invested in technology and security for his company's global network over five years and at least six nines of availability – less than 32 seconds of downtime a year.

3.2 Different perspectives on payment sovereignty

A policymaker noted that large-scale private investment expected in AI, agentic payments and fraud prevention raises the stakes of the sovereignty debate, which spans technology, governance, data location and dependencies. He proposed a layered approach: cash and the digital euro as a fully sovereign first layer, then European-wide or domestic systems, and a broader layer in which simply having a variety of payment methods supports resilience and sovereignty.

An EU official said that the digital euro's envisaged legal-tender status would make it a European public good and therefore a sovereign means of payment. A regulator saw European solutions reducing dependence on a small number of providers. An industry representative highlighted a recent additional €500 million investment in Europe, including a eurozone data centre.

An industry representative stressed that sovereignty – a payment method being European – is not a design feature: adoption depends on customer experience and fair competition. She welcomed PSD3/PSR measures seeking to align card and non-card payments, including extending strong customer authentication (SCA) exemptions to credit transfers. The Chair called for cooperation between banks and PSPs and a level playing field reflecting consumer and merchant preferences.

3.3 The digital euro: remuneration, access and adoption

A policymaker said Parliament and Council shared the aim of making room for new tools benefiting consumers and merchants, while benchmarking the digital euro against comparable means of payment. In his view, less ambitious methods not yet international or European-wide did not necessarily warrant the same treatment. However, the co-legislators' positions on the economic model still differed.

An industry representative was very concerned that the compensation framework discussed in trilogue would perpetuate card fees and scheme-based fees in a payment method that does not share the features of cards. She questioned why SEPA instant rails were not included in the benchmark used in those discussions.

On access, an industry representative feared that non-banks – in his view, the more innovative part of the payments system – might not be able to offer the digital euro from day one under the legislative approach being

discussed. In his reading, they would need individual agreements with banks, which could be rather slow to cooperate, as with open banking.

An EU official took careful note of these remarks, stressing that success will depend on the user experience: if the wallet and interface fall short, we will to some extent miss the purpose.

4. Trust in payments is more important than ever

An industry representative stated that users want safe, secure, simple and reliable payments: trust is more important than it has ever been, as criminals increasingly use AI. An EU official noted that PSD3/PSR will provide a strengthened toolkit to prevent fraud.

4.1 Fraud is becoming faster, more scalable and more adaptive

A regulator observed that fraud is becoming faster, more scalable and more adaptive; for instant payments, fraud volumes are growing much faster than payment volumes themselves, calling for real-time monitoring. A policymaker confirmed that payment fraud in Finland has been increasing sharply. An industry representative contrasted record-low card fraud in Ireland – below three basis points – with credit transfer and direct debit fraud in that market, up 23% and 28% respectively in 2025.

4.2 AI is a powerful tool, but not a shortcut or a black box

An industry representative argued that fraud must be stopped as it happens, or ideally before. His company's network has used predictive AI for 32 years, checking 500 transaction data points. Most retail SEPA transactions in Ireland are now scored using the same technology.

He also reported €40 billion of fraud blocked by his company's network in 2025. Separately, the company's global scam disruption unit shut down 25,000 scam merchants in its first year.

A regulator explained that AI can detect what rules-based monitoring might detect too late, and that the PSR will improve data sharing, helping smaller PSPs. But AI must not turn things into a complete black box. He stressed explainability, regular testing and monitoring, proportionate complexity, and oversight in line with the general requirements of the AI Act, while noting that fraud prevention is not part of the high-risk classification.

A policymaker noted that no single PSP can have the full picture, making AI and information sharing powerful, but they are not shortcuts: shared data must remain confidential and secure, AI tools must themselves be resilient against fraudsters, and accountability must accompany explainability.

4.3 Victims of fraud should not be left holding the bag

A policymaker considered that the customer is often left holding the bag, calling for some shift of responsibility towards service providers. He noted that a strict interpretation of the General Data Protection Regulation (GDPR) by Finland's parliamentary Constitutional Law Committee hampers information sharing.

A policymaker called for better articulation of information sharing, burden sharing and coordination, including existing obligations on platforms. A policymaker noted that the PSR will extend cooperation to digital service providers. An industry representative urged an ecosystem-wide response, citing Ireland's anti-fraud forum including telecoms and tech platforms. He also emphasised that cards can help protect innocent fraud victims and provide easy resolution.

Cross-border payments beyond the G20 2027 deadline

The G20 roadmap has created a common framework and delivered important reforms, but progress remains uneven and benefits for end users have not yet met expectations. The discussion focused on translating these foundations into practical improvements beyond 2027 through more targeted implementation, sustained cooperation and innovation that preserves trust and interoperability.

1. Progress under the G20 roadmap

An international policymaker considered the roadmap itself a major achievement. Recalling the decision around Bretton Woods not to establish a global payments regulator, he explained that cross-border payments had long developed as an extension of domestic systems without a global authority or international policy framework. The emergence of Libra and threats to correspondent banking in regions such as the Pacific had prompted concern about fragmentation. The roadmap had successfully initiated a global policy response, taking into account the dynamic environment created by new technologies and innovation.

1.1 A common framework and measurable objectives

A central bank representative recalled that, in 2020, there was broad agreement that payments needed to improve, but less clarity about the main frictions, priorities and measures of success. A major contribution of the roadmap had been to establish a common framework and shared objectives across jurisdictions.

An international policymaker highlighted the key performance indicators (KPIs), which had focused the global discussion on the outcomes to be achieved. Results remained below the level sought, but the data enabled a better-informed assessment of progress. He also acknowledged significant limitations in that data.

The same policymaker stressed the work undertaken to coordinate the CPMI, the World Bank, the International Monetary Fund (IMF), the Financial Action Task Force (FATF), the Organisation for Economic Co-operation and Development (OECD) around the Financial Stability Board (FSB). This had included an effort to coordinate with data protection regulators.

1.2 Stronger foundations and remaining implementation barriers

A central bank representative observed that investigating the original problems had revealed further issues. Many barriers reflected differences in legal frameworks, policy objectives and market structures. Addressing them required sustained international cooperation and action plans at jurisdiction level.

An international policymaker said that work with the Committee on Payments and Market Infrastructures (CPMI) had progressed a number of issues at the global policy level, bringing other implementation problems into focus. He gave the example of the postponement of implementation of SWIFT's structured address requirements, despite what he considered reasonable implementation targets by SWIFT, raised concerns about market participants' agility.

A central bank representative remained optimistic. Broader adoption of international standards, longer payment system operating hours and updated FATF standards were important building blocks. More targeted implementation was now needed to turn stronger foundations into faster progress. An industry representative shared this positive assessment of the roadmap's contribution to understanding where improvements could be made.

2. Remaining barriers to better cross-border payments

An industry representative emphasised that customers make payments to support their businesses, families and other activities. He compared a payment with air travel: a first mile before departure, an interbank leg from take-off to landing, and a final journey to the destination. As he put it, "Landing is not the same as arriving."

2.1 Delays in the last mile

The industry representative reported that, on his network, 75% of cross-border payments reached the beneficiary bank within ten minutes, many within seconds, across 40,000 corridors and 12,500 endpoints. However, his organisation's research indicated that 80% of the total time was spent in the final stage before funds reached the beneficiary. He identified five main frictions:

- Divergent regulatory and reporting requirements, including purpose-of-payment codes that can require manual intervention.
- Foreign exchange (FX) conversion and capital controls that can delay the release of funds.
- Fraud and compliance checks, which protect the ecosystem but may require manual intervention when a payment is flagged.
- Inconsistent standards and data quality.
- Domestic infrastructures that do not always operate 24/7 or support cross-border payment flows.

The same representative stressed that collecting richer data at the first mile increases predictability to avoid difficulties at destination and facilitate faster credit.

Customers also needed transparency and predictability about where their money would go, when it would arrive and what the payment would cost. An international policymaker confirmed the growing focus on last-mile issues.

2.2 Aligning infrastructure with schemes and legal frameworks

A central bank representative stressed that infrastructure alone was insufficient. Market practices, pricing, payment schemes and legal frameworks also had to support its effective use. He illustrated the impact of European rules on euro-payment charges with a transfer from Denmark to Sweden. In his example, converting Danish kroner into Swedish kronor via the euro could cost less than a direct transfer, despite two FX margins. Implementation and market adoption should now ensure benefits for citizens and companies.

An international policymaker agreed that some regions had built infrastructure that attracted little payment volume. He also identified foreign exchange as a significant challenge in many emerging markets, perhaps requiring further attention.

2.3 Making effective use of ISO 20022

An industry representative reported that 98% of payment volumes on his network were already in ISO 20022 format, the international standard used for payment messages and data. On that network, the priority had shifted from adoption to effective use. Rich, structured customer data needed to flow throughout the payment process to support automation and better screening.

The same representative warned that adopting a common standard would not ensure effective communication if market practices and data conventions differed. He compared this with speakers of British and American English using the same words with different meanings. ISO 20022's potential use in application programming interfaces (APIs) and smart contracts increased the need to coordinate changes across the ecosystem.

2.4 Persistent foreign exchange settlement risk

An industry representative argued that settlement risk was as important as cost and speed. He highlighted progress in reducing the proportion of FX settlement exposed to risk, including through payment-versus-payment arrangements, in which one currency is paid only when the other is received. According to the Bank for International Settlements (BIS) data he cited, about 10% of the gross value of FX obligations settled daily in April 2025, approximately $1.4 trillion, still settled bilaterally without risk mitigation. Despite the reduced share, the amount remained of a broadly comparable order of magnitude to that recorded two decades earlier.

The same representative highlighted substantial growth in emerging-market FX trading, citing the renminbi's rise from a marginal position two decades earlier to the fifth most traded currency. He called for three actions:

- Keep FX settlement risk high on the public-private agenda, as a recent BIS report had urged.
- Measure the risk more frequently than the BIS Triennial Survey, noting that FX market committees were already working on more frequent updates.
- Develop solutions for emerging market and developing economies.

3. Priorities for the next phase

A central bank representative considered the roadmap an effective tool. With many actions due to expire in 2027, he noted there may be a need for a more targeted next phase. On implementation, he highlighted the need to:

- Address the frictions that most constrain progress and where international coordination can add the greatest value.
- Translate global commitments into regional and jurisdictional action plans focused on outcomes for users.
- Maintain close public-private cooperation, since industry must deliver many of the improvements.

An industry representative emphasised that frictions varied by corridor and that solutions must vary accordingly. An international policymaker stressed jurisdictional capacity and regional integration, particularly in emerging markets: the global system also needed to work effectively at local level.

3.1 Open questions for the next roadmap

An international policymaker recalled that the first roadmap had aimed both to improve payments and to prevent a significant deterioration. That defensive objective remained relevant. There was no established playbook, and some initiatives would fail while providing useful lessons. Expectations that global policy and competitive pressure would suffice to deliver good outcomes had not been completely vindicated. He also cautioned against overconfidence in technological forecasts, noting that projections for 2030 often came from those who had previously made forecasts for 2025.

The same policymaker called for a discussion of where a further roadmap could add value, including the relative priority given to speed, cost, access and transparency benchmarks. He also asked whether the strictly technology-neutral approach should become somewhat more supportive of technological change by encouraging or facilitating some innovations. His organisation was in listening mode, and he invited all participants in the ecosystem to contribute ideas. He welcomed the fact that the CPMI was preparing to put their perspective into the public domain to inform the debate.

3.2 Trust and financial integrity

A central bank representative placed trust at the centre of the agenda. Innovation must not create new opportunities for fraud or illicit finance. Financial integrity required a coherent international approach, with the FATF playing a key role alongside the FSB and

with political support from the G20. New forms of money would succeed only if users were as confident in them as in existing forms of money.

An international policymaker stressed the importance of a lasting framework for financial institutions to exchange data systematically and automatically to combat fraud and inform regulators. An industry representative also emphasised trust and the increasingly complex threats associated with frontier artificial intelligence and other market developments.

3.3 Central bank leadership

An international policymaker highlighted the value of central bank leadership, citing the Bank of England, the European Central Bank and Brazil. He attributed Brazil's transformation in significant part, though not exclusively, to its central bank. A central bank representative noted that his institution had recently received a secondary objective to support innovation in money and payments and was working with industry through a sandbox and a distributed ledger technology (DLT) innovation challenge.

4. Innovation and interoperability in cross-border payments

A central bank representative described an evolving multi-money system in which different forms of money, payment infrastructure and assets would coexist. Jurisdictions were pursuing different approaches, including privately issued stablecoins, new forms of central bank money and tokenised deposits. These developments could strengthen competition and efficiency but required consistent standards to prevent fragmentation and preserve resilience.

An industry representative likewise envisaged multiple assets and payment infrastructures, with growing use of same-day and instant settlement. Tokenised reserves, regulated stablecoins and tokenised deposits were beginning to coexist with traditional money. An industry representative stressed that customers primarily wanted a seamless, efficient experience, regardless of the underlying technology.

4.1 Interlinking instant payment systems

A central bank representative presented the cross-currency service developed for TARGET Instant Payment Settlement (TIPS). It enabled payments between currencies already supported by the system: the euro, Swedish krona and Danish krone. He said the technical work was complete, and the service was ready for use. There were also plans to include the Norwegian krone and Icelandic króna.

The same representative explained that settlement in central bank money removed credit risk from the chain and supported a level playing field for small banks, large banks and other payment service providers. Building on existing infrastructure, he saw interlinking instant payment systems internationally as an efficient way to improve cross-border payments.

4.2 Interoperable systems and compatible regulatory frameworks

A central bank representative warned that isolated ecosystems were unlikely to deliver the benefits envisaged. Tokenised assets and money needed to operate alongside existing infrastructure, supported by compatible regulatory frameworks. Firms required legal clarity and certainty to innovate, while the cross-border nature of these markets made international cooperation on standards essential.

An industry representative said interoperability must be built in from the outset. He described his organisation's integration of a blockchain-based ledger to support the movement of value across existing and future infrastructure.

An industry representative identified three emerging models:

- Convergence: unified platforms on which assets are issued and settled, illustrated by the BIS Innovation Hub's Project Agorá.
- Orchestration: separate infrastructures linked by a synchronisation operator, an approach being developed by the Bank of England.
- Federation: autonomous networks connected through gateways and common standards.

4.3 Settlement and liquidity challenges

An industry representative noted that digital assets, new infrastructures, shorter settlement cycles and geopolitical developments were changing the risks to be addressed. He referred to discussions about T+1 in Europe and the possibility of moving towards same-day or instant settlement. Choice created opportunities, alongside challenges: synchronising payments across platforms through atomic settlement, limiting liquidity fragmentation, and preserving multilateral netting to reduce the amounts that participants need to fund.

The Chair concluded that the roadmap had provided a substantial foundation for improving cross-border payments. The challenge for the next phase was to translate those efforts into measurable benefits for users.

Sessions

VII

RISK PREVENTION AND MITIGATION

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AML and AMLA: from policy into action

The discussion examined how the new EU framework for anti-money laundering and countering the financing of terrorism (AML/CFT) could deliver more effective prevention of financial crime. Speakers emphasised consistent supervision, cooperation, risk-based priorities and responsible use of technology. The benefits of the Anti-Money Laundering Authority (AMLA) and the Anti-Money Laundering Regulation (AMLR) would depend on how the framework was implemented and on the outcomes it achieved.

1. Integrity and trust in the European financial system

1.1 Trust and participation

The Chair described integrity as a fundamental condition for an economy to thrive and presented an effective integrity framework as a foundation for competitiveness and economic growth.

The Chair emphasised the scale of illicit financial flows, while noting the absence of authoritative estimates. These flows facilitate drug trafficking, human trafficking and fraud. The Chair described fraud as an epidemic whose typology is closely linked to money laundering. As the Capital Markets Union seeks to encourage people to invest through the financial system, the Chair stressed that a prerequisite for participation is trust.

An industry representative similarly argued that a more effective framework would increase trust in the system and help firms operate cost-effectively across borders.

1.2 Fragmentation as a source of vulnerability

A central bank representative recalled that AMLA had been created because fragmentation had become a vulnerability and had weakened the system's effectiveness. The Chair described the starting point as a weak regime in which the promise of cross-border integrity had failed in Europe.

An industry representative explained how fragmentation affects cross-border groups. Despite increasing alignment of the rules, national interpretations, expectations and information-sharing practices still differ. Similar risks are assessed and prioritised differently, requiring firms to spend more time meeting divergent obligations and less time stopping financial crime.

Integrated supervision offers an opportunity to address these problems but requires commitment and effort from AMLA and national authorities. For the same representative, the ultimate objective was greater effectiveness in tackling financial crime.

1.3 Convergence and prevention of financial crime

The same industry representative regarded supervisory convergence as a structural necessity for an effective EU AML system. Consistent application of a single rulebook would strengthen Europe's protection against money laundering. A shared view of risk among supervisors, financial intelligence units (FIUs) and firms would help them anticipate emerging threats and prevent financial crime. The speaker argued that this could make AMLA a tool of European power.

The Chair agreed that preventing illicit activity from entering the system was the best outcome. The Chair called for information sharing, rapid responses and swift remediation when problems arose, as part of an agile approach to protecting the system.

2. Cooperation and consistent supervision

2.1 Shared responsibilities and reciprocal benefits

A public authority representative viewed cooperation as central to the new system. Every participant, including national and EU supervisors, FIUs and the private sector across financial and non-financial activities, needed to see a clear purpose and benefit.

The representative identified three organisational principles. First, participants should agree on the desired outcome and align their responsibilities. AMLA should provide the European perspective and coordination, drawing on national capabilities and firms' insights. Second, shared intelligence requires common data formats and definitions, interoperable systems and a clear distinction between essential and optional information. Third, the system should be reciprocal: those contributing data and insights should receive useful benchmarking, a European perspective or feedback in return.

The representative illustrated the problem with a firm operating in ten Member States and facing repeated requests for similar data, different feedback and no coordinated action. The objective would be a single request followed by coordinated action and consistent feedback.

2.2 Central coordination and sensitivity to risk

An industry representative identified a tension between the centre's desire for control and standardisation and the need to remain sensitive to risk. The speaker considered the establishment of European Central Bank (ECB) supervision instructive. While strongly supporting what the ECB had achieved, the representative cautioned that the drive for standardisation had also reduced risk sensitivity.

The Chair stressed that AMLA would directly supervise up to 40 groups, while the vast majority of firms and entities would remain under national supervision. The industry representative called for vertical integration

between AMLA, national competent authorities (NCAs) and firms, and horizontal integration across AMLA, the ECB and the European Supervisory Authorities (ESAs), as well as between conduct, prudential and AML supervision.

A central bank representative argued that effective indirect supervision depended on a common language, shared data and an EU-wide understanding of risks and resource priorities, alongside structures, mandates and powers.

2.3 Consistent application and dialogue with industry

The Chair called for a clear, shared rulebook that looks and feels the same whether in Dublin or Dubrovnik. Divergent interpretations of the same issues would not help the fight against crime.

One industry representative warned that differing supervisory messages on the same requirements would undermine harmonisation. Consistency needed to be combined with proportionality, effectiveness and recognition of sectoral differences. Looking five years ahead, another industry representative hoped AMLA would avoid gold-plating and over-engineering, issue well-balanced Level 3 guidance and promote a level playing field, while recognising the diversity of businesses subject to AML requirements. For the latter, day-to-day operational efficiency also mattered to industry.

A central bank representative stressed that AMLA, national supervisors and FIUs bore primary responsibility for reducing fragmentation. The private sector could help identify divergent expectations and interpretations. An industry speaker suggested building on existing national consultative arrangements, while another industry speaker emphasised regular dialogue, intelligence sharing and common standards as risks evolved.

3. Risk-based supervision and measurable outcomes

3.1 Assessing implementation and results

Asked what success should look like five years ahead, one industry representative said the relevant measures would be the system's ability to disrupt, forestall and prevent financial crime and the quality of public-private cooperation. The number of audits or enforcement actions and the value of penalties would not be the ultimate test. Another industry representative similarly argued that Success should be measured by effectiveness, not activity, with attention to whether firms identify, mitigate and prevent financial crime risks.

The first industry representative distinguished the initial implementation phase from the outcomes expected around the five-year mark and beyond. Early progress would mean clear and consistent expectations, a common understanding of threats, timely information sharing and less duplication. Over time, the test would be earlier identification of emerging threats, resources directed to the highest risks and fewer opportunities for criminals to exploit gaps between jurisdictions. Improvement would be iterative and judged by outcomes.

Another industry speaker saw the benefit in enabling firms to invest in transforming an onerous compliance-driven process of questionable effectiveness into a more risk-based, analytical and effective approach.

3.2 Setting and supporting risk priorities

A central bank representative emphasised that allocating resources to the highest risks necessarily meant spending less on lower-risk areas. This required the courage to set priorities and public support for the possibility that some problems would be missed. Automatically responding that supervisors should have done more would undermine a genuine risk-based approach.

The shift began with supervisory staff. Doing the job well did not mean treating every risk as material and acting on all of them. Supervisors needed a framework that gave them confidence to set priorities, informed by decisions at EU level. Success meant effectiveness at the lowest cost to society, while keeping the system accessible to businesses and individuals.

An industry representative added that an EU-wide perspective would support greater proportionality, allowing attention to focus on high-risk activities and reducing the emphasis on box-ticking compliance exercises.

3.3 Turning data into actionable intelligence

The same speaker highlighted the gap between data and actionable intelligence. An EU-wide perspective could reveal connections that individual firms and national authorities could not see. The speaker compared AMLA's potential role in anticipating financial crime risks with the Financial Stability Board's (FSB) role in financial stability. The aim was to identify and address gaps before criminals exploited them.

A public authority representative explained that AMLA could complement national supervisors' knowledge of individual firms and domestic risks with a broader picture of financial crime. This should inform the full supervisory cycle: a common understanding of risk, comparisons with peers in other Member States, coordinated and rapid responses to cross-border trends, and learning from each cycle to improve outcomes.

The Chair pointed to the Article 11 database and AMLA's role in providing an EU-level view of risks to support the Commission's supranational risk assessments. Their value would depend on how they were used. Information on systemic patterns should feed into know your client (KYC) and customer due diligence (CDD) processes, so that threat intelligence informed practical decisions.

An industry speaker emphasised that AMLA's role should combine supervision and enforcement with sharing EU-wide risk patterns and guidance through NCAs. Its direct supervisory experience could benefit other firms. A continuing feedback loop would help companies adjust their scenarios and operational arrangements as risks emerged.

4. Technology and effective financial crime controls

4.1 Understanding and supervising crypto risks

The Chair noted that crypto was often associated with a combination of higher AML risk factors. A public authority representative described it as innovative, high-risk from an AML/CFT perspective, inherently cross-border and rapidly evolving. A common understanding of risks was therefore essential. The representative advocated a European blockchain analytics solution, which the speaker considered lacking, on grounds of both efficiency and European sovereignty.

As the market grew, the same representative called for a consistent approach to market access and the application of existing rules, with AMLA providing a forum for developing a common approach. Predictable supervisory expectations required sound risk understanding and reliable analytics before insights could be shared with the market.

4.2 Supervising AI through outcomes and governance

The Chair described AMLA as the first EU regulatory authority in a post-AI context and called for careful consideration of what this meant for its use of technology.

An industry representative argued that supervision should remain technology-neutral and outcomes-focused. The question was whether firms could demonstrate effective and explainable controls capable of delivering better risk outcomes. Data quality was essential, and supervisors needed their own expertise and tools to assess AI-enabled controls. Firms should be able to innovate where they demonstrated sound governance, transparency, risk management and understanding of their tools. In those conditions, AI could strengthen their capabilities to combat financial crime.

Another industry speaker added that the new framework should give firms the confidence to invest in technology that addressed underlying risks during a period of rapid technological change.

4.3 Human judgement and accountability

The same speaker noted that the AMLR set expectations for human involvement in governance and decision-making, including judgement about whether the threshold for suspicion had been reached. As technological capability advanced, firms needed to use it effectively, recognising that criminals would do the same. The speaker called for model risk discipline, understanding of assumptions, effectiveness testing and vigilance against historical and data-driven biases. Human oversight should examine unusual cases and potential failures, beyond the many cases that appeared to run smoothly. Boards needed to be able to explain how they knew the arrangements were working effectively.

Another industry representative stressed that firms retained responsibility for AML/CFT outcomes. They needed to explain how models were developed, validated, monitored and challenged, particularly when these influenced decisions about customers or risk.

A further industry representative explained that financial crime work had traditionally involved substantial manual intervention. Automation and AI could improve both efficiency and effectiveness, provided firms demonstrated results at least as effective as those achieved with human intervention alone. Firms also needed to involve and reassure regulators as they adopted these tools responsibly.

Cyber resilience: how should the EU framework evolve in the AI era?

The Chair observed that the cyber-threat landscape is continually evolving and that AI is making cybersecurity a higher priority for financial institutions and regulators. AI can help strengthen cyber defences by identifying and addressing weaknesses in digital systems, but also makes it easier for attackers to exploit vulnerabilities, making the balance between attack and defence more fragile. Outsourcing and reliance on sometimes geographically distant third-party providers create additional risks. Addressing these increasingly interconnected threats requires a collective response, with information exchange within the private sector and between public and private actors.

1. Evolution of the threat landscape

An official noted that cyberattacks are increasing, with distributed denial-of-service attacks, data exfiltration, social engineering and supply-chain attacks among the most prevalent forms. The underlying risks are not new, but AI is accelerating attacks and increasing their potential impact. Quantum computing is another emerging cybersecurity challenge, particularly because of the threat it poses to cryptography, for which both banks and authorities need to prepare. Despite these growing threats, cyberattacks account for a relatively small proportion of the major ICT-related incidents reported, with disruptions involving third-party providers and system failures being much more common.

An industry speaker considered that the nature of cyber threats and attack methods is not fundamentally changing, but that attacks are evolving in terms of speed and scale. AI and automation lower the skills and cost barriers for attackers, allowing less-skilled actors to mount sophisticated attacks quickly. AI also enables organised criminal groups and state-sponsored actors to generate larger volumes of increasingly sophisticated and personalised attacks more rapidly, forcing financial institutions to process more threat information and warning signals. Phishing illustrates this trend with 54% of AI-generated phishing emails clicked, compared with 14% of human-generated messages. Third-party dependencies are another major concern, as even strong controls within an institution's own systems cannot eliminate risks originating with external providers. Six or seven of the latest ten major financial-services breaches globally have occurred through third parties.

Another industry speaker agreed that AI does not fundamentally change existing attack vectors, but increases the speed and volume of attacks. APIs are one such attack vector: financial institutions use these interfaces to access technology services and build applications, but inadequately protected access keys can allow attackers to authorise crypto transactions in place of legitimate employees. AI does not create this vulnerability, but its growing use requires greater attention to such security risks. Autonomous AI agents used to write code or execute payments also introduce security risks that need to be managed. These agents should be subject to a zero-trust approach, with safeguards limiting what they can do, based on the assumption that existing security controls may have been compromised.

The industry speaker moreover highlighted the emerging cyber and operational-resilience risks associated with the growing use of digital assets, a trend expected to accelerate with tokenisation. Crypto-native firms now hold increasing amounts of customer assets, while traditional financial institutions entering the tokenised custody market face new operational and cybersecurity risks. Both groups need to develop their operational resilience capabilities and learn from each other's experience. Decentralised blockchain infrastructure poses a particular challenge for third-party risk management, as financial institutions may rely on DLT networks without contractual relations with their operators, limiting oversight possibilities, although these dependencies can still be stress-tested. Another vulnerability is blind signing, where users approve transactions without being fully aware of what they are authorising, with the underlying information presented as lengthy numerical strings that are difficult to interpret. Organised actors, particularly North Korean groups, pose a further threat through sophisticated, increasingly AI-enhanced social-engineering attacks, whose recurring patterns underline the need for more effective threat-intelligence sharing. Looking further ahead, quantum computing could undermine the elliptic-curve cryptography used to secure digital assets. Europe could play a leading role in preparing for this threat, building on the Commission's quantum-resilience roadmap.

2. Impact of DORA and areas for improvement

2.1 DORA's contribution to operational resilience

An industry speaker considered DORA an important contribution to cyber and operational resilience in Europe, helping financial institutions strengthen their preparedness to address increasingly sophisticated cyber threats. By harmonising requirements across Member States and institutions, DORA has established a common framework based on proportionality, risk-based supervision and a focus on critical and important

functions. Its implementation has been broadly smooth, although some areas require improvement.

Another industry speaker described DORA as transformational because it encourages financial institutions to look beyond regulatory compliance and focus on managing the underlying risks to their operational resilience. Firms need to understand the risks DORA seeks to address, determine how the required controls can strengthen their resilience and demonstrate to supervisors how these risks are managed in practice. This approach is particularly relevant to payment firms, fintechs and technology companies, which have experience in risk management but are less accustomed to the extensive compliance requirements traditionally applicable to established financial institutions. Where requirements appear ill-suited to their activities, firms should consider how to apply them meaningfully and discuss their approach with regulators, recognising that implementation is a learning process for both sides.

A regulator explained that many DORA requirements were already part of supervisory expectations in certain Member States. DORA's main contribution is to establish a harmonised European framework, turning these expectations into directly enforceable legal obligations and giving supervisors a stronger basis for overseeing ICT risk management, incident reporting and third-party dependencies. This helps ensure consistent cybersecurity and operational-resilience standards across Member States.

An industry speaker considered that DORA has also raised operational resilience standards for digital asset custody and infrastructure in Europe.

An official explained that DORA also strengthens supervision by improving supervisors' access to information on ICT risks and incidents and giving them greater powers to intervene when necessary.

2.2 Implementation challenges and areas for improvement

An official stressed that DORA should promote effective risk management by banks and their boards, alongside risk-based supervision by authorities, focusing on the most critical risks in a rapidly evolving cyber-threat landscape rather than becoming a mere compliance exercise.

An industry speaker cautioned that a supervisory culture excessively focused on evidence collection and documentation can divert management attention from effective risk management, especially when rapid responses are essential. Some DORA requirements are too prescriptive, placing excessive emphasis on procedural compliance rather than effective risk management. The review expected towards the end of 2026 offers an opportunity to refine incident-reporting criteria, as pan-European institutions often meet reporting thresholds automatically, even for relatively minor incidents. Refocusing reporting on genuinely major events would give supervisors more useful information. There is also scope to reduce overlaps between supervisory tools, notably the Risk Management Framework annual review and the IT Risk Questionnaire, where there is heavy duplication. Finally, although the third-party register is useful, some of its data requirements create unnecessary administrative burdens without adding significant value to supervision or risk management.

A regulator stressed that DORA's effectiveness should be assessed through tangible improvements in operational resilience rather than formal compliance. This requires boards to understand critical dependencies and ensure that essential services can continue during disruptions and that firms can respond and recover effectively. Larger institutions generally appear better prepared than smaller firms. DORA's proportionality provisions therefore need to be applied effectively, adapting supervisory requirements to smaller institutions without compromising resilience standards.

An industry speaker cautioned that DORA's prescriptive requirements can encourage a focus on formal compliance rather than effective risk management, with much of the first year of implementation devoted to meeting regulatory requirements and establishing processes. Against this background, the more outcome-focused approach already evident in some supervisory reviews is welcome. Rather than simply checking policies and procedures, these reviews examine recent ICT and cyber incidents to assess the effectiveness of DORA measures, whether firms have learned from previous incidents and why certain incidents have recurred. This provides a more meaningful assessment of firms' ability to withstand and respond to disruptions than formal compliance checks.

3. Further responses to enhance operational resilience

3.1 Regulatory and supervisory priorities

The panellists broadly considered that DORA represents significant progress and, together with other existing EU cyber and digital legislation, provides a sufficiently comprehensive framework to address evolving cyber risks. The priority is therefore to make more effective use of the existing framework rather than introduce further regulation.

An industry speaker stressed that the rapid development of AI and quantum computing requires financial institutions and their third-party providers to strengthen risk management, beyond a simple compliance exercise. Firms must trace supply-chain dependencies as far as the risks extend, while focusing on the critical functions whose disruption would affect customers or the firm's viability.

A regulator cautioned against adding rules whenever new technological or cyber risks emerge. The more pressing concern is fragmentation across existing regulatory frameworks, which can create overlapping and inconsistent reporting requirements. A single incident may involve operational resilience, AI, data protection, fraud and third-party dependencies, triggering multiple reporting obligations under

separate regulatory frameworks, with authorities receiving varying information at different times. This makes it difficult for authorities to form a common picture. Reporting should therefore be better integrated, ideally allowing information to be reported once and distributed to all relevant authorities.

An industry speaker highlighted regulatory fragmentation as a major concern. For example, overlapping requirements under DORA and the Cyber Resilience Act can oblige firms to provide essentially the same information to several authorities in different formats, creating administrative burdens and diverting resources from effective risk management. More ambitious simplification of overlapping regulatory requirements under the Digital Omnibus would have been welcome.

Another industry speaker suggested that a single European register covering ICT and non-ICT third-party arrangements would help reduce duplication between reporting arrangements and ensure consistent information sharing between supervisors. Firms can also strengthen operational resilience through a "Minimum Viable Company" approach, which involves identifying and prioritising the critical functions and dependencies that must be maintained or restored first during a major disruption to protect customers, meet regulatory obligations and preserve the firm's viability. The Critical Entities Resilience (CER) Directive extends the focus beyond finance to essential services such as water and electricity, on which financial institutions depend. Strengthening resilience at system level therefore requires coordination between critical sectors and their authorities to identify shared dependencies and agree on priorities for maintaining essential services during a crisis, rather than responding separately.

An official cautioned that it is too early to assess DORA's effectiveness and consider regulatory changes without more implementation experience.

3.2 Cooperation and information sharing

The panellists highlighted the importance of cooperation and information exchange between financial institutions and public authorities to strengthen cyber resilience, given the high degree of interconnectedness across the financial sector and its service providers.

An official emphasised that cooperation helps financial institutions and authorities keep pace with evolving cyber threats, identify risks early and support rapid incident response and recovery. Supervisors have a role in facilitating these exchanges, while bank boards need to prioritise investment in the necessary capabilities.

An industry speaker stressed the need to share practical cybersecurity expertise in the developing digital asset sector, where experience remains limited and unevenly distributed. Pooled audits of third-party technology providers, for example, allow firms to assess providers collectively, enabling smaller businesses to benefit from the expertise of more experienced participants. Supervisory guidance could also help disseminate common practices without necessarily requiring new legislation.

Another industry speaker stressed the need for financial institutions to maintain effective cyber defences and meet resilience requirements, while sharing expertise with smaller firms that lack the necessary capabilities. Such cooperation can help limit the impact of cyberattacks and accelerate recovery.

A regulator called for closer cooperation among national financial supervisors, cybersecurity authorities and law-enforcement agencies, since no single authority can ensure cyber resilience on its own.

An industry speaker cautioned that excessive sharing of sensitive information, particularly in response to supervisory documentation requirements, can itself create cybersecurity vulnerabilities. Information disclosure should therefore be limited to what is essential.

Another industry speaker illustrated this risk with the example of technology, media and telecommunications providers required by financial regulators to disclose details of their supply chains, potentially exposing sensitive dependencies and making these providers targets for cyberattacks.

3.3 Critical third party dependencies

A regulator explained that compliance with DORA by individual banks does not necessarily ensure resilience across the financial system, as many institutions may depend on the same cloud, digital identity or cybersecurity providers. A disruption affecting one of these providers could therefore have widespread consequences. DORA's new European oversight framework for critical ICT third-party providers (CTPPs) should help supervisors identify and assess these shared dependencies, although it is too early to evaluate its effectiveness in practice.

An official noted that European-level oversight of ICT CTPPs has begun, but assessing its effectiveness will require more operational experience. Information collected through DORA registers and information sharing, combined with AI tools, can help supervisors map dependencies between banks and third-party providers and identify which institutions could be critically affected by a disruption.

4. Role of AI in strengthening cyber resilience

An industry speaker stressed that sophisticated AI tools are available to both attackers and defenders, with no reason to assume that attackers have less advanced capabilities or more limited access to these technologies. Financial institutions therefore need to develop equally sophisticated defensive capabilities, as this technological competition is likely to remain a permanent feature of the cyber-threat landscape. AI agents can help strengthen cybersecurity by reviewing software code for vulnerabilities before deployment, supporting threat detection and accelerating incident response. In a recent smart-contract exploit, AI also helped identify other contracts with the same vulnerability and

generate code to address it. However, no organisation can guarantee complete cybersecurity, and using AI introduces risks of its own, particularly when relying on third-party models and services. Firms therefore need to determine which risks they are prepared to accept and establish appropriate safeguards, internal policies and controls over AI use.

Another industry speaker observed that early enthusiasm for AI led clients to consider replacing security teams with automated tools, but the emphasis has since shifted towards augmenting human defenders to manage growing volumes of alerts, incident information and regulatory reporting, and counter machine-speed threats with machine-speed responses. First, in threat intelligence, AI can assimilate and correlate growing volumes of information on threats and newly identified vulnerabilities, helping security teams respond faster. Second, in detection, AI can identify anomalies more quickly and effectively than human analysts and correlate patterns and threats across systems. The rapidly growing volume of data is illustrated by Microsoft's reported processing of 100 trillion security signals per day in 2025, compared with eight trillion in 2020. Third, in incident response, where speed is most critical, AI can identify vulnerable systems after a breach, correlate information across an institution's environment and accelerate containment decisions. AI can also facilitate regulatory compliance and reporting, with vendors increasingly offering tools that help firms assess their compliance with different regulatory requirements and prepare information for supervisors.

Wrap up

The Chair considered DORA a timely and important step forward in strengthening operational resilience. After approximately a year and a half of implementation, the framework appears to be broadly welcomed by supervisors and the financial industry. A major innovation is the introduction of direct oversight of critical ICT third-party providers. More broadly, DORA has encouraged institutions to reassess their third-party dependencies and identify the minimum operations needed to maintain critical functions. These conceptual gains nevertheless need to be accompanied by efforts to limit compliance burdens and unnecessary administrative requirements. Cyber resilience also requires greater cooperation and information sharing, although institutions may hesitate to disclose information revealing their own vulnerabilities. Because financial sector continuity depends on essential services such as telecommunications and energy, cooperation must also extend beyond financial supervisors to the authorities responsible for these sectors.

Private credit and NBFI: combining financial innovation and systemic resilience

The growing role of private markets and non-bank financial institutions (NBFIs) in financing the economy raises questions about their contribution to investment, the sustainability of their business models and the implications for financial stability.

The discussion first explored how private markets and NBFIs can complement bank financing, diversify sources of capital and mobilise long-term investment. It then examined the transparency, liquidity and interconnectedness risks before considering the supervisory and regulatory responses needed to strengthen financial resilience and support the development of the Savings and Investments Union (SIU).

1. Private markets and NBFIs

1.1 The economic additionality of private markets and NBFIs

1.1.1 Complementary financing models

An industry representative argued that private markets are a structural necessity given the scale of global financing needs. The Draghi report estimates that €800 billion in additional annual investment is needed, which banks cannot meet alone. These needs include the energy transition, infrastructure and project finance. The industry representative also cited partnerships involving Air France, Vonovia and EDF Energy as examples of the model developing in Europe.

Private markets complement banks rather than replacing them. Banks excel at short-term lending, cash management, liquidity provision, hedging, repurchase agreements (repo) and mergers and acquisitions (M&A) services; they are less suited to holding long-term illiquid assets. Insurers, by contrast, can provide long-term investment-grade credit rated BBB to AA, enabling banks, asset managers and insurers to combine their respective strengths and mobilise capital for long-term financing. Policy discussions focus disproportionately on sub-investment-grade direct lending. Investment-grade financing, meanwhile, represents around 95% of the broader $40 trillion credit market.

1.1.2 The Japanese experience

A Central Bank official observed that private markets and NBFI innovations can strengthen financial resilience by providing flexible, long-term capital to sectors that are underserved by traditional banks. Their economic additionality extends beyond replacing bank loans; they offer customised financing for growing companies, complex financing structures and long-term infrastructure projects.

Banks benefit from low-cost deposits and established local networks, but regulatory constraints can limit their ability to hold higher-risk debt and equity exposures over long periods. Private credit funds help to fill this gap through mezzanine and subordinated financing, improving the distribution of risk across the financial system.

This complementary model is also developing in Japan. Major Japanese banking groups are partnering with global private credit funds that connect domestic institutional investors with international direct lending markets. Meanwhile, specialised Japanese asset managers are establishing private debt funds that mobilise pension fund and insurance capital to provide mezzanine financing for business successions and private equity transactions.

1.1.3 The development of non-bank finance in Europe

A regulator observed that credit provision remains predominantly bank-based in the EU, unlike in other markets, where non-bank financing is expanding and generating additional investment. That development raises supervisory concerns, particularly given weaker market discipline, limited transparency and the illiquidity risks faced by institutional investors.

The question of whether a comparable model can emerge in Europe, independent of foreign players or domestic banking groups, remains uncertain. Developing non-bank financing within banking groups is not inherently problematic since banks remain the natural starting point for credit provision in Europe. That does not mean that the expansion of non-bank finance must remain confined to banking groups. The insurance and pension sectors illustrate different approaches, with some institutions adapting established models and others exploring new ones.

The discussion also highlighted the role of private markets in diversifying financing sources and distributing credit risk across the financial system.

1.2 Diversifying financing sources and credit risk

1.2.1 Mobilising capital and diversifying credit risk

An industry representative argued that the expansion of NBFIs can help meet substantial financing needs, including nearly $7 trillion for digital infrastructure by 2030 and the €800 billion of existing corporate debt worldwide maturing over the next three years. These needs call for financing sources beyond public balance sheets alone.

The key question is not which financing model is most sustainable, but how effectively credit risk is distributed across the financial system. Different business models can contribute to closing the funding gap, provided that risks are appropriately dispersed. In Europe, the SIU is essential to developing integrated capital markets and channelling retail and traditional savings into the real economy.

1.2.2 The diversification and growing complexity of private credit

An industry representative observed that private credit already plays an important role in financing the European economy. Large European utility groups and other businesses with long-term cash flows increasingly rely on alternative financing structures. These structures include complex capital joint ventures, long-term utility financing, real asset-based finance, and the securitisation and sale of intellectual property rights. Their diversity and complexity underline the need for greater transparency and clarity in assessing private market exposures. The expansion of these financing activities also depends on the capacity of long-term investors to allocate capital to private markets.

1.3 Mobilising institutional capital for long-term investment

1.3.1 Insurance and pension funds

A regulator emphasised that insurers and pension funds, although classified as NBFIs, are distinct liability-driven institutions with long-term investment horizons that make them well suited to long-term financing.

In Q1 2026, EU insurers held €10.7 trillion in assets under management, of which €9.8 trillion was invested, while pension funds managed almost €3 trillion. These substantial asset pools offer considerable potential to finance the economy.

Private credit accounts for 5% of insurers' assets, a share that has remained stable over the past two and a half years. Of total insurance assets, 3% is invested in traditional real estate and mortgage exposures, while 2% is allocated to newer forms of private credit. Despite growing interest in AI and data centres, insurers' exposures to these sectors remain limited, leaving room for expansion, subject to appropriate supervision.

1.3.2 Institutional investors

An industry representative observed that the investor base for private credit and other private assets has broadened. Institutional investors have traditionally invested through closed-end funds, with alternative assets now accounting for at least a quarter of asset owners' total allocations. Their main challenge is obtaining a consolidated portfolio view that allows exposures to be consistently measured and compared across asset classes.

1.3.3 Wealth investors

An industry representative commented that wealth investors have driven much of the recent growth in private markets. The main challenges are the reliability of fund managers' valuations and the frequency with which they are updated. The expansion of private market investment opportunities also raises questions about transparency, valuation practices and the management of liquidity risks. This growth has been supported particularly by evergreen funds using point-in-time net asset value (NAV) estimates.

2. Private market resilience

2.1 Improving transparency, data consistency and valuation practices

2.1.1 Consistent definitions, standardisation and greater transparency

An industry representative noted that his firm had identified around 30 different definitions of private credit used by supervisors, rating agencies and market participants. A more granular taxonomy based on underlying assets is essential. Without consistent definitions and sufficiently detailed data, attention risks being dispersed across too many potential vulnerabilities. The industry is working to improve disclosures through data providers and identifiers, firms' own reporting and advocacy for greater consistency across jurisdictions. Some definitions include mortgages, calling into question estimates of a $3 trillion private credit market; residential mortgages, auto loans and commercial loans have different risk characteristics.

2.1.2 From disclosure to visibility

An industry representative emphasised that more reporting does not necessarily improve system-wide understanding without a common basis for comparison. Funds can report their holdings using different or jurisdiction-specific definitions without revealing underlying exposures, overlaps or concentrations across the financial system.

Consistent classification of underlying holdings is therefore essential. This requires standardised definitions of private asset subclasses, independent of individual managers or investors. Such a framework would make differences and overlaps visible. Funds labelled as senior direct lending may have substantially different exposures, risk profiles and concentrations, while funds in different categories may share common exposures.

The extension of the Global Industry Classification Standard (GICS) framework to private assets illustrates this approach by enabling sector exposures to be compared with public market equivalents. Investments linked to AI infrastructure and data centres, for example, can be aggregated across infrastructure, real estate, buyout and venture capital funds. Looking through to underlying holdings also reveals overlapping exposures to the same companies across asset classes. At the end of Q1 2026, the value of the data centre ecosystem index was approximately $150 billion. Diversification across asset classes does not necessarily imply diversification of underlying economic risks.

Valuation practices need to be timelier and more reliable. Independent benchmarks based primarily on limited partners' own data, rather than fund managers' reported valuations, can reduce reporting selection bias. As these benchmarks are only updated quarterly, a daily private credit index can complement them. The growing secondary market also provides more frequent valuation signals through actual transaction prices. Nowcasting techniques can match public bond market signals with the sectoral and geographical characteristics of private credit holdings.

These tools do not remove the structural illiquidity of private assets or determine optimal product design. However, more timely and comparable valuations can strengthen investor confidence during market volatility and improve transparency across newer investment structures. The same data and analytical tools could also help supervisors improve system-wide visibility and risk assessments.

2.1.3 Transparency on leverage, credit quality and interconnectedness

An industry representative identified two priorities: greater transparency and clearer information on liquidity constraints. Although no systemic risk is currently apparent, the growth of private capital calls for more comprehensive disclosure of leverage at the asset, fund, manager and investor levels, as well as of the credit quality of private credit instruments.

Greater visibility is also needed on the interconnections between private markets and banks, which may create concentration risks and transmit shocks to the banking system. Standardised regulatory reporting and greater transparency would enable investors to conduct due diligence and assess risks independently. Credit ratings, credit assessments and rating-agency data can also contribute to independent risk assessment.

2.1.4 NBFI heterogeneity, data aggregation challenges and concentration risks

A regulator noted that the term 'NBFI' encompasses highly heterogeneous institutions, making it difficult to assess the sector as a whole. Some of these institutions are relatively well understood by supervisors, which facilitates access to information. Banks, however, still struggle to aggregate exposures across business lines and affiliates. Meanwhile, private credit is expanding beyond banking groups. Synthetic securitisation presents an emerging concentration risk, as the provision of credit protection is becoming increasingly concentrated.

Improving transparency and data consistency is an essential step toward identifying vulnerabilities. However, resilience also depends on how liquidity constraints, asset-liability mismatches and interconnected exposures are managed in practice.

2.2 Managing liquidity and risks across private markets

2.2.1 Clarity on fund liquidity and redemption restrictions

An industry representative stated that fund managers must more clearly communicate the actual limits on liquidity and withdrawals. Private markets are inherently less liquid than public markets, and some funds have restricted redemptions to prevent runs and protect the value of underlying assets.

Clearer disclosure of redemption constraints would help investors to anticipate how funds may behave under stress, avoid unexpected restrictions and facilitate the management of liquidity pressures. When combined with greater transparency, this could help limit contagion risks.

2.2.2 Liquidity management and system-wide resilience

An industry representative observed that the central asset liability management risk is the mismatch between short-term liquidity commitments and long-term illiquid assets. In Q1, business development companies (BDCs) received $22 billion in liquidity requests, of which $11 billion were met. After accounting for capital inflows, however, net outflows amounted to only $2.6 billion, compared with $42 billion withdrawn from Silicon Valley Bank (SVB) in one week. He viewed the BDC figures as evidence that private credit investors were providing funding suited to the underlying assets. He stressed that the comparison with SVB concerned fundamentally different situations and called for greater transparency on gross and net flows at the system-wide level.

The availability of credit throughout the economic cycle is another important consideration. Diversified funding sources can strengthen resilience, as private credit may remain available when banks retrench, and vice versa.

2.2.3 Liquidity, interconnectedness and supervisory challenges

A Central Bank official stressed that the benefits of non-bank financing must be balanced against inherent vulnerabilities. Unlike banks, NBFIs generally lack access to central bank liquidity facilities and deposit insurance, leaving them exposed to liquidity mismatches and rising defaults during economic downturns. Their growing interconnectedness with banks through fund investments and credit facilities also creates channels for transmitting financial stress.

Greater transparency and effective regulatory oversight are essential for containing systemic risks and ensuring that private credit continues to channel risk capital towards productive investment.

2.2.4 Understanding bank-NBFI exposures

A regulator highlighted persistent difficulties for banks to aggregate internal data and look through investment structures to identify underlying exposures and assess their valuations. Banks may rely excessively on fund-provided valuations. This also raises questions about banks' independent assessment of leverage, margining practices and liquidity risks.

Legal provisions governing credit protection can create additional vulnerabilities. One example is a credit protection agreement that allowed the structure to be wound down if the supervisor initiated early intervention measures against the bank. Risk management practices in repo markets also warrant attention, particularly

zero or negative margining arrangements and their implications for banks' collateral-related exposures.

Institution-level vulnerabilities also raise broader questions about the transmission of shocks across financial sectors and the ability of supervisors to assess risks at the system-wide level.

2.3 Assessing interconnectedness and system-wide resilience

2.3.1 Transparency, standardisation and system-wide resilience

An industry representative emphasised that developing resilient and sustainable private markets requires consistent standards, greater transparency and robust stress testing. System-wide stress-testing initiatives, like the System-Wide Exploratory Scenario (SWES), are beneficial. Combined with consistent definitions and standardised disclosures, these exercises can help supervisors and market participants distinguish material vulnerabilities from less significant concerns, so they can focus their attention on the risks that matter most. He also noted that his firm had undertaken extensive stress testing before it became mandatory and cited updates to Form Private Fund (Form PF), the Financial Conduct Authority (FCA) process and other transparency initiatives.

2.3.2 Assessing contagion through cross-sectoral supervision

A regulator stated that the broader challenge is developing a system-wide understanding of financial interconnections and potential second-round effects. Supervisory approaches are evolving toward cross-sectoral stress testing and scenario analysis, to better capture how shocks may propagate between banks, insurers and other financial institutions.

Closer cooperation between supervisory authorities, including the sharing and combination of relevant datasets, is essential for assessing these transmission channels and improving the identification of system-wide vulnerabilities.

The identification of system-wide vulnerabilities leads to a broader policy question: whether existing supervisory tools, prudential safeguards and cooperation arrangements are sufficient to address the risks associated with the expansion of non-bank finance.

3. Strengthening supervision and delivering the SIU

3.1 Addressing emerging risks and strengthening prudential frameworks

3.1.1 Emerging market risks and key policy questions

The Chair noted that markets remained open and functioning well, with no generalised risk-off environment. However, strong public- and private-sector funding demand is pushing up financing costs, which is a trend that is likely to persist. Despite the absence of major incidents in the markets under discussion, developments elsewhere warrant caution. In Turkey, a market collapse led the government to liquidate 130 funds, while the central bank encouraged commercial banks to help address the disruption. South Korea also experienced a significant shock linked to excessive leverage in exchange-traded fund investments.

3.1.2 Regulatory incentives and prudential safeguards

A regulator reported that regulatory reforms aim to facilitate greater investment in alternative assets. Ongoing discussions on the Institutions for Occupational Retirement Provision (IORP) II Directive seek to ease investment restrictions that currently vary across member states. The Solvency II review, taking effect on 30 January 2027, is expected to reduce certain capital requirements and release capital for investment, including in equities and other assets. Policymakers expect insurers to increase their investment activity.

However, the objective of expanding investment must be balanced against prudential risks. Private market assets can have limited transparency, valuation uncertainty, credit and liquidity risks, and potentially difficult-to-assess concentrations. Supervisory oversight is essential to manage these vulnerabilities and build the confidence required for greater investment. Regulatory changes may create opportunities for expansion, but their effectiveness will depend on adequate risk management.

3.1.3 Solvency II

A regulator stressed that the Solvency II review strengthens the supervisory framework for insurers. Liquidity risk requires particular attention, with additional reporting requirements providing European Insurance and Occupational Pensions Authority (EIOPA) with more information through supervisory channels, alongside mandatory liquidity risk management plans.

The review also strengthens liquidity stress testing and macroprudential analysis within insurers' Own Risk and Solvency Assessments (ORSAs). The prudent person principle will become increasingly important. Effective supervision must encompass risk management, access to information and continuous supervisory dialogue. These measures fall under Pillar 2, covering governance, risk management and supervisory review.

3.2 Enhancing international supervisory cooperation

3.2.1 Regulatory arbitrage

A regulator stated that growing private credit investment and private equity involvement in insurance increase the importance of cross-border supervision, particularly as capital and insurance activities may be structured outside the EU. EIOPA can engage directly with foreign supervisory authorities, which makes bilateral and international cooperation vital, especially with jurisdictions whose regimes are recognised as equivalent. The issue is the effectiveness of supervisory cooperation rather than a simple distinction between acceptable and unacceptable jurisdictions. The regulator cited Bermuda as an example of established cooperation through regular supervisory contacts, in

contrast to less developed relationships with some other offshore jurisdictions.

Cooperation must extend to banking and central banking authorities to assess cross-sectoral developments and their implications for financial stability. Supervisors should share and combine available datasets, identify information gaps and avoid duplicating efforts.

3.2.2 Offshore capital regimes and idiosyncratic risks

An industry representative highlighted weaknesses in certain offshore capital regimes and idiosyncratic risks arising from firms whose practices differ from those of the wider industry. Such situations can have reputational consequences beyond the firms concerned. He noted that these risks remained a focus of his firm's policy advocacy, even without widespread market risk aversion.

While effective supervision and international cooperation are essential to financial stability, the regulatory framework must also support the development of European capital markets and the mobilisation of private savings towards productive investment.

3.3 Making the SIU a reality

A regulator noted that regulatory arbitrage contributes to capital outflows, as firms respond to differences in regulatory requirements when choosing where to structure their activities.

The SIU should deliver better pensions for Europeans and channel more investment into the European economy. The EU already has a substantial market and strong investor interest, but the potential remains underexploited. Policy should seek to retain capital in Europe, finance European businesses and projects, and ensure that citizens benefit from the resulting investment returns, while maintaining appropriate prudential safeguards.

The Chair asked how non-bank financial institutions could contribute to the development of the SIU in Europe, and whether greater emphasis should be placed on equity financing rather than lending. An industry representative suggested that success would ultimately depend on political will and sustained commitment to implementation.

The Chair questioned whether there was sufficient demand from market participants to make the SIU a reality. Political leadership alone would not be enough: financial institutions and investors need to commit substantial resources. An industry representative identified public engagement as one of the SIU's most difficult challenges. Explaining its relevance to younger generations is particularly difficult. The wider public does not necessarily understand its relevance or benefits. Building broader awareness and support is essential.

The Chair concluded that the SIU's success would require political will, an appropriate regulatory framework and meaningful simplification, alongside genuine market demand. Financial institutions and investors must see commercially viable opportunities and credible prospects of profitability. Europe needs to foster new entrepreneurial players capable of developing these opportunities. Referring to a group convened by Mario Draghi, he welcomed the involvement of new entrepreneurs and start-up founders who could build and scale European financial institutions.

Europe is effective at developing prototypes but less successful at scaling them into major industrial and commercial businesses. Draghi estimated that around 80% of the investment needed to achieve Europe's ambitions would have to come from the private sector. Mobilising that capital will ultimately depend on offering private investors credible opportunities to generate returns.

Concluding remarks

The discussion highlighted the growing role of private markets and NBFIs in complementing bank financing, diversifying sources of capital and supporting long-term investment in the European economy. Their expansion also brings challenges relating to transparency, asset valuations, liquidity management and interconnectedness across the financial system.

The discussion underscored the importance of more consistent data, effective risk management, system-wide analysis and supervisory cooperation in addressing these vulnerabilities. At the same time, the development of non-bank finance raises broader questions about Europe's capacity to mobilise savings, deepen its capital markets and create investment opportunities.

The challenge is to translate the growing financing potential of private markets and NBFIs into sustainable investment opportunities while preserving the resilience of the financial system.

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Exchange of views on international coordination

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David Wright

Colleagues, we now have a session for half an hour looking at the major international issues before us. I have what can only be described as a stellar panel. On my left is Jean-Paul Servais, who, as you all know, will achieve six years as the chair of IOSCO, which must be a record, at the end of his mandate, and 21 years as the chair of the FSMA in Belgium. His CV is immense, as is that of Toshiyuki Miyoshi, who is the vice minister for international affairs and chair of the executive committee of the IAIS today. Toshi, welcome. Thank you for coming. We greatly appreciate it. To his right, familiar to you all, is Mark Uyeda, commissioner at the US SEC. Mark, you have been there since June 2022 and, before that, you had a number of important roles in Congress. You graduated from Georgetown, one of the great universities. You are also a vice-chair of IOSCO.

We are going to discuss in two separate buckets. First of all, where we are today in terms of global convergence, or divergence, of regulatory approaches in the world. Are we being blown around by the geopolitical turbulence that we are all perfectly aware of? We are seeing a tremendous weakening of the Bretton Woods post-war institutions. I would like each of our distinguished panellists to tell us what they feel or what the priorities are right now in their different organisations that they chair and lead. In the second part, we will go to a rather classic issue, which is looking at what they see as the major risks in global financial markets today.

Toshi, lead us off. From the point of view of the IAIS, how do you survey the situation?

Toshiyuki Miyoshi

Thank you very much. First of all, I would like to thank Eurofi for inviting me to this seminar. I am really privileged to participate in the discussion.

From the perspective of IAIS, we are really willing to cooperate with other standard-setting bodies like IOSCO, and national regulators, in the context of very interconnected risks and uncertainty. Risks related to the insurance sector have become really global and interconnected across jurisdictions, so we have been making a case for international cooperation at discussions at IAIS.

Of course, in a very uncertain and rapidly evolving environment, taking a one-size-fits-all approach does not really make sense, so it is important to build in flexibility and proportionality according to local circumstances. At the same time, we need a common framework, common languages and common ground in order to ensure consistent and comparable regulatory and supervisory outcomes.

From that standpoint, IAIS has been doing really significant work in the past decade or so, including the establishment of insurance core principles in 2011, a common framework for supervising internationally active insurance groups (ComFrame) in 2019, a holistic

framework to assess the systemic risks involving the insurance sector in 2019, and, most recently, the Insurance Capital Standard (ICS), which is the minimum regulatory standard for the insurance sector, with built-in flexibility for jurisdictions to take into account local circumstances.

The main focus of IAIS' work now has been shifting to implementation and its assessment, while continuing to monitor emerging risks, and to review our framework going forward in terms of whether the standard that we established remains fit for purpose. I will stop here.

David Wright

Mark, give us your views.

Mark T Uyeda

What I think is one of the most powerful aspects of capital markets is their ability to react to different risks. I have been a commissioner for four years, as you pointed out, since June of 2022. The risks in the markets today are very different than they were four years ago. We were not talking as much about the geopolitical risk, the energy risk, supply chain, or some of the tariffs and trade issues. What the markets are very good at doing is trying to take all those different risks and to come up with an assessment in the form of price discovery.

When you compare it to the alternatives, as to how you would look at that capital formation efficiency, at least in my view, I do not really see nearly as effective an alternative. That is why, when it comes to international cooperation, it is so important that we work with other countries that favour strong capital markets as a way to finance economic growth, job creation and innovation. That is why some of the international organisations in this area, like IOSCO, are just so critical to making sure that our economies can react appropriately on the capital raising side, to these changes.

That is why, in the Trump administration, our engagement in financial services cooperation with our fellow regulators has been viewed as a priority. That is why we remain very active in IOSCO, as well as in the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD).

One of the things that we look for is to see that we are all aimed at the same effective outcomes. We also recognise that different jurisdictions have different sets of organic laws. The size and nature of their markets can differ. There may be different costs and benefits for implementing certain standards that may vary from country to country. All of that needs to be appropriately tailored, whatever the set of regulations is.

In terms of our regulatory outcomes, we view IOSCO and the FSB as a venue where we can set some high-level outcomes, yet we want to make sure that we do not try to impose prescriptive, one-size-fits-all solutions. Where a lot of the international cooperation is helpful is in recognising these differences, but also saying that we share the same goals in terms of what we want to see. We want to see markets where you can lower the cost of capital, and police against fraud, misconduct, and market manipulation, which we think will help power economic growth.

David Wright

Do you feel that that model that you are putting forward, which the US is comfortable with, is working reasonably well overall? It has not been blown up and blown around.

Mark T Uyeda

It is working reasonably well. One of the things that we have appreciated is the back-and-forth that we have with our international colleagues, especially when it comes to priorities. Again, the priorities that filled agendas five or six years ago are different than they are today. The ability to pivot and have that flexibility to respond to market conditions is one of the real positives of international cooperation.

David Wright

Jean-Paul, I am quoting you when you say that IOSCO should be a flexible framework to build bridges, 'helping market regulators keep pace, and providing global solutions to evolving global challenges'. Is that what is happening?

Jean-Paul Servais

Yes, absolutely. Let me first thank you for the invitation and say it is a pleasure to be in Dublin today to have insightful discussions with colleagues and friends.

What has to be said, because, from time to time, there is a misunderstanding, is that the interest in international coordination is very high. This is reflected in the growing number of areas it now extends to. Since the last Eurofi conference, we published about 10 reports, papers and documents. That means that international coordination is functioning in IOSCO, which is absolutely important.

One of the reasons for that is technology. That is very important. When I see what happened during my first and second mandates, in comparison to my third and last mandate the world totally changed and the impact

of technology on financial markets accelerated. Of course, we are still monitoring evolutions and risks in the non-banking financial intermediation (NBFI) space, for instance, but when it comes to NBFI policies, I strongly believe that now is the time for implementation of those policies.

Of course, that means setting up new work streams. Everybody understands that we need to work together on crypto, artificial intelligence (AI), tokenisation, quantum, stablecoin, or 24/7 trading.

I hope, dear colleagues and vice-chairs, that one of our legacies as members of the management team of IOSCO would be to begin working on 24/7 trading. We know that we have to do that at the global level, because there is no border. There are no barriers. That is very important.

I want to say that another advantage we have at IOSCO is that, when we talk about technology and related issues, silos simply do not apply. I very much appreciate that you both travelled here, from Washington and from Tokyo, and the fact that Toshi also chairs the IAIS Executive Committee shows that working in silos is not an option. When we discuss technology, quantum, risk, or cybersecurity, the challenges are the same. The FSB was able to make significant progress this year on analysing responsible AI adoption by the financial sector and an FSB report on this will be published soon. At IOSCO we just published a very useful AI supervisory toolkit. Now, the objective is to be able to monitor an appropriate implementation of responsible AI, and to consider elements around AI governance and disclosures to investors of AI uses.

The fact that we are working with high level guidance, with a lot of awareness to be expected from the management of companies that we are supervising, means that, by definition, we need to be there. It is not a surprise because no single jurisdiction can address this development alone. Another aspect is that economies and real markets are modernising and innovating, as are the financial sector and financial regulation.

David Wright

Jean-Paul, the multilateral memorandum of understanding (MMOU) is a very good example of how IOSCO has worked well. You said the other day that there are 132 countries now supplying information on request, which is a very good example.

Let us get very practical and forward-looking here and think about and tell us what you think are the major risks that you see ahead for your different organisations. What keeps you up at night, and what really worries you? Toshi, tell us.

Toshiyuki Miyoshi

Thank you, David. The job of regulators is to worry about everything. There are a lot of things to worry about for supervisors, particularly in this uncertain world, but one common risk across the financial segment would be AI, of course. Particularly in the case of insurance, it can become the victim of cyberattacks, but insurers have other risks in terms of underwriting, because insurers underwrite the risk with AI as an insurer.

One of the focuses of our work at the IAIS is AI. At the same time, our approach is not to discourage innovation, but rather to promote responsible innovation by encouraging insurers to put in place appropriate governance and risk-management frameworks.

Capacity-building activities will also be very important in the context of AI adoption in emerging markets and developing economies. Therefore, engaging with the jurisdictions of emerging market and developing economies (EMDE) is crucial to the work of the IAIS. Cybersecurity is another important issue.

We are also looking at so-called structural shifts in the life insurance sector in terms of increasing investment by insurers into alternative assets, including private credit and so-called asset-intensive reinsurance (AIR) activities. That is closely interconnected with other segments of the financial sector, including private equity and other things. Even though the systemic risks are regarded as quite limited so far, the rapid growth of these activities warrants close monitoring by regulators.

Another important challenge for insurers and insurance supervisors is the issue of the natural catastrophe (nat cat) protection gap. I heard that European Commission President von der Leyen referred to this issue as an important challenge going forward in her state of the union address, so this requires efforts not just by insurers and insurance supervisors, but also by multi-stakeholders in terms of risk reduction and closing data gaps in order to improve insurability.

That is why the IAIS has reached out to other international organisations and forums, like the World Bank, the International Monetary Fund (IMF), the G7 and the G20, and made the case for such a multi-stakeholder approach to closing the nat cat protection gap. The IAIS would like to have increasingly further collaborative relationships with those bodies to address this issue.

David Wright

Thank you very much, Toshi. Mark, tell us what is on your mind.

Mark T Uyeda

One of the biggest concerns that we have is the continued evolution of technology. Like Toshi said, AI comes really top to mind. It is also how AI fits in with a lot of the other technological changes. At least when I think about our ability to make sure that the markets are functioning properly, we need to make sure that there is a human in the loop.

My line of thinking at least goes back to the 1987 market break, where we had this new concept of portfolio insurance, or whatever it was called at the time, and automated instructions that would be executed by a computer if certain thresholds were met. We realised that that was problematic because it could really induce pro-cyclical activity in markets, so we came up with the idea of market-wide circuit breakers, again, to allow humans to get back into the loop and not let the computers control things.

We then saw subsequent market volatilities and extended that concept to what we call limit up, limit down for single stocks. If they trade outside certain bands of volatility, again, there would be temporary holds, and you would get, in theory, humans in the loop to see what was going on and to pause that activity.

Now we have AI, and we have also a rapid expansion of the venues in which, if not securities that can be traded, economic exposures that underlying securities, whether in the form of derivatives or otherwise, can trade. How does AI play into that? What is our ability to call a time-out if things go unexpected?

The biggest issue is that, the vast majority of the time, things will act within normal parameters, but what happens on that rare occasion that something goes outside of established parameters? How will the technology react? How will AI react? What about the new speed of the ability to execute? When one thinks about it, we are moving to a world that aspires to, potentially, 24/7 trading. In a world where the markets potentially never close in terms of even the simple part of getting humans in the loop, what happens in the middle of the night, at least in certain parts of the world? If it is 3.00 in the morning in New York and something abnormal happens in terms of the AI, who is going to be overseeing that?

These are all things that it is very important for us to think about and to monitor. We do not want to stand in the way of innovation, but we also want to think about what the downside risks are. You also want to think about what the benefits are, potentially. Oftentimes, when we have had adverse market movements, one of the biggest concerns is that we see reactions from other market participants that are pro-cyclical. Could AI be more adept at acting in a counter-cyclical way, which then neutralises that volatility that is being created in the markets?

This is an area that I think deserves a lot more thinking and monitoring, but we want to be very careful before we start thinking about any prescriptive measures that could be outdated in a few years.

David Wright

That is very interesting, Mark, and we are right at that frontier now. Jean-Paul, what are the biggest risks that you see?

Jean-Paul Servais

I see two major risks. The first is no surprise; it is technology. It is everywhere. It is a reality that you cannot ignore. The new risks relating to the use of AI include cybersecurity and operational risk, which were not necessarily expected by the community of market, product, and rule of conduct supervisors. You would expect that that would be mostly in the remit of the Basel committee, but it is also relevant for IOSCO especially regarding the resilience of trading and post trading infrastructures.

I will also make a link to the OECD corporate governance committee that I have also the pleasure to chair, for two years now. I have the pleasure of working with two excellent vice-chairs. Just in front of me is Carmine Di Noia of the OECD. I see a link with IOSCO. It is to be helpful about governance and disclosure

I will make a link with the second main risk for us, although it is part of a more comprehensive landscape. It is about the quality of data and trust in data. For sure, I would say that that is very important. I would give two examples. As regards NBFI, it is no longer the time to speak about design, new papers, and new regulations. We did it. We did it on time and in full cooperation with the FSB. It is now time for implementation. Please do not restart the engine. The engine is there and works. It is now time for implementation and monitoring, to see if we have sufficient quality and quantity of data.

Then there is the trust we can place in data. We are between people active in the financial sector having to challenge the quality of data. Reading something on our screens doesn't necessarily mean it is true.

The data is important, because, when we lose our trust in the capacity of data – and I am not even speaking about the younger generation – that is a real problem for our agility and our capacity to challenge the quality of data. Trust is about what we do at the IOSCO level. It is about the ability of investors to work in a stable framework for their disclosure. It is about our ability to attract institutional investors, and John and Mary in the street. It is also about the ability to have financial intermediaries who can operate in a clear, consistent, and predictable way. Trust is even more important than in the past at a time when everything is available.

David Wright

Thank you all very much. We could have gone on and maybe we should program more time for our next discussion, which will be in Lithuania, during that country's presidency at the beginning of next year.

One thing that I want to say – and, in a way, you are all saying this – is that we do not really know what the consequences of AI are. You mentioned non-bank finance. It has always worried me that we do not understand very well, if at all, the interconnections, the contagion channels or the impacts when there is stress in markets. We are seeing some stress in markets now, and I am not sure that we fully understand all of that either, so it does seem to me that we need to improve our data and our understanding, which would be for the benefit of everybody. You cannot regulate or supervise properly unless you understand what you are doing. Otherwise, you are just taking a punt, as we say.

Thank you all very much. I have to say one thing to Jean-Paul, which is that there are no fewer than four secretaries-general of IOSCO here in Dublin –

Jean-Paul Servais

And all of them are still alive.

David Wright

So, you are under full control. Thank you very much.



Conversation with John Berrigan

John Berrigan - DG for Financial Stability, Financial Services and Capital Markets Union (FISMA), European Commission
David Wright - President, EUROFI

David Wright

We have an exchange of views with John Berrigan. John will be leaving the European Commission soon, after nearly 40 years, I think I am right in saying, after being at the coalface in the European Commission. I will say a little bit more at the end about his contributions, but I want to start by asking him how he judges the situation today on all of the major projects we have been talking about. Do you get a palpable sense that people such as the member states, Parliament and the Commission realise that we really must deliver this time?

John Berrigan

Thank you very much, David. How do I assess where we are? I think there is good and bad news here – well, good and not so good news. The good news is, I think we are as a union moving as fast as I can remember towards an integrated market, certainly on the capital side. We will see what comes on the banking side, but I think there is also hope there. I do not know whether this is a reflection on me, but I am leaving at a moment when in fact the speed is high. That is the good news.

The bad news, of course, is that the world is changing even faster. As Stéphane Boujnah has said, even though we are moving faster, we are still losing pace. That is a problem. I think, if we were having this conversation 10 or 15 years ago, then I would be very happy. You were there with me at the beginning when we made all of these points 20 years ago. We are quite late, so the jury is out, I think. We are doing really well. I do not want to suggest that member states are not working hard. They are. It is just that the rest of the world is moving very, very fast as well.

We do not have time. As Jeanette Schwamberger was saying in the last session, I think we really have to push now, because we just do not have time for second best.

David Wright

In the previous panel we heard Stéphane Boujnah talking about the time taken to make change. You have just said that change is accelerating, and rightly so. Europe is going to be bigger in the future. We are 27 today, but will be possibly 35. Who knows how big it will be? It does seem to me that, unless we fully use the Treaty in a slightly stronger way, we are going to be continuously falling behind. It seems to me that the architecture of the way we have been designed and set up actually makes it very difficult to take decisions quickly, or quickly enough.

Let us be honest. The US, which often causes a lot of trouble in the financial markets, is able to act very quickly to repair or change. Is that fair?

John Berrigan

I think it is partly fair. I think slow decision-making is a feature of the European Union. It is not some kind of bug. One of the features of the union we have, which is not a unitary state but a relatively loose federation, is that it does move slowly because we have to build consensus. We are always going to be slower than the

United States because they are a unitary state. We could go faster, of course. If we want to go faster, as I was saying earlier this morning, the most important thing is to rebuild trust within the system. If you can rebuild trust within the system, then you can start talking about principle-based legislation again. Principle-based legislation can move relatively quickly.

I have to say, the US Congress is not exactly the fastest moving thing I have ever seen in the last 10 years, but if we could get back to less detail, more principle-based, we would be able to move faster, I think. There would be less need for debate on level 1. There would be less need for explanation at level 2, and less need for level 3 at all. That of course would require the member states to trust the institutions to implement with discretion. Since the financial crisis, I think that trust has not been there, so level 1 becomes very detailed.

Of course, you can say, 'We moved to regulation to avoid the sort of discretion that directives give.' The problem then is that member states tend to pre-cook the sort of flexibility they like from directives into their regulations, so regulation takes a very long time because everything is negotiated. I am not worried about moving super-fast, but I do think that without building trust in the system this model we have now of very complex and yet quite vague level 1 with a lot of level 2, and then level 3, is really going to stay.

David Wright

Let me push you a bit here. If with 27 member states there is a lot of pre discussion, all of that, the Commission comes out with a proposal and then has been seeking unanimity, how many times have we voted on proposals from the Commission? As far as I can recall, we have never withdrawn a proposal. What I am suggesting here is that, as Europe gets bigger, it seems to me this old way of working just cannot work in a context where digitalisation and the pace of change is just tremendous. Is that fair?

John Berrigan

I think it is. Obviously, as I said, I think slow decision-making is a feature of the union. In some ways, people would not be in the union if decision-making was too fast, because we are not that kind of union. There are ways we can improve it. People are always interested in enhanced cooperation. The issue around enhanced cooperation, however, is that the rules are that nine member states will go ahead as a minimum, but the others have to agree. While enhanced cooperation looks like a nice way of avoiding the need for unanimity, there is still the need to get agreement from the others.

You are drawing me into a much bigger question about the future of the union, not just in the area of finance but in the whole gamut of policies. With 35 people around the table, it is going to be a tougher method. What is the solution here? Probably more voting, as you said.

David Wright

We had a discussion yesterday with colleagues from Japan, the US, and Jean-Paul Servais from IOSCO. Do you see a breakdown in international thinking convergence or, all things considered, things are working with the constraints as well as they possibly could?

John Berrigan

I think, in the financial field, they are working okay. We have not yet had the tensions we have had in areas like trade. What worries me here is that these bodies were born of a crisis. You were around at that time, and I was around at that time. Coordination upwards was fairly easy. There were a lot of holes in the system, we knew where the holes were, and we broadly agreed how to fill them. Coordination was relatively easy on the way up. The US got ahead of us, but then we caught up and got ahead of them, and it was generally quite easy.

I am a little bit worried that any coordination on the way down will not be as easy. We should not pretend that there is no need to discuss this. We cannot assume that we are always right. We have to reflect on whether what we have done in the past is still relevant. If we decide that we need to loosen up in places, I think that international coordination on the way down will be much more difficult. On the way up we had a clear idea of where the holes were and where we wanted to go. On the way down, views differ on where we should loosen and how much. I think that is going to create a certain amount of stress in the system.

What I will say though is that many of these international organisations are quite high-level. The principles remain high-level. In terms of the work in the bodies themselves, that will continue. On implementation, there could be differences.

David Wright

The Commission has come out with its banking competitiveness paper. I would judge that overall it has been pretty well received. There is a long way to go, of course, and the Commission is going to come forward with its proposals in quarter 1 of next year. You have this

raging debate on growth and competitiveness, which is rolling over into the banking system. The Commission's figures state that 75% of corporate financing comes from the banks and the banking system. It has to be true that in the short term, if we really do want to ramp up our growth, this is at least the short-to-medium-term key, because the savings and investment union (SIU) will take a long time. The President said this in her state of the union speech yesterday.

What happens here about releasing additional capital and capacity in the short-to-medium-term is critical for European growth. What else is there that is more important?

John Berrigan

I think you have to break this down. I am going to stay neutral here because it will not be for me to do any of this, and I do not want to prejudice my successor. Let us be clear. From the lending surveys that I have seen, there is no evidence of this huge outstanding demand for credit or even a problem of supplying credit. The market seems broadly in balance. There may be €225 billion in terms of capacity which could be released by organising capital, but there is no evidence that that would go to lending in the banking sector unless, perhaps, standards were lowered. This we have to be careful of.

This is not to say should not do it, because money could leave the banking sector and it is all a circular flow. This idea that the banks themselves are somehow constrained from lending is not what we see in the numbers. I think, rather than talk about capital relief in that sense, we should just talk about it in terms of efficiency. What is the most efficient structure for the banking sector that we can have? Clearly, in Europe the main driver of our problems is that our banks are relatively small compared to the US competitors, as Stéphane was hinting at earlier. That means that we do not compete that well globally, but more importantly we do not compete that well domestically either.

The American banks are very welcome. They are very competitive. They put pressure on the system, but we need to compete with them. I am not anti-competition. I am pro-competition, but we should compete. If you live in a world where these six custodian banks dominate the post-trading scene, and are growing their market constantly in the post-trading scene, you have to ask yourself, 'What are they offering that we are not offering?' What they are offering is an answer to fragmentation. They are saying, 'Well, here is a fragmented European market. It is very difficult for you as an individual to do business across these borders. We will do it for you, and we will charge you a nice fee.' They have a big balance sheet which allows them to manage all of this.

It reminds me of the time when Alberto and I were concerned about the lack of harmonisation of insolvency laws. How many settlements do you think fail because of an insolvency? Remember, T+2 to T+1. You are saying that you buy a security on day 1, and by day 2 the company has gone insolvent. How often does that happen, do you think? Not that often. These custodian banks are not too bothered by these showstoppers. They are offering those services where we cannot. We cannot develop European competition. I am not suggesting we push them out. I am not suggesting we un-level the playing field. I am simply saying we in Europe learn how to compete with them. The way to do that is to build our own domestic market so that we can compete on the same field.

David Wright

A final thought just to comment on quickly, John. It strikes me that the European Commission are beginning to swing around a change of policy on competition, in other words looking more at the global dimension as the market of reference. If we accept that many parts of the financial industry in Europe is a scale business, could you say that it is going to be easier logically to be able to have significant cross-border mergers in whatever sector it is?

I think you cannot make a capital market with just a pile of rules. You do need markets to move, our members here. Would you agree with that? Do you think that cross-border big mergers now are going to be easier than perhaps they were over the last 10 or 20 years?

John Berrigan

I am not going to give my very amateur opinion on competition policy, but I have had these conversations with Olivier Guersent in the past. Things have changed in the sense of the relevant market. If you look at the current situation, what is the relevant market for infrastructure in the EU? It is not that people are choosing between France and Germany. They are choosing between Europe and the United States. The competition is not between different exchanges. It is between Europe and the US, or Europe and the UK.

You can have a conversation that the relevant market is now different, and therefore you should take a different approach, but I think we have to be very careful that people do not use that as an excuse to engage in anti-competitive behaviour. This is the sad thing, that you still have to do it on a case-by-case basis. I think

the predisposition may be different, so you go into the discussion thinking, 'Yes, the relevant market is the US, not intra Europe,' but you still have to check that we are not getting anti-competitive behaviour.

Olivier used to always tell me that this idea that the Directorate-General for Competition (DG COMP) was blocking every large merger in the financial system was untrue, and it is the case that the evidence for that is not so clear.

David Wright

I want to thank John Berrigan for his service in the European Commission. We have been friends and colleagues for many years, and I have always appreciated him as a Trojan, rigorous, tremendously likeable, and the best economist I have worked with. I have not changed my mind one iota, because I still remember all those days, John, when we were trying to work out what subprime and monolines were. It was a thrilling though extremely pressured system. I appreciated your superb work. On behalf of us all, we thank you.



Conversation with Mark Jopling

Mark Jopling - Director, Global Financial Services, EMEA and Asia-Pacific and Japan, Amazon Web Services (AWS)
David Wright - President, EUROFI

David Wright

Thank you very much, Didier, and let me welcome Mark Jopling on my left, who is the head of Global Financial Services EMEA and Asia-Pacific AWS commissioner. This is a discussion where I always learn a tremendous amount. In preparation, I had a quick look at the last financial results of AWS, and I noted in quarter 2 a 37% growth rate with net sales of $42.23 billion, so this is really important stuff.

Mark, take us through the latest developments in a general sense here. How do you see the markets evolving? We will then talk a little bit about how European financial services are adopting, and then we will talk about regulation.

Mark Jopling

Thank you, David. First of all, thank you to David and the whole Eurofi team for organising another valuable event. AWS first came to Eurofi seven years ago, when people asked why we were here as a technology vendor. No one asks those questions anymore. Everyone understands that we now have a shared agenda, just as Commissioner Dombrovskis talked about, of supporting and enabling growth for Europe. That is an agenda that we as technology providers share with regulators, policymakers and financial institutions, so thank you.

You called out AWS growth, and indeed, our growth has accelerated. That is our fastest growth for 18 quarters. Why are people choosing to move to the cloud? Why are organisations and public sector bodies moving to the cloud? Today, around 10% to 15% of workloads are in the cloud, and our long-term projection is that will pivot. We would expect more and more organisations to move their infrastructure to the cloud in what we would describe as 'undifferentiated heavy lifting'.

We run the infrastructure and we let those organisations, be they financial services, other industries or public sector bodies, focus their engineering and their innovation on the things that they can do to innovate on behalf of their customers and the constituents they serve. That is why you are seeing these big numbers in terms of investment in the infrastructure. It is to enable innovation to happen with these exciting services that organisations can choose to use or not.

If I just take that down to what it means for Europe, Amazon has been present in Europe for most of its 30-year history. We have invested as a corporation up to 2025 about $380 billion in Europe since we started, and that is including $60 billion in the current raft of investment that we are making. That most recently includes a sovereign cloud for Europe, which is one of our cloud regions, and that is a cluster of data centres located in Germany.

This is an independent cloud that is located entirely within the EU and physically and logically separate from our other regions, including both our six other regions in the EU and our other regions around the world, and run entirely by EU citizens. That is our solution to customer need. We have a cloud that is entirely European and logically isolated from the rest of our infrastructure.

Drilling down into this room, what are we doing in financial services in Europe? We can go down one level deeper. Well, I am pleased to say, that over the time I have been coming here, organisations across Europe are using cloud services more and more. They are recognising that, when they want to scale, need innovation and have particular security concerns, modernising their infrastructure leads to the cloud being an appropriate choice in which to do that.

I noted that Fernando Vicario talked about this idea of tech debt. Organisations that are large and scalable and have been around for many decades cannot turn everything off and rebuild it overnight. It is a long process to remediate that tech debt, and they are often choosing to do that by modernising to the cloud and replacing older applications and older infrastructure with modern, more secure infrastructure.

David Wright

Would you say that over the last year we are seeing signs that the financial firms in Europe are accelerating and catching up, or is there still some distance between our top companies and the top US firms?

Mark Jopling

There is definitely acceleration. We do not break out our results at a regional level, but I can say that the acceleration that we described and reported at a global level is recognisable around the world and our investment reflects that. What is driving the cloud services to become more and more popular with our financial services institutions in Europe is the security, resilience, and scalability and now AI, as a maturing technology, because customers want to create value with AI, and that drives the modernisation agenda.

It is harder to create value from AI when you have this tech debt that Fernando referred to, so there is a duality there of modernising legacy technology as it expires and is getting towards the end of its life anyway, but also the demand to create business value, differentiation and to modernise. There are two competitive drivers out there, and I would say that we are experiencing that with our European customers as well as customers in other parts of the world.

Particularly this year, we have seen the rise of agentic AI. What does 'agentic' mean? We throw these terms around and they become common parlance, but I will just explain what an agent is. An agent simply means an autonomous software program that uses large language models (LLMs), which are the things we have been familiar with for the last three and a half years. It uses LLMs to reason, plan actions and execute tasks, but within a set of governance parameters under human supervision.

What we are learning as we promote these services and experiment with our customers, the demand to use these services is high and the barriers are typically insufficient skills and some uncertainty around regulation because these are new services, but the appetite to adopt is there. What we need to do is help our customers onboard these services, scale with these services and help to re-skill their employees as they become more and more AI savvy.

I would say there are two areas where customers are using these agentic services at increasing scale in 2026. The first one is customer experience and customer journeys, whether you are calling a telephony service provider or an airline, or it is any experience where you as a consumer are dealing with an organisation that is providing you a service and you have some form of query. Those processes are becoming increasingly agentic and sometimes we notice this as customers; sometimes it is not even that obvious, but you are getting quicker through authentication processes and quicker to your problems being solved because the agent can solve problems very quickly on your behalf as a customer in the background, and you may hand off between a real customer agent and then back into an agentic system.

The measure of success is this. Is the customer, as a result of that experience, getting a better experience of you as a brand than they did without that technology? If you are, then you will invest more in that technology, and we have launched services which enable customers to scale those agentic services safely, securely and provide the choice of LLMs, as I said earlier, that best fit the use case for that organisation.

Use case one is customer experience, and that customer experience may also include processes that are not just when you have a query. It could be things that are running in the background like KYC checks and anti-money laundering as well, which are really valuable to customers.

The other really exciting use case is what we call the software development life cycle, and the coding agents, of which there are several established ones now, are able to produce software code using natural language as prompts from human software engineers. This is to create more and more software to serve whatever business purpose you require from that application that you are trying to write. Again, this would be under human supervision.

Creating code is the first part of the process. You have to create the code to meet the requirement and then you have to go through a series of testing. That code is then put into production and delivers whatever benefit and function it was designed for. Again, the regulatory agenda alongside that, which I am sure we will come to, is supported by that software development. This is because we can search for vulnerabilities and test our applications at a greater volume and speed than we could before we had those tools. They are the things that have really accelerated in 2026.

David Wright

Let me ask you a very up-to-date question. We have got all this raging debate about AI and whether it is safe for humanity and all the rest. It is becoming part of the political debate, both in Europe and now in the US election coming up. Do you see this as potentially slowing down your business if we start to get into a big regulatory discussion, or is it that you just think the dynamics are such that it will not?

Mark Jopling

I will go back to a phrase that Commissioner Dombrovskis mentioned. The purpose of regulation is not to lower the bar; it is to remove complexity that serves no purpose. When a new technology comes along, there is a need for regulatory scrutiny. We expect that. Our ask and our recommendation are that the regulation is focused on choice, resilience, openness and for customers and regulated users of those services to be free and not locked into proprietary technologies.

I would expect, when something new like generative AI comes along, that regulation would react and respond to that; that is a natural course of events, and as I say, as long as the principles of choice, resilience and openness apply and the additional regulation causes a revisit to maintain simplification, I love the focus on maintaining that simplification. So less red tape and more growth is important.

You want to be able to embrace the new technologies without adding to the burden. If you add to the burden, never remove anything and you have disparate implementation of regulation across the EU, then there is potentially a risk that you slow down the adoption of that technology.

David Wright

Mark, when I have been talking to you, you have always been supportive of the Digital Operational Resilience Act (DORA). How do you see the European regulatory digital processes that are underway? There are new proposals as well. Are there areas where you have significant concerns, or are you broadly happy with the way things are evolving in a regulatory sense in Europe?

Mark Jopling

I think the sovereignty debate is an important debate. As I said earlier, we have launched a sovereign cloud within Europe that is independent. It is run by an independent European management team. The rest of our business is sovereign by design. What do I mean by 'sovereign by design'? That includes any organisation, public sector or corporate body that is using our infrastructure in Europe so, for example, if you are using our Frankfurt region in Germany, you have control as the organisation and as our customer over the residency of that data that you are using in our infrastructure.

You control that. You control the identity, the billing and the purpose of that data. You control the access to that data. We have no access. We are just providing you with the infrastructure. As the organisation that is paying us for that infrastructure and using that data, you control the identity and access management. Within your organisation, members will have privileged access to see specific data. That is entirely down to you. As the provider of the infrastructure, we have zero operator access.

Thirdly, even allowing for the fact that you as the customer control both the data and who has access to the data, that data is also in the cloud services. That data is by default encrypted at all times. It is encrypted in transit. By 'transit', I mean it is encrypted across a network. It is encrypted both when it is at rest and if it is working in an application, and it is encrypted if it is stored in memory at any given time. It is also encrypted if you are storing customer data and not doing anything with it.

The business we have is sovereign by design, and that meets the requirements of our customers. As I said earlier, governance is important to cloud adoption. Organisations have built up a certain expertise as they have built up their cloud skills, and many of those lessons are reapplying to how they then build up their skills in the cloud. Governance should be technology agnostic. It should focus on business outcomes, while retaining a degree of human oversight and auditability. This is particularly important for your agentic applications when using generative AI, as it allows you to understand the decisions made by your applications against the guardrails you have set as an organisation.

What we provide are the services for you to be able to set these controls and govern these controls, and track

and trace what the systems that you have oversight responsibility for are doing on your behalf.

David Wright

Are you comfortable with the Cloud and AI Development Act (CADA) and all of this new stuff?

Mark Jopling

As we did with DORA, we will take part in the regulatory engagement. I have already touched on some of the direction that we would recommend, those principles of choice, resilience and openness, and I have tried to explain how we view data sovereignty and the control the organisation has over its data and applications when they are using our infrastructure.

I speak as an executive responsible for European customers. We want European organisations to have access to the very best innovation if they choose to use it. We recognise we are in a very competitive market, and we may bring services to the market which customers choose not to use, in which case we will go and think again and re-innovate, but what we would want for the regulatory context is, again, to quote the commissioner, 'Less red tape, more growth', and for organisations to have the freedom to choose the innovative services which best meet their demands to innovate on behalf of their customers.

David Wright

Your three principles of choice, resilience and openness are at the heart of the regulatory response.

Mark Jopling

Yes.

David Wright

Mark, thank you very much for being with us and for your support of Eurofi, which is greatly appreciated. When we meet next, I hope, in Lithuania, I am looking forward to looking at the quarter 4 statistics. I am sure they are going to be spectacular. Thank you very much for being with us.

Mark Jopling

Thank you very much.



Conversation with Fernando Vicario

Fernando Vicario - CEO, Bank of America Europe DAC & Country Head, Ireland
David Wright - President, EUROFI

David Wright

Thank you, Fernando, for being with us again. I must thank Bank of America on behalf of Eurofi for your long-term support for our work, which is really much appreciated. First of all, if I may ask you, US banks in general, the big banks, are much bigger than the European banks and seem to be more competitive. Why is this? If we go back 20 years that was not necessarily so evident, but it has become very evident in the last period. What do you ascribe this to?

Fernando Vicario

First of all, it is nice to be here. Secondly, congratulations on attracting over 1,400 attendees. Your convening power is very impressive, as always, and we are delighted to be a sponsor. To answer your question, scalability matters. The difference between scalability in the US and fragmentation in the EU is an ongoing theme that remains unresolved. There are great initiatives to get us to a better place within the EU, but there is still a significant amount of work in progress. That is a very simple way.

The other issue I would mention is the movement of capital. Movement of capital in the EU to a certain extent remains restricted and, as we are all aware, we have these group subsidiary capital requirements. According to the latest EU report, €230 billion are trapped. These are €230 billion that could be deployed to foster more banking business. That is only one observation.

The other observation I would make is on the dry numbers. If you look at the market capitalisation for the top three European banks, we are talking about $570 billion. Forgive me for denominating in dollars, but I will compare now with the US. The top three banks in terms of market cap are $1.75 trillion. That reflects the scalability of what these banks do.

The last point I will make on the difference between the US and Europe is that, in the US, you have two or three truly global banks. In Europe you have some European banks with extensions into certain jurisdictions and regions, but no true global players represented on all continents. That brings me back to scalability and profitability.

David Wright

When you talk about the velocity of capital, do you mean the inability to scale up cross-border? What exactly do you mean by that?

Fernando Vicario

The question is not really how much capital we need, but how you can churn it. There are certain restrictions, of course, that apply, but there are also potential waivers that apply. That is an impediment for cross-border M&A activity. If you took a European cross-border opportunity versus an opportunity somewhere else the question is, 'How fungible is your capital? How many high-quality liquid assets can you deploy in your markets business or not?' That gives you as a management team the ability to be nimbler, or not.

I will give you a different perspective. The Common Equity Tier 1 (CET1) of the top 50 European banks is €270 billion. If you add on the required and voluntary capital buffers, along with everything else, you go to over €670 billion. It is a huge gap between CET1 and all of these capital buffers that could eventually be streamlined if and where appropriate. Clearly, there is also a difference in the regulatory framework. The markets business in general consumes more capital here than perhaps in the US.

Make no mistake – supervisory oversight here in the Europe, in the UK and in the US is equally demanding. One regulator may be more outcomes-focused; the other one may be more rules-based, as we just heard from Anna, but at the end of the day our job is to actually comply with the regulatory requirements, not because of the regulators, but because we want to run the business properly.

David Wright

You would argue that the differences in regulatory and supervisory approaches and so forth between the US and the European Union do not per se explain the difference in size and competitiveness.

Fernando Vicario

Yes, I would argue that. I will give you a practical example, which I know has been discussed here repeatedly: Capital Requirements Directive 6 (CRD6), the famous Article 21(c) restricting cross-border lending into the EU. Well, that is not good. Restrictions do not help. As Didier wrote in his article, 16% into the EU lending by cross-border activity is now being restricted. What does it mean? It is a significant amount of work, not to say 'a headache', to now review your booking model on what you do.

Let me give you another example. The UK is aware that in terms of scalability it cannot compare itself with the US, the EU or China, but the UK opens up to the rest of the world. The UK allows you, in the sense of booking model alternatives, to be a true global booking model centre. I will give you an example: Merrill Lynch International (MLI), our international broker dealer in the UK. With a strong robust booking model and procedures that everybody in the bank knows, gets trained and gets updated on, we are able to do a significant amount of business out of the UK into Asia, into Europe, the Middle East and Africa, and also into the Americas. With a restrictive approach, perhaps you restrict business.

In terms of growth, the UK is on a mission for growth via better competitiveness. In Europe we have scale but, if I may be a bit provocative here, the EU seems to be happy with where we are. Is that too aggressive? I will take it back. No, I will be provocative for the audience so that they can remember me.

David Wright

I think the EU is desperate to increase its growth rate and its competitiveness. As you said, throughout the debate here it is the big theme. People argue about how that is going to happen. Would you argue that from your bank's perspective one of the constraints over time in Europe has been the inability to scale up the European banks cross-border? The competition rules have been hindering big mergers. Would you put that as part of the equation?

Fernando Vicario

There are a number of different factors, and I do not want to focus on just one part of the equation. Strategic autonomy here in the European Union is very important. It is also the result of geopolitical developments that we are all aware of, and it is appropriate to foster strategic autonomy. The flipside is that a number of banks went through a so-called desk mapping review. You basically want strategic positions to happen within the legal entity. You want staffing within the legal entity and you want booking within your legal entity, and you are basically hindered in doing business beyond your borders.

I will give you an example. Would you like to have a trader sitting in Hong Kong or New York doing business with the European Union and booking into a European Union legal entity? I think the answer should be yes, with the right framework, booking model and procedures. That is not the case today. My colleague Vanessa from Paris is here today. She runs our EU broker dealer. If you have somebody in Paris with global responsibilities for a particular line of business in markets, the question is about remuneration. Where do you acknowledge this person's contribution to the business?

We would like to have more global functions within the EU without necessarily debating, 'Where do you book what by whom?' but having proper procedures and models in place.

David Wright

When we were talking before, you used, I think, a very clever phrase. You said that there was a tech debt in the European banks compared to the top US banks. How big is that? How important is it? Is it recoverable?

Fernando Vicario

This is one of the great drivers to foster mergers and acquisitions (M&A) activity. We know that tech is a fixed cost. The bigger the bank, the more ability you have to deploy to protect your infrastructure. I will give you an example. Our annual tech budget is $14 billion, of which $1.5 billion goes into cybersecurity alone. Now, we of course have a huge amount of very clever, very good vendors that help us. At the same time, I would like to argue, you have to have your best infrastructure to protect not only your clients, but also other stakeholders who expect you to have proper safe infrastructure. You are only as safe as your competition are.

To answer your question differently, recent developments in artificial intelligence (AI) require more investment budgets into technology infrastructure where we, the American banks, are leaders. By the way, AI is not a new phenomenon. Eight years ago, Bank of America launched our digital assistant called Erica. Erica is in the retail and consumer bank, but Erica is a digital assistant that also helps us now in other parts of the bank. For example, in our transaction bank, our digital assistant helps corporate clients with key elements of our requirements.

David Wright

This early adoption, if you like, by the US banks or US economy gives this productivity advantage across the whole spectrum. I recall your figures from, I think, the last time we spoke, that the US has outperformed the European economy in pretty well all of the last 50 years.

Fernando Vicario

Yes, 49 times.

David Wright

That is dramatic.

Fernando Vicario

Let us be frank. A European Union average is one thing, but then of course there are pockets of countries that have grown much faster.

David Wright

Let me ask you a question that we were discussing before about this approach to a so-called secondary mandate, a growth and competitiveness mandate, which the UK Prudential Regulation Authority (PRA) is adopting, or has adopted. Do you like it? Are there lessons here for the European Union? How would it work? What is the coverage? Is it mandatory? How do you see this?

Fernando Vicario

Let me spin the question a different way. Is it safe? The question is, 'Can you have the same outcome with less burdensome supervision?' I think the UK regulators, the Financial Conduct Authority (FCA) and the PRA, have been working hard to come across with less burdensome interaction. When you have a problem they clearly focus on every single detail that matters to get you back on track. For example, I got approved within four weeks as CEO of MLI. In Europe, it takes a little longer. Approval processes matter.

Secondly, the add ons in the UK are more transparent and easier to understand in terms of capital requirements. The Supervisory Review and Evaluation Process (SREP) in the EU is very robust and very comprehensive, but the outcome is not entirely transparent. There are weightings that give you explanations for why, but I would like to suggest that it is easier to follow and understand the capital requirements that the UK will impose upon you versus the EU.

David Wright

It creates a degree of uncertainty through the lack of transparency.

Fernando Vicario

I would say more burdensome interaction to a certain extent, but as you know there is a simplification agenda by the European Central Bank (ECB). I think the trend is our friend, but there is still work to be done.

David Wright

Finally, Fernando, sitting where you do, in a key role in your bank and Merrill Lynch, when you see all this stuff going on, are you getting a bit more optimistic these days about the trends and the drive towards getting some of these big regulatory pieces done, or do you fear it is just stacking up more bureaucracy?

Fernando Vicario

I am always optimistic, and I will give you three reasons why I am optimistic. First, it would be great if, here in the audience, we continue to remind our regulatory counterparts to let capital move freely.

Secondly, I would like to suggest that we need to free up capital in general to invest into our infrastructure security. Lastly, let Europe be more European and have more pan-European banks to give them scale to compete on a global basis and support European economies. We are definitely doing so, and continue to expand on European soil.

David Wright

I am really delighted by your three arguments. I think we are at a critical stage. Europe has to move forward now. If not, it is going to slip down, as I said earlier, from the Premier League to Division 2. I do not think that is acceptable for anybody in this room, and I am sure it is not for you. Fernando, thank you very much for being with us and for your support. It is always a great pleasure to talk to you. Thank you.



Conversation with Anna Dunn

Anna Dunn - EMEA Chief Financial Officer & UK Chief Executive Officer, JPMorgan Chase & Co.
David Wright - President, EUROFI

David Wright

I am pleased to introduce to you Anna Dunn, who is the EMEA CFO, UK CEO of JPMorgan Chase. I have always learnt a lot from you over the years. Thank you very much for being with us. Thank you for supporting Eurofi, which is immensely appreciated. We are going to talk about competitiveness in its different forms, a little bit about supervision, and the regulatory framework. I think you have some very interesting ideas. Let us start, Anna, with the Market Integration and Supervision Package (MISP) and competitiveness. How do you see this? Are you seeing things that excite you at JPMorgan, or things that worry you? What is your appreciation?

Anna Dunn

We are seeing a lot to excite us both ways, David. Thank you for the kind introduction. I think the starting point for us that we would ask the legislators and the policy-makers to consider is, 'Who are we trying to help with this? What do we mean by competitiveness?' I think, when you stand back from it, the answer that we would hope to hear is, 'The European economy, European savers, European companies.' With that in mind, we do find some of the initiatives at MISP and some of the comments exciting in terms of tackling long-standing inefficiencies.

An example of that would be post-trade, where there is a great deal of fragmentation that creates additional expense on the post-trade side, on the settlement. Inside Europe, settlement costs are approximately, on average, 65% higher than they are in the US. That seems like a clear competitiveness objective that I would hope that everyone could support.

Equally, we see things being put on the table with MISP that arguably help certain parties, but ultimately do not help European consumers, European investors, or European companies. An example of that would be the potential reopening of the equities market structure debate, where there is nothing to suggest that there are problems with price formation.

In fact, different business models and different structures are giving European clients and investors additional equity execution options with the Markets in Financial Instruments Directive (MiFID) support of execution. So, two examples of how MISP is a potential force for real benefit inside the EU, and also how the word 'competitiveness' can potentially be hijacked.

David Wright

So do not touch the best execution options, but look closely at clearing and settlement, where there are major economies of scale.

Anna Dunn

Yes.

David Wright

On this question about a competitiveness mandate for the European Securities and Markets Authority (ESMA), and for regulators in general, I was listening to an

earlier debate on banking. The chairman asked the panel at the end, 'Are you in favour of this?' All those from the public sector said, 'No, I do not think we need that,' and all those from the private sector said, 'On balance, a good idea.' How do you come out on this? Do you think this is going to radically improve policymaking and outcomes in Europe?

Anna Dunn

It could be good, and it could be bad. The thing about the competitiveness agenda is, what will it mean? Coming from a finance background, we are very used to the idea of, 'What gets measured gets managed.' It goes back to, if you are going to give a competitiveness mandate, what measures of success are you going to link it to? Are you going to link it to savings and investment? Are you going to link it to the improvement of the liquidity of markets?

Are you going to do things that actually look through into the real economy in a way that actually will provide measurable benefit to Europe, or is it turning into competitiveness, again, as something where it can be interpreted whatever way people want it to be? With that, what will be the accountability mechanisms? Where would the agencies provide some sort of report on their progress on competitiveness? Would there be industry engagement and consultation? Would there be that type of governance and accountability?

The execution and how the execution is specified really matter in terms of whether or not it is a good or a poor initiative.

David Wright

You are quite right. There are a lot of questions there about scope and whether it is general or specific. Would you make it mandatory for regulators, depending on what they have to do? We have a mandatory impact analysis now for all Commission proposals. It would not be so difficult to add a competitiveness dimension to that. That would be interesting. Who is the reporting to? How do you see that?

Anna Dunn

I think it is very hard to mandate competitiveness, but I can say giving a secondary objective of competitiveness, I think, could be a positive measure. I think it does then come back to, 'What do we mean by that, and are the metrics and the key performance indicators things which are sufficiently looking through to the economy?' The problem with that, as opposed to saying, 'Let us just try to shorten approval periods,' or something like that, is that the regulators will then quite rightly say, 'Well, we cannot be held accountable for growth. We cannot be held accountable for gross domestic product. There are so many other political factors.'

That is fair enough, and yet once you take the shortcuts into other metrics that are more approximate and more under their control, there is the risk that you optimise for those measures. That does not necessarily help those European savers, investors, or companies to scale and grow, which is what we all want.

David Wright

So it is quite difficult. As you said, you have to look forward. That is not always easy. You have to make a judgement about the impacts one way or another, whether it is binding and mandatory, and who does it. Are you happy with the way the UK is evolving here? Is that a good model?

Anna Dunn

I think the UK has taken this quite well. I think that it is a consideration for UK regulators. They absolutely are still primarily prudential regulators concerned with financial markets' operations and stability. It does mean that there is a renewed focus on consultation, but also things like cost-benefit analysis. This is where the governance structures around any sort of change to the supervisory framework, as much as to the competitiveness framework, probably can be more formalised and strengthened in a way that naturally will help competitiveness.

Something could be introduced that allows for some sort of review of soft law, some sort of accountability mechanism for some of the proliferation of guidance and frequently asked questions. I absolutely agree with the comment that you do not want to weaken the financial system overall, and absolutely agree that you would want to keep the strength and stability as a primary focus. Equally, the power without accountability and without redress does not always create the best dynamic either.

David Wright

Moving on a little bit, Anna, you are perfectly well aware that there is a head of steam building up from the banking industry in Europe to improve supervision in the banking system. We saw some references yesterday in the state of the union address by the President of the European Commission to the need for competitiveness and growth, but also not to just regulate for stability. That language perhaps is helpful. Do you regard this in

JPMorgan, as far as Europe is concerned, as a priority on the public policy side?

Anna Dunn

Yes, we do, a very clear answer there. I think honestly that does become a competitive advantage, to the extent that streamlined supervision can be delivered. I think it is a competitive factor if there is clarity of supervision that is risk-based and that is integrated. We are very supportive of the new tone from the top in terms of looking to reduce reporting burden and data, not to remove the critical information needed for supervision but just the proliferation of duplicative information that sometimes is not used for supervision.

We are very enthusiastic about the fact that now this is a clear priority inside the Single Supervisory Mechanism (SSM) and has that type of support, including from the national competent authorities that we talk to, and we do think that it will create a more competitive environment in Europe. I would somewhat go back to the prior point which is that this now has a lot of support. To really embed it in a way that it is part of the framework and structure going forward, we would then hope to see some of those mechanisms such as consultation, cost-benefit analysis, and the possibility for industry to raise challenges on things which are not formal decisions built into the framework in the way that it is carried forward.

David Wright

Another element that is arising in the context of the banking competitiveness work of the commission is this whole area of proportionality with lower requirements for smaller institutions. What are your views on that?

Anna Dunn

Proportionality is one of those words that is a bit like competitiveness. It is hard to say, 'I am against competitiveness,' or 'I am against proportionality.' It does come down to what one means by proportionality, or indeed competitiveness. To the extent that by proportionality you mean that if you are small, you do not need supervision, that is not a great answer, because a combination of a lot of small things can add up to a large thing.

Proportionality is fantastic to the extent that we are moving to a risk-based supervisory approach. The hope would be that the risk-based approach is proportionate, because you would be focusing on risks that would be of significance to any individual institution. When you look at smaller banks and financial institutions, there are a lot of factors that would not be significant that are for your larger players. By taking the risk-based approach, I think that you achieve proportionality.

David Wright

If I may ask you a final impressionistic question, Anna, you are the biggest bank in the world. You follow what is going on here microscopically. Are you getting a sense of Europe being on the move here? There is a feeling that, with the Irish Presidency, the deadlines and the geopolitical tensions, finally Europe is working it out and is going to move forward. Do you get that sense?

Anna Dunn

I am very encouraged by Europe's focus on competitiveness and simplification at the moment. I would say that it is all going to be about the execution. The hope would be that Europe does not rush to legislate and leave too much in the way of messy compromises and ambiguities in the text that ultimately undermine the execution. So Europe on the move? Absolutely. Competitiveness, fantastic. Let us make sure we do it right.

David Wright

Look at the outcomes.

Anna Dunn

Yes, outcomes-based regulation in more ways than one.

David Wright

Anna, thank you very much for being with us, and thank you again for your support of Eurofi.



Conversation with Daniel Maguire

Daniel Maguire - Group Head, LSEG Markets, and Chief Executive Officer, LCH Group
David Wright - President, EUROFI

David Wright

Ladies and gentlemen, I have the pleasure now of a conversation with Daniel Maguire, who is Group head of Markets at LSEG and chief executive officer of the LCH Group, which is part of LSEG. Daniel is well known to you and has spent close to 30 years with the group in different forms. We greatly appreciate the support of LSEG for our work here in Eurofi, which has been very constant and is much valued.

We are going to talk a little bit about technology, the market integration and supervision package (MISP), and fragmentation. We have all this major technological change with us – tokenisation, distributed ledger technology (DLT) and artificial intelligence (AI), with huge transformation underway in the capital markets. How do you see this in LSEG? In terms of 24-hour trading, how is it all working out, or is it too early to judge?

Daniel Maguire

Thanks, David. I know we have limited time, so I will jump straight in. It is great to be here. I will start with a bit of context. At LSEG, we are dealing with clients in over 180 countries, and with dozens of currencies, dozens of interest rates, and dozens of debts, so we bring a real global perspective around this, not just in the EU, which is vitally important to us.

I run the markets business at LSEG and, just in that context, we are making a lot of investments. In the last few years, we have perhaps been a little quiet and a little reticent to say what we have been doing, because we have been figuring out a lot of this digital transition, but it is fair to say that we are now a bit more public about this. We are investing quite heavily as a business in digital innovations and digital infrastructure as we go – and we are an infrastructure company at heart – from securities settlement and digital settlement depositories, to looking at digital payments.

You mentioned 24-hour trading, which will potentially be facilitated by tokenisation of some of our equity markets, so we are really looking at digital in the context of issuance and settlement as well. We are breaking cover where we see it.

When you think of it in the context of the EU, when we were chatting prior to this, we were asking what Europe needs to do from a regulatory and readiness standpoint. I would make the following three points. First, we would really like to see the EU start pan-European and stay pan-European. We have the luxury here with digital, which is a blank canvas, relatively speaking, whereas we have a lot of history and heritage in terms of where things have come from through national competent authorities (NCAs) and the various regulatory bodies. This is an opportunity for a single EU approach, which would really help Europe in the context of Europe, but also in the context of global competitiveness, having one single approach run by the European Securities and Markets Authority (ESMA), and one rulebook. I would simply say that the answer should be a single approach, unless there is a good reason not to.

Secondly, in that context, there is a temptation to overburden. This is innovation. This is creation. This is

new. We like that. One ask or one call would be to do the very best, from a regulatory and policy standpoint, not to stifle, not to overregulate and not to overburden to the point of what I would call, running a business, asphyxiation. We sometimes have more regulation than we do code. It is really important that the EU is coming at this from a principle-based standpoint, not prescription, because this is changing. Where we started in terms of some of our investments and the outcomes we were expecting is shifting in the space of three to six months, so it is impossible to put prescriptive regulation around that, but it is possible to put principles around it.

The final point that I would make is that we have an internal mantra around this, which is that we are intentionally building for a hybrid, if not permanent, state for the long-term, because we think that we are going to have this world of, let us say, traditional assets – we talk about assets, but traditional infrastructure – and we are going to have digital assets, or digitalisation of traditional assets, and digital infrastructure.

We have seen markets go from uncleared to cleared. We have seen things go from the London interbank offered rate (LIBOR) to new reference rates. There is a transition and there is migration. This could take years, if not decades, to see the full transition, so everybody, regulatory-wise and policy-wise, needs to be prepared for this hybrid state. Really focusing back on that principle point, we need to be technology neutral and outcome driven because things are changing so quickly and we do not want to be too prescriptive.

In terms of some final points on this, the one thing that we do not want to see is that we somehow, inadvertently, create a regulatory arbitrage between the traditional infrastructure and assets and the digital infrastructure and assets. I do not think that anyone would have that intention, but, if we do not really focus on that, there will be an arbitrage emerging between them. We love the idea of sandboxes that we see across the UK, Europe, and other jurisdictions, but we need to have this transition into what we might call full regulation as things move from there. It is about keeping a weather eye on this.

My final, final point on this is that tokenisation does not have magical properties. Lots of people are talking to me. I was in the States in the early part of the year, and people are tokenising everything – 'It is amazing. It is now liquid because it is tokenised'. No, it is not. What we have to do is stick to our risk principles, given the kinds of businesses that we run. Tokenisation is coming, and it is a great thing, but, regulatory and business-wise, we have to make sure that we have that same settlement finality, that same legal certainty, and that same ability to convert something into cash in case of a market default or liquidity event. We need to keep a close eye on whether we are creating this arbitrage or sticking to the risk principles that the EU and America – and the UK, for that matter – have been very steadfast in securing over the years.

There is a lot going on. We are excited. There is a little bit of trepidation because we are spending a lot of money and we are not sure how we are going to make money, but that is life.

David Wright

On this technological pace that you are talking about, are you concerned about monitoring markets in the middle of the night with huge numbers of traders using highly sophisticated AI trading models? This is going to be enormously difficult, is it not?

Daniel Maguire

Yes and no. As Cecile mentioned in the prior panel, 24-hour trading is not a new concept. We have a preeminent position with our FX Trading, FXall, and FX Matching businesses, where we are seeing material flows, with billions and trillions of dollars equivalent trading overnight through the hours of every day, and we are increasingly seeing the interest rates. It is probably a bit of a new paradigm for more securities markets, but it is not impossible. The trading side is feasible. The surveillance and risk side is feasible. It is really the shifting of the collateral and the associated processing that can be greatly facilitated by the tokenisation.

I am not saying that it is easy, but I am saying that it is not totally breaking new ground. It is about learning from what has happened there, but having physical underlying securities is the challenge, which is where tokenisation can maybe unlock that.

David Wright

Just turning to MISP, we heard from Finance Minister Harris this morning about a real determination to deliver this in Ireland, which I presume is very welcome. You have touched on this in terms of regulatory approach, but what are the issues that are really of major concern to you? Do you think that the way that the debate is going is going to significantly help initial public offerings (IPOs) not just in Europe, but also in the UK and on a pan-European basis?

Daniel Maguire

In terms of the focus on the capital markets element of this, there is a lot in MISP. One thing that I would

say is that Europe and the UK need really deep, liquid public markets – period. They need that to finance both new and existing companies. They need that to finance growth. They need that to be competitive globally. If you take that as a simple, clear hypothesis with which, hopefully, no one disagrees, you look at the technicalities of this. Liquidity and price formation, which are embedded in some of the MISP text, are not just geeky technical issues that get people like me excited. These are really fundamental tenets of a well-functioning market for the real economy.

The way that we think about it is that, in the context of MISP, execution mechanisms need to be operating on a level playing field. We are talking really about equities in this context, because, if we have vibrant primary, secondary and lit markets, we can have liquidity, which attracts more potential IPOs, notwithstanding that there is the growing weight of private markets, which I am happy to chat about.

One of the questions that is coming is around issues like systematic internalisers (SIs). If you go back to the origins of these, and their original intent, there is a question around whether what they do today is still aligned with their original intent. We routinely see trades going through SIs that are of a similar size to your traditional lit markets. Is that right?

David Wright

With different transparency obligations.

Daniel Maguire

Yes, because these were initially intended for larger, off-market bilateral trades. What we are seeing is a huge volume. In most of the European public markets, 30% to 40%, to put a statistic out there, is lit. The rest is not. That is a problem when you think about lit markets. Closing auctions are really central to reliable price formation and price discovery for the ecosystem at large.

If we have seen this shift out, that is okay – things change, and we understand that – but, if that is happening, we need to make sure there is a level playing field, where SIs, similar to lit markets, are contributing to price formation. Otherwise, we have this unlevel playing field or, even worse, asymmetry, where we are not really getting the quality of the information or the data to do real quality price formation that everyone is dealing with. One of the policies and approaches to fix this, which is going to be rolled out, is the consolidated tape.

If I could finish on this point with one thing, it would be to roll it out, pause, and reassess. There is something to look at here in terms of this contributing towards price formation, because we have maybe missed a trick there. If you get that right and you have deep, liquid markets, you have better valuations. If you have better valuations, they become more attractive from a public standpoint versus private. As an example, in the UK, we are seeing private buying up a lot of public companies relatively cheaply, because there is a perception that there is no liquidity there. That perception is not accurate, but it risks becoming a self-fulfilling prophecy that we need to address.

David Wright

Looking at the whole fragmentation issue, and looking forward, do you sense that Europe is really moving in the right direction? All things considered, fragmentation should be reduced. Do you think that the EU is moving in an open direction, which is something that you have always emphasised? What are your perspectives here? What are your real concerns as we come to the crucial part of MISP?

Daniel Maguire

For a bit of context, LSEG has over 3,300 employees in the EU in 18 member states. Assuming that MISP goes through in its current form, LSEG's biggest regulator globally by number of entities being regulated will be ESMA, so we are feeling its presence. That is across data, risk, venues and benchmarking indices. It is omnipresent in what we do, and we are fine with that.

In the context of MISP, are we fine with a stronger role for ESMA? Yes, absolutely, and we have been. I have sat here every year for 10 years and said the same. We want to see, with ESMA, more harmonised outcomes within the EU. We see disparities between clearing houses in different parts of the EU itself, so we need to harmonise that, because there have definitely been different interpretations. Put that on the to-do list, please, Klaus and team.

Being more fundamental, probably what I really want to say is that the EU really needs to avoid the temptation to be closed. It must remain open to international customers, trade, businesses, infrastructure, etc. I see that Corentine is here in the audience, and she runs LCH SA, our clearing house in Paris. We have worked really hard to bring all of the euro debts from a repo clearing standpoint into one place, with lots of efficiency, lots of benefits and so on. Most importantly, we have also spent probably the last few years building out so that firms from the UK, Singapore, Canada, the US, Hong

Kong, Australia and Switzerland – and I could go on – can access that pool of liquidity.

The reality is that the EU debt market relies on non-EU firms, as well as EU firms and people, to buy that debt up. We are spending a lot of time trying to internationalise our businesses from a regulatory oversight perspective, and our French regulators and ESMA have been great in making that sort of cooperation happen. It is really vital that we remain open, because, fundamentally, the EU needs inward investment. Likewise, EU firms need access to international liquidity, so it is a two-way street, not one-way.

My one wish, as we head into this critical juncture, is for us to not get confused between sovereignty and autarky. There is a big difference between being closed versus protecting. The thing that we want to see is us getting strategic autonomy – and, in the world we are living in, that is becoming a greater need across many different aspects, not just finance – but being strong enough and confident enough to compete. Made in Europe is no bad thing, but we need to be open enough to attract that international capital and provide, really vitally, EU financial and real-economy firms access to those international liquidity pools. If we put up the walls, the real losers will be EU firms and people. To be blunt, we really need to make sure that we do not allow autarky to masquerade as strategic autonomy. They are very distinctly different, and we need to avoid that temptation.

David Wright

Thank you very much, Dan. Your time, as usual, is short, but you are absolutely right that, if Europe can deliver these pieces that we have been talking about by the end of the year, along with securitisation, digital euro, and so forth, and do it well, confidence will grow among international investors, provided it is an open architecture, if you like. What you are saying is that this will be a boost to the capital markets.

Daniel Maguire

Yes, 100%. The interconnectedness is real. What is on the plate of the Irish presidency right now is a big meal, so tuck in. If we can get this landed, it advances the EU well. We all get strategic autonomy, and we see that across the world, but do not let it go too far. That is the key.

David Wright

That is terrific. Thank you so much for being with us and for your support, again, for Eurofi.

Daniel Maguire

Thank you.

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Simon Harris

Tánaiste and Minister for Finance, Ireland

Remarks

Ladies and gentlemen, senior delegates, and distinguished guests, good morning.

It is my great pleasure to welcome you all to Dublin on behalf of the Government of Ireland.

At the outset, let me acknowledge the important role you all play, in driving innovation, investment and growth across our European Union.

As key market participants, you are at the forefront of the continued evolution of Europe's financial services landscape, supporting the financing needs of households and businesses.

Across Europe, competitiveness has become the defining economic conversation of our time.

As holder of the EU Presidency, Ireland has made competitiveness the central pillar of our priorities.

I believe Europe must raise its ambitions for the years ahead.

But I would make one observation at the outset: Competitiveness begins by building on our strengths.

Too often, Europe's economic story is told as one of challenges: slower productivity growth, demographic pressures and intensifying global competition.

Those challenges are real, but they are not specific to Europe alone.

Europe is one of the largest and most prosperous economic areas in the world.

We are home to a Single Market that is on a par with the largest global economies.

We are a global leader in financial services, green technologies, advanced manufacturing and research and innovation.

We have a highly educated workforce, world-class infrastructure and a stable rules-based economic framework that continues to attract investment from around the globe.

And when Europe has faced major shocks over the past decade, we have repeatedly demonstrated resilience.

We emerged from the pandemic with coordinated action.

We adapted rapidly to a profound energy shock.

We maintained financial stability through a period of rising interest rates and significant geopolitical uncertainty.

And throughout this, we have continued to create jobs, attract investment and support innovation.

That resilience matters.

And the stability premium that Europe offers should not be underestimated or taken for granted.

It reminds us that Europe's challenge is not whether we can compete.

It is whether we can fully realise the extraordinary potential that already exists within our economy.

Nowhere is that more evident than in financial services.

European financial services represent one of our great success stories.

European banks are stronger, safer and better capitalised than at any point in recent decades.

European asset management is globally significant.

European payment systems continue to innovate.

And Europe remains a leading centre for sustainable finance, insurance, investment funds and capital markets activity.

Financial services sit at the heart of the debate on competitiveness – because crucially, financial services are an enabler of everything else.

If Europe wants more innovation, we need finance.

If Europe wants more scale-ups, we need finance.

If Europe wants to lead in clean technology, digital infrastructure, artificial intelligence, life sciences and innovation, we need finance.

Competitiveness ultimately depends on our ability to mobilise capital and direct it towards productive investment.

That is why the discussions around the Savings and Investment Union and the future of the Capital Markets Union are so important.

Europe does not lack savings.

As you all know well, European households are among the world's strongest savers.

The challenge is ensuring that these savings work harder by offering both households and businesses better investment opportunities.

If we succeed, the prize is considerable.

More investment.

More innovation.

More productive firms.

More high-quality jobs.

And ultimately, stronger growth across the Union.

For Ireland, this agenda resonates strongly.

Ireland has benefited tremendously from openness, international engagement and participation in the Single Market.

Over recent decades, we have built a dynamic and internationally connected financial services sector that serves customers and investors across Europe and around the world.

Today, Ireland is a leading location for investment funds, finance, international banking, insurance and sustainable finance.

Our ambition must be to help shape Europe's next phase of growth.

That next phase will be driven increasingly by innovation – Artificial intelligence, digital finance, data-driven business models, cybersecurity and advanced payments. And the technologies that are only beginning to emerge.

This is a central theme of the informal ECOFIN meeting that I will host here tomorrow in Dublin Castle.

Europe has the talent.

Europe has the research base.

Europe has the entrepreneurial capacity.

Our task is to ensure that entrepreneurs and innovators can access the financing they need to grow, scale and remain in Europe.

Europe must be prepared to move faster, become simpler and make it easier for businesses to grow within the Single Market.

And make no mistake - this is not merely an objective the EU has set its sights on.

This is an agenda of the Irish Presidency.

The objectives set by the Irish Presidency reflect the high degree of ambition, and the strong political momentum that have been endorsed by all EU institutions in the 'One Europe, One Market' Roadmap.

In line with its importance, the Savings and Investment Union is front and centre in our priorities.

We have begun negotiations with the European Parliament on the Digital Euro, an initiative long in the making, and we are determined to reach a final agreement on this important file by the end of the year.

As many will be aware, I secured an important agreement from my fellow Ministers at ECOFIN in July to aim for a Council position on the critical Market Integration and Supervision Package (MISP) in October.

Likewise, we are working towards a final agreement with the European Parliament on the securitisation framework and we stand ready to start negotiations with the Parliament on the supplementary pensions package.

Taken together, agreement on these files will mark a paradigm shift for the financial services market in the EU, and for our broader investment environment. We plan to deliver that boost.

This is not a simple undertaking, but I believe it is possible with the steadfast commitment and hard work of all EU Member States and Institutions, and with the support of industry.

Achievement starts with ambition – and the time has come for the EU to deliver.

Of course, no discussion of competitiveness would be complete without acknowledging the wider global context.

We live in a more uncertain world.

Geopolitical tensions have increased.

Strategic competition between major powers is intensifying.

Economic security considerations now play a much greater role in policymaking than they did a decade ago.

Europe cannot be naive about those realities.

But neither should we become overly defensive.

The answer to global competition is not retreat.

It is renewal.

Europe must be open to the world while also becoming more capable of shaping its own path.

For the Irish Presidency, that balance between openness, competitiveness and resilience is woven throughout our priorities.

Conclusion

Let me conclude by saying that too often, competitiveness can sound abstract – a term reserved for economists or policymakers.

But at its best, competitiveness is ultimately about people.

It is about creating societies where ideas can flourish, where businesses can grow, where workers can succeed, and where families can feel optimistic about the future.

Because when economies are competitive, innovation accelerates.

New solutions emerge. Productivity rises. Opportunities expand.

And when done right - and done fairly - competitiveness is not remotely a race to the bottom, but a race to improve lives.

A competitive Europe is one that remains a global home for innovation and enterprise. One that attracts investment and talent.

One that equips citizens with skills, embraces new technologies, and maintains confidence in an open economy - while staying true to the values that define us.

And this is why gatherings like this matter.

The Eurofi conference brings together people willing to think beyond borders and beyond short-term gains.

Because if competitiveness is to work for people, it requires collaboration as much as competition - governments, innovators, entrepreneurs and civic leaders learning from one another and working together.

I wish you every success with the rest of your conference and discussions.

Go raibh míle maith agaibh - thank you.



Gabriel Makhlouf

Governor, Central Bank of Ireland

Finance for Europe's future – getting the foundations right

Good evening. I know you've already been here for a couple of days but it's a pleasure to extend my own – slightly delayed – welcome to all visitors to Dublin.

Today you have covered Basel divergence, the Banking Union, the Savings and Investments Union, stablecoins and banking competitiveness. You have certainly earned your dinner. You have also heard from Commissioner Albuquerque, Executive Vice-President Dombrovskis and Director-General Berrigan so, from me, no more on the legislative state of play. Instead, I want to step back and talk about the urgent choice in front of us.

Where We Are

Two generations ago, Ireland was a small, capital-poor economy on the western edge of the continent whose principal export was its own people. Today it is one of the most open economies in the world, and home to a financial sector serving customers across the Union and beyond. Our labour force has doubled over three decades.

That transformation rested on a choice: to stop trying to prosper behind our own borders, and to open ourselves to – and integrate with – Europe and the world. Everything that followed was built on that decision and what came with it: stable rules, open markets, credible institutions. European values, in other words.

The path was not smooth. There were major shocks and policy mistakes along the way, including those that led to our banking crisis, and this institution has been clear about its own part in that. But it is hard to envisage the Ireland of today without European integration.

I mention this because it explains why I feel this moment so acutely. Seeing first-hand what openness and integration can do for an economy creates an obligation to say clearly when we are not getting the most out of it.

And we are not realising the potential of the European economy.

The global rules-based system that underpinned decades of economic integration is breaking down. Trade, technology and capital flows are being increasingly shaped by politics, rather than just economics. In six years, we have had a pandemic, a war in Europe, a war in the Middle East, and, to put it mildly, a fundamental reordering of the multilateral system.

This is both a challenge and an opportunity. The challenge is that our growth performance is not what we should expect from an advanced economy of 450 million people. Mario Draghi made that diagnosis – and the policy prescriptions – clear. The opportunity is that the things Europe does well – predictability, stability, the rule of law, credible institutions – are more valuable, not less, in a fragmented world. Or to put it another way, the things Europe does well in a time of geopolitical and geoeconomic fragmentation and uncertainty can be a competitive advantage.

Europe has what it needs to succeed. The question is whether we will make the foundational choices to deliver on it.

What Foundations Are We Building?

When we talk about reform, we should start with a simple question: what are we reforming towards?

A well-functioning financial system for Europe should be resilient. It should be able to absorb shocks rather than amplify them into the real economy. It should be well-regulated and governed by rules that achieve their purpose without unnecessary burden. It should be integrated, operating at European scale rather than twenty-seven national systems under a European flag. And it should be innovative and able to evolve as technology and the economy evolve.

This is not a menu to choose from. Properly calibrated, these reinforce one another. A resilient banking system lends through the cycle, and innovates in the face of disruption, rather than retrenching from it. An integrated market lets firms raise capital at scale, and is itself more resilient, because risk is shared more widely.

I want to be particularly direct about one of these. Resilience is not a constraint on competitiveness. It is the precondition for it. The suggestion that Europe could compete more effectively by being less resilient misunderstands both what competitiveness is and what the last two decades have taught us.

We learned in the financial crisis that when regulators optimise for competitiveness, they miss risks building in the system.

And no institution is competitive globally if it is structurally weak, undercapitalised, or prone to failure.

The Banking Challenge: Fragmentation, Not Capital

This brings me to the Commission's Communication of July.

It asks the right question: how do we ensure the banking sector helps make our economy more productive and delivers sustainable growth for our citizens? And it rightly diagnoses fragmentation as the central problem. We have a single market with its four freedoms, as well as a single currency and a single supervisor but we have a banking market that effectively stops at national borders. Cross-border corporate lending in the euro area remains at around one-sixth of the total.

Why? Banking follows the customer. When corporates operate at scale across borders, their banks follow. But most European corporates do not, because the Single Market remains incomplete. These differences limit the four freedoms and prevent the integrated banking sector we need. Financial regulation alone cannot fix that. We need to create One Single Market – in goods, services, and capital simultaneously – and we need to move faster than we are moving now.[1]

But financial regulation does have a role to play. Let me set out some thoughts on the areas we need to tackle, not least to address fragmentation.

First, complete the Banking Union. While safety nets remain national, it is unrealistic to expect banking to become genuinely European. A European Deposit Insurance Scheme is key to a sector that is both more resilient and more integrated, providing the foundation for capital and liquidity to be used more efficiently within cross-border groups.

Second, fix the barriers that actually stop banks operating across borders. Divergent insolvency regimes, inconsistent implementation, fragmented digital infrastructure, different employment rules. Listen to firms and they will tell you this is where the friction lives. These do more to constrain cross-border banking than capital requirements ever could.

Third, maintain a relentless focus on simplifying or, as I like to describe it, on regulating and supervising well. While I am not convinced that the level of capital is part of the problem – and indeed the evidence does not support it – capital requirements have become layered in ways that can make buffers harder to use precisely when they are needed. We also need greater clarity, common methodologies, and a view of how the pieces fit together rather than of each in isolation. That is achievable, and I say so because we did it in Ireland: when we set our macroprudential capital strategy, we looked at the interactions between the micro and macroprudential elements and made explicit decisions as to what instruments we would and wouldn't use.

But we need to avoid simplification that is done poorly, whether it is because it is driven by short-term thinking or by a deliberate focus on reducing the system's resilience.

Simplifying poorly would include asking supervisors to weigh up promoting the competitiveness of the financial sector against their important mandates which would be a mistake, just as it was before. Our focus should be on regulating and supervising well. That, in my view, means being forward-looking, connected, proportionate, predictable, transparent and agile.

The best contribution we can make to Europe's competitiveness is ensuring monetary and financial stability, and the safety and soundness of the financial sector. This is the very foundation of an economy that supports sustainable growth and the wellbeing of the people who rely on it.

Connecting Savings to Investment

The second challenge is connecting Europe's savings to productive investment.

Deeper, more integrated capital markets are central. Europe is good at getting companies started and less good at helping them scale. Our venture capital market is a fraction of the size of the United States', and the shortfall is concentrated at the late stage, which is why some European companies raise their growth capital and then list somewhere else. Capital that cannot move easily cannot reach scale.

So the Savings and Investments Union matters and deserves more urgency than it is getting. The Scaleup Europe Fund is a step in the right direction. The work on a common European corporate form – the 28th regime – is another. It removes one of the reasons a European company scales up elsewhere.

But there is a further foundational question. A genuine single capital market ultimately requires a single safe asset. Without one, building deeper markets with stronger retail and pension participation is harder from the outset. That is not a question for central bankers or regulators to settle. But it is our job to be clear about the cost of leaving it unsettled and the wider benefits it would bring.

I also want to be clear that the volume of capital within Europe does not appear to be the constraint: compare Mario Draghi's estimate of additional investment needs of €750 to €800 billion a year by 2030, with the roughly €10 trillion held in European cash deposits. Capital follows returns, and European savings flow abroad because investors expect better returns elsewhere.

So, what we need is higher productivity growth, which brings us back to completing the Single Market in goods, in services and in capital. These are interdependent. You cannot have a genuinely integrated capital market without integrated goods and services markets, because capital follows real economic activity. You cannot have genuine cross-border banking without cross-border corporates.

What is on the table so far – the Savings and Investments Union, the Banking Union reforms – is necessary but not sufficient. Even the best financial plumbing cannot substitute for real economy

performance. What it can do is remove unnecessary friction and create the conditions where capital can flow to where it is most productive. We need one Single Market – in all its components – and we need to move faster to realise it.

Modernising Our Payments Infrastructure

Credit, capital and payments are three parts of the same infrastructure and payments are where citizens and businesses meet the financial system most directly, every day. It is also where change is arriving fastest. So let me say something that runs a little against the rest of my remarks: on payments, European authorities are not behind the curve. We are building.

The anchor is the two-tier monetary system: central bank money alongside commercial bank money. That structure has served us well and its integrity should be maintained. But maintained does not mean frozen. It must evolve into a digital and tokenised world, with central bank money remaining at its heart. That is how I think about the Eurosystem's work on settlement using new technologies, and about the Digital Euro: ensuring public money remains available as our economies digitalise, while adding resilience, diversity and choice. And that work is being done through sustained engagement with the market, not away from it.

We are doing the same here in Ireland. This year we published a Discussion Paper on distributed ledger technology and tokenisation across funds, markets and payments, to work out with industry the conditions under which these technologies can be deployed safely and at scale. Tomorrow, we host a conference on the evolving payments landscape and what it means for the economy.

Conclusion

It is tempting to respond to competitive pressure by reversing the modernisation of the framework that we have built since the financial crisis; to watch the regulatory pendulum swing elsewhere and conclude we must follow it. For me this would be a mistake: answering long-term challenges with seemingly easy short-term solutions is precisely the wrong answer.

The post-crisis modernisation has created resilience that has seen the financial system through significant shocks. What European banks and capital markets need is not less resilience. What they need is a market worth operating in, a market that is deep, integrated and genuinely single and barrier-free. It means finishing the Banking Union and completing the Single Market. These are not separate agendas: progress on each depends on progress on all. It is the harder path, and the more rewarding one, because it delivers the uplift in productivity we need without sacrificing the resilience we have built.

Ireland's transformation, like Europe's, was built on stable rules, open markets and credible institutions. That model has not stopped working, but we urgently need to complete its construction.

The choice is between doing the hard work now or continuing to forgo the benefits of a union we have already built.

It is about resisting the siren call of deregulation and the allure of less supervision and not confusing these with simplification.

It is about regulating and supervising well.

It is about recognising the distinction between the means that I have discussed this evening – capital requirements, deposit insurance, safe assets, a digital euro – and the ends that we need to remain focused on: a stable and productive economy that delivers a prosperous and secure Europe for the welfare of the people as a whole.

Thank you and enjoy the rest of your evening.

1. One Single Market: Goods, Services and Capital - Speech by Governor Gabriel Makhlouf at AFME European Financial Integration Conference



Valdis Dombrovskis

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

Strengthening our economic fabric: a competitive financial system for a sovereign Europe

Good afternoon, ladies and gentlemen. It is a pleasure to be back in Dublin. And to return to Eurofi, which remains a crucial forum for exchanging views on the challenges that are defining Europe and the world of finance.

The world has continued to grow more complex, more contested, and less predictable since we last met. We find ourselves in a new age of polycrisis, where turbulence overlaps and compounds so that the whole becomes even more severe than the sum of its parts.

Relentless and shameless Russian aggression in Ukraine. Conflict in the Middle East. Geopolitical tension. Energy shocks. Rapid technological change. I could go on.

It brings to mind the words of Ireland's most celebrated poets. More than a century ago, Yeats wrote:

> *"... the world is full of troubles,*
> *And is anxious in its sleep."*

Now, we know that Europe cannot control all the forces troubling our world. But it does not mean that we are without agency. We can — and we must — take action to seize the opportunities that this new age presents, and overcome its most adverse impacts.

That is the only way to guarantee our long-term prosperity and security.

We know that macroeconomic stability and sustained growth are the essential foundations upon which this more prosperous and secure Europe will be built.

Laying this foundation demands that we create a more competitive European economy.

Ladies and gentlemen, the European Commission has placed competitiveness on top of its policy agenda. Over the course of the last two years, we have cut red tape, deepened our Single Market, and strengthened our trade network. Much has been done. While much more remains to be done.

Looking ahead, our competitiveness agenda will demand continued consistent and determined efforts on all fronts and at all levels. Creating a stronger overall economic fabric will depend on weaving many different threads together.

Today, I will focus on three such threads in particular, namely: the digital euro project, strengthening the international role of the euro, and how our simplification agenda can enhance the competitiveness of our banking sector.

Let me begin with the digital euro. Our common currency is the foundation of Europe's economic strength. Like everything else, it must evolve to keep up with the times. The data tells us that Europeans are moving decisively toward digital payments. Cash's share of point-of-sale transactions fell from 72% to 52% between 2019 and 2024.

Yet we have no genuine European digital means of payment to fill that gap. The digital euro will help ensure that our currency keeps pace with this shift.

But the digital euro project is not only about convenience for consumers. It ensures central bank money remains available in a digital world, anchoring trust in our monetary system. Crucially, it also reinforces our strategic autonomy. In a less stable world, dependencies quickly become vulnerabilities. This logic applies to financial infrastructure, the circulatory system of our economy.

Today, almost two-thirds of card transactions in the euro area run through non-European providers, while thirteen euro area Member States rely entirely on international schemes. That dependency leaves us exposed to decisions made beyond Europe. Where infrastructure is this critical, Europe needs its own alternative.

The digital euro is part of that answer. It represents a new form of European public good that strengthens our digital and monetary sovereignty.

It offers cash-like privacy for offline payments, and strong privacy online. This balances citizens' rights with the need to counter money laundering and fraud.

It will not compete with private payment providers, but will give them a foundation to scale, innovate, and compete more efficiently.

Let me be clear: this is not about replacing cash. Euro banknotes and coins are here to stay. That's why the European Commission's

proposal for a Single Currency Package includes measures that will strengthen access to cash and its acceptance across the euro area.

Time is of the essence. I welcome the Irish Presidency's ambition to conclude trilogue negotiations before the end of this year. The European Commission is supporting that effort. Final adoption is essential so we can begin preparations in earnest, with first issuance targeted for 2029. The sooner we finalise the legislative framework, the sooner Europe can begin to enjoy its full benefit.

We must also be ambitious with the role the euro can play beyond our borders. A greater international role for the euro can be a cornerstone of preparing the European economy to thrive in a more challenging world. It can limit our vulnerabilities. It can enhance our economic and financial security. And, at the same time, it can boost our competitiveness by lowering borrowing costs, and shielding EU importers and exporters from exchange rate fluctuations.

Ultimately, the global appeal of the euro will be determined by the strength of the European economy itself. That means doubling down on our competitiveness agenda, deepening the Single Market, implementing the Savings and Investments Union, enhancing our defensive capabilities, and strengthening our trade network and partnerships around the world, including through initiatives like making Canada an associate member of the EU, as President von der Leyen announced in yesterday's State of the Union address.

These are the fundamentals that we need to get right. In doing so, we can create a positive feedback loop: a stronger economy strengthens the international role of the euro, and a stronger international role for the euro strengthens our economy in turn.

But we should not stop there – we should make use of our economic strength to further boost the use of the euro in global transactions, and as a stable reserve currency.

Let me give one concrete example. Up to now, EU bonds have not been regarded as sovereign and are not included in sovereign bond indices. This negatively affects the demand for these bonds, and their usability as a liquid and safe asset for investors. It is time to revisit this issue.

The amount of outstanding EU bonds has by now reached around €800 billion, compared to around €50 billion at the beginning of this decade. With this, the EU bond market has become the second largest market for triple-A rated debt in Europe, and the third globally. And issuance is planned to continue in the years to come, including under the next MFF.

Moreover, the EU bond market has further developed in recent years. Secondary market liquidity is now similar to that of the large sovereign issuers in the EU. EU bonds can be used as collateral equivalent to sovereign bonds with clearing houses, and for re-financing operations with the ECB.

More fundamentally, the EU clearly has a number of characteristics of a sovereign. The EU has its own budget, access to own resources, power to legislate, implement and enforce laws, and a common currency for the euro area, supported by an independent central bank, the ECB.

So, we will engage with index providers and the financial industry to support the inclusion of EU bonds in sovereign indices. And contribute to creating a more efficient EU bond market.

This is only one example of how we can and should – through a series of concrete steps – reinforce the global role of the euro.

Finally, turning to the European Commission's simplification agenda.

Today, excessive regulation is raising costs, discouraging investment, and pulling resources away from innovation. It is clear that Europe needs less red tape and more growth.

That's why the European Commission has already tabled twelve major Omnibus simplification proposals and other simplification initiatives across a broad range of policy areas. These proposals will result in savings of at least €17 billion in net administrative costs yearly for European businesses.

Of course, delivering meaningful simplification is a shared

responsibility. The Commission will continue to play its part by presenting ambitious simplification proposals. We are counting on our co-legislators to preserve a high level of ambition in the ongoing legislative negotiations on proposals that the Commission has already tabled.

Our simplification agenda also extends to the banking sector. We have seen how reforms, each individually justified, have in aggregate created overlaps and unnecessary complexity, without providing a corresponding benefit for stability.

In July, the European Commission outlined measures to further strengthen Europe's banking sector and support growth. President von der Leyen doubled down on this in her State of the Union speech yesterday, and in her accompanying letter of intent, in which she committed the European Commission to putting forward a banking competitiveness and simplification package.

We want a more proportionate framework for smaller and less complex banks, while remaining fully committed to international standards and implementing them in a way that reflects Europe's specific circumstances and avoids unnecessary competitive disadvantages.

We will, therefore, reduce unnecessary overlaps and reporting costs, bring MREL closer to TLAC, streamline the macroprudential toolkit, and review the output floor, unrated corporates, software assets and remuneration framework to strengthen banks' competitiveness.

It is important to acknowledge that the prudential framework put in place after the global financial crisis has made our banks more resilient. Which is why, throughout successive crises, the banking sector has been part of the solution, rather than the problem.

So, I want to be very clear. Simplification does not mean deregulation. Our objective is not to lower the bar. Rather, we aim to remove the complexity and duplication that serve no purpose while preserving the resilience we have worked so hard to build. That is what will allow our financial sector to compete on a level playing field with its international rivals.

Of course, the finance practitioners in the room today don't need me to tell them how difficult it is to remain internationally competitive while operating under excessively complex rules. But I believe it is important that you understand that we acknowledge these difficulties. And are determined to take steps to address them.

Because in today's challenging world, banks are central to preserving and enhancing Europe's economic sovereignty. And a competitive banking sector is crucial to finance Europe's long-term growth, innovation and strategic priorities.

Ladies and gentlemen, to conclude, the three threads I have described — a digital euro, a stronger international currency, a simpler and more competitive banking sector — are not separate projects. They are all part of one broader endeavour: building a Europe capable of not merely surviving, but thriving, in an age of polycrisis.

None of this is inevitable. It will not happen by default, only by design. But if we can take the necessary steps today, I am confident that Europe can thrive in today's more troubled world.

That is the task before us. Let's continue the work together. Thank you.



Maria Luís Albuquerque

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

Speech

Good afternoon, ladies and gentlemen.

It is a pleasure to be here in Dublin, as always. This city is now widely regarded as one of Europe's most dynamic and internationally connected financial centres.

It is thus the ideal place to highlight the importance of our projects under the Savings and Investments Union strategy: integrate the capital and banking markets so that we all benefit from dynamic and internationally connected financial centres, wherever we may be in the European Union.

We can look at what Ireland did right to get to where it is today, and use it as a blueprint at Union scale. Having the Irish Council Presidency at this crucial moment when we are debating the Market Integration and Supervision Package is a happy coincidence that I hope will be translated into an ambitious agreement.

The success that we see here today does offer lessons as we consider our strategic outlook as a Union of 27 Member States.

Competitiveness is not something we inherit, or something we can take for granted. It is the result of strategic choices with a long-term horizon.

Success does not appear overnight, or in one big-bang moment, it is accumulated by making the right choices, over time.

Ladies and gentlemen, global geopolitical tensions are becoming more acute, with increasingly direct consequences for Europe. While many of these developments are beyond Europe's control, the choices we make in response belong to us. We need to make the right choices now, guided by a long-term vision for Europe's prosperity.

Before starting any process, we need to know what success actually looks like and how we will recognise it when we get there. If we don't, we run the risk of confusing outputs with outcomes.

Traditional measures of economic performance tend to focus on growth, productivity and innovation. Europe must perform much better on all three – and we intend to do so. But our understanding of prosperity here in the EU is broader.

Competitiveness is not an end in itself is a means to deliver the kind of society we want, by creating opportunities and giving citizens the confidence that progress is being shared.

That being said, our model of prosperity cannot foster without a dynamic and competitive economy.

For businesses, prosperity means having the confidence to invest, the freedom to innovate and the opportunity to grow. And our businesses should be able to do this freely at home, across the Single Market and internationally.

The foundations of competitiveness are also broadening. Industrial capacity, access to resources and the cost of production remain important. But competitive advantage increasingly rests on resources, knowledge, technology, intellectual property and the ability to turn new ideas into commercial success.

Behind all of this lies an ecosystem of industry, entrepreneurship and ingenuity. One that depends on experimentation, on trial and error, and on recognising that failure is not the end of the road, but often part of the path to success.

Because competitiveness is not built overnight, but overtime. Dublin's success was built over more than four decades, through choices whose benefits took time to emerge. Europe must show the same collective long-term commitment today. Short term gains have immediate value, but our goal is sustainable growth, lasting competitiveness and progress that improves people's lives.

I know first-hand how difficult it is to make choices which face a lot of resistance and whose results will only show later. But I also know first-hand that the commitment to do it pays off in the end.

Since launching the Savings and Investments Union, we have thus far made progress on developing more dynamic and interconnected capital markets, even before legal changes come into effect. We have created momentum. Now we need to sustain it and translate it into delivery.

Across our work, we are focused on getting more investment flowing into the European economy – by creating better opportunities for citizens to save and invest, mobilising more long-term institutional capital, and unlocking additional financing capacity to support European businesses and growth.

Our Market Integration and Supervision Package ties all of this together by removing fragmentation, reducing duplication and costs, enabling market participants to operate more easily across borders and achieve greater scale, while making supervision more consistent and more effective.

The MISP offers a major opportunity to advance capital market integration in trading, post-trading and asset management. It also tackles fragmentation in crypto asset service provision, and divergent supervision, along with incentives to the broader use of new technologies (DLT).

The success of the MISP depends on ambition. We need to get this right, and we need it now. If we fail to seize this opportunity to improve the functioning of our capital markets, we may not have another chance to address these issues for several years. This is not business as usual, and that is the clear message from our Leaders.

Market integration is crucially important work, but capital markets alone do not represent the full spectrum of Europe's financing ecosystem requiring our focus.

Banks remain the backbone of financing in the EU and account for 75 percent of corporate lending across the bloc.

Our banking market differs from our international peers thanks to the diversity throughout the system.

Smaller, regional and cooperative banks play an indispensable role through their local knowledge and longstanding customer relationships.

But as companies grow, their financing needs become more complex, and they need banks that can connect them with larger capital markets and international investors.

Bigger banks help businesses raise capital, bring together investors and lenders to finance major projects, and manage the risks that come with operating across markets and borders.

Europe therefore needs the full breadth of its banking ecosystem to truly enable investment and to tap into global scale.

For me, this is a strategically important matter. Europe should have financial institutions with the capacity and expertise to support European companies as they grow, raise capital and compete globally.

As things stand, and as evidenced in our recent communication on the Competitiveness of the Banking Sector and the Single Market in Banking, our banking sector, while profitable and resilient, is still held back by inefficiencies, fragmentation and a lack of scale.

We have specifically identified fragmentation, the implementation of international standards, and undue complexities in our banking framework as the three main challenges.

The feedback I have received so far confirms that we are focusing on the right issues. That gives us a strong basis for the debate that now needs to take place.

In our engagements in the coming months, I would like you to be open minded, and to recognise our ultimate aim.

This is not about creating a solution that works best for a single Member State, or would bolster the profits of a subset of the banking sector. This is about creating a banking system that supports European growth and helps citizens and businesses get the most out of the Single Market.

We will propose a legislative package in the first quarter of next year to address the specific barriers that require action at European level.

But that brings me to a much broader point. Much of the SIU has so far been about legislative proposals – and further proposals will be necessary where the legal framework is holding Europe back.

However, we should not confuse more legislation with more progress – this is not our aim. The transformation we want to achieve will require more than new rules.

In some areas, legislation

is essential to deliver or safeguard the standards that Europeans deserve – and we will not compromise on that. But legislation can also be a blunt instrument. And, if poorly calibrated, can end up constraining the very industry it is intended to support.

Therefore we are using other instruments to tackle the problems – recommendations and guidance come to mind. But fundamentally, we need a change in mindset.

We all agree that Europe needs deeper and more developed capital markets – trust me, I have heard this from every stakeholder across every national capital.

But developed capital markets will not emerge by themselves. They require all of us – policymakers, supervisors and market participants – to approach the market differently, and to think differently about risk, accountability and coordination. This goes beyond legislation and concerns how the framework is implemented in practice.

Supervision is key, and it needs to become more genuinely risk-based. Risk is an important ingredient for growth, and a zero-risk appetite impedes that.

This kind of cultural shift will take time, consistent effort, and a willingness from all of us to take the important first steps.

This applies to rules being made and implemented at EU level, but also to national gold-plating and divergent interpretations. And it also requires a different approach to compliance – moving away from box-ticking on all sides and focusing more on substance and outcomes.

To achieve these outcomes, we need to think long-term, reform deeply, and deliver change that lasts.

Ladies and gentlemen, I started today with Dublin because its experience reminds us that competitiveness is built over time. It comes from deliberate choices, sustained reform and the willingness to adapt.

That is also the task facing Europe today. We need strong businesses, deep capital markets and a financial sector capable of financing our ambitions – supported by rules that enable rather than unnecessarily constrain.

And ultimately, competitiveness is not the destination. It is what allows us to deliver prosperity, opportunity and better lives for Europeans.

But delivering that prosperity requires us to act collectively. We cannot build a more competitive Europe if, when difficult choices arise, we retreat behind national interests, protect incumbents or preserve structures that no longer serve our economy.

The responsibility is ours - governments, legislators, regulators and industry - to look beyond individual interests and make the choices that are right for Europe as a whole. We know what is holding us back. We know what needs to change. Now we need the unity, ambition and determination to act.

Europe's prosperity must be the measure of our success. And the choices we make today will determine whether we deliver it.

Thank you.



Verena Ross

Chair - European Securities and Markets Authority (ESMA)

Speech

Good afternoon, ladies and gentlemen,

It is a pleasure to be with you in Dublin today, reconnecting in person on the occasion of the Eurofi conference, and it is an honour to contribute to the important discussion on the future of EU capital markets.

Over the past decade and a half, we have witnessed profound changes in the financial system. Business models have become more cross-border. Technology has transformed the way markets operate. Data flows and risks emerge and propagate across multiple jurisdictions simultaneously and at high speed.

At the same time, the European Union's ambitions for its capital markets have grown.

We want and need deeper and more liquid markets. We want and need more investment opportunities for citizens. We want and need companies to have better access to market-based finance. And we want and need Europe to be more competitive, more resilient and more capable of funding its own future.

All of this points in the same direction: towards markets that operate increasingly at a European scale. And if we want capital markets that operate at European scale, we need to be honest that supervision also needs to be capable of operating at European scale.

That is one of the core drivers underpinning the Market Integration and Supervision Package.

It is not, in my view, a debate about institutional design. It is not simply a discussion about whether a responsibility sits with one authority or another. And it is certainly not about centralisation for its own sake.

It is about whether the European Union is willing to equip itself with a supervisory framework that matches the markets it says it wants to build.

The proposal to strengthen EU-level supervision for certain significant, cross-border entities reflects this logic and the reality of today.

These entities conduct different activities. But they all share an important European dimension. Their business models, risks, technologies and client bases are increasingly European in nature, extending well beyond the boundaries of any single Member State. As markets become more integrated, there is a strong rationale for ensuring that supervision can operate with an equally European perspective.

Of course, supervisory convergence remains core to ESMA's duties. But for these entities with activities that are highly cross-border and interconnected, integrated supervision may simply be a more efficient way to deliver consistent outcomes.

And consistency matters beyond supervision itself. Markets integrate more easily when firms can operate across borders with greater predictability and confidence.

Supervision certainly does not create market integration on its own. But it can help create the right conditions for it to succeed.

Supervision creates expectations. It shapes incentives. It influences how firms view their future, how they organise themselves, how risks are managed and how confidently participants operate across borders in a single EU capital market.

If firms face different supervisory expectations when they scale across the EU, they will adapt to that fragmentation. If similar activities are assessed through multiple processes, complexity becomes embedded. If risks are European in nature but responses remain too dispersed, consistency becomes harder to achieve.

So yes, supervision must evolve as markets are evolving. But supervision can also play a role to shape how markets evolve.

More integrated markets require more integrated supervision. And more integrated supervision can help create the confidence, consistency and predictability that allow markets to integrate and scale.

This is also where simplification and burden reduction become part of the same discussion.

If we want more efficient European capital markets, we need to look seriously at the sources of complexity. Some complexity comes from regulation itself, and

we need to tackle that. But some also comes from fragmented supervisory application, duplicative requests, lengthy coordination processes and (despite such coordination efforts) still divergent expectations and outcomes.

For genuinely cross-border activities, a more integrated supervisory approach can help address these frictions directly. It can reduce duplication and coordination efforts [and thus speed up 'time to market'], support clearer common expectations, make better and more efficient use of data and allow scarce supervisory expertise to focus on the risks that matter most.

This aligns closely with ESMA's already existing broader efforts to simplify reporting, improve the use of data and make supervision more risk-based and proportionate.

But simplification should not be misunderstood.

It is not about weakening supervision, nor assuming that the challenges facing financial markets are becoming easier. The world we supervise is becoming more complex, shaped by technological change, cyber risk and geopolitical uncertainty.

The challenge is not to do less. The challenge is to organise ourselves better and focus on what counts.

A simpler framework does not mean a simpler job. It means removing complexity that adds little value, reducing duplication and ensuring that supervisory effort is directed towards the risks that matter most.

This is why the way the MISP reforms will finally be designed matters so much.

If the objective is to strengthen EU-level supervision for certain significant cross-border entities, the final framework must be capable of delivering on that objective.

Responsibilities must be clear. Governance must be straightforward and efficient. Resources must match the ambition.

And as co-legislators consider the package, they should resist the temptation to dilute its logic. The focus must remain on what delivers the best outcome for the EU as a whole, rather than on defending the status quo.

A framework that is sliced into too many exceptions, carve-outs or partial transfers of responsibility may preserve institutional comfort and satisfy certain national interests, but it will struggle to deliver the consistency, efficiency and simplification that the reforms are intended to achieve.

If European supervision is layered on top of existing arrangements rather than replacing or streamlining them where appropriate, we should not pretend that simplification has been delivered. Likewise, drawing supervisory boundaries in complex or arbitrary ways, especially just to protect certain national champions, may simply preserve fragmentation in a different form.

The goal should not be to create the appearance of European supervision. The goal should be to create a framework that can actually deliver more consistent, efficient and effective outcomes for the EU capital market as a whole.

As I reflect on ESMA's development over recent years, I see an authority that has grown alongside the markets it serves. ESMA was created after a crisis that exposed regulatory weaknesses and the limits of fragmented oversight. Since then, ESMA has grown up: our role has expanded, our supervisory experience has matured and our cooperation with national authorities has deepened.

That evolution has been necessary. And it is not finished.

The next phase of European capital markets will require supervision that is more agile, more risk-based, more data-driven and more integrated.

I am very pleased to see the positive signals coming from both the Council and European Parliament so far on this proposal, as they both seek to agree on their negotiating positions by year-end. I hope that this level of ambition and drive can be preserved into the further negotiations ahead. It will then be for ESMA to do what ESMA does best: implement the agreed reforms with determination, professionalism and purpose.

If we get this right, stronger European supervision can help deliver both sides of the agenda: more effective oversight and a simpler, more coherent experience for those operating across our capital markets.

That is the opportunity before us.

As our capital markets continue to evolve, supervision must evolve with them. It is for us to make it happen!

Thank you.



Kyriakos Pierrakakis

Minister of Finance, Greece & Eurogroup President

Speech

Europe is at a defining moment.

The world around us is being reshaped. Strategic competition is intensifying, and economic power is increasingly becoming geopolitical power. Technology, energy, trade, finance—even currencies—have become instruments of strategic influence.

Europe enters this new era with enormous strengths. But also with a fundamental challenge: we are not growing fast enough.

Productivity is too weak. Our competitiveness gap has widened. And precisely when we need to accelerate, our investment needs are rising dramatically—in defence, energy, AI, digital infrastructure, innovation and the green transition.

Mario Draghi gave us a clear direction: close the innovation gap, strengthen our competitiveness and invest in the productive capacity that Europe needs for the future.

He also gave us a sense of the scale that is required: €800 billion of additional investment every year.

Sound public finances remain the foundation of lasting economic strength. But public budgets simply cannot finance investment on that scale alone.

The good news is that Europe – as we often repeat – has the savings. What we have not yet built is a financial system capable of mobilising those savings effectively at European scale - and directing them towards our companies, innovation and investment.

That is the ambition of the Savings and Investments Union (SIU): to connect European savings more effectively with European investment and create deeper, more integrated financial markets.

Capital markets are only part of the equation. With banks providing around 70% of financing to the European economy, we cannot have an effective SIU without a competitive and integrated banking sector.

That is why completing Banking Union is not simply a financial-sector agenda. It is a critical part of Europe's growth strategy.

And here, we start from a position of strength.

Over the past fifteen years, European banks have become resilient, well-capitalised and profitable. Through the pandemic and the energy shock following Russia's invasion of Ukraine, they acted as shock absorbers rather than amplifiers.

That is a major achievement - especially given our recent past. But resilience is not enough.

The Commission's diagnosis is clear: our banking sector remains fragmented along national borders, lacks sufficient scale, and parts of our regulatory and supervisory framework remain unnecessarily complex.

The cost of fragmentation is becoming a strategic tax. A tax on Europe, a tax on scale, a tax on investment, a tax on growth.

Only around 16% of euro-area corporate lending is cross-border. Cross-border banking groups still face constraints on moving capital and liquidity efficiently across countries, limiting integration and consolidation.

The Commission estimates that addressing these constraints could unlock around €230 billion of high-quality liquid assets. At the same time, supervisory compliance and reporting costs are estimated at around €24 billion.

Both matter. We need a simpler and more proportionate framework. And we need greater integration and scale.

Scale increasingly matters for competitiveness and investment in technology. The largest US banks invest more than two-and-a-half times as much in IT relative to their assets as their European peers. The situation is quite similar when you make the comparison with Chinese banks. In the age of AI, digital payments and cybersecurity, that gap matters.

Greater integration and further cross-border consolidation would give European banks the scale to invest, innovate and compete - and increase their capacity to channel Europe's savings towards European businesses and investment.

Europe needs scale. But scale does not mean uniformity.

We need European banking champions capable of competing globally. But we also need strong regional and local banks that

know their communities, finance their SMEs and keep capital connected to the real economy.

The model is not one or the other. A truly integrated European banking system needs both: scale at the top and proximity on the ground.

We built a Banking Union to make Europe safer. Now we must complete it to make Europe more integrated, more competitive and ultimately stronger.

And this is why I support the direction set by the European Commission.

The Commission's report and Communication are ambitious and comprehensive. They recognise that the challenges are interconnected—and that our response must be as well.

We need progress on three fronts.

First, integration and scale: removing cross-border barriers, enabling further consolidation and allowing capital and liquidity to move more efficiently.

Second, trust and common safeguards: strengthening crisis management, liquidity in resolution and deposit insurance. Because greater integration requires greater trust.

And third, competitiveness: simplifying our framework, strengthening proportionality and improving supervisory consistency - while preserving the resilience we have worked so hard to build.

Better regulation, not less regulation.

This is an ambitious diagnosis which now requires equally ambitious delivery.

Ultimately, we can get the economics right but the difficult part of the equation in reforms is to get the politics right. And ultimately this is a political choice about the Europe we want to build.

We all come to the table with different banking systems, different interests and legitimate national concerns. Those differences are real. But they cannot become a reason for permanent fragmentation.

If each of us protects every national safeguard and every national discretion, individually we may feel safer - but collectively we make Europe weaker and we end up making ourselves weaker.

So, we need to shift the focus on what can we build together. None of us will get everything we want. But each of us must be prepared to move on something. That is how Europe has always found common ground since the age of Jean Monnet.

And the objective should be clear: a balanced reform that every member state can recognise as fair, and collectively result in a stronger, more integrated and more competitive Europe.

And we need to find that common ground quickly. Our competitors are not waiting. Investment is not waiting. Technology is not waiting.

And here the role of the Eurogroup is significant. It gives us the space to have the strategic political conversations we need - to listen to different national perspectives, understand legitimate concerns, build trust and find common ground fast enough to make a difference.

Because ultimately, this is not about banking. It is about growth. And Europe cannot afford another delay.

Our responsibility is to the next generation.

We need to show that, when Europe faces a defining moment, we can find the political will to overcome our differences, make difficult choices and move with the speed and ambition that the moment demands.

Because a stronger Europe means stronger member states - more prosperous, more secure and better able to create opportunities for their citizens.



Emmanuel Moulin

Governor - Banque de France

The importance of being earnest: Building a simpler and more competitive European banking market

Ladies and Gentlemen,

It is a great pleasure to speak before you today in Dublin. Let me warmly thank Didier Cahen and David Wright for their invitation. New geopolitical realities, technological change and the need to finance strategic priorities are reshaping the environment in which European banks operate. Fortunately, 15 years of regulatory reforms have placed the European banking sector in a position of strength. EU banks are resilient, well-capitalised and liquid, with CET1 ratios and liquidity buffers at historically high levels.

- see Graph 1

Financial stability remains the foundation upon which competitiveness can be built. Yet the EU has consistently lost ground: for instance, third-country groups now provide 60% of corporate and investment banking services to European clients. This shows that strong fundamentals alone will not suffice to meet Europe's strategic priorities: financing the climate transition, digitalisation and defence, and strengthening its economic and financial sovereignty in a fragmented world.

To complete the Banking Union and enable Europe to meet these challenges, I will focus on three priorities: first, overcoming the fragmentation that hinders the emergence of truly European banking groups; second, simplifying the prudential framework while preserving resilience and a global level playing field; and third, adapting our framework to the financing needs of the European economy.

I) Overcoming European fragmentation

Let me start with a simple observation: Europe has a Single Market, but it does not yet have a truly single banking market.

This matters because competitiveness increasingly requires scale. European banks must be able to reach the critical mass needed to invest, innovate and digitalise efficiently. They should be able to deploy capital, liquidity and expertise seamlessly across the Union, supporting households and businesses wherever opportunities arise. Yet integration remains incomplete. Cross-border lending accounts for less than 15% of total euro area lending, and cross-border banking consolidation remains rare. Many banking groups continue to function as networks of national entities rather than as genuinely European firms.

While the causes are diverse, the prudential framework is part of the equation. Our Banking Union has delivered resilience, but it has yet to deliver full integration. Despite the undeniable successes of the Single Supervision Mechanism (SSM) and Single Resolution Mechanism (SRM), European banking groups are still too often required to manage capital and liquidity along national lines. Furthermore, layers of EU-specific and siloed requirements continue to constrain integration and weaken Europe's competitiveness potential.

The solution is straightforward: we need to better recognise the consolidated management of capital and liquidity within cross-border banking groups. The time has come to deliver on cross-border capital and liquidity waivers. Host countries' concerns can be addressed through appropriate safeguards, notably by ensuring effective support from parent companies to subsidiaries in times of stress. And while further progress on deposit guarantee arrangements would be desirable, it should not be a prerequisite for taking the next steps towards banking integration.

But removing fragmentation is only part of the answer. We must also ensure that our prudential framework supports competitiveness through greater simplicity, without compromising resilience.

II) Delivering on simplification and ensuring a global level playing field

Speaking in Dublin, it may be appropriate to recall Oscar Wilde's observation that *"the truth is rarely pure and never simple."*[1] Prudential regulation, however, should strive to prove him wrong: it should be pure in its objectives, simple in its execution, and robust in its outcomes.

Before exploring possible avenues for simplification, let me highlight three guiding principles. First, simplification is not deregulation. Recent episodes of banking turmoil have confirmed that

Europe was right to deliver Basel III. Moreover, Europe has been among the jurisdictions most committed to its timely and consistent implementation.

- see Graph 2

Second, simplification must remain risk-based. Proportionality is needed, yet simpler should never mean weaker. Third, greater simplicity should not harm consistency. The strength of the Banking Union will always rely on its single supervisor, its single resolution framework and its single rulebook.

The Commission's competitiveness report points in the right direction. It calls for a more holistic assessment of capital requirements, moving away from siloed frameworks and towards a more coherent view of the prudential framework. Simplifying the capital stack is equally important. Successive layers of requirements have made the EU framework the most complex in the world. We should focus less on the accumulation of constraints and more on the coherence of the overall framework.

- see Graph 3

This calls for a better alignment of MREL and TLAC requirements, a streamlining of Pillar 2 by removing overlaps with Pillar 1, and a review of EU-specific layers and parallel constraints. It is high time to reconsider the usefulness of maintaining in the EU framework the specific Systemic Risk Buffer (SyRB) and the additional Pillar 2 requirements on top of the leverage ratio; we could also restrict the MDA trigger to the solvency stack only.

Finally, competitiveness requires a global level playing field. Europe needs a diversity of banking business models, combining strong retail-oriented institutions with banks able to compete globally in capital markets and corporate and investment banking activities. Both are essential to the success of the Savings and Investments Union, which requires not only the mobilisation of savings but also the capacity to finance large-scale investment across Europe. The Commission therefore took the right decision by neutralizing the capital impact of the fundamental review of the trading book (FRTB) for 2027-30, thereby preserving a level playing field with other major jurisdictions. We should now use this time to identify a durable solution that preserves both financial stability and international competitiveness beyond 2030.

III) Building on past successes to support Europe's financing needs

The third priority is to build on our own successes: 15 years of supervisory reforms, including the Targeted Review of Internal Models by the SSM and the IRB repair by the EBA. These have considerably strengthened the reliability of banks' risk assessment frameworks. This progress should now be reflected in the way we calibrate prudential requirements. In particular, the output floor deserves to be reviewed where it has become partly redundant. The objective is not to weaken prudential safeguards, but to ensure that capital is mobilised as efficiently as possible in support of Europe's investment needs. The prudential case for making the preferential treatment of residential real estate exposures permanent is strong, given their historically low risk profile and the strong prudential safeguards already embedded in the framework. We should also consider whether a preferential treatment could be extended to certain unrated corporates.

More generally, prudential rules should not unnecessarily constrain financing activities that are strategically important for the European economy. Trade finance and specialised lending play a critical role in supporting industrial investment, exports and supply chains. Here again, reducing instances of EU-specific gold-plating would help preserve key financing channels.

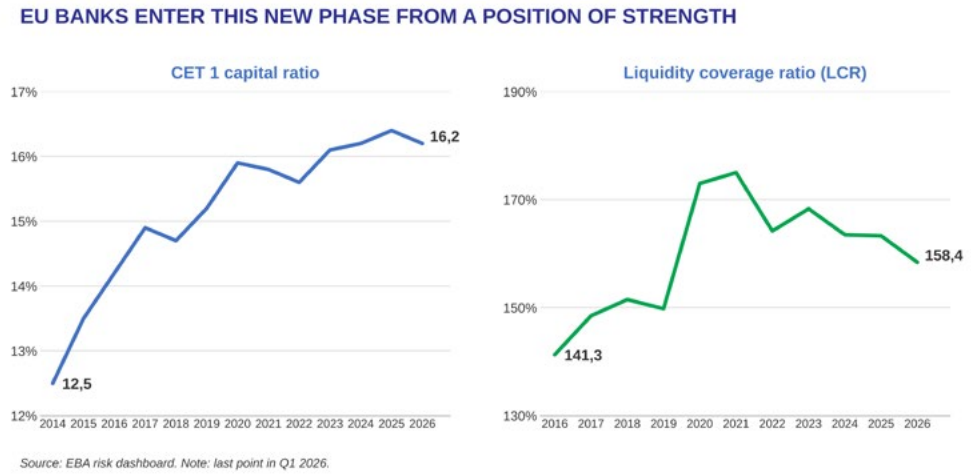
Finally, developing deeper and more diversified sources of market-based finance remains essential to the success of the Savings and Investments Union. In this regard, the ongoing review of the securitisation framework and the new treatment of equity exposures in legislative programs offer important opportunities to unlock additional financing capacity for the European economy.

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Allow me to conclude with one final observation. Fifteen years ago, our priority was resilience. Today, our challenge is to turn resilience into competitiveness, and competitiveness into financial sovereignty. A more integrated banking market, a simpler prudential framework and a financing ecosystem better aligned with Europe's needs would help achieve all three. In a fragmented world, Europe can no longer afford a fragmented banking ecosystem.

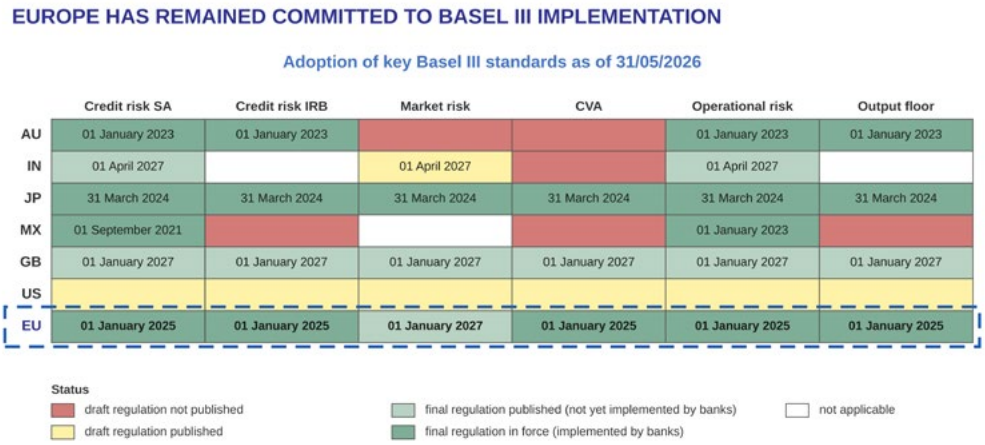
1. Wilde, O. The Importance of Being Earnest. 1895.

Graph 1



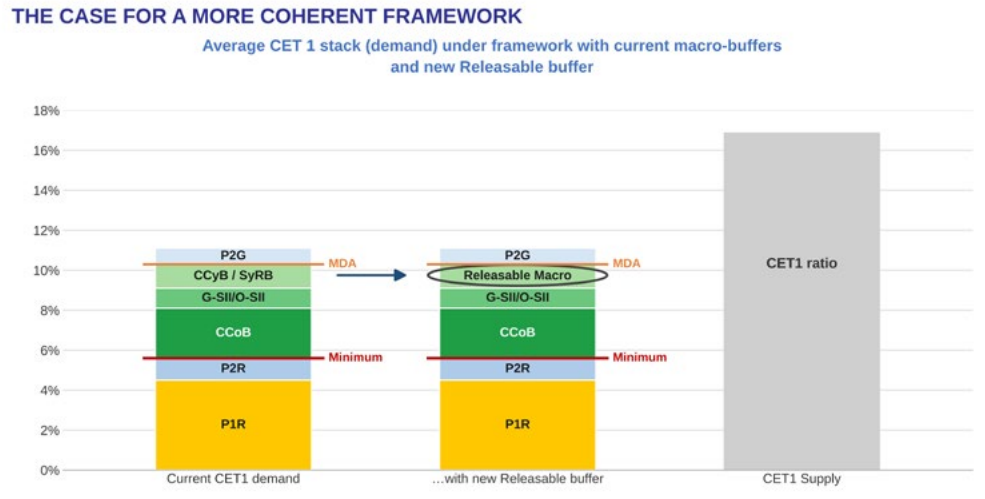
Source: EBA risk dashboard. Note: last point in Q1 2026.

Graph 2



Source: BIS RCAP dashboard

Graph 3



Source: EBA report on simplifying the stacking orders of the EU prudential and resolution framework (2026)



Klaas Knot[1]

Former President of De Nederlandsche Bank
and Former Chair of the Financial Stability Board

Competitiveness and stability in banking: two sides of the same coin

Ladies and Gentlemen,

It is a privilege to speak to you today about a topic that lies at the very heart of modern financial systems: the relationship between banking competitiveness and banking stability. These concepts are often portrayed as irreconcilable objectives or at least as subject to a real trade-off.

According to a common view, greater competition pushes banks to take more risks, thereby undermining financial stability, while stronger regulation, higher cost of capital and stability measures reduce competitiveness, hurt profits and stifle innovation. However, I would like to argue here today that this is a false dichotomy.

In reality, my sense is that banking competitiveness and banking stability are in fact two sides of the same coin, mutually reinforcing and essential for a healthy, resilient, and prosperous financial system over the medium term. In other words, the short-term gains that can be captured through deregulation are often paid via higher costs during episodes of financial instability. The point of efficiency one should seek is the one that maximizes competitiveness without increasing financial instability related costs.

This debate has recently flared up in European policy circles as well, in response to a broad deregulatory effort under way in the United States that is deemed to threaten the global level playing field and hurt the relative competitiveness of the European banking sector. Against this backdrop, the EU is undertaking a regulatory modernization drive, also inspired by the Draghi report on EU competitiveness.

The European Commission has recently issued a Communication on the competitiveness of the EU-banking sector *"to build a more integrated, efficient and competitive banking sector that can strengthen Europe's economy by financing growth, innovation, and strategic priorities, underpinned by a better-balanced regulatory framework, creating the conditions for banks to take prudent risks while safeguarding the sector's resilience, delivering better services to households and businesses, all while preserving financial stability and fostering sustainable growth"*. Quite a mouthful, but I think it captures the essence and illustrates some of the complexities of the alleged trade-off.

Let me say upfront that I share the objective of streamlining regulation, improving supervision, and monitoring carefully developments across the Atlantic and their effect on global banking regulation. In light of what is happening in the US, I believe it is necessary to review the current prudential capital framework in the EU to address potential duplication, inconsistencies and assess whether changes are in order.

I do not want to prejudge, however, the outcome of such a review, and I do not share the anxiety that suggests the European banking system faces an existential crisis. When I look at the numbers, over the last 10 years European bank profitability has increased tremendously. A return on equity that was half of that of American banks in 2014 is now roughly equal (10.4% vs 11.6%). Price to book ratios have moved from half of the US in the last decade to more than the US today (1.66 vs 1.35). Annual dividends and buy backs that were close to non-existent in 2020 have increased to nearly EUR 120 bn today. This does not look like a highly uncompetitive banking sector to me. But I do believe there is a strong case to adapt regulation and supervision.

To zoom in on their relationship, we must first define what we mean by **competitiveness and stability** in banking.

Banking competitiveness is both an absolute and relative notion. In absolute terms, it refers to the ability of banks to compete effectively by offering high-quality services, attractive pricing, innovative products, and efficient financial intermediation. In relative terms, it refers to European banks' profitability compared to that of its main global competitors. And eventually relative and absolute competitiveness influence each other. A perfectly competitive banking market in Europe that would not be able to deliver risk adjusted returns on capital similar to that of its global peers would eventually risk being displaced.

Banking stability, on the other hand, refers to the ability of the banking system to withstand shocks, maintain public confidence, and continue performing its critical functions even during periods of economic or financial stress. A

stable banking system protects depositors, supports economic growth, allows risk sharing over time and across space and reduces the likelihood of financial crises.

At first glance, one might think these goals conflict and that there is a fundamental trade-off. Yet a closer examination reveals that neither can be sustained without the other over time.

Let us begin with why competitiveness requires stability.

A fractional reserve banking system can only flourish in an environment of trust, allowing maturity transformation to take place and credit to flow. When stability is compromised, confidence evaporates. Depositors withdraw funds, lenders become cautious, investment dries up, and usually financial crises ensue, or at least economic activity slows.

In such circumstances, competition becomes meaningless because markets cease to function normally causing profound economic, political and social disruptions. Unfortunately, these risks are somewhat inherent to finance, and history provides numerous examples of their materialization.

The ones that I had to live through professionally myself were the global financial crisis of 2008 and the euro area crisis shortly thereafter. The collapse of major financial institutions triggered panic throughout global markets. Credit channels froze, economic growth contracted, and governments and central banks were forced to intervene on an unprecedented scale.

Whatever competitive benefits banks enjoyed from 'light-touch', 'self-regulation' or 'principles-based' regulation before the crisis, these were overshadowed by the enormous costs of instability afterward. Some of these institutions disappeared in the shock, others were rescued because they were deemed critical to the financial system. But all those that survived realized that a competitive banking sector requires a stable foundation.

Without sound risk-management, adequate capital buffers, effective supervision, and public confidence, competition cannot endure. The Jacques De Larosière report[2] published as early February 2009 was quite central in bringing that point home and setting out a vast movement of regulatory and supervisory overhaul in Europe. We should never lose sight of these lessons even when we review, adapt and modernize our approaches.

At the same time, stability also requires competitiveness.

A competitive banking system will be profitable and thereby have the capacity to internally generate capital. On top of this, it will likely enjoy access to capital markets, which will provide a first line of defense against unexpected losses.

At the same time, a banking system dominated by just a few institutions with little incentive to innovate or improve efficiency may appear stable on the surface, but this form of stability is often fragile and unsustainable. Lack of competition can lead to complacency, inefficiency, poor customer service, and misallocation of resources. Entry from outside the banking sector will be invited and consequent disruption might be of a more radical nature.

Competitive pressure compels banks to improve governance, adopt better technologies, and manage costs effectively. It encourages institutions to understand customer needs and develop innovative products that support economic growth. Competition also reduces concentration risk by ensuring that financial activity is distributed among multiple strong institutions rather than being concentrated in less than a handful of dominant players.

In this sense, competition is not a threat to stability. Properly managed, it is one of the foundations of long-term stability.

If one takes a closer look at the **EU banking sector** from this perspective, there is some reason for concern. Many national retail banking markets in the EU are characterized by what has sometimes been described as 'nice and warm oligopolies' where major competitive threats appear to have come from the tech community rather than the banking sector itself.

It is my belief that the incompleteness of the EU's Banking Union process is primarily to blame here. Many national banking markets are simply not sizable enough for larger numbers of viable competitors to generate the scale that is needed to compete at a global level, and only the EU as a whole could provide that scale.

But while in the aftermath of the euro crisis regulatory authorities have created the public institutions for a banking union like the SSM and the SRM, many banks themselves have actually retreated from cross-border credit provision in critical segments within the EU.

This is in part the result of business decisions given the scars of the shock stemming from the global financial crisis and the euro crisis. In particular, the temporary emergence of redenomination risk played an important role in the repatriation of capital and liquidity behind national borders.

But this has also been fed by national supervisory rules encouraging the maintenance of trapped pools of capital and liquidity that are still today a major factor underlying the continued fragmentation of EU banking markets. Lack of a European deposit guarantee scheme, pervasive doubts about the adequacy of the backstop, and circumvention of the single resolution framework have further impeded deposit fungibility and credit provision across member states.[3]

We are paying a price for the weakness of our banking union and this calls not only for profound supervisory changes but also changes to our resolution framework and progress to our liquidity in resolution arrangements. The CMDI package is taking meaningful steps in this direction, but it is more of a bandage rather than a structural solution.

Finally, a number of national governments have embraced cross-border consolidation in theory but have been somewhat reluctant to

accept it in practice, in particular when they were on the receiving end. This is one reason for the lack of competition, especially when it is combined with consolidation within national borders. More than 10 years after the launch of the Banking Union, we are still waiting for significant cross-border banking consolidation.

The key question is therefore not whether competition should exist, but what kind of competition should be encouraged. This brings us to the **vital role of regulation**.

By establishing clear rules, ensuring transparency, maintaining capital requirements, and preventing reckless behavior, regulation creates the conditions under which fair competition can thrive. Think of regulation as the rules of a sporting event. Without rules, competition becomes chaotic and dangerous. With appropriate rules, participants can compete vigorously while preserving the integrity of the game.

The same principle applies to banking. Prudential regulation ensures that banks maintain sufficient capital buffers, manage risks responsibly, and protect customers. These safeguards strengthen confidence in the financial system and enable competition to occur within sustainable boundaries.

Reflecting the global nature of many financial services, agreement on global minimum standards in prudential regulation has been key to preserve the level playing field. Since the Herstatt crisis of 1974, the Basel Committee on Banking Supervision has taken on the role of formulating globally agreed rules on the regulation and supervision of internationally active banks. Unfortunately, US banking authorities have been slow to implement the latest so-called Basel III agreement, and the 2023 mini banking crisis in the US revealed the weakness of its limited scope of application.

Moreover, in the aftermath of the global financial crisis the G20 established the Financial Stability Board for a timely assessment of financial vulnerabilities, to coordinate the work of the various standard setting bodies to address such vulnerabilities, and to monitor its implementation across the globe.

During my mandates as vice-chair and chair of the FSB, the level playing field between banks and non-banks took center stage. Under the leadership of my successor, Andrew Bailey from the Bank of England, the FSB has engaged in a process of regulatory modernization where the balance between competitiveness and stability continues to be an important theme.

In the **European context**, these developments have translated into a deregulation versus simplification debate. Let me say upfront that I welcome having this debate.

For roughly a decade and a half after the global financial crisis, financial regulators have had the wind in the sails when it came to the fulfillment of their calls for tighter rules and increased supervisory resources. It is now nothing more than healthy that after such an unprecedented surge in regulatory and supervisory intensity, we take a step back and ask ourselves the question whether all these efforts have indeed gone into the most productive directions.

I therefore understand the desire to simplify. Banking regulation and supervision has become overly complex. Over the past 15 years, a great deal of regulation has been introduced from various angles — global, EU, national. Micro and macro. Going concern and gone concern. New risks added, old ones rarely removed. Reporting requirements have swollen. And there is overlap. There is friction. And there is a lack of supervisory proportionality for smaller institutions.

Complexity and lack of coherence and coordination in regulatory requirements is not conducive to competitiveness, nor does it ultimately foster stability. It complicates integrated risk management and often triggers regulatory arbitrage into lesser regulated areas, something I have previously referred to as the waterbed effect.

But simplification is clearly not synonymous with blanket deregulation. Reducing resilience by relaxing the rules increases the likelihood of financial crises. Enhanced resilience was needed to turn our banks from shock amplifiers during the global financial crisis into shock absorbers during recent episodes of NBFI-related stress. And in our current shock-prone world of unusually high uncertainty, both on the economic and political front, this is exactly what financial stability requires.

That being said, Europe has to play close attention to what is happening in the United States and if there are aggressive steps taken by the US, the EU will face a stark choice, either restrict market access to US firms, or converge towards a similar approach to level the playing field. This might for instance lead the EU to reconsider its position on the FRTB. So, while blanket deregulation does not appear appropriate to me, targeted and limited deregulatory decisions beyond simplification might be in order.

Policymakers therefore increasingly recognize that competitiveness and stability should be viewed as complementary objectives within a broader framework of sustainable financial development. This is very much the context within which I believe the recent Communication by the EU Commission as well as earlier communications on simplification of regulation and supervision by the ECB and its SSM should be interpreted.

One can furthermore have a debate whether competitiveness should become an explicit statutory objective of financial regulators and supervisors. As I argued that healthy competition and bank competitiveness are prerequisites for financial stability over the medium term, I do not perceive an overwhelming necessity to go down that road.

Overall, my perspective is that supervisors and regulators have also an implicit primary and secondary mandate. The primary mandate is unequivocally financial stability, but I would

argue that they thereby also have a secondary objective focused on competitiveness without prejudice to the primary mandate. This is similar in spirit to the hierarchy between price stability and economic growth in the ECB's monetary policy mandate. Healthy growth and a limited output gap are well understood to constitute critical prerequisites for the maintenance of price stability over the medium term, but have been subordinated to the primary mandate focussing on price stability.

Ladies and Gentlemen,

Banking competitiveness and banking stability are often discussed as though they pull in opposite directions. Yet closer examination reveals a deeper truth. Competitiveness without stability is unsustainable. Stability without competitiveness is unproductive. One generates dynamism; the other provides resilience. One drives progress; the other preserves confidence. Neither can fully succeed without the other.

Like the two sides of a coin, they are distinct yet inseparable. Remove one side, and the coin loses its identity and value. In the same way, a banking system that pursues only competition or only stability will ultimately fall short of its purpose.

The future of banking belongs not to systems that choose between competitiveness and stability, but to those that recognize their interdependence and cultivate both. By doing so, we can build financial institutions that are innovative yet prudent, dynamic yet resilient, competitive yet trustworthy.

And that is the foundation of a banking sector capable of supporting sustainable prosperity for generations of Europeans to come.

Thank you.

1. Peterson Institute for International Economics, Group of Thirty, and CFA's Systemic Risk Council. Former President of De Nederlandsche Bank and Chair of the Financial Stability Board.
2. The High Level Group on Financial Supervision in the EU, Jacques De Larosière, February 2009
3. In response, the EU Commission recently updated its Crisis Management and Deposit In-



Lucy Rigby

Economic Secretary to the Treasury, and City Minister

Building prosperity through financial services partnership

Introduction

Thank you for that introduction. It's a pleasure to be here at my second Eurofi conference.

I thoroughly enjoyed my visit to Eurofi Copenhagen this time last year, and it's great to be meeting again in person.

First, let me say how pleased I am to be here in Dublin. The relationship between the United Kingdom and Ireland is one of the closest and most enduring partnerships anywhere in Europe.

Our countries are bound not only by geography and history, but by deep economic, cultural and people-to-people ties that benefit communities on both sides of the Irish Sea.

It's almost four decades since London's 'Big Bang' deregulation in 1986 and the launch of the International Financial Services Centre (IFSC) here in Dublin just a year later. These events established a highly efficient, complementary partnership between London's front-office scale, and Dublin's specialized fund administration and leasing ecosystems.

These function as twin engines of a deeply integrated, common-law market corridor. It is fitting to reflect on that history here in Dublin, and how both our countries have benefited from a long-standing partnership built on openness, expertise and shared ambition.

But strong partnerships matter most when the world around us is changing. And changing it is. The pace of technological development has dominated the news in recent days, but the fact of the digital transition is of course a longer-term shift.

Change also pervades our environment, geopolitics, and almost every aspect of our societies.

And on a lighter note, I am pleased to report that change has also pervaded the British Museum because as you may have heard, for the first time in over 900 years, the Bayeux tapestry has returned to the UK.

The tapestry depicts the events leading up to the Battle of Hastings and the Norman Conquest of England in 1066. Now you may be thinking it remarkably unwise of me to bring up an almighty battle with the French at a European conference...

It is a story of conflict, but also one that reminds us of the close and complex ties that bind the UK to its neighbours.

Today the tapestry stands as a symbol of what partnership can deliver. This medieval masterpiece is only on display because of the deep trust and friendship we have built with our partners in France.

And this speaks to my message today. Fundamentally, despite all that has changed, and all that continues to change, Britain remains committed to its international partnerships in Europe and beyond.

We stand ready to work with you, to support open and resilient markets and to address shared challenges, because that is how we will deliver prosperity and opportunity for people and businesses across the UK and Europe.

Global challenges

That work is more important than ever given the wider economic context. Conflicts and trade tensions are continuing to drive up inflation and interest rates.

Economic growth and productivity remain constrained across the continent.

And together we are grappling with era-defining challenges like climate transition, bolstering our defensive capabilities in an ever increasingly uncertain world, and harnessing the opportunities presented by rapid technological change.

These challenges are certainly not unique to us, and will require an unprecedented level of global investment.

Therefore, in this changing world, the task before us is twofold:

First, to protect global financial stability and to maintain high international standards – because economic security and financial stability are increasingly interlinked.

Second, to support financial services as an engine of growth; making our regulatory frameworks fit-for-purpose and supporting the sector to thrive.

Working with international partners

I firmly believe that we can only deliver on these objectives

through collaboration with our international partners.

I'm delighted that the UK and EU are taking forward regulatory cooperation in two key areas.

Firstly, finding new ways to improve oversight and reduce burdens for firms in areas such as transaction reporting.

And secondly, to work together on emerging challenges such as the green and digital transitions.

These discussions are technical, but important. As we approach the next Joint Regulatory Forum between UK and EU Officials, I'm confident of making real progress.

As our Prime Minister as has already set out, this government will be unapologetically committed to working more closely with Europe. Our new Chancellor, John Healey will be attending ECOFIN later this week to drive forward this important agenda. I'm told a visit to the Guinness storehouse is also an essential part of taking forward this important work.

Beyond Europe too, we are seeing the benefits that collaboration can bring. Together with the United States, we have now published the initial recommendations of the Transatlantic Taskforce for Markets of the Future.

It might not have the catchiest name but the Taskforce is taking forward real action to benefit businesses and consumers on both sides of the pond. This includes a new, forward-looking agenda for UK-US financial services collaboration, focussing on digital assets and capital markets, ensuring that digital financial innovation strengthens, rather than fragments, the transatlantic marketplace.

Our plan for financial services

I now want to turn to the steps that we are taking back in the UK to support financial services as an engine of growth.

Last year, I told you about our new Growth and Competitiveness Strategy; a ten-year plan to make the UK the world's centre of choice for financial services investment.

One year on, I'm pleased to report that we've made real progress.

Channelling private savings

Firstly, we are building a stronger retail investment culture and delivering prosperity through our capital markets.

I know that there are real parallels here with the EU's ambition to develop its Savings and Investment Union. Both the UK and EU approaches share the aim of better channelling private savings into productive investments, and creating financial opportunities and prosperity for our citizens.

We must continue to share perspectives here, as we both progress our reform agendas. And, I firmly believe that continued cooperation between our financial services sectors will be necessary if we are to achieve these shared objectives.

In the UK, our journey begins with being clear eyed about where we stand today. The UK has the lowest rate of retail investment in the G7. This is leading to worse outcomes for savers and it reduces the pool of capital available to growing firms.

Over the last twelve months, we have begun to turn a corner with new, targeted support to help customers decide if investing is right for them and to help them get started.

We are reforming our pensions system to boost savings rates.

We have also established the Office for Investment: Financial Services, a dedicated concierge service for firms wanting to set up or expand their presence in the UK. OfI:FS has engaged over 150 firms since its launch, with 35 more in the pipeline.

Skills and talent

Third, we are backing financial services firms with the skills and talent they need to grow. This won't be a quick fix – it will require a sustained partnership with the sector.

But we're already seeing results.

Launched this summer - and backed by over 20 firms, covering over 250,000 workers - the Financial Services Skills Compact will ensure that employers provide staff with the skills and experience they need to get on and get up, including in AI and other developing technologies.

Understanding how this technology is likely to affect the workforce is also critical to ensuring the sector has the skills it needs for future growth.

That is why we have commissioned research into disruptive technologies, focusing primarily on AI, to produce recommendations for government and industry to support effective adoption and workforce transformation.

Embracing innovation

Fourth and perhaps most importantly, we have embraced innovation; leveraging the UK's FinTech leadership.

Our ambition is for the UK to be the world's most technologically advanced global financial centre, and digitalisation is at the heart of this plan.

Today, I can re-confirm that in Q1 next year, we will launch our new Digital Gilt Instrument – or DIGIT – to increase efficiency, reduce costs, and enhance security.

DIGIT is being delivered through the Digital Securities Sandbox, another key initiative being taken forward by UK regulators to support digital innovation in the market.

And earlier this summer, the Government published a new regulatory framework for cryptoassets which will come into force next October.

Chris Woolard, our Wholesale Digital Markets Champion, is working directly with firms, to ensure that we digitalisation technologies across the sector in the best possible way.

But Chris – and our government – cannot do this work alone. Digitalisation is not something that can grow our national silos alone. A global approach is needed to build connectivity and interoperability cross-border.

Next phase of reform

Turning finally to our plans for the year ahead, because while much has been achieved, there is plenty still to do.

My focus will be the Financial Services and Markets Bill – a new piece of legislation designed to streamline the regulatory framework and reduce duplication.

Overall, we expect it to save £1 billion in administrative costs for UK firms.

That includes £100 million through streamlined reporting requirements – and a 50% reduction in red tape for the certification of senior employees.

And by freeing up capacity for lending, the Bill will unlock over £80 billion of finance for UK businesses through reforms to our ring-fencing regime.

Conclusion

These changes will make our regulatory environment work better for firms, consumers, and the wider economy, and they form an important part of our wider plan to combine ambitious domestic reform with even stronger collaboration abroad.

That collaboration has already produced real results. Today is a moment to look back and reflect on this progress and to look forward to the next opportunities for growth.

On regulation, investment and innovation - including AI and digitalisation - we can go further, to protect global financial stability, to secure open and resilient markets and to drive growth and competitiveness across our economies.

And the next time you stop by at the British Museum to see the majestic Bayeux Tapestry... if you're lucky enough to get a ticket... know that it was cooperation between international partners that put it there, and that together, we will replicate the same spirit of partnership in the work that lies ahead.

Thank you.



Sir Jonathan Symonds

Chair of the European Round Table for Industry

Speech

Creating a Europe-wide equity market is not easy. Otherwise, it would have been done by now. Yet I have come here today because I believe we can no longer afford to postpone it. We are aligned in this.

I am not here to speak on behalf of banks or financial markets. I am here on behalf of businesses in Europe with a clear message: the competitiveness of European companies and the imperative of more robust European capital markets are inextricably linked.

Europe has set itself ambitious objectives.

We want to lead in artificial intelligence, life sciences, clean technologies and advanced manufacturing.

We want to strengthen our defence capabilities, for which the Commission estimates that EU countries will need to mobilise an additional €800 billion in investment by 2030.

We want greater sovereignty and more resilient supply chains.

And we want Europe to remain one of the world's most attractive places to build and grow a business.

But these ambitions will not be realised unless we create the conditions that allow European companies to grow. Capital markets are a central pillar, but we cannot lose sight of the importance of the broader competitiveness agenda.

European companies need deeper, more liquid capital markets to help fund the innovation and investment needed to grow, and thrive in a rapidly changing world. But capital markets will only thrive if they provide investors access to world-class, attractive investments.

The European Round Table represents Europe's 60 leading industrial companies.

Our competitiveness globally, within our industries, is fundamental to Europe's growth prospects and the success of European capital markets. But both need to be true – we need to be competitive and have deep access to capital

We are not here to debate the technical architecture of financial markets, we are here to link the debate on capital markets, with the health of Europe's companies. We understand what happens when innovative businesses cannot access long-term growth capital.

We see the consequences for investment, competitiveness and technological leadership.

We care about whether European companies can start here, scale here and remain here.

Europe does not suffer from a shortage of capital. Europeans are great savers, but we must find better ways to transform savings into productive capital for our companies at scale. The sums involved are enormous.

The European Commission estimates that European households hold at least €10 trillion in cash and deposits, roughly one third of total households financial assets. If EU households held deposits in the same proportion as US households, as much as €8 trillion could potentially be redirected towards longer-term, market-based investments.

Too often, Europe's most promising companies follow a familiar path. They are founded here. They benefit from Europe's universities, research institutions and talent. They develop innovative technologies and business models here. But when they reach the stage where they need significant growth capital, they look elsewhere.

To be clear this is equity risk capital not bank debt that I'm talking about here.

According to the EIB, more than 80% of EU scale-up financing deals involve a foreign lead or sole investor, compared with just 14% in San Francisco. This is not an unfortunate feature of European capital markets. It is a competitive failure. It is not alchemy we are looking for.

It is a cultural shift requiring one single market, promised for so long but still unattainable for our brilliant start-ups who, frustrated, decamp to New York, mostly never to return to our shores. This is not just an issue for the financial sector. For European industry, it is fundamentally about competitiveness.

Europe cannot achieve its ambitions in innovation, industrial transformation, clean technologies, defence capabilities or strategic autonomy without significantly greater access to long-term capital. Increasingly, the global economy rewards scale. Look at the capital the US has allocated to its Tech sector in the last year – its

transformational to growth at a corporate and national level.

Europe cannot expect its businesses to compete successfully if they do not have access to comparable financing opportunities. Ultimately, this is about ensuring that Europe becomes not only an excellent place to innovate, but also the best place to finance, scale and build the companies that will shape our future.

As I have already mentioned the core challenge is not a lack of savings. It is the failure to create the conditions for European savings to be put to work and transformed by our companies into investment to support innovation, industrial scale-up, technology leadership and strategic resilience in Europe.

This requires political leadership and hard work, and it requires breaking out of our blinkered silos where we look at financial markets and industrial competitiveness as separate issues; they are two sides of the same coin. I come to you not only on behalf of some of today's greatest European companies, but also as someone who feels responsible for tomorrow's champions, the embryonic European companies seeking investment and support.

It is not charity they want: it is deep equity markets, where investors take informed risks and accelerate the growth prospects of thousands of individual companies and the economy as a whole. The potential payoff is substantial. The European Commission itself estimates that a more integrated European capital market could allow European companies to raise an additional €470 billion in funding every year.

The encouraging news is that we are not starting from scratch. The diagnosis is well understood. Many of the necessary reforms have already been identified.

I think our leaders know what they need to do, but they lack the courage and know-how to do it. I have not had the pleasure to attend European summits, but I know someone who has.

Former Italian PM Enrico Letta wrote in the FT a couple of months ago (8 July): "Most of the proposals are known and many are already on the table. What has been missing is the will to treat them as a single strategic choice, rather than a list of issues to be negotiated until all ambition quietly drains away."

It is time to get serious.

So let me suggest a simple test for the Savings and Investment Union. Within this Commission's mandate, Europe should be able to tangibly demonstrate that more European savings are being mobilised into investment, that European businesses are using that capital for investment; that our most promising companies are increasingly able to raise the equity they need to scale without looking first to the United States; and that the barriers preventing capital from moving freely across Europe are being removed.

If we cannot demonstrate this, we should not congratulate ourselves on having created another framework, strategy or set of legislative proposals. We should acknowledge that we have failed to deliver the outcome Europe needs.

That is why I am calling for monthly progress reports by the responsible European Commissioner to the European Parliament – not reports on meetings held or proposals discussed, but a clear account of what has actually changed, what remains blocked and who is responsible for unblocking it. No single organisation will deliver this agenda alone.

For our part at the ERT, we will use all our people, resources and networks to:

Build a coalition of stakeholders capable of amplifying and sustaining the case for reform;

Advocate for priority measures for EU leaders to implement in order to create a more effective Savings and Investment Union.

If we succeed, more European companies will have access to the capital they need to grow. More innovation will be commercialised in Europe. More businesses will choose to scale here rather than elsewhere. That is the prize, and we have to win it.



Jacques de Larosière

Honorary President - EUROFI

Remarks

Good evening.

I was very interested to hear David Wright and John Berrigan a moment ago because it brought to my mind several observations.

The first one is that you are both right in trying to organise a common market because a common market has superiority vis-à-vis a fractional market. It's more effective.

So I agree with David Wright and John Berrigan on that. But all this is basically destined to favour productive investment. That is the aim. The aim is not the single market. The aim is does it produce productive investment. And the answer is no.

The system we have today does not produce productive investment, not sufficiently. And I look back towards the 19th century. The 19th century was a period of high invention. And it was a period of very high productive investment.

Did they have a single market? The answer is no. They didn't look for that. They looked for different markets, competing markets. But still they had the result which was more productive investment. So there's something wrong in our system because we say we need a common, fungible market.

And we are right. But that is not enough to create productive investment. To create productive investment you need two other things.

One was very aptly detected and signaled by John Berrigan.

It is a regulatory system that doesn't prevent investment. And we have today a regulatory system that is an obstacle to investment.

And the second thing is that, that's a hobby of mine, you need to remunerate the risk of productive investment.

When you start saving long-term-wise to have productive investment, you run two risks which are very important.

One is that you immobilize for 20 or 30 years your money. And the second one is that you're not sure that the industrial project that you are adhering to is going to be a successful one. And you need to be remunerated for those two risks, immobilization and industrial risk. Are we in Europe remunerating those two risks? The answer is no. Because we have too low interest rates. And if we have lower interest rates than in the United States of America, we have a fleet of capital towards the United States.

So that's what I draw from the discussion. I'm sorry because it's not at all orthodox and it's a bit provocative.

Now, I'm going to come to my final remarks, which have nothing to do with what I've just said. Europe is facing major economic and geopolitical challenges with sluggish growth, widening divergence between national economies. The economic and technological gap with the United States continues to widen year after year.

Let me share my reading of the situation and propose a possible lines of action.

First, a strong Europe cannot exist without strong national states. It looks like tautological, but it's not tautological. This is at the root of the problems we have.

Second, France is facing a crisis in its public finances that could pose risks for the monetary union as a whole. This crisis must be resolved. And it can be resolved with a minimum of lucidity and courage. It is, in my view, an illusion to believe that the ECB can solve the problem by purchasing unlimited and unconditional amounts of French debt. The adjustment effort must come from France itself.

Thirdly, I often hear that issuing European debt would solve all our problems. But who would guarantee and who would repay the debt? Would it be the European Union budget? Would it be the member states? The truth is that expanding the EU budget and finding new tax resources to service that debt would face considerable obstacles. The Hamiltonian moment is not yet here.

Fourthly, for too long we believed that low interest rates were the answer to everything. But it is not the case. As we see today, fears of prolonged war in the Middle East, fear of higher oil prices and therefore fear of more inflation, and the broader geopolitical uncertainty that we live through today explain why markets are

demanding higher interest rates. To this, one can add that the growing volume of debt finance investment issued by private technological sectors in particular, which comes on top of already heavy bond refinancing needs and competes directly with the states for investors' savings, all this is the harbinger of higher interest rates.

It is questionable to believe that public officials are the ones who will determine the right quote-unquote level of interest rates.

Do public officials know better than the market? I don't believe so. We should therefore let the market express its fears and doubts and not believe that we can interfere all the time to tell them that low interest rates are the solution.

Monetary policy has to sort out the problem of upheavals, of uncertainty in the way the market devolves, but it must not imagine that it is competent to determine the level of interest rates.

This is my fifth point. Concerning the competitiveness of the European banking system, we must note that the more resilient and competitive economies are, the more favorable the environment will be for strengthening the competitiveness of banks. John Berrigan said something very important a minute ago. He said that the banking system in the United States is much stronger and larger than the one in Europe, and that calls for more rapprochements, more restructurings. And in this regard, what we are seeing vis-à-vis the Commerce Bank and the Italian credit bank is very telling.

And lastly, I have never seen in my long life a structural problem solved by unconditional money. Only adjustment can repair structural problems.

Thank you very much for your attention.

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Authors: Jean-Marie Andrès & Marc Truchet

Publisher: Didier Cahen

Design & Production: Daniela Craciun & Initial P

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

ÉIRE2026.**EU**
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Uachtaránacht na hÉireann ar Chomhairle an Aontais Eorpaigh 2026
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