

VIEWS

THE EUROFI MAGAZINE

APRIL 2025

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Minister of Finance,
Republic of Poland

Building a stronger
European economy:
The path to growth
and competitiveness



MARIA LUÍS
ALBUQUERQUE

Delivering on the Savings
and Investments Union



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Geopolitical tail events cloud
financial stability outlook



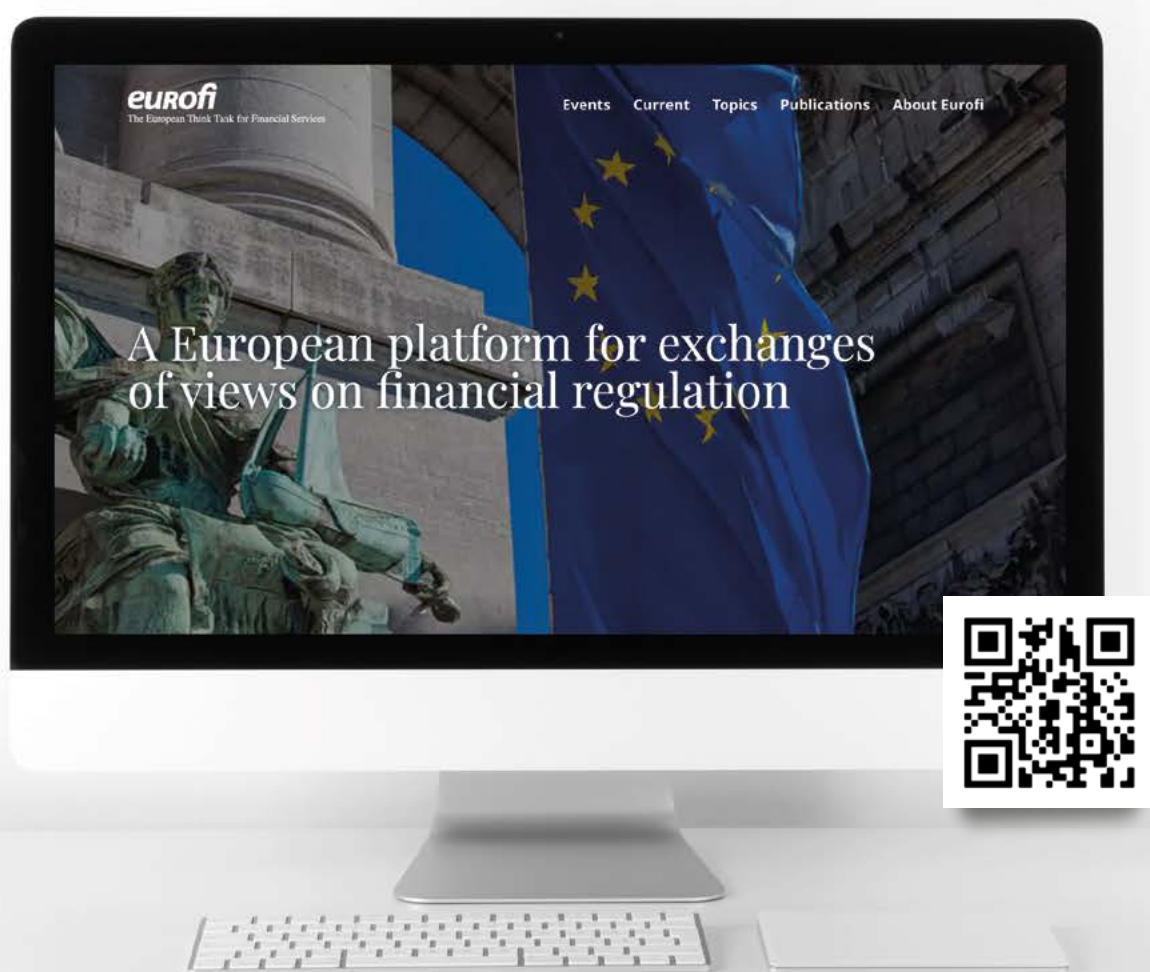
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THE EUROFI VIEWS MAGAZINE

APRIL 2025

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

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

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This edition of the Eurofi Views Magazine is published on the occasion of the Eurofi High Level Seminar in Warsaw, organised in association with the Polish Presidency of the EU Council.

The Seminar will explore Europe's macroeconomic challenges, key regulatory and supervisory developments in the financial sector at both European and global levels, as well as key industry trends such as digitalisation and sustainable finance and their policy implications.

As a new European political cycle begins, discussions will also focus on the priorities of the Commission for the next five years, particularly with regard to supporting economic growth and financing the green and digital transitions.

In the following pages, you will find over 230 contributions from public, private, and civil society representatives participating in the Warsaw Seminar, providing valuable insights into the issues under discussion.

We are grateful to all the contributors for their valuable input, which together provides a rich and comprehensive overview of the current opportunities and challenges facing the financial sector and the policies needed to address them. We trust that you will find their perspectives both informative and thought-provoking.

In addition, the Eurofi Secretariat has updated the Eurofi Macroeconomic and Monetary Scoreboards, which provide a detailed overview of Europe's macroeconomic environment and its potential impact on the financial services sector.



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DAVID WRIGHT

President, EUROFI

A warm welcome to EUROFI, Warsaw, our 39th edition.

The confluence and aggregation at the same time of so many critical strategic issues for the European Union make this the most important EUROFI event in our 25 year history.

- The brutal war in Ukraine and the growing threats to European security;
- the deepening Russian-Chinese strategic axis;
- the need for Europe to urgently, massively and sustainably increase its defence spending and build a much stronger future operational European pillar in NATO;
- the new, unreliable U.S Administration intent on upending the post-war Western consensus and its institutions, including proliferating illegal trade wars with its historical partners and friends;
- the growing, unsustainable debt levels severely constraining economic policy choices coupled with mediocre European economic growth prospects, static productivity and an ageing population largely underfunded by private pension provision;
- the evident dangers of rapid global warming but now confronted with rapidly rising policy pushback from many governments and companies around the world preventing action;
- and the pressures for the EU to enlarge with many countries anxious to join, adding significant new strains to the EU budget.

In short, today is the most challenging political context for the European Union since the Second World War.

The European Union is at the waters' edge. Will it be chacun pour soi? Or will it be deeper, cooperative political and

economic efforts to work together, combine together "d'agir ensemble" to tackle these huge challenges?

The Draghi and Letta reports have shown unequivocally and convincingly that acting together as a Union is optimal with enormous upsides : it will mean a bigger single market of depth and scale; a market of 450 million people based on common, enforceable standards that much of the world will adopt; a European Union founded on accountable, democratic, law abiding European institutions in strict conformity with the Treaty and overseen by a non-politicised European Court of Justice. A European Union that has a huge potential to grow and develop if it acts decisively together.

European financial integration, clearly, has a huge role to play to enable the EU to confront these challenges - both on the macro- and micro- sides. It is evident that huge investments are needed, over many decades, in many areas. Deep, liquid, innovative EU capital markets have never been more needed as they are today to finance these necessary investments especially because almost all EU governments are strapped for cash with little or no headroom likely to appear over the medium term. In some Member States the interest payments on public debt are greater than their defence budgets.

In this context there are no secrets what the European Union needs to deliver, and fast:

1. Macroeconomic stability and an effective, disciplined growth and stability pact in the Eurozone applicable, rigorously by all participants;
2. Capital markets Union, now the Savings and Investments Union (SIU);
3. Banking Union

Without macroeconomic discipline, the beggar-my-neighbour Eurozone pack of cards will inevitably result in further crises, at considerable cost. Adjustments in some key Member States are necessary and should be progressively implemented as

soon as possible to ensure medium-term public debt stability. Cooperative, European spending modules can help - eg on defence procurement and more innovative public-private partnerships with the European Investment Bank. The SIU and Banking Unions can spread risk and greatly enhance private capital provision.

The European Commissions' new SIU proposals released on March 19 are welcome - they are practical, focussed on the essential issues and intellectually coherent. The emphasis on how to shift €10 trillion of retail customer bank deposits into the capital markets and into more productive investment is surely right. The EU has huge amounts of savings, albeit far too many in the wrong place. I welcome the emphasis the Commission places on the critical issue of developing private pensions, financial education, securitisation, venture capital and further checks on the capital requirements of insurers and banks to encourage investment in equities. And I strongly support, as Enrico Letta has often said, fully applying the Treaty - ie deploying qualified majority voting and not accepting de-minimis "saupoudrage » policy outcomes; deploying enhanced cooperation when needed, withdrawing emasculated proposals from codecision if necessary and using 28th regime ideas to overcome the important insolvency and corporate law blockages.

I have 4 comments to add:

1. Will this SIU package shift the dial? Will the European Council and European Parliament swing behind it and truly support? On the positive side the March 20 European Council conclusions do emphasize the urgency to move forward and they support the Commission's main proposals.
2. Are the indicated deadlines persuasive and dynamic enough to change expectations? A mid-term review in mid-2027, given the immediate challenges the EU faces mentioned above, is too pedestrian;

3. Is there not a need, strategically and politically, to encourage pan-European cross-border mergers, starting with financial infrastructures, and the bigger the better? Or a pan-EU small cap exchange functionality to finance and develop leading edge SME's?
4. Yes, we can all agree to sensible simplification but not at the price of increasing systemic risk. We must not forget the Great Financial Crisis cost the EU upwards of 10% of its GDP. There is also an intrinsic link between simplification and enforcement. I strongly favour delegating more powers to ESMA, particularly for cross-border systemic firms and activities coupled with an SSM governance type model and enhanced powers for supervision and applying dissuasive sanctions.

The third sine-qua-non is the Banking Union. Stalled for years, a way must be found to a balanced agreement. Sometimes Banking Union is completely forgotten, yet it is an essential condition for dynamic financial integration and complementary to the Savings and Investments Union.

I wish everyone a stimulating EUROFI in the great city of Warsaw. We need all hands on deck. The post-war challenges to the European Union have never been greater than now and rapid financial integration is vital.

Let me conclude with our very warm appreciation to Poland, the Polish Presidency, the Finance Ministry and the Central Bank for hosting us and helping us assemble this important EUROFI in Warsaw.



Q&A

ANDRZEJ DOMAŃSKI

Minister of Finance, Poland

Building a stronger European economy: The path to growth and competitiveness

Polish Presidency of the Council of the EU comes at a time of complex political and economic challenges. Recent crises have weighed heavily on EU growth. To reverse this, we must boost competitiveness and productivity, creating conditions for sustainable and inclusive prosperity.

Our motto — “Security, Europe!” — reflects our central priority: reinforcing European security. In the economic and financial area, this includes financing European defence, securing long-term support for Ukraine, strengthening competitiveness, and developing capital markets. In a nutshell, our economic and financial priorities aim to deliver a more competitive, secure, and resilient Europe. Now is the time to act boldly – to modernise our economy, protect our values, and prepare the Union for future challenges.

This will not happen without the simplification of the EU regulatory framework. Investment opportunities must be provided for Europeans and entrepreneurs must have access to capital. Therefore, we strongly support the idea of reviewing the legal framework and withdrawing excessive regulations in order to reduce the regulatory burden and transaction costs for all market participants. Europe must be an economic superpower, not a regulatory one.

As Presidency, Poland will do everything in its power to ensure that this political awakening is matched by legislative action and tangible investment. Security has a cost — but inaction has a far higher one.

Strengthening Security through Smart Fiscal Policy

Europe’s security is no longer an abstract concept — it is a tangible and urgent priority. However, while the risks are becoming increasingly complex, Europe’s fiscal constraints remain. The challenge we face is therefore clear: how to significantly increase defence spending, despite high debt levels in some Member States.

I believe the answer lies in the combination of intelligent reform and political will - Europe must take greater responsibility for its own security. We welcome the European

Commission’s readiness to fully use the flexibility of EU fiscal rules to allow for increased defence spending. Applying this flexibility is essential for mobilising resources without compromising fiscal discipline.

The EU has already taken an important first step. The new economic governance framework, which entered into force in April 2024, explicitly acknowledges increases in defence investment as a factor in budgetary assessments. But this recognition must now be translated into practical flexibility rules. That’s why, as Presidency, Poland has pushed for a broad interpretation of what qualifies as defence expenditure — going beyond weapons systems to include infrastructure, personnel, and strategic industrial investment. Defence is no longer just about tanks — it’s about supply chains, skilled people, and resilient production capacity.

This position received wide support at the March ECOFIN Council, where ministers endorsed broadened definition aligned with the COFOG classification. For the first time, there is a shared understanding that increasing defence potential should be properly reflected in budgetary EU surveillance of policies.

But we cannot stop here. We must make full use of the tools already at our disposal. That includes activating the National Escape Clause (NEC) under the Stability and Growth Pact — a move now encouraged by the European Commission. Properly applied, this clause can release fiscal space for defence spending without undermining the long-term fiscal responsibility.

We welcome the Commission’s broader change of thinking. Its recent White Paper on European Defence — and the ReArm Europe Plan — signal a real shift. They not only identify capacity gaps and the need of industry but more specific financing tools: loans of up to €150 billion, flexibility in EU funds, a stronger role for the EIB, and the mobilisation of private capital through the Savings and Investments Union.

These are the right ideas — but time is of the essence. The next five years must be a period of accelerated delivery. Europe cannot afford any delay.

Empowering Europe's Capital Markets: The Key to Competitiveness

In order to be competitive, Europe must unlock the full potential of its capital markets. The EU still faces considerable investment gaps: over a third of household wealth remains in deposits (compared to just 10% in the US), and €33 trillion in savings is held in cash and deposits. Mobilising this capital is essential. We must identify and remove investment barriers, deepen the Single Market, and create incentives for investors to stay in Europe.

To address the outflow of surplus European savings, we must make the Union's capital markets more attractive. This can be done by better aligning products with investor needs and enabling higher returns, and the latter can be done, for example, by increasing the competitiveness of listed companies and the broader economy. Economic growth remains the best response to many of Europe's current challenges.

Contrary to common belief, boosting returns doesn't require investing outside the EU. The diversity of EU member states and sectors already allows for strong diversification — as long as we avoid excessive centralisation and support local market ecosystems.

That's why we support the new strategy to create the Savings and Investments Union. It is a crucial step toward building a working internal market for capital and helping financial institutions to scale up. We fully subscribe to Commission's understanding that for the strategy to deliver, it will require a combination of EU level and national level measures. The proposed document has a great potential — and we are committed to continuing the discussion around a pan-European savings product that empowers retail investors to participate in the EU's economic transformation. We also support other key initiatives of the strategy such as the revitalising securitisation. Strengthening this market will enhance banks' capacity to lend and help deepen EU capital markets. We are ready to advance this project as soon as we see the legislative proposal from the Commission.

Health and functioning capital markets can only exist along with a stable banking sector. Therefore, we are also advancing the work on the reform of Crisis Management and Deposit Insurance — a crucial step toward the completion of the Banking Union. As Presidency, we are committed to bringing EU co-legislators closer to an agreement on this essential file.

Simplifying Regulations for Economic Renewal in Europe

To revitalise the European economy we must act decisively. Many tools are already on the table. But the most urgent step is to simplify rules, eliminate regulatory ambiguities, and reduce the burden on business. The current regulatory environment

risks weakening Europe's position globally and eroding its social model.

In that regard, the European Commission's publication of the Competitiveness Compass, which recognises the need for a smarter, growth-oriented regulatory framework, is encouraging.

We also appreciate the Omnibus proposals presented by the European Commission. It is essential that the European companies stay competitive in a dynamic global economic environment. Besides, the Commission's legislative package on securities depositories, financial collateral, settlement, and market structure is welcome. It aims to remove cross-border barriers, modernize regulation, improve execution quality, and reduce administrative burdens.

At the same time, while harmonization of rules is necessary, the supervision doesn't always require a single authority. Often, convergence of national supervisory practices is sufficient. European oversight should focus on cross-border market participants and emerging sectors where a supranational view brings synergies.

Building the investor's mindset

A key point that has often been overlooked in Brussels is that investing inherently involves risk. A risk-free Savings and Investments Union is not possible, so investor protection rules must be part of regulatory review. We therefore welcome the Commission's plan to adopt a financial literacy strategy, which should support the culture of investing among Europeans.

We see no contradiction between long-term returns for citizens' retirement savings and financing the EU economy. On the contrary — by making competitiveness the driver of investment, we can achieve both goals.

Instead of fixating on market architecture, we should enhance capital markets' attractiveness and returns — by improving competitiveness, clarifying rules, and reducing regulatory burdens. Ultimately, a more competitive, fast-growing economy with thriving businesses is crucial. This will lay the foundation for everything else.



Q&A

MARTA KIGHTLEY

First Deputy Governor – Narodowy
Bank Polski (NBP)

Geopolitical tail events cloud financial stability outlook

What are the major financial stability risks in Europe?

The financial system in Europe is fragmented across jurisdictions. Thus, vulnerabilities and their magnitude differ among countries. Nevertheless, common shocks occur and they affect each Member State and the EU as a whole.

Currently, the good news is that the European financial system, and especially the banking system, is sound and resilient. Banks have solid capital and liquidity buffers allowing them to withstand even severe but plausible shocks.

For some time, the key systemic risks have originated from outside the financial system and are exogenous to the EU. A few years ago the pandemic was the main source of concern. Currently, I would point to geopolitical and cyber-related risks as the most important threats to the financial system. The likelihood of tail events is high now. The main challenge with this type of risks is how to measure their potential costs and calibrate the capital and liquidity buffers necessary to withstand their impact.

Geopolitical risk adversely affects real economies and financial systems globally: a trade war asymmetrically accelerates inflation and slows growth. This may trigger a repricing in global financial markets spilling over to liquidity risk, due to a high concentration of positions and high correlation of market valuations. The ensuing fire sales would raise the cost of funding of private and public sectors. Trade wars might also increase corporate credit risks. Geopolitical events also trigger operational risks: severe cyber incidents in EU banks have increased significantly in recent years, as well as hybrid threats to European critical infrastructure. The development of quantum computing could strengthen these risks even more.

While EU banks are generally resilient, EU non-banks, with their liquidity mismatches and significant exposures to non-EU markets, are more vulnerable to global market shocks. Their reaction could amplify adverse market dynamics with sizeable second-round effects for the broader financial system.

To what extent has the development of NBFIs improved the financing of economies and led to the development of capital markets in Europe?

The importance of NBFIs in the global financial system has grown substantially over the last years. In 2023 alone all NBFi subsectors grew at around twice the rate of their five-year average and more than double the pace of banking sector growth, raising their share in the total global financial assets to almost 50%. This may positively affect liquidity by lowering the risk premium. But their activity on its own is unlikely to substantially impact non-financial enterprises' propensity to seek market financing. The latter is largely the function of the size, level of development and sophistication of the corporate sector. Moreover, some NBFi subsectors still remain heterogeneous across jurisdictions. For example, although the net assets of total European investment funds have almost doubled over the last ten years, the very same top five countries still account for more than 75% of the sector's assets. Also, the average fund size (by assets) in Europe is still small, which reduces economies of scale and leads to higher costs for investors.

The impact of the NBFi sector on EU capital markets should be viewed through the country's financial wealth. More affluent societies are less risk-averse. In less wealthy countries households would prefer to accumulate savings as safe and liquid bank deposits rather than invest in capital markets without a guarantee of positive returns. This would confine the NBFIs space to thrive. In more risk-averse countries, such as Poland, bond funds comprise the vast majority of investment funds' assets. Therefore, their growth is transposed into the increased demand for debt instruments – domestic government bonds in particular. As sovereign debt is an important part of insurance companies' assets, the growing importance of this subsector would translate into its greater role as a provider of sovereigns' financing.

Looking ahead, a country's pension system might have a significant impact on the growth of capital markets. Relying

on a pay-as-you-go scheme, prevailing in the EU, may be insufficient to safeguard our pensioners' future. Therefore, European and national regulators should encourage the development of private pension systems. Scaling up our pensions markets will boost the flow of retail savings to the capital market, supporting economic growth.

What are the stakes, and the challenges involved in the implementation of a macro-prudential approach to the regulation of the NBFi sector at the European and international levels?

The Savings and Investments Union aims to develop the capital market, especially venture capital and private equity. It encourages institutional investors to engage more on this market. It is a very desirable direction. However the interest of retail, nonprofessional investors should be duly taken into account. There is an ongoing discussion about macroprudential measures for NBFIs, offering a good opportunity to highlight the need for solutions to ensure that the potential cost of higher exposition of NBFIs to risky assets is proportionally shared between customers and financial institutions. The regulations should primarily encourage professional investors to invest in venture capital at their own risk, as they are better prepared to manage related risk. Currently, despite the absence of any legal barriers, these investors are not keen to engage in risky assets. Thus, changes to the macroprudential measures should not lead to risk-averse investors – retail clients – being highly exposed to such investments.

Additionally, we observe that different financial institutions, like banks and insurance companies or investment funds, offer similar financial products, e.g. mortgage lending by insurance companies in many European countries. Thus, the macroprudential policy should combine an entity-based approach to regulations with activity-based ones, addressing certain types of activities. Such an approach should be, and for some time already has been, pursued in EU legislation. For example, EMIR regulates trading in OTC derivatives, irrespective of the legal form of entities engaged in such transactions, and the Securities Financing Transactions Regulation covers transactions such as repo or SBB. Covering the same activities with the same regulatory requirements, regardless of the institution conducting the business, should help to limit regulatory arbitrage and minimize the transfer of risk to less regulated parts of the financial system.

What specific governance arrangements need to be put in place to achieve an efficient macroprudential approach in Europe? What are the priorities for strengthening cooperation between “macroprudential authorities” and European and national supervisors?

The key responsibility for macroprudential policy in Europe lies with national authorities, which have the best knowledge of domestic markets and risks. Nevertheless, the European coordination of macroprudential policy is necessary to ensure a level playing field and the effectiveness of measures. To this end, the coordination and leading role of the European Systemic Risk Board can't be underestimated. It covers all sectors of the financial system in all Member States. Such an institutional arrangement helps to ensure an efficient, consistent and holistic approach to macroprudential policy in Europe. The strength of the ESRB builds on its members: representatives of all national and European authorities responsible for financial stability.

The ESRB has proven to significantly contribute to the resilience of the EU financial system, despite only having soft powers such as warnings and recommendations. From Poland's perspective, the ESRB recommendation on lending in foreign currencies supported our regulators in banning foreign currency lending to households. The ESRB also has a proven ability to flexibly and swiftly react to shocks in the EU financial system, while maintaining the (often delicate) balance of interests of host and home countries, with due consideration to the policies of non-eurozone countries. To this end, I think that the governance arrangements for macroprudential policy in Europe are appropriate. I would rather advise further strengthening of the ESRB, as indicated in the report “Building on a Decade of Success” published last year. The effectiveness of the ESRB could be improved by developing system-wide stress tests, putting more focus on new emerging risks and the growing role of the NBFIs in the EU financial system, as well as by enhancing the sharing of data among relevant national and European authorities.



Q&A

VALDIS DOMBROVSKIS

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

The imperative of enhancing the EU's competitiveness in challenging times

What are the expected impacts of deglobalisation (encouraged by the recent wave of protectionism from the US administration) on inflation and growth in Europe and how should we deal with them?

The world is changing quickly. For decades, economic integration, trade liberalisation and cross-border production sharing have been drivers of economic growth and prosperity. Today, globalisation is facing significant challenges and this risks coming at a high economic cost.

In a world of highly integrated global supply chains, tariffs can cause significant economic disruption. They also have the potential to ignite a chain reaction of retaliatory measures. These developments are particularly significant for the EU, given our deep commitment to free trade, economic integration and its openness to trade and investment.

The trade relations between the EU and the United States are the biggest in the world. Trade has created millions of good jobs on both sides of the Atlantic, driving economic growth and prosperity. We therefore share a joint interest in upholding high standards, fair competition, and stability in global markets.

Our analysis points out that the imposition of tariffs would weaken the US economy by reducing consumers' purchasing power, real wages and making imported intermediate inputs more costly. Domestic inflationary pressure and a stronger the dollar would also make US exporters less competitive in global markets compared to their trading partners. Therefore, US exports would decline along with imports, making tariffs unlikely to durably reduce US trade deficits.

Rising trade uncertainty and productivity losses stemming from a more fragmented global trade landscape would exacerbate the negative economic effects further.

The EU is ready to act to protect consumers and businesses in the face of any unjustified tariffs. As the United States

are applying tariffs worth \$28 billion, we have signalled our intention to respond with countermeasures worth €26 billion. The countermeasures we have announced are, therefore, strong, but proportionate.

The question is, how could Europe successfully navigate an era of deglobalisation?

First, as emphasised in the Draghi Report, by deepening the integration of the Single Market, we could also boost intra-EU trade that could counter the adverse effects of rising external trade barriers.

Second, stronger domestic demand in Europe can play a role in offsetting the negative economic effects of the tariffs, as it could compensate for weakened external demand in utilizing our productive capacities. The recent developments in Germany, for instance, are therefore encouraging.

Third, supply-side reforms that boost the productivity of the European economy not only enhance the competitiveness of European exports in the face of tariffs, but raise our living standards in general.

Finally, on the external side, lowering trade barriers with third countries could have beneficial effects that could contribute towards mitigating the adverse effects of US tariffs, as well as towards maintaining an open global trading system.

**What are your main priorities for improving the competitiveness of European economies?
How remove obstacles and unlock entrepreneurial potential of Europeans?**

The freedoms that we enjoy and the values that we cherish can no longer be taken for granted in a complex and more conflictual world.

For the EU, they also depend on maintaining and further developing our economic base by adapting, innovating, and competing in the world.

This is why the Commission has prioritised enhancing Europe's competitiveness in this new mandate.

The Compass also lists five cross-cutting "horizontal enablers" of competitiveness, which include regulatory simplification. I am responsible for coordinating the Commission's work on this agenda.

Cutting red tape is another important element to achieve a more competitive Europe. Put simply, we cannot hope or expect to successfully compete in a perilous world with one hand behind our backs. The past five years have been a period of intense regulatory activity. And our commitment to securing the green transition has not wavered, but at the same time, we must acknowledge that this has come at a cost, generating a large regulatory burden on people and businesses.

As we take stock, we see that this accumulation of rules, and their increased complexity, are limiting our economic potential and our prosperity. Today, regulation is seen by more than 60% of EU companies as an obstacle to investment. 55% of SMEs are flagging regulatory obstacles and administrative burdens as their greatest challenge.

Simplification is about making sure that EU rules help deliver – rather than impede – the achievement of our economic, social, environmental and security goals. It is about achieving those goals in a smarter and less burdensome way. Less bureaucracy means more innovation and investment that will secure our long-term prosperity.

We have already presented our first proposals under the simplification agenda. This work will continue throughout the mandate.

What are the consequences of the growing economic divergences between the main EU countries in terms of public deficit and debt and current account balances for the functioning of the monetary union?

The new economic governance framework, which entered into force in 2024 will help to tackle economic and fiscal divergences in the EU.

This new framework aims to strengthen public debt sustainability and to promote sustainable and inclusive growth across all EU countries. Divergences in terms of economic performance and debt-sustainability risks are fully considered in the country-specific risk-based approach of the framework.

EU Member States have now more ownership of the policies to address their economic and fiscal challenges. If a fiscal adjustment is needed, this can be made over a period of up to seven years if the government commits to a package of meaningful reforms and investments with a positive impact on fiscal sustainability and economic growth. Where needed, such measures must also address economic imbalances.

Importantly, we expect that fiscal policy will remain growth-friendly in terms of composition in the coming years, with further increase in investment financed by both national budgets and at EU level, in particular through the Recovery and Resilience Facility.

To sum up, I would say that prudent fiscal policy together with structural reforms and investments, financed both at the national and the EU level, are the key elements to promote sustainable and inclusive growth and resilience in the EU. This will help to address the divergences which exist in the EU.

How can the most indebted Member States of the EU increase their defence spending without jeopardising their financial solvency?

Russia's war of aggression against Ukraine and its repercussions for European and global security constitute an existential challenge for the EU.

The necessary rebuilding of European defence and the ramping-up of European defence industry production capacity require an urgent increase in defence spending.

In view of the current extraordinary situation, the Commission has proposed to unlock additional flexibility for higher defence expenditure through a coordinated activation of the national escape clause of the Stability and Growth Pact.

The activation of the national escape clause will allow Member States to deviate from the net expenditure paths set out in their medium-term plans. To ensure that the additional flexibility is compatible with fiscal sustainability over the medium term, the Commission has clearly framed the timing and scope of the national escape clause.

This additional flexibility will help Member States to transition to the needed level of defence spending in a few years. The flexibility is temporary and is focused only higher defence expenditure. That means that the additional fiscal space should be used for defence spending, and not in a general manner, as during the COVID crisis.

Member States will also benefit from €150 billion of EU loans under the new SAFE instrument, which will allow them to fund – at low interest rates and long maturities – investment in pan-European defence capability, for instance investment in air and missile defence systems, drones and anti-drone systems, cyber security and military mobility. The expenditure funded by those loans will automatically benefit from the flexibility under the national escape clause.

The impact of increased national defence expenditure, and in particular of expenditure for investment, on the EU's growth potential and competitiveness can be amplified by Member States spending collaboratively and sourced from within European industry, as foreseen in the SAFE instrument.

With this approach, I am confident that we can keep the EU fiscal framework working as normally as possible, preserve its credibility and avoid endangering fiscal sustainability in any Member State.



Q&A

MARIA LUÍS ALBUQUERQUE

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

Delivering on the Savings and Investments Union

What are the key points of the Commission's strategy for making significant progress towards a Savings and Investments Union?

The Commission adopted its Communication on the Savings and Investments Union last month. I will quickly explain where we are coming from. The European Union has lots of strengths: a talented workforce, innovative companies, significant savings and a robust legal framework. With its leadership in global financial markets, the EU has the potential to stimulate economic growth, generate higher-quality jobs, and provide wealth creation opportunities for its citizens. But our economy has structurally underperformed in the last years. The Savings and Investments Union can be a game changer. It is an enabler of increased competitiveness across all sectors, be it defence and security or the digital and green transitions. And we need it urgently, as the geopolitical and geoeconomic context is changing at lightning speed. The need to secure economic resilience and meet the ambitious investment needs has never been more pressing. We need commitment and ownership of the Savings and Investments Union at multiple levels. It is a shared responsibility.

To make significant progress we must be bold and change our way of thinking. EU Member States should not compete with each other, our real competitors are outside the EU. To deliver on the Savings and Investments Union, we build on progress made with the Capital Markets Union and the Banking Union. But while we are not starting from scratch, we will have to go much further. We must address key barriers that continue to hinder the EU's progress. Market fragmentation is the main problem, from supervision to different legal and tax regimes, to no interoperability of market infrastructures. The SIU Communication includes actions to be delivered already this year on these pressing issues. It's a clear signal on how ambitious we are, and that we want to move, swiftly.

But the root causes of fragmentation are not the only topics to be looked at. We also need to explore ways to

provide EU citizens with more diversified investment opportunities, if they wish to invest in capital markets. Empowering them to build wealth, secure their retirement and prepare for other major life events. The SIU is designed to be inclusive and citizen focused. Actions for this year include a financial literacy strategy, a European blueprint for savings and investments accounts, and measures to develop supplementary pensions. We also need to ensure that companies have access to a broader range of funding options. All companies, everywhere in the EU. We will continue to engage with market participants, social partners, national supervisors, civil society organisations, citizens, so that we can better understand if the implemented actions are delivering on the objectives. In our mid-term review of the SIU strategy, any necessary adjustments will be reflected.

How to retain the surplus European savings
(around 300 billion euros leave Europe every year)
in order to finance more investment in Europe?

This is an 'Investment Commission'. And one of the objectives of the Savings and Investments Union is to have more investments in Europe. Improve EU's attractiveness as an investment destination also means providing higher returns, as well as a safe ecosystem to invest.

Capital markets need scale, they require a critical mass of liquidity, market participants, and size to function efficiently and to lower transaction costs. The challenge is how to achieve this scale. Large pools of capital need to be built, both through retail investor participation and institutional investors. We can take the specific example of supplementary pensions. There is huge untapped potential in our pensions markets. Ask any expert and they will tell you that vibrant and larger scaled pension markets contribute massively to investment and liquidity. More generally, increasing retail investor participation can contribute to widening the pool of funding available for EU companies and help

meet EU investment needs. Market integration is a part of the answer to financing the EU economy. What I mean is removing the barriers to the single market for financial services. Because only a seamless flow of capital between borders and intermediaries can create a truly vibrant single market for savings and investments. This in turn would give citizens, companies and financial market participants easier and cheaper access to the services they need. Greater scale and participation rates in capital markets will increase the diversity and attractiveness of both investment and financing opportunities throughout the EU. Ultimately, the positive spillovers of this virtuous cycle will help the EU economy thrive and become a more attractive destination for all investors.

How can Europe better retain scale-ups and foster innovation? Should funding be concentrated on innovative firms in high-growth sectors, rather than spread across a wide range of firms?

No, we should not concentrate all the available financial resources on the most innovative and successful companies in growth sectors only. We need to ensure that companies can grow in the EU, that they can diversify their sources of funding, that they have the best possible access to capital. But this should be the objective for all companies with a viable business model: big and small, new or mature, in all sectors, everywhere in the EU. Even because we need to support our companies in the green and digital transitions. The Savings and Investments Union is for all. That's a very inclusive approach.

Having said that, it is important to highlight that the SIU can be especially important for companies in innovative and strategic sectors such as AI, quantum and other deeptech fields, biotech and cleantech or in the defence sector. These areas have the potential to drive significant economic growth and bring about groundbreaking innovations. The EU's long-term economic success hinges on the ability of innovative startups and scaleups to access the funding they need to scale and drive innovation. That is why, already this year, the Commission will take measures to stimulate equity investments by institutional investors. I'm thinking for instance about facilitating investment in equity by institutional investors: insurers, banks and pension funds. We want to be where it is the most impactful to make the EU attractive enough to retain scaleups and increase the number of innovative projects.

Why has financial integration, as measured by the ECB, stalled since the start of the Banking Union? What are the key conditions for achieving a more integrated and less costly regulation and supervision?

The Banking Union remains incomplete. Notably in the absence of adequate arrangements for managing the failure of mid-sized banks and a European deposit insurance framework. An incomplete Banking Union is a cost for everyone, impacting citizens and businesses, as an integrated internal market for financial services is crucial to secure the open strategic autonomy and the financial resilience of the EU.

You mentioned the ECB in your question. Yes, based on the ECB report on financial integration there is a recede of the financial integration in the last years; at the same time significant legislative efforts have been made in the EU. In particular, and this is linked to your point on supervision, since 2014, significant credit institutions in the Banking Union are being centrally supervised by the ECB within the Single Supervisory Mechanism. So, I do feel that there is already a solid basis on the supervision aspect. But we need to make further progress on the Banking Union. The ongoing reform of the bank Crisis Management and Deposit Insurance as well as the creation of a European Deposit Insurance Scheme will contribute to further integration of the banking sector and reinforce financial stability. Integrated banking markets would contribute to a more stable and efficient allocation of funding across the EU economy, expanding their services, offering and enhancing competition across the EU also in economic downturns. All this is key. That is why we plan to deliver a report assessing the overall situation of the banking system in the Single Market. I am convinced that an integrated banking system, alongside integrated EU capital markets, will play a key role in financing the EU's critical investment needs.



Q&A

JEAN-PAUL SERVAIS

Chair of the Board, IOSCO & Chairman, FSMA

A pragmatic and market-driven approach for stronger EU capital markets

Are the actions listed in the EU Competitiveness Compass the main priorities for making progress on the SIU?

The EU faces significant challenges to meet its goals, for instance those of innovation, the clean energy transition, digital infrastructure development and increased defence spending. These all require high capital investments. To achieve this, the EU needs better mobilization of private investment and more targeted use of public funding. Currently, the EU is overly dependent on debt financing and does not efficiently channel EU household savings into productive investments or innovation, leading to EUR 300 billion in savings being invested outside the EU each year.¹

To address this, the EU needs deeper and more liquid capital markets. In its SIU Strategy the Commission aims at creating a more integrated, efficient and resilient European capital market by mobilizing private savings, enhancing investment opportunities, and improving market infrastructures.

In order to make the SIU a reality, we need also to explore how to mobilize private and occupational pensions as well as to channel direct savings into the economy. Additional measures such as reforming insolvency frameworks, and harmonizing cross-border investment regulations and tax law are also key parts of the puzzle. Last but not least, we need to enhance financial literacy, to make retail investors and SME leaders aware of the possibilities that financial markets can offer them. Belgium's Wikifin financial education programme, organised by the Financial Services and Markets Authority, is a successful model for promoting financial literacy, especially among the youngest.

Does the SIU need a new approach compared to the CMU action plans? Is there a need for more bottom-up action?

A shift in approach is needed for the Savings and Investments Union (SIU) to be successful. While updating and completing the EU regulatory framework could be envisaged when necessary, it is important to focus on areas where changes will have the greatest impact, without compromising the competitiveness of the overall framework.

Despite progress made in the past through the Capital Markets Union (CMU) action plans, there are still challenges like divergent insolvency laws, entrenched national practices that favour debt financing, and inconsistencies in tax frameworks. These issues cannot be solved by a traditional regulatory approach.

Therefore, in addition to top-down regulation, more emphasis should be placed on fostering market development from the ground up. Key elements of capital market growth, such as pension schemes, financial literacy, and tax incentives, remain largely under the control of Member States.

Such a complementary bottom-up approach could build on successful national models while at the same time ensuring EU-wide coordination. For example, strengthening private pension savings through initiatives like the Individual Pension Savings Plan would mobilize long-term capital and improve retirement security. A network for financial literacy in the EU could be set up, supported by the Commission, like the European Forum for Innovation Facilitators, where best practices can be shared on a regular basis between national bodies. The scope of such financial literacy initiatives could also include smaller sized enterprises to help them to obtain access to finance.

The Swedish model and its successful investment savings account also offer a good example of how simple and efficient measures, with appropriate incentives, can have a sizeable impact on the ground and help create a flourishing national ecosystem.

Given the Letta and Draghi reports' calls for greater market integration, how far should the SIU go in centralizing or better integrating supervision in the EU?

I think it is important to strike a balance and avoid unnecessary centralization that could compromise market efficiency and the quality of supervision.

So far, experience shows that centralizing supervision risks going hand in hand with higher compliance costs, additional administrative layers, and less responsiveness to market needs. Besides that, supervision of financial products or of financial actors closely linked to local markets should remain with national competent authorities (NCAs), which have the necessary in-depth knowledge of national regulations, local retail investor preferences, and market characteristics. By keeping national regulators involved, we are promoting continued access to capital markets for local issuers (including start-ups) and intermediaries, as envisioned by the SIU. For market operators, national supervisors and colleges should take into account the group dimension of many of these.

However, this does not mean that supervisory convergence should be neglected. On the contrary, there should be a renewed focus on enhancing ESMA's role, alongside exploring tools such as fast-track peer reviews, targeted convergence measures, and supervisory colleges.

Such measures would allow for deeper integration without disrupting well-functioning national supervisory structures. This approach would strike a balance between market integration and effective, responsive and agile supervision at the national level, ultimately supporting the objectives of the SIU.

It is also crucial to recognize that supervisory structures alone do not determine the strength or depth of financial markets. More particularly, centralized supervision is not a panacea for creating deeper and more liquid markets. The success of capital markets is primarily driven by investor activity and the attractiveness of financial products. Furthermore, as evidenced by the Banking Union, central supervision does not help to promote consolidation or the emergence of large pan-European actors.

So, in summary, when looking at supervision, we need to assess on a case-by-case basis which model is the most efficient (i.e. we need to have the right supervisor at the right level).

How can new technologies such as DLT, tokenisation, AI, cloud etc... contribute to an effective SIU?

New technologies such as DLT, tokenization, AI, and cloud computing could contribute to the effectiveness of the SIU by increasing market efficiency and lowering costs for retail investors. DLT and tokenization have the potential to reshape capital markets by enabling faster and transparent transactions. Tokenized assets could improve liquidity and expand retail investors' access to diversified investment opportunities.

However we need to be mindful of the risks such technologies can pose. The crypto-asset market is, by its very nature, cross-border and international. It is much more so than that of traditional financial products and services. The market presents major and unprecedented risks for investor protection and AML. In combination with the almost exclusively technical nature of the activity, which requires new and specific know-how, with its cross-border nature and with the vulnerability of this sector to an unlevel playing field, these risks makes it, in my view, appropriate to entrust the supervision of crypto-asset service providers to a single European supervisory authority, namely ESMA.

Single supervision of these platforms would facilitate international cooperation, since European supervisors would speak with one voice in their contacts with their counterparts in third countries. This was a missed opportunity in MiCAR.

Similarly, AI and cloud computing can streamline investment services, enhance risk monitoring, and automate compliance processes, but they also introduce new threats to investor protection. As highlighted by IOSCO, neo-brokers, copy-trading practices, and the influence of influencers expose retail investors – particularly younger generations – to excessive risk, misinformation, and conflicts of interest.

Ensuring effective oversight of digital engagement techniques, gamification, and AI-driven financial marketing will be key to mitigating these challenges while facilitating financial inclusion through user-friendly investment platforms.

For these technologies to effectively contribute to the SIU, their deployment must be paired with regulatory consistency and enhanced international cooperation.

1. Source: *Competitiveness Compass*.



Q&A

SHIGERU ARIIZUMI

Vice Minister for International Affairs
Financial Services Agency, Japan

Towards a more vibrant and resilient economy: A Japanese perspective

What are the key risks, trends facing the global insurance sector and the related priorities for the IAIS for the coming years?

2025 marks the beginning of a pivotal phase for the IAIS as we embark on our Strategic Plan for 2025-2029. The plan is the culmination of extensive collaboration and discussion with our members and stakeholders and sets a clear direction for the next five years.

Following a period of intensive standard setting, we now shift to a greater emphasis on supporting globally consistent implementation of the IAIS' standards, notably the Insurance Capital Standard (ICS), and supporting members in implementing effective supervisory practices. At the same time, assessing key risks and trends impacting the global insurance sector through our annual Global Monitoring Exercise (GME) will remain a priority.

Amidst global trends expected to shape the insurance landscape over the next five years, the IAIS has identified three strategic themes that feature prominently in its work programme: climate-related risks, digital innovation including the use of AI and cyber risks, and the need for insurance to fulfil its societal purpose of building resilience, including addressing natural catastrophe protection gaps.

Representing insurance supervisors from more than 200 jurisdictions, our focus is on supporting members in their efforts to strengthen insurance supervision. We have firmly established ourselves as a standard-setting body within the global financial architecture. As our work increasingly intersects with broader policy objectives, we will strengthen our collaboration and engagement with international forums and organisations to ensure alignment and consistency on key issues. Partnerships with international organisations, for example building on joint work for the IAIS-IMF High Level Panel on insurance protection gaps and the insurance sector last year, or the IAIS and World

Bank contribution to the G20 this year, will be crucial in addressing the complex societal challenges ahead.

We have now turned our attention to putting the Strategic Plan into action. The IAIS Roadmap 2025-2026 highlights our focus areas for the next two years.

How do you assess the situation and prospects for energy transition in the EU, Japan and globally? What are the main obstacles to this transition and what initiatives could overcome these obstacles?

The global economy witnessed a sharp rise in inflation due to high energy prices, severely impacting the EU, and to a varying degree, Japan as well. The impact on the real economy coupled with geopolitical considerations makes it challenging for the EU as seen in the Draghi report and the recent Omnibus package on corporate disclosure. Japan is facing similar challenges, albeit to a lesser extent given that we relied on more expensive fuel sources.

Japan has long been a strong advocate of transition finance. We take a roadmap approach rather than a taxonomy approach. Instead of focusing on what is green and brown, we emphasise inclusivity and the need to encourage all sectors to contribute to the transition. Mapping out the path to transition is the ultimate challenge we must tackle.

Japan will continue to aim for net-zero by 2050. With this in mind, the Government decided its Strategic Energy Plan last month which outlines our direction on energy policies towards 2040.

The plan aims to strike a right balance among meeting our transition goal, ensuring energy security and promoting economic efficiency, which some have called a trilemma. The Plan looks to achieve a balanced power source composition that does not excessively depend on a specific power source or fuel source. The lesson learned from last year is that we need

to shift to energy sources that are not prone to inflation, while also acknowledging the reality that we cannot completely do without traditional fuel sources, at least for now.

The plan also identifies areas of potential future innovation with implications for future public support, including possible deregulation, provision of subsidies, tax breaks and development of carbon markets. It provides clear signals to the private sector so that they can seize the business opportunities ahead.

To operationalize transition finance, the FSA has launched the Asia GX (Green Transition) Consortium to exchange views with ASEAN countries. Public and private sector participants will reflect on transition finance and while upholding high ambitions, we need to be practical and flexible in our work, including through public and private partnerships towards achieving a common goal.

How has the implementation of Basel III rules affected Japanese banks? Following the postponement of Basel III implementation in several jurisdictions, including the US and UK, are the Japanese authorities considering modifying some of these rules?

In Japan, the Basel III has been implemented in three phases and for internationally-active banks and banks using internal models, it has been implemented from FY 2023 financial statements. We have not seen any significant changes in corporate or retail financing or market activity at this point. This could be attributed to the substantial lead time for banks to implement Basel III along with the Japanese economy's shift towards post-deflation. We will, of course, continue to carefully monitor banks' business operations and capital positions.

The impact of Basel III implementation could vary depending on banks' balance sheets and the nature and focus of their businesses, making it challenging to describe its impact in one word. For example, the impact of the increased risk weighting of equity holdings can differ depending on the proportion of their cross-shareholdings. The extent of usage of internal models could also result in varying effects on respective capital adequacy ratios.

We are aware of the recent delays in major jurisdictions, including the US, the UK, and the EU. Looking back, the key objective of finalising Basel III was to reduce excessive variability of risk-weighted assets and we believe this still holds true. The Basel Committee's work plan, as endorsed by the GHOS in February 2025, notes that full, consistent and timely implementation of all elements of the Basel framework remains a priority for the Committee.

The current discussions seem to emphasize the notion of a level playing field. While I understand the rationale behind this, we should be very careful that stressing a level playing field does not result in a 'race to the bottom'. We cannot compromise global financial stability in the name of ensuring a level playing field on a jurisdictional level.

Japan will continue to support the Basel Committee's message on Basel III while carefully monitoring developments in other jurisdictions during the transition period.

Based on Japan's experience with the NISA savings account and the J-FLEC financial literacy initiative, what key drivers could Europe consider to better direct household savings toward long-term market-based investments?

The EU and Japan share a common challenge: a predominantly bank-based finance system coupled with the need to mobilize savings towards investment opportunities.

Japan has long suffered from deflation and low economic growth. However, we are finally about to overcome deflation. Last year, the Japanese economy showed strong signs of recovery, such as record wage increases of over 5% for the first time in 33 years. Equity prices and private capital investment also hit record highs.

One of the key drivers of this trend is the FSA's initiative to promote Japan as a leading asset management center. It encourages the whole investment chain to shift household savings from cash and deposits to investment products. Prime Minister Ishiba leads this initiative by taking decisive actions based on a holistic approach.

On the retail front, the core initiative is NISA, an investment scheme that exempts capital gains and dividends tax. NISA was revamped in 2024, increasing the investment limit threefold and making it permanent. It consists of 2 segments: accumulative diversified investment and growth investment. Another key feature is that it is eligible for overseas investment products, allowing investors to capture opportunities abroad as well.

NISA has been remarkably successful. The number of accounts reached 25 million, meaning one out of every four people has a NISA account. The account purchases hit 18 trillion yen, tripling from the previous year. It has caught fire, particularly among the younger generation. In addition, we are working to reform iDeCo, a retirement pension plan, by proposing to increase its ceiling on tax-exempt contributions.

To ensure that retail investors are well informed, J-FLEC (Japan Financial Literacy and Education Corporation) was established last year. It operates as a public-private partnership to improve financial literacy. It certifies financial advisors, dispatching them to schools and corporations. They also provide initial financial incentives to individuals seeking advice.

We are also accelerating corporate governance reform encouraging corporations to be more efficient and attractive to investors. Finally, we aim for a vibrant asset management sector supported by prudent asset owners who can optimize returns. We have introduced incentives including setting up special zones and developing emerging managers programs. We are seeing encouraging signs on both fronts.

We will continue to thrive on our initiatives and would very much welcome interest from European financial institutions and investors.

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Q&A

ERIC LOMBARD

Minister of the Economy, Finance, and
Industrial and Digital Sovereignty, France

We need quick, concrete and ambitious EU responses to regain competitiveness

What is your view on the objectives and actions set out by the European Commission in its Competitiveness Compass? Are these the main priorities for enhancing the competitiveness of the European economy? What is the right way and method to achieve this?

Let me first commend the European Commission for this competitiveness Compass. The assessment of the situation is fair and I fully agree with the Commission's President: Europe has everything it needs to succeed in the race to the top. At the same time, we must fix our weaknesses to regain competitiveness. The Competitiveness Compass transforms the excellent recommendations of the Draghi report into a more concrete roadmap. It also echoes to the key conclusions of the Versailles (2022), Grenada (2023) and Budapest (2024) declarations.

The priorities are clear. We need quick, concrete and ambitious EU responses to regain competitiveness. It calls for more market integration, for investments in the technologies of the future, and for a European preference for strategic sectors.

More specifically, on industrial policy, the recently announced Clean Industrial Deal which underlines the need to integrate our industrial, trade and competition policies and the Savings and Investments Union strategy will help us moving forward, keeping in mind our objectives of competitiveness, simplification and the spirit of the European Green Deal.

On trade policy, the EU policy must strive a good balance between openness and assertiveness. The EU must be ready to amend its trade policies toolbox if needs be while making sure any trade agreement remains sustainable, balanced, ambitious and in the interest of the EU and European companies.

The recently proposed simplification package is the right way forward. The European Commission has proposed bold changes to foster a favorable business environment and ensure that companies, especially SMEs, can thrive. The European

Parliament and the Council must ensure that this first simplification package can be adopted and implemented as fast as possible. This is crucial to demonstrate that the EU is able to act when it is most needed.

How to foster more innovation in Europe? How can we retain the surplus European savings (around 300 billion euros leave Europe every year) in order to finance innovative projects and firms in Europe?

European innovation cannot be financed without better channeling European retail investors' abundant savings —€35 trillion— towards European companies. A significant share of European savings is ultimately placed in foreign assets, with a third going to non-EU assets. Besides, almost half (47%) of European financial savings are allocated to liquid and guaranteed products such as bank deposits and life insurance, which fails to provide the long-term financing our economy needs.

In this context, defining criteria for a European label for long-term saving accounts was a key proposal of the Noyer report. These criteria could include a long-term horizon, an absence of permanent capital guarantee, a nationally-defined favorable tax treatment and a minimum level of investment within the EU. Such a label could provide European investors with an attractive and trusted framework to engage in European capital markets. Applied on pre-existing national savings wrappers or newly created ones, the label would avoid the hurdles met by the Pan-european Pension Product (PEPP), while channeling inflows directly towards the equity funding needs of our companies, fostering innovation, competitiveness and growth in Europe.

As recommended by the Letta and Draghi reports, mobilizing savings to finance innovation is essential. Thus, it is crucial to create the conditions for increased investment by institutional investors, such as insurers and pension funds, in European innovation financing. Europe already has a strong initiative in

this area: the European Tech Champions Initiative (ETCI), which has already deployed 3.5 billion euros to support late-stage tech scale-ups. Its second phase, ETCI 2.0, will help mobilize private investors in European tech. We have proven models that work—now is the time to scale them up.

Likewise, there is now a growing concern of the need to strengthen our defence industry. Here too, we must explore new models that allow European savers to help finance our defense industry. Defence is a powerful driver of innovation, particularly through dual-use technologies, which benefit both civilian and military applications. Strengthening this link between innovation and strategic autonomy is essential for Europe's future.

Can the political momentum around the SIU and the current geopolitical context foster progress on securitization, supervision, and savings mobilization?

The various reports, and numerous discussions between EU leaders and finance ministers during the past year have placed the Capital Markets Union, now called Savings and Investments Union (SIU), at the top of the European agenda.

In addition, the outbreak of war on Europe's doorstep also requires substantial investment in the European Defense Industrial and Technological Base. EU defense spending increased only by 20 % between 1999 and 2021, compared with 66% for the United States. Those priorities, recently highlighted by the ReArm Europe plan, underline the urgent need to mobilize private investment to achieve common strategic goals and to complete a financial architecture which effectively support our ambition to foster growth and innovation in the EU.

While this high level of political commitment, and the large communication efforts regarding the Savings and Investments Union are encouraging, we are facing a major risk: that those ambitious declarations fail to translate into concrete results for businesses and citizens.

There is a strong consensus between recent high-level reports on the SIU that strengthening the central supervision would be a key element. There is also support on this issue from the European Parliament, the European Commission, the European Central Bank and increasingly, from some financial markets' participants. The current fragmented supervisory framework creates significant costs for market participants, in particular for the largest and most cross-border players. Better coordinating national-level supervisors is useful but is not enough. A single rule book is much less useful when markets participants potentially 27 different ways to apply it. To make swift progress, we should first focus on the largest players, such as market

infrastructure, and institutions that are not currently supervised at national level such as crypto-asset platforms.

Another necessary major step is the relaunch of the EU securitisation market with a legislative proposal expected by the end of this semester. This reform is long overdue: indeed, while this market has historically been safe, it has not recovered after the great financial crisis, with public securitisation issuances down by 80 % since 2007 contrarily to the US, the UK or other regions that continue to use securitisation effectively. This has created a twofold problem: on the one hand, Europe cannot fully leverage this important tool to finance its green and digital transitions; on the other hand, European banking institutions are less competitive on the global stage, making our continent dependent on third-country actors for its financing. Thus, we expect an ambitious legislative proposal from the Commission, including all potential ways to strengthen the market.

How can Europe reverse the decline in competitiveness of its pan-European banks?

As a general remark, I will note that it is not my role to comment on specific industry issues, such as banks' market shares or their strategic positioning.

This being said, I believe that European regulators should pay closer attention to not penalizing European players in comparison to their international counterparts. This means for instance that we should try to make our banking framework simpler and more stable, so as to minimize the administrative burden for the industry. But more importantly, this also means that European banking regulation should maintain a level playing field with other jurisdictions, especially regarding the implementation of Basel standards.

As of today, one important drag on competitiveness for European banks lies in the over fragmentation of our banking market. Banking fragmentation in Europe takes various forms, but one key aspect is how liquidity and capital rules are being enforced for paneuropean banking groups with essentially no recognition of our Banking union. This in turn prevents such groups from deploying their resources freely at the European level and benefit from true economies of scale.

I am sure some will point to other factors in order to explain the decline in some of European banks' market shares, such as the macroeconomic context or an underdeveloped securitization market. My last suggestion would therefore be to call for an in-depth review of the competitiveness of European banks, which would grant European regulators with a more accurate vision of what is at stakes and which policy actions can be considered to mitigate it.



Q&A

JURAND DROP

Undersecretary of State - Ministry
of Finance, Republic of Poland

Strong capital markets as a key to resilient economy

Strong capital markets as a key to resilient economy

Europe needs a well-functioning capital market even more than ever. The Union therefore has to quickly address problems on several levels – from the creation of attractive investment environment, through simplification of rules and clarification of existing regulatory ambiguities, to promotion of equity culture among Europeans. Relaunching the Capital Markets Union project under the label of Savings and Investments Union is definitely a good way forward.

Almost each day Europe receives a new impetus to quickly deal with all its long known structural challenges. Savings and Investments Union (SIU), the most recent strategy to foster citizens' wealth and economic competitiveness, is a good plan to increase the long-term growth of the EU economies. For the Union it is crucial to mobilise EU savings and encourage deeper integration of capital markets.

Achieving this goal requires the creation of a unified, strong capital market that would support the region's economic resilience, and generate enough capital for Europe to become competitive again and consolidate its economic influence around the world, regardless of geopolitical tensions. A deeper capital market would provide alternative sources of funding, reducing dependency on banks and enhancing preparedness for financial crises. It would also help channel funds into long-term projects such as energy transition, digitalization, and infrastructure, or the recently acknowledged defence needs.

A more pragmatic approach

Building on the achievements of the Capital Markets Union, the SIU is a significant initiative to strengthen EU competitiveness as outlined in the Competitiveness Compass. Compared to the top-down legislative-heavy CMU action plans, the new strategy adopts a more pragmatic and bottom-up approach. The SIU should provide guidance, incentives and opportunities to exchange best practices in order to encourage reform in Members States in areas like taxation of equity investment, insolvency law and pension

systems. Rather than relying solely on regulatory initiatives, the EU should coordinate and encourage bottom-up market development, including strengthening cooperation between market infrastructures, encouraging pan-European investment funds or developing financial education initiatives. A hybrid approach—balancing EU-wide policy frameworks with national-level flexibility—is crucial for unlocking the full potential of European capital markets.

Reducing market fragmentation

Harmonization of rules and practices in the EU capital markets, both legally and in terms of mindset, is a critical enabler of the new strategy. To achieve progress, the SIU strategy must promote an open and competitive market. This will strengthen capital flows, create a resilient single market and drive economic growth. Fragmentation limits economies of scale, making EU capital markets less competitive compared to the global ones. It discourages cross-border investment, reducing liquidity and deepening reliance on national financial systems. It also raises transaction costs and compliance burdens, making it harder for companies to raise capital outside of their home countries.

Eliminating barriers is not the only driver of progress and it should be complemented by other measures. Consolidation of market infrastructure does not make much of a difference from an investor's point of view – it doesn't really matter how many CCPs or CSDs there are in the EU. What we should focus on are measures increasing the retail investor participation – measures incentivising investors to move at least part of their savings to the capital market, but also measures to build trust in market institutions.

Recently, there are good examples of reducing market fragmentation, especially in terms of access to market data. The recent MiFID review introduced regulations on consolidated tape in the EU which should significantly ease the flow of information. We now need to implement the new legal framework, but once it is operational it has a potential of making a real difference for investors.

Learning from the past

Savings and Investments Union strategy is an attempt to fix past mistakes and to create better channels to jointly learn from each other, while not necessarily always applying one-size-fits-all solutions.

A good example is the focus on securitization, which is underdeveloped in the EU. It is thus limiting banks' ability to offload risk and recycle capital into new lending. The new strategy aims to simplify the rules of securitization in order to improve transparency and attractiveness, and encourage high-quality securitization markets for mortgages, SME loans, and infrastructure.

We should also learn from the failed attempts of recent years as was the case of the pan-European Personal Pension Product (PEPP), though in Europe we do have few great examples how it can successfully work. For example, in Poland the Employee Capital Plans (PPK) program has been operating since 2018. This program, using auto-enrolment and offered at the workplace, has been built after assessing the best practices and mechanisms from similar foreign programs and adapted to Polish realities.

Focus on Europe

Diversification beyond the EU is not necessarily essential for the long-term returns to increase. The EU itself presents significant opportunities for growth, particularly in sectors like technology, health, energy, defense, and infrastructure. By focusing on these areas, the EU can generate solid and stable returns while strengthening its economy. Furthermore, investing within the EU reduces political risks and aligns better with regional economic policies. Therefore, the EU's internal market has considerable potential to meet the dual objectives of boosting retirement returns and financing the EU economy without depending heavily on external diversification.

Mario Draghi pointed out in his report that EU capital markets are undersupplied with long-term capital relative to other major economies. In 2022, the level of pension

assets in the EU was only 32% of GDP, while total pension assets amounted to 142% of GDP in the US, and to 100% in the UK. The huge analytical work that has been done in the past months by Draghi, and the other two report by Letta and Noyer as well as the statements by the Eurogroup, the ECB and the European Council, has generated a rich set of proposals that should be taken into consideration while implementing the SIU.

Boosting long-term investments is one of the most important objectives of the SIU strategy. Long-term saving products offer a much-needed solution to address the growing pension gap in the EU's ageing society, but also channel households' savings to productive investments. EU's economy has huge potential to achieve that, but it cannot be accomplished without building consumer trust and efficient framework including tax incentives.



Q&A

MICHAEL WEST

President - Moody's Ratings

How will Europe manage risks amid tariffs and geopolitical turmoil?

Europe's structural challenges are well known. Pressures to increase defense spending look set to add further strain. What options do European sovereigns have?

It appears likely that many European governments will respond to new geopolitical realities by raising defense expenditure, towards and in some cases beyond 3% of GDP rather than 2%. In the short term, this will raise deficits and debt. In the medium term, fiscal sustainability will depend on the combination of growth, fiscal policy and financial market deepening.

For example, Germany recently proposed a massive defense and infrastructure package that will raise debt, but could also boost growth. Germany's fiscal growth tradeoff is made easier because at around 63% of GDP, its debt burden is much lower than those of some other large economies, such as France and the UK, which have public debt above 100% of GDP.

One way of mitigating the fiscal consequences of defense spending is to reduce costs of borrowing and buying through pooling of financing and joint procurement of defense needs, which will also help to reduce fragmentation in defense capabilities. This idea underpins the European Commission's proposal for EUR150 billion of loans, mainly repurposed from unused capacity under the Recovery and Resilience Facility. Additional joint borrowing through some inter-government special purpose vehicle may also be possible.

Moreover, if the pivot towards higher spending and debt is combined with measures that create attractive investment opportunities for Europe's vast pool of savings, it could deepen financial markets.

There are multiple possible scenarios, from pessimistic ones of fiscal deterioration and economic malaise to optimistic ones where defense spending revives economic and financial dynamism.

Alongside those mounting geopolitical risks, we have rising trade tensions globally, and US tariffs specifically. How do you see their impact on Europe?

It's important to focus on actual policies announced and not the headlines, which can vary from day to day. On that basis, we think potential US tariffs will cut Europe's annual GDP growth by about 0.2 percentage points, reflecting EU exports to the US amounting to 3% of its GDP. This may seem small, but tariffs will likely weaken business confidence and delay investment at least in the short-term.

The impact on sectors with significant exposure to the US will be more significant than at the country or EU level. We expect the auto and chemical sectors to be most affected, as their value-added exports to the US represent around 18% and 25% respectively, and their complex supply chains make companies vulnerable to potential tariffs imposed by the US on other countries, such as Canada and Mexico.

The EU's response – such as counter-tariffs or other measures – could have a material impact at both the macro and sector level, as well as in its overall relationship with the US. The greater the friction, the more damaging to the economy, not just through trade, but investment and financial markets as well.

Where does that leave some of Europe's historically leading industries, and what policies can Europe take to strengthen the competitiveness of its leading industries?

Let's take a couple of industries where Europe has a leading role: one established, one new.

First, the auto sector. European automakers have long been global leaders, and in 2024 still accounted for 40% of the industry's revenues, compared to around 25% for the Japanese manufacturers.

They are under pressure though, given some big structural challenges, including a declining market share in China, the difficult transition to electric vehicles and increasing geopolitical tensions.

Even so, European automakers have some key strengths. They have scale. And they have good balance sheets, with average debt-to-earnings of 1.5x and very strong cash reserves. So they should be able to capitalize on these strengths to help them through the transition.

Second, the wind turbine sector. European companies have established a leadership position in this much newer industry, providing around 75% of global wind installations outside China. Even so, the sector has experienced profitability challenges partly driven by inherent volatility in demand and supply chain constraints.

In terms of policy, we see the European Commission's recent proposal to relax emission reduction targets as providing greater flexibility to automakers. Even so, the revised targets are still relatively onerous at a time when the demand for electric vehicles in Europe has been slowing, partly driven by the suspension of subsidies in some countries. But public investment like Germany's big fiscal package could help strengthen manufacturing in innovative technologies and defense.

The European Commission's recently proposed Clean Industrial Deal and Omnibus package also try to tackle that by following many recommendations to strengthen EU competitiveness and create a more business friendly environment. However, the lack of clear, new and easily accessible funding sources will hamper private investment for new clean technologies. For example, the US Inflation Reduction Act under the Biden Presidency, although of a comparable size to the EU green transition funding package, provided five to ten times more financing to manufacturing in the US compared with what is proposed in the EU.

Talking of a more business friendly environment, how can Europe close the innovation gap with the US and retain scale-ups?

There are three areas we would highlight.

First, we just touched upon the European Commission's initiative to create a more business-friendly environment by cutting red tape and streamlining reporting requirements and regulations. For instance, the EU's risk-based AI Act focuses on transparency

and accountability, but also imposes significant compliance requirements. In contrast, the US and UK favour flexible, innovation-friendly frameworks to foster competitiveness. Policymakers need to consider the balance between safety and transparency versus innovation and growth.

Second, we think that public-private partnerships will be beneficial, especially for innovative projects or 'public goods'. However, most of the public funding will likely come from member states with strong fiscal metrics, given the opposition to additional joint EU borrowing.

And third, we would welcome progress on the Savings and Investments Union to retain domestic savings and unlock the required private funding. Europe's savings rate at 15% in 2024 was almost three times higher than in the US, but about 20% of euro-area savings are invested in debt securities in international markets in search of higher returns.

And harnessing that capital is all the more necessary if Europe is to become more independent in artificial intelligence, for example. Global investment in new data centre capacity alone will exceed \$2 trillion over the next five years. That will in turn require deeper capital markets, enabling developers and sponsors to finance their data centre projects via the corporate credit, leveraged loan, bank, CMBS, ABS, private credit and now project finance markets.

Indeed data centres are one of the initial components of Europe's AI independence, but they use a lot of energy. Can Europe compete despite having higher energy prices than other countries? What can policymakers do?

Strengthening Europe's position in AI will indeed require data centres, which consume significant amounts of energy. Accelerating Europe's green transition by building out renewables and nuclear over the next decade could reduce energy prices in the long term. But the EU has no quick fixes in the short term given Europe's lack of natural gas resources and power price parity with the US may be decades away.

The strengthening of Europe's position in AI and digital technologies also requires deep high-quality fibre and mobile networks. Fibre-to-the-premises networks only reach 56% of households in Europe and 5G population coverage stands at 81%, which is behind other advanced economies. Among the European Commission proposals under consideration to support high-quality network deployment are more relaxed merger controls that could trigger market consolidation and facilitate the creation of larger telecom companies better able to make the investments required to build these high-quality networks.



Q&A

JÉRÔME GRIVET

Deputy Chief Executive Officer –
Crédit Agricole S.A.

A strong euro depends on the solvency of the States and a complete EMU

What are consequences for the functioning of the monetary union of the growing economic and fiscal divergences between EU countries? Is it reasonable to envisage a review of the SGP criteria for increasing defense spending?

While Eurozone countries were generally presenting deficits below 3% (0.5% on average) and primary surpluses (except France and Spain) in 2019, the Covid crisis rapidly deteriorated fiscal metrics leading to a rapid increase in the debt-to-GDP ratio from 83.6% in 2019 to 96.5% in 2020.

With strong GDP recovery and low interest rates allowing for rapid improvement in fiscal metrics, the debt-to-GDP ratio began to decline uninterruptedly until 2023. The pace of improvement in fiscal positions has varied: very rapid in Portugal and Spain, slower in Italy and Germany, and much slower in France. Among major Member States, the primary surplus in 2024 is expected to be positive or close to balanced everywhere except France, Germany, and Belgium.

Fiscal trajectories have converged since the exit of the Covid crisis, but the slowdown in GDP growth and inflation reduces the potential for a rapid fall in debt ratios. Even if the average interest rate on debt remains low at 2% in 2024, the negative gap between interest rates and GDP growth is reducing, limiting the automatic reduction in the debt ratio. This places more burden on improving the primary surplus.

The recent reform of the Stability and Growth Pact (SGP) has provided a framework that supports sustainability, capping expenditure growth and designing personalized adjustment paths based on structural macro-fundamentals, favoring better political appropriation.

With an extended range of potential events triggering the escape clause, the current framework does not require further reform. However, in a context of more frequent and adverse shocks due

to the new geopolitical cycle, the risk of triggering the escape clause has increased. Even with structural balances in equilibrium and allowing automatic stabilizers to work, strong adverse shocks will deteriorate fiscal metrics beyond SGP margins. Resorting to the escape clause is not a viable solution as weakened budget positions require subsequent severe adjustments. While the SGP is useful for piloting fiscal policy around a regular cycle with a sustainability anchor, additional instruments should exist to handle severe shocks with a common fiscal backstop to avoid drifts in debt trajectories and maintain fiscal space for investment needs. A countercyclical common fiscal capacity activated in case of major adverse events would prevent such drifts and reduce the burden on monetary policy.

The recent decision of the European Commission (EC) to activate the General Escape Clause of the SGP to provide fiscal space for defense spending, intending to generate EUR 650 billion in four years, with average public spending in defense at 1.5% of GDP, i.e., 0.4% per year. From an economic efficiency standpoint, this may not be the optimal instrument. Utilizing this fiscal space depends on the initial fiscal position, with highly indebted countries having less leverage and greater market stigma as defense expenditures increase the debt ratio. The EC proposal for a new EU instrument to provide Member States with loans backed by the EU budget of up to EUR 150 billion is better suited, considering European defense is a communal European good best funded by an ad-hoc fund guaranteed by EU budget own resources (NGEU-like common borrowing). While such loans also increase the debt burden, they carry lower interest payments than national debt for high-debt countries due to the EU's high-quality rating.

Does this divergence hinder the integration of the EU financial system and the deepening of the single market, and if so for what reasons?

The Great Financial Crisis and subsequent sovereign crises have shown that divergences in fiscal trajectories and market appreciation of sovereign risk drive rapid withdrawal of

cross-border financial flows, undoing a decade of financial integration that has not yet been reversed.

These divergences materialize in fragmented financial conditions for the private sector, hindering the transmission of unique monetary policy. They increase the concentration of domestic sovereigns in bank holdings, reinforcing the sovereign-bank nexus. Thus, they are a major obstacle to achieving the Banking Union, providing arguments for ring-fencing practices by national authorities.

What is the risk that the high level of debts in certain countries and the uncontrolled drift of French public finances could lead to a sovereign debt crisis? What adjustments are urgently needed to prevent such a crisis?

While some countries still present high debt-to-GDP ratios, many have already brought fiscal deficits to safe positions, with primary surpluses or very low primary deficits.

French public finances still pose challenges in managing deficit flows with a poor historical record in primary surpluses and a weak majority unable to enact major reforms and spending cuts. Although markets have shown complacency with both French and Italian sovereigns, sudden reappraisal of geopolitical risks could occur in a non-linear way, requiring fiscal and monetary authorities to act.

As long as macroeconomic conditions affecting debt sustainability remain aligned, there is no immediate risk for sustainability other than a risk of abandoning the fiscal adjustment trajectory negotiated with the EC. With slower GDP growth, stronger fiscal adjustment may be required limiting fiscal space for long-term investment needs.

The EC's decision to activate the SGP escape clause to fund defense spending could provide a positive fiscal impulse and support GDP growth. However, debt sustainability analysis by the EC suggests even a limited slowdown in GDP growth with slightly higher rates can rapidly deviate fiscal trajectories, hindering the projected fall in the debt ratio. Focusing on growth and providing a stable rate environment is paramount to sustainability, with governments expected to make efforts in deficit reduction.

The Eurozone is equipped to face a sovereign liquidity crisis, with the ESM providing a fiscal backstop and the ECB providing a monetary backstop with the Transmission Protection Instrument (TPI), though monetary policy should not be

burdened with fiscal sustainability goals to avoid unintended consequences. The Eurozone needs a fiscal backstop in the form of countercyclical instruments in case of common shocks to growth to avoid significant deviations in debt trajectories.

How could banks, companies, and EU economies be affected by rising sovereign risks and a weakening euro?

Since the European sovereign debt crisis, the link between sovereign risk and banking risk has often been central to political and economic debates. With sovereign risk recently increasing in many countries, particularly in France, there are growing concerns for the banking sector. European banks hold a significant share of sovereign debt: around 3% of total assets in France and Germany, but over 10% in Italy and Spain. Therefore, an increase in sovereign risk will directly impact banks.

The consequences for banks of heightened sovereign risk are manifold. First, an increase in sovereign risk leads to higher government financing costs, which may also raise banks' financing costs. Recently, although the 10-year OAT has risen sharply due to political uncertainty in France, the market financing costs for French banks have remained stable. This stability reflects the resilience of French banks (and the broader European banking sector) to sovereign risks and continued investor confidence in banking institutions. Additionally, limited exposure to sovereign bonds in some countries helps mitigate risks to banks' balance sheets. Another impact on banks is their credit rating: rating agencies may downgrade their ratings. Moody's recently downgraded several French banks' credit ratings following a downgrade of France's sovereign rating. However, this downgrading has been moderate and has not significantly affected perceptions of banking risk. Furthermore, banks' lending activities could be affected. If banks' refinancing costs rise significantly, they may pass these costs onto customers, leading to increased financing costs for non-financial agents and a slowdown in loan demand.

While rising sovereign risk has caused some concern, current data do not indicate significant tensions in banks' financing conditions or an immediate threat to their stability. The banking sector remains solid, supported by diversified financing structures and a robust regulatory framework.



Q&A

JACQUES DE LAROSIÈRE

Honorary President - EUROFI

Internal consolidation is a prerequisite for European integration

We need to be very careful about our economic choices in the circumstances that Europe is going through today: French budgetary and political crisis, Germany's economic weakening, demographic decline, growing inequalities, increasing nationalism, weakening democracies, disrupted transatlantic relations, etc. The economic performance of the various countries is very heterogeneous, the strength of the states is very uneven and there is little cooperation.

One temptation to solve the economic problems of the EU countries is to complete Europe by giving it the power of a state. According to this line of thinking, a fundamental change would have to be made: the transition to a single state in all matters of economic, financial and even military sovereignty.

It's an old tendency to take refuge in this doctrine of European unification! Ah, if there were only one state, only one financial system, only one market, only one army, how much happier we would be!

But this idea of turning the Union into a state has never been realised. Why not?

Because the states (and their citizens) do not want it. At their request, Europe was not built on the federal principle after the Second World War. The construction of Europe was based on the sovereignty of the nation states, and the progress made in Europe, even if it had a federal dimension and logic, was based on compromises between the divergent interests of the member states.

As P. Herzog points out¹: "Today our nations want a Union that protects them, but very few support the idea of a political community... The European Union has been a great political innovation in creating understanding between states, but it has done so without sharing sovereignty and by making competition a veritable sacrament to the detriment of public goods, for which responsibility is being returned to the nation states..."

Promoting a single European state means forgetting that we now have two economic and financial Europes:

On the one hand, there is the relative equilibrium of the northern states, which respect the minimum discipline required by a monetary union. On the other hand, there is the massive imbalance of a number of over-indebted states, whose budgets have no room for manoeuvre and which are contributing to the weakening of Europe.

It's like water and oil: they don't mix.

The debt-ridden countries of the South may be tempted to take refuge in the illusion that Europe will take care of everything. But realism does not favour such a solution. We must be aware that a number of European countries have now overstepped all the boundaries and yellow lines of the economic discipline they have chosen and ratified.

Those who advocate taking refuge in a rescuing European state do not take into account the need for the over-indebted states to return to the normal level that has been jointly decided. This blindness does not bode well. The failure to highlight the importance of the problem of the massive heterogeneity of fiscal situations is worrying. This blindness deprives the idea of a unified budget, which by some miracle would have eradicated untenable and unsustainable national situations, of a great deal of credibility.

It is time to correct this error and look at things as they are: what is sustainable is sustainable; what is unsustainable is unsustainable. To this end, the European Commission should encourage over-indebted countries to put their public finances in order. Unfortunately, the particular interests of individual states prevail.

We will never eliminate the excesses of debt by calling for fiscal and financial unity. The only way to move towards financial union is to repair what is unsustainable, because, as they said in the 18th century, "you should never put money into a bad fund".

The weakness of the argument criticised above is that no one asks the central question: who will pay? The huge European loans envisaged by the proponents of the single finance thesis

require a guarantee. The market will ask what procedures will reassure lenders. What will happen if certain states are unable to contribute to the repayment of a common debt? Will their obligations be shifted onto the stronger shoulders of states that have performed better from a budgetary point of view?

The problem of the guarantee is never mentioned in the reports calling for fiscal union, which is quite inconceivable.

Moreover, the claim that the fiscal rules have become “obsolete” and that breaking or changing the thermometer (to the extent that military expenditure would be excluded from the calculation of the public deficit in relation to GDP) would solve the problems would only aggravate the situation of the public finances of the most indebted countries and weaken the euro.

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One of the clearest thinkers of our time, Raymond Aron, has shown us the way: “Internal consolidation is a prerequisite for international integration”¹.

Consequently, all the Member States must work together to improve the economic level of Europe as a whole, in other words, they must start by respecting the budgetary and economic commitments they have made in a spirit of solidarity.

Can we indefinitely consider as acceptable and credible a whole whose founding rule (a minimum of budgetary discipline must be respected) is violated by a number of Member States? We must stop believing that the permanent violation of budgetary commitments ratified by national parliaments is a solution. The law prosecutes individuals who break the law, but when it comes to the state, the same principles should apply.

The truth is simple. If we want to revive the European economy, there are not several methods, but only one: work more and invest more. It is these two weaknesses that explain Europe’s economic decline.

Instead of calling for illusory European funding and continuing with easy monetary and budgetary policies, we need to start rolling up our sleeves: get our public finances in order and get back on the road to economic convergence in Europe. And move from an economy based on the permanent stimulation of domestic demand to one in which productive investment stimulates supply.

What is certain is that we must ensure that the return on savings in the euro area is at least equal to that in the United States and that a climate of confidence is created to encourage individual initiative. In this respect, the current interest rate differential between Europe and the United States is glaring and needs to be corrected.

The problem is not playing with numbers. It’s about tackling the underlying problem. It’s not easy money that will solve everything, but productive investment, which is the basis of future growth. That’s what we need to encourage... And not discourage by the burden of taxation (due to accumulated budget deficits and public debt) and abusive regulation.

Advocates of easy European money admit that “Europeans are poorer than Americans but save twice as much”. But we need to draw the right conclusion from this observation: keeping interest rates in the eurozone much lower than in the United States will certainly not encourage long-term saving in Europe. On the contrary. Experience shows that artificially and permanently low interest rates discourage productive investment and prevent governments from undertaking structural reforms.

Every effort must therefore be made to improve the profitability of companies and their equity financing so that the return on capital in our continent is at least equal to that in the United States.

1. P. Herzog, « Un nouveau récit pour l’Europe » *Les Entretiens européens*, 2024.
2. R. Aron, « L’Unité économique de l’Europe », *La Revue libre*, n°2, October 1952.

GROWTH AND COMPETITIVENESS CHALLENGES AND PRIORITIES IN THE EU



MARIO NAVA

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Union of Skills for a competitive Europe

Skills have become a buzzword at European level, and for good reasons. The word 'skills' is part of the portfolio of the Commission's Executive Vice-President for 'Social Rights and Skills, Quality Jobs and Preparedness', Roxana Minzatu. This is not surprising. On the one hand, the skills of the workforce have been a major concern for the European Union since its very beginning. The 1957 Treaty called for a common vocational training policy and established the European Social Fund to support Member States in their efforts to ensure their workforce had skills adapted to technological progress.

On the other hand, many things have changed since then, and technology most of all. The year before, in 1956, a handful of researchers joined the Dartmouth workshop, often cited as the foundation of artificial intelligence (AI). Today, AI is part of our daily work and life – and we are not sufficiently prepared. This is also one reason why the word 'preparedness' is included in the portfolio of Executive Vice-President Minzatu, along with skills: preparedness is a condition that we need, and more specifically in relation to skills. Skills shortages and gaps, insufficient transformation speed, and fragmented and inefficient governance are hampering the EU's competitiveness, as underlined by the Draghi, Letta and Niinistö reports.

The Draghi report is very clear: to achieve competitiveness, we need to close the innovation gap, which requires closing the skills gaps. This is why the Commission launched the Union of Skills on 5 March 2025. It responds to the challenge with a step change in skills policy. Together with its Communication on the Union of Skills, the Commission also adopted its first deliverables – an Action Plan on basic skills, which are deteriorating for both pupils and adults according to latest PISA and PIAAC results, and a Strategic Education Plan focusing on science, technology, engineering and mathematics (STEM) skills, which are crucial for a competitive economy in the age of AI and climate change.

The Union of Skills does not start from scratch; it builds upon the European Skills Agenda, which already in 2020 had called for a skills revolution, and the European Year of Skills with its 2100 events organized throughout Europe. The Union of Skills includes new actions, like the two plans mentioned above, which bring forward and reinforce successful initiatives already ongoing.

One such example is the Pact for Skills, which mobilises public and private cooperation, bringing together in its 20 large-scale

partnerships companies, unions, authorities and education and training providers, and more. Until the end of 2023, Pact members had upskilled more than 3.5 million workers, with a private investment of €310 million. This is the necessary level of investment, and this kind of partnership is the right approach.

Europe also heavily invests in education and skills: between 2021 and 2027, it spends over €150 billion – through the European Social Fund Plus, the Recovery and Resilience Facility, Erasmus+ and more – to support people, businesses, education institutions and others to develop the education and skills needed for a thriving, competitive European economy. But the EU budget is only one part of the picture. Given the scale of the challenge – and the reward in terms of competitiveness, prosperity and resilience – it is crucial to leverage financing and initiatives beyond EU funds in both the public and private sector. In 2022, general government expenditure on all levels of education was 4.7% of GDP (EU average) with 0.1 spent on adult learning.

**Europe needs a skills revolution
to be competitive and fair in the
age of AI and climate change.**

Education and training, both initial and continuing, are an investment – not a cost – which yields returns many times over. First, investing in a workforce with the right skills enables people to obtain and retain quality jobs. Second, this means investing in the EU's competitiveness, preparedness and resilience, in its economic growth, which are necessary to safeguard the European social model, European values and democracy. This is the aim of the Union of Skills – empowering people, companies and ultimately contributing to a competitive, fair and democratic European Union.



ALFRED KAMMER

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Protecting Europe's prosperity

Domestic and global forces are putting Europe's prosperity in peril. While the recovery continues, medium-term growth remains weak. Even more concerning, new shockwaves from volatile trade policies and geopolitical upheavals threaten a deeper slowdown. Left unaddressed, these risks could weaken labor markets, further drag down already sluggish productivity growth, and threaten the sustainability of Europe's health, pension, and welfare systems. As defense and other expenditure pressures rise, maintaining debt sustainability will become critical¹.

The good news: Europe has what it takes to tackle these challenges. Over 30 years ago, the launch of the Single Market revitalized Europe's sclerotic growth, delivering impressive early results. Two decades later, Europe came together to confront the euro-area crisis. And more recently, Europe's policymakers navigated inflation pressures in the wake of Russia's invasion of Ukraine just as they had managed the pandemic. Much has gone right. Price stability has largely been restored, and labor markets have remained resilient despite shocks to supply chains and input prices. But one challenge remains unsolved: reversing Europe's decline in potential growth.

Unlocking higher growth will come from adding scale in the Single Market, and bold national reforms. History offers a roadmap: through a combination of expanding the Single Market and national reforms, the EU's last expansion wave boosted GDP by 30 percentage points over 15 years in accession countries versus peers and by 10 percentage points in old EU members².

A deeper Single Market would also make Europe more resilient. Completing the Capital Markets and Banking Unions would spur innovation by unlocking risk capital for start-ups and upscaling. Strengthening cross-border financial integration would allow markets to absorb about 60 percent of national economic shocks, twice the current level.

Energy is another sector where deeper integration is essential. Wholesale prices for electricity doubled from pre-pandemic levels, imposing a lasting economic toll. IMF simulations suggest that energy price shocks since 2021 could shave off around one percentage point of euro area potential output by 2027, equating to a nearly 200 billion euros loss annually³. Reform priorities include accelerated renewables adoption and other low-carbon technologies to cut costs and reduce external dependency, alongside building a more integrated electricity system to balance supply and demand across countries and reduce 'level playing field for businesses and remove a major barrier to scaling up.

Lowering internal trade barriers, especially in services, is another priority. IMF estimates⁴ suggest that different national regulations segment markets and act as a 110 percent

tariff—stifling innovation. Lowering intra-EU trade barriers for goods and services to US levels could boost productivity by nearly 7 percentage points, reducing one-third of the current gap to the US.

However, EU level reforms alone will not be enough—national reforms must match regional ambitions. A forthcoming IMF study finds that domestic structural policy gaps in labor markets and human capital, business regulation, innovation, and capital markets weigh heavily on growth. Labor market reform is the most pressing reform priority: a better trained workforce and more market flexibility are key to lifting productivity and seizing new technological opportunities. Most advanced European economies would also benefit from simplifying or harmonizing product market regulations, deepening capital markets that improve access for startups or small firms and implementing innovation and digitalization policies. And better governance—from strengthening the rule of law to reducing corruption—would amplify the impact of reforms, particularly in CESEE countries.

Europe's prosperity is under threat, but history shows Europe's ability to overcome challenges. A stronger Single Market, reinforced by decisive national reforms, offers not just higher growth, but also greater resilience and stability—a necessity in an era of high uncertainty.

This article was co-authored by Burcu Hacibedel (IMF).

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AXEL A. WEBER

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Boosting productive investment in the EU: Policy priorities & structural reforms

The European Union (EU) faces significant challenges in fostering productive investment amidst the backdrop of high budget deficits and debt. While the economic response to the pandemic crisis focussed on ultra easy fiscal and monetary policy to stimulate demand and support the economic recovery, the long-term efficacy of such policies in driving sustainable growth and innovation must be questioned. What is needed now is re-focussing on structural reforms, boosting productivity and regaining competitiveness to secure long-term growth by targeted private and public investment strategies. This requires deeper and broader EU financial markets to facilitate better access to growth capital. To enhance private investment, Europe needs to channel EU savings into the most productive EU sectors/firms.

The key to increasing private investment in Europe is to improve the regulatory framework. A more business-friendly regulatory environment is essential to encourage private investment. The EU should focus on reducing bureaucratic barriers, streamlining regulatory requirements, and ensuring legal certainty for investors. Key measures include simplifying administrative procedures for starting and running businesses, particularly for SMEs. In addition, reducing regulatory fragmentation by harmonizing rules across Member States, which would facilitate more cross-border investments.

The EU also needs to strengthen its capital markets and broaden the range of investment instruments. Efficient financial markets play a crucial role in channelling savings into productive investment. The EU should therefore accelerate the Capital Markets Union (CMU) to improve access to finance for businesses and startups. It must encourage venture capital and private equity investment in the most innovative sectors and develop green and digital finance instruments to support sustainable and technology-driven growth.

Enhancing infrastructure investment will help boost economic competitiveness and attract private capital. The EU and Member States should increase public-private partnerships (PPPs) to leverage private sector expertise and funding. The focus should be on digital and energy infrastructure, including 5G networks, smart grids, and renewable energy projects. Ensuring that public funds are allocated effectively can maximize their impact on economic growth. This requires shifting expenditures towards productive investment, such as education, infrastructure, and technology.

Innovation is a key driver of long-term growth and competitiveness. The EU should increase investment in Horizon Europe, the EU's flagship R&D program. Fostering the collaboration between universities, research institutions, and businesses helps accelerate commercialization of new technologies. Providing tax incentives and grants for R&D-

intensive industries would help to attract investment in high-tech sectors. A skilled workforce is also critical for innovation. The EU must strengthen visa and immigration policies to attract top global talent. The focus must be on fostering a more talent-friendly environment.

To better mobilize European savings, policymakers should provide incentives to expand pension fund participation in infrastructure and green projects. This needs to be supported by creating investment-friendly tax policies to incentivize household to invest their savings into productive assets. Increasing access to growth capital should be another priority. The EU should equally promote traditional and innovative finance such as venture capital, private equity/debt/credit markets and scale-up financing mechanisms to address funding gaps in later-stage investment rounds. Attracting institutional investors by reducing regulatory barriers to private equity and venture capital is key to the success of such initiatives.

**The EU needs structural reforms,
boosting productivity and
regaining competitiveness.**

The European Investment Bank (EIB) should act as a catalyst for private investment by expanding its risk-sharing instruments to reduce investment uncertainties. It could also scale up its guarantees for high-risk, high-potential projects in emerging industries. To attract high-growth scale-ups, the EU should develop European tech hubs modelled after Silicon Valley, where startups can access funding, expertise, and networking opportunities. Encouraging more public-private collaboration could create sector-specific centres of excellence in AI, biotechnology, and clean energy.



JOSÉ ANTONIO ÁLVAREZ

Vice Chair – Santander

Try, and do something

At a time when different jurisdictions are rapidly advancing, Europe cannot afford to remain on the sidelines. Europe's savings and capital should be working to fuel European innovation, scale up companies, and finance critical infrastructure. I'm glad to see the EU's recent reactions, but let's not forget the Draghi report estimates Europe needs an additional €800 billion in annual investment to regain economic strength.

Capital markets in Europe remain deeply fragmented. This fragmentation is limiting Europe's ability to scale up innovation and compete globally. Within over 500 venues, the market capitalization of listed companies in Europe is only around 50% of GDP, compared to about 170% in the US. The EU is home to just 10% of global IPOs. The fundamental issue remains: Europe lacks an integrated, competitive capital market.

A major opportunity lies in mobilizing private capital. However, instead of investing in European opportunities, around €300 billion of European savings flows into US markets each year.

Furthermore, we need to strengthen long-term investments, mainly equity. On the one hand, there is an urgent need to create incentives that encourage retail participation in European capital markets. We need tax incentives related to capital gains and dividends. On the other hand, we need to review the regulatory framework for insurers, pension funds and banks to foster such long-term investments.

For Europe to compete, the CMU must evolve into a true Savings and Investments Union (SIU). A key issue is the lack of regulatory harmonization across the EU. Post-crisis reforms made the banking sector more resilient, but in doing so, they created a system that is overly complex and excessively risk averse.

This is why the EU should focus on the following issues:

First, EU regulation and supervision being a barrier. To fully harness banks' potential, it is time for targeted and tailored refinement of the regulatory and supervisory approaches, that should focus on the sector's ability to finance growth, in parallel with continuing to deliver on financial stability. A good example is securitization, which will be reviewed by the European Commission. Reducing capital and liquidity requirements for banks, and for insurers as investors, along with simplifying transparency and due diligence requirements, would help revitalize this critical funding channel.

Second, financial stability remains a core pillar of any investment strategy, and this is where Europe's Banking Union must be strengthened. The lack of a European Deposit

Insurance Scheme (EDIS) remains one of the most significant sources of fragmentation in the financial system. Without a mutualized safety net, depositors and investors perceive risks differently across Member States, leading to inefficiencies in capital allocation. Completing the Banking Union with a robust EDIS and a liquidity-in-resolution framework would reinforce financial stability and enhance market confidence. It is positive that it will be included under the SIU.

Finally, Europe must also recognize many European banks, and companies, operate in third countries with distinct economic and regulatory environments. But European regulations often fail to account for these differences, imposing unnecessary constraints on banks operating abroad. Local regulations that align with Basel standards should be respected, ensuring that European banks remain competitive in global markets.

Europe must cut red tape, unify markets, and unlock capital to drive growth.

I remain optimistic and hopeful, but Europe needs a bold, comprehensive strategy to strengthen its financial markets, mobilize private capital, and create a more dynamic investment ecosystem. This means reducing regulatory fragmentation, easing market access, and fostering an environment where innovation and investment can thrive. A well-functioning SIU, supported by a competitive Banking Union and a revitalized securitization market, would provide the foundation for long-term growth.

If Europe wants to remain a place where companies can scale, where savers see real opportunities, and where financial markets support economic dynamism, policymakers must act decisively. The EU has the capital, the talent, and the potential to compete on the global stage. What it needs now is the political will to remove barriers and build a financial system that truly works for growth.



ALFRED KAMMER

Director, European Department –
International Monetary Fund (IMF)

Navigating Europe's growth challenge: The role of a Savings and Investments Union

The global economic landscape is shifting rapidly—driven in part by rising geopolitical and geoeconomic tensions—posing critical challenges for Europe. Trade and capital flows are being reshaped by trade restrictions and industrial policies, while uncertainty over economic direction weighs heavily on business sentiment and consumer confidence. These pressures exacerbate Europe's fragile cyclical position. Coupled with weak productivity growth and demographic shifts, these forces threaten to further erode Europe's medium-term economic prospects.

Europe has overcome profound challenges before. With the right mix of macroeconomic policies and structural reforms, it can do so again, unlocking productivity and reigniting growth. Expanding the current network of free trade agreements with broad geographical coverage would enhance supply chain stability and diversification. Internally, a deeper and more robust single market—with a streamlined regulatory environment, greater labor mobility, and an integrated energy market—would help eliminate “real barriers.” These measures would increase private sector demand for risk capital, fueling innovation and upscaling.

Eliminating “finance-related” barriers to upscaling through a well-functioning Savings and Investments Union (SIU) would be indispensable for boosting productivity. Capital markets in the EU remain highly fragmented, and, as a result, shallow. Moreover, private pension funds and insurance companies in the EU manage only around \$11.9 trillion in assets—just a fraction of the \$42.5 trillion held in the US (Arnold et al. 2024). The lack of long-term capital hurts EU scale-ups. Despite Europe's vast savings and financial integration in global markets, investment levels remain insufficient, and capital allocation remains inefficient—constrained by national silos. This fragmentation further limits private cross-border risk sharing and compounds the problem: capital markets in the US smooth consumption across states at four times the rate seen in the EU (Bhatia et al. 2019). A more integrated SIU—creating deeper and larger capital markets—would address these inefficiencies. Channeling savings into risk capital would help start-ups and upscaling of larger firms, while ensuring financial futures for households. Furthermore, it would strengthen the financial ecosystem, making it more resilient to economic shocks.

A SIU delivers broad-based benefits

For start-ups, especially those with hard-to-collateralize intangible assets—the SIU would broaden access to financing and improve exit strategies via public equity markets. Between 2013-23, annual venture capital financing in the EU averaged only 0.2 percent of GDP, far below the US average of 0.7 percent of GDP (Arnold et al. 2024). Better access to finance

and lower capital costs would enable start-ups to invest, scale up, and push the technological frontier.

For EU households, the SIU would create new investment opportunities. Currently, one-third of household financial assets are held in cash and deposits, limiting the long-term capital for scaling up businesses. Meanwhile, EU retail investors pay 60 percent higher fees when investing in mutual funds than their US counterparts (ESMA 2023). Reducing transaction costs and incentivizing households to shift assets from deposits to capital markets would fuel innovative scale-ups, while improving household returns, thereby delivering more secure future finances.

For individual economies in the EU, stronger risk sharing and a larger capital pool would foster innovation and technology diffusion. With more diversified EU-wide equity portfolios, households could smooth consumption through the business cycle. As different investments perform differently across regions and sectors, portfolio diversification by stabilizing returns and thus helping maintain consumption would absorb localized downturns and reinforce the economic resilience of the EU economy.

**Eliminating “finance-related” barriers
to upscaling would be indispensable
for boosting productivity.**

Unlocking the SIU's full potential

To maximize the SIU's impact, targeted policy action is needed. First, cross-border capital allocation must become more efficient through deeper financial integration. Second, more funding needs to be enabled for early-stage, risky projects. Third, Europe must expand its pool of long-term capital and increase retail investment.

Navigating today's economic and geopolitical challenges demands a strategic response. By strengthening trade agreements, diversifying supply chains, deepening the single market and driving innovation, Europe can counteract mounting external pressures. At the same time, an integrated and larger capital market that supplies risk capital—anchored by the SIU—offers a vital pathway to higher productivity, resilient financial markets, and sustained long-term economic growth.

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



STÉPHANE BOUJNAH

Chief Executive Officer and Chairman of
the Managing Board – Euronext

Europe: The time to act is now

Europe is facing unprecedented geopolitical challenges. The competitiveness gap between Europe and the US is widening. The US benefits from higher liquidity, fewer regulatory constraints and better-integrated financial markets, while Europe struggles with fragmentation and sluggish rulemaking. If Europe is to secure its economic future and maintain prosperity, a fundamental reboot is needed.

First, Europe must speed up decision-making. The slow pace of its legislative and decision-making processes is a critical challenge. The Draghi report points out that it takes 19 months on average in the EU to pass a new law – a worryingly lengthy timeframe that, in practice, can be even longer. This sluggishness hampers Europe's ability to respond effectively to economic and financial developments. The urgency and radical nature of current challenges demand a profound acceleration of decision making.

Second, size does matter. Since the great financial crisis of 2007-2012, US financial institutions have expanded their presence and investments in the EU, while European counterparts lag due to uneven regulatory conditions. Europe's financial institutions, particularly market infrastructures, must grow and support the real economy. The EU regulatory framework must facilitate growth and financing of European projects rather than stifle it.

Third, barriers to equity investment in Europe must be removed to ensure that European companies can access European capital and provide European investors with attractive returns. Retail participation in equity markets in the EU is too low despite high savings rates. Unlike in the US, where proactive equity investment is needed to ensure longer-term financial security, many European still rely heavily on state-backed pensions and sovereign bonds, often with tax incentives. Governments must rethink how European savings are transformed into investment. Pension tax incentives and more accessible investment accounts will be a game-changer.

The compliance burden and excessive risk aversion deter retail investors. Stronger incentives are needed. Conversations over dinner should shift from comparing the interest rates of savings accounts to managing equity portfolios. We need to reset the balance and give accountability for their financial future back to our citizens.

Fourth, we must not be held back by obsolete prudential ratios. Once relevant to address the great financial crisis between 2007 and 2012, prudential ratios are now only self-inflicted wounds undermining the level of risk in portfolios. Revisiting these constraints, especially at a time when the US is walking away from them, will allow us to build large

investment and asset management players and to enlarge the size, liquidity and strength of European capital markets.

Fifth, we must accelerate unification of the European regulatory framework. Europe's financial markets suffer from excessive fragmentation, making cross-border investments and liquidity management unnecessarily complex. Despite progress made towards a more unified regulatory approach, the current European rulebook still falls short in addressing these challenges. The divergent national implementations of EU directives create multiple interpretations across the EU and inefficient gold plating. We must have the same rules and a single way of applying them across Europe.

This is why a true level playing field requires the establishment of ESMA as the single supervisor for market infrastructures and asset managers that have cross-border operations. Cross-border financial market infrastructures cannot function effectively under the oversight of multiple supervisors. A reformed ESMA can take on the role of ensuring consistent and scalable pan-European supervision and fostering a genuinely deep liquidity pool and integrated European market players.

If Europe is to secure its economic future and maintain prosperity, a fundamental reboot is needed.

For the Savings and Investments Union to succeed, Europe must embrace three essential principles: simplification, speed, and bottom-up initiatives from willing partners. Applying these principles will reduce bureaucratic and reporting inefficiencies, enable swift responses to economic and geopolitical challenges, and drive shortcuts to help deliver real change.

This is why Euronext has launched a single European Equity listing prospectus, to go live in the second quarter of 2025. This European S1 will contribute to the necessary integration of European listing markets.

If Europe fails to act decisively in the months to come, the future of its economy and its collective prosperity will increasingly be dictated by others. The time for hesitation, resignation and the replication of obsolete processes has passed. The time to act is now.



PHILIPPE SETBON

Chief Executive Officer – Natixis Investment Managers

Unlocking Europe's investment potential

In the shifting geostrategic context, leveraging the transformative power of European capital markets is essential for reinvesting savings into investments in Europe and addressing the sustainable, digital, demographic, and security transitions, as highlighted by Enrico Letta and Mario Draghi.

The first axis involves broadening investment opportunities for European businesses and infrastructure projects.

An EU “label” or “brand” for long-term investment accounts (including Italy’s PIR, France’s PER or PEA, potentially Sweden’s ISK...), accompanied by tax incentives should be considered. Investors would still have the freedom to invest globally, which should appease the fears about retail investors being “locked in in lower returns for 20 years”. However, to benefit from tax incentives, a significant portion must be invested in EU businesses and infrastructures, including debt and equity, public or private, which are the backbone of our territories and job markets, thereby creating a virtuous circle. The creation of a European benchmark, covering all Member States, could help. Embracing a European preference will strengthen our negotiating position in an increasingly transactional world, where other key jurisdictions benefit from national home bias. Conversely, pursuing low-cost products would be misguided, as funding SMEs or sustainable infrastructure is not low-cost and there is no justification for the EU to subsidize the ongoing outflow of European savings to finance US innovation.

Simplifying access to investment could also help, but this requires clarifying what an EU simple “product” entails. The creation of new fund vehicles does not seem necessary, as Europe already offers gold standard investment products, such as UCITS and AIFs. Instead, European Semester recommendations could encourage Member States to adopt simple, large and flexible accounts, inspired by Sweden’s ISK, which has boosted retail capital market over the last decade. To ensure market demand, these accounts should not be limited to equity but should facilitate a diversified range of investments—including bonds, equities, funds shares, UCITS and ELTIFs, along with a portion of private assets—while providing streamlined tax treatments to create incentives for retail investors and encourage risk-taking.

In the meantime, we must eliminate national biases that limit scale within the EU, to strategically leverage the power of an integrated market as “a base camp” in global economy. EU-headquartered asset managers in particular play a pivotal role, investing substantially more than their non-EU counterparts in EU economies, leveraging local expertise. Furthermore, investments in the EU’s sustainable transition could also be positively incentivized, while reviewing certain prudential requirements and the securitization framework would unlock more investment opportunities across Europe. Integrating

post-trade infrastructure, including through DLT as the Noyer report suggests, can provide a competitive edge, improving market efficiency and reducing costs for investors.

We also believe the creation of colleges of supervisors dedicated to pan-EU asset managers – including national supervisors and ESMA- would foster a more integrated and consistent regulatory framework. However, a paradigm shift in regulatory philosophy is needed by integrating within ESMA’s mandate the objective of “competitiveness and medium to long-term growth of the European economy, including of the EU financial sector”, as the US, UK, Japan, Singapore or Hong-Kong.

**Tax incentives should only
be granted to products that
significantly invest in Europe.**

Lastly, the main reason capital markets are predominantly retail in the US but remain institutional in Europe relates to retirement funding mechanisms. Developing 2nd and 3rd pillars, combined with autoenrollment and tax incentives, could be a game changer to democratize investment. However, diverse collective preferences exist among European Member States, often characterized by large 1st pillars that are not always fully funded or aligned with life expectancy. A European blueprint with a matrix illustrating how different options could meet the needs of Member States could be developed. To nudge investors into action, pension dashboards clarifying pensions gaps, as well as auto-enrollment in trusted default options would be beneficial. This approach would foster an investment culture, recognizing that investment and long-term growth inherently involve risks. Risks should not be entirely avoided but rather properly identified and mitigated. This is the role of asset managers: professionally manage risks though pooled investment to respond to the needs of institutional and retail investors, and by doing so, fund the economy.

The Eurofi Warsaw Seminar is
organised in association with the
Polish Presidency of the EU Council



DEFENCE AND HIGH DEBT CHALLENGES



**RIMANTAS
ŠADŽIUS**

Minister of Finance of the
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The urgent need to increase defence spending calls for innovative solutions

Fiscal divergences in the EU are not a new phenomenon. If we examine the debt levels of EU countries 20 years ago, we would see similarly significant disparities as today. These differences stem from structural factors of individual EU economies and continue to shape fiscal conditions across the bloc.

So far, the EU has taken proactive measures to address these issues through coordinated economic policies. The European Semester and the economic governance framework have been instrumental in promoting the convergence of economic policies, contributing to a more resilient and balanced economic environment.

Over the last decade markets have demonstrated a higher tolerance for fiscal divergence and higher debt levels compared to the past. This is the result of structural transformations that the euro area has undergone since

the GFC. Stronger financial sector regulation, including the establishment of the Banking Union, has made the EU's financial system more robust, although the lack of EDIS remains a weak point that must be addressed. The evolution of ECB monetary policy has enhanced confidence in both the euro area as a whole and individual member states. Finally, the establishment of the ESM has provided an additional financial safety net to address financial stability risks.

These developments, among many others, have made the eurozone more resilient to economic shocks from the pandemic to inflationary pressures, and geopolitical instability following Russia's war in Ukraine. The euro area has managed to navigate these disruptions without triggering financial instability or causing long-term scarring effects.

Lithuania is a prime example of how euro area resilience benefits member states. As we mark the 10th anniversary of Lithuania's adoption of the euro, it is important to recognize how eurozone membership has strengthened economic stability and accelerated the convergence process. Lithuania has experienced stronger financial integration, lower borrowing costs, and enhanced investor confidence, reinforcing its ability to withstand external shocks. Our experience reflects the broader benefits of euro area membership in increasing economic resilience.

Markets have priced in the euro area's improved resilience by showing greater tolerance for fiscal differences. Member states have been successfully financing long-term debt at yields that remain significantly lower than during the euro crisis, even as the euro area's aggregate debt and the debt levels of some member states remain close to historic highs. This does not mean that debt levels are irrelevant. On the contrary, debt sustainability has emerged as the primary criterion for determining the fiscal paths of individual member states. However, it underscores the fact that financial markets' perception of risk has changed, providing countries with greater fiscal space to manoeuvre and respond to various shocks.

This is particularly important in the current context of geopolitical shocks as the security landscape in Europe has changed dramatically due to Russia's war in Ukraine. An increase in defence

spending has occurred across the EU and especially in the so-called NATO Eastern Flank and Nordic countries, largely due to their geographical proximity to Russia. We have no option but to significantly raise defence expenditures beyond the current NATO benchmark of 2% of GDP. It is costly, but given the threats facing Europe, it is a necessary burden that we must shoulder.

We must be open to extraordinary solutions, even overstepping our own red lines.

National-level efforts are crucial in ensuring adequate defence financing and they should be supported by the envisaged flexibility of the EU fiscal rules in the short term. The Commission's proposal to activate national escape clauses, allowing countries to use available fiscal space to finance defence investment, is timely and welcome. However, a coordinated approach is essential to avoid sending the wrong signals to markets and increasing borrowing costs for vulnerable countries. Flexibility must be used wisely to maintain market confidence in the new EU economic governance system.

I strongly advocate that the EU must be united in tackling security challenges. Thus, a dedicated joint borrowing mechanism, as proposed by the Commission, must be part of the solution. Furthermore, given the scale of defence investment needs and financial sustainability concerns, we must seek a solidarity-based burden-sharing mechanism as was done with NGEU that would partly compensate member states that contribute disproportionately to common European security. We must be open to extraordinary solutions, even overstepping our own red lines for the sake of Europe's safety and peace.



MAREK BELKA

Former MEP, Polish Prime Minister, Minister of Finance and the Governor of the Polish National Bank

Financing european military expenditure in times of overindebtedness

The geopolitical landscape of Europe has changed dramatically, heightening urgency around security and military preparedness. The question is no longer whether to increase military spending but how to finance it amid high public debt and economic uncertainty. With threats such as Russian aggression, cyberattacks, and uncertainty over U.S. defense commitments, Europe must reassess its reliance on external military support and focus on strengthening its own defense capabilities.

Russia's actions, particularly in Ukraine, highlight the vulnerability of European borders. Cyberattacks further threaten military security, economic stability, and infrastructure. The unpredictability of U.S. foreign policy, especially with the rise of isolationist tendencies, raises concerns over Europe's long-term security strategy. To mitigate these risks, Europe must develop greater strategic autonomy and financial independence in defense. A failure to act decisively now could leave the continent vulnerable to evolving threats in the coming decades.

A European-wide approach to military spending is the most practical solution. Strengthening the European defense

industry through collaboration among EU member states would enhance security while driving technological innovation. A unified defense infrastructure could deter external threats and improve Europe's economic competitiveness. Coordinated defense investments would also lead to cost efficiencies, better resource allocation, and greater resilience against external economic pressures. Investing in a strong European defense sector could also help create high-tech jobs and spur industrial growth.

Relying on the U.S. is increasingly uncertain. Political shifts have shown that American military support can be unpredictable, often tied to economic and political conditions. The rise of protectionist policies suggests that Europe must be prepared to shoulder its own defense burden. Enhancing European security integration—potentially including the UK, Norway, and Turkey—could help build a more resilient defense system. Expanding partnerships with NATO allies while asserting greater independence is crucial for long-term stability and strategic self-sufficiency.

A key solution is issuing common European debt to finance military spending. This would allow member states to pool resources without exacerbating national debt burdens. If structured properly, common debt could maintain fiscal discipline while modernizing Europe's defense capabilities. Additionally, such an initiative could strengthen the euro's role as a global currency by creating a stable, liquid European asset that attracts international investment. A European Defense Fund, backed by joint debt issuance, could facilitate technological advancements, military readiness, and long-term sustainability in defense spending.

However, increased military spending must not come at the cost of fiscal mismanagement. The EU must reform its Stability and Growth Pact (SGP) to ensure that military investments align with long-term financial sustainability. Shifting from strict deficit targets to an expenditure-based rule would provide more flexibility while preserving economic stability. Moreover, excluding military spending from traditional public debt calculations could enable necessary defense investments without violating fiscal constraints. This policy shift would allow governments to balance national security with responsible fiscal management, ensuring that increased military spending does not undermine broader economic stability.

European countries could also explore alternative funding sources, such as

utilizing foreign reserves, particularly dollar-denominated assets, to support defense spending. This could provide a temporary financial buffer without resorting to excessive borrowing or taxation. Defense-focused public-private partnerships and sovereign wealth funds could also be leveraged to finance long-term security projects without overburdening national budgets. These financial strategies, if implemented effectively, would support military expansion while preserving economic health.

Despite concerns over debt, well-structured common debt issuance and fiscal reforms could allow Europe to meet its defense needs while maintaining financial stability. The current security and economic crisis presents an opportunity for bold action. Strengthening European unity and financial innovation can help build a self-sufficient defense framework, ensuring both security and economic resilience. A Europe that can defend itself is a Europe that can dictate its own geopolitical future rather than relying on external powers for security guarantees.

In conclusion, financing European military expenditure amid overindebtedness is not just an economic challenge but a geopolitical necessity. Europe must move beyond reliance on U.S. support and take control of its security through greater integration, common debt issuance, and fiscal reforms. This crisis is a chance to reshape Europe's defense strategy and reinforce the EU as a strong, independent geopolitical force for the future. By investing in collective defense and financial resilience, Europe can establish a sustainable security framework that ensures stability and economic growth for generations to come.



HARALD WAIGLEIN

Director General for
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Whatever it takes – security edition

The world economy is undergoing profound transformations. The transatlantic alliance is weakening, free trade is being undermined and the rule of law is threatened in the country that once promoted democratic values globally. The two largest economic powers, the US and China, are now led by autocratic regimes, with tariffs becoming the favoured policy instrument in the nation that championed the liberal world order.

Truth be told, the EU's competitiveness agenda was conceived in more favourable times: when productivity, rather than tariffs, dictated export success, and innovation and R&D, rather than defence, were the targets of investment policy. Still, half a year after the release of Draghi's landmark report, new geopolitical realities make its findings more rather than less pertinent: Europe is 30% poorer than the US, and the innovation gap is widening. Productive investment is some 5 PP of GDP too low, and risk capital is scarce. The economic structure is stuck in the 20th century, with Europe hosting only 4 of the world's top 50 tech firms. Its defence industry is fragmented and unprepared for a withdrawal of the US security umbrella. The EC's reading

of the "Competitiveness Compass", appeared unambitious and too late, given the political and economic U-turn initiated by the Trump administration. Regrettably, the Compass has largely skipped the defence and security elements in Draghi's report, forcing a harsh awakening this February.

Productivity growth is no longer sufficient for long-term prosperity.

For the EU to demonstrate military sovereignty, it must achieve independence in underdeveloped sectors such as intelligence, space, and communication technologies, alongside a massive boost in investment. Additionally, an EU without an outlet for its industrial overproduction needs to shift towards services and leverage the spending potential of its 450 million consumers. The Compass contains valuable elements in that regard, such as the Quantum Strategy, Space Act, Life Sciences, Single Market Strategy, Start-up and Scale-up Strategy, and Preparedness Union. However, recent developments necessitate prioritising the security agenda, investment in defence, deploying trade defence instruments, and engineering a decisive shift in the EU's growth model.

**The EU has typically
excelled during crises
– this time should
be no different.**

While the combined trade and security challenge is unprecedented, it may offer the much-needed boost to R&D, innovation and investment, thereby improving economic confidence and strengthening private consumption. With public budgets strained and the situation urgent, progress on the Savings and Investments Union should be more achievable, making full use of the of the Stability and Growth Pact's flexibility a mere formality and reducing unnecessary regulatory and reporting obligations a shared goal. But the heavy lifting must come from Member States: they need to revitalise the single market for services by reducing entry barriers, harmonising standards, recognising foreign qualifications, and transferring social security entitlements. Member States must also secure funding for defence investments – the 150 bn Euro EU lending facility will not suffice and can only finance certain categories of investments – while the EU could facilitate joint procurement. Furthermore, Member States must drive the modernisation of the EU's economic

structure by allowing struggling firms to exit, improving insolvency frameworks, and ensuring the retraining and requalification of workers. Finally, governments can play a crucial role in fostering confidence to encourage consumption and investment.

There is a silver lining: the combined threat of military and trade aggression has disrupted business as usual. PEC von der Leyen's strategic dialogue with the automotive and steel industries can only achieve so much – a 400 bn Euro German defence investment programme utilising idle industrial capacities can accomplish far more. While a European savings product can channel private savings towards investment, the potential returns from innovation in defence are a more compelling incentive. The close alliance between US tech firms and the Trump administration could boost demand for services "made in EU", supporting the modernisation of our economies. The lack of budgetary leeway will help contain inefficient "industrial policy" and prevent a further loosening of the state aid framework. This should bode well for the single market, which remains the EU's most important asset. The EU has typically excelled during crises – this time should be no different. One final caveat: Don't forget that financial markets like positive and lasting effects on potential growth more than inflation. They rest to be convinced.



MARKUS FERBER

MEP, Committee on Economic
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Bridging the divide and saving the Eurozone

The consequences of economic divergence in the EU

Economic divides are undermining the cohesion of the eurozone and presenting serious challenges to the functioning of the monetary union. The key issue at hand is the lack of fiscal coordination across the eurozone. While some countries have adhered to fiscal discipline and steadily reduced their public debt, others - most notably France, Italy and Belgium - have experienced rising levels of debt and public deficits. This imbalance is not only affecting individual countries but is also threatening the integrity of the entire eurozone. Wealthier countries fear that they will end up subsidizing the profligate spending of others, while countries with high debt levels might become increasingly unable to tackle the problem without external support.

This divide fosters a sense of distrust, which complicates the establishment of shared fiscal responsibilities. The absence of a coordinated fiscal policy weakens the eurozone and hinders the creation of a deeper economic and financial union. In the absence of a shared commitment to fiscal discipline, the eurozone risks splintering, leading to market

fragmentation, further mistrust, and limited progress on crucial initiatives such as better integrated European banking markets or the Capital Markets Union.

Weak growth and high debt: A recipe for sovereign debt crisis

In an environment characterized by weak economic growth and low productivity, high levels of public and private debt pose a substantial risk to the stability of several eurozone countries. This combination of factors makes it increasingly difficult for these countries to service their debt, especially if borrowing costs rise or if an economic shock occurs.

Should these countries fail to make necessary fiscal adjustments, they could find themselves on the brink of a sovereign debt crisis. Rising borrowing costs would lead to a loss of market confidence, diminishing fiscal flexibility and making it harder for governments to manage their debt. A sovereign debt crisis could quickly spiral, leading to political and economic instability in the eurozone.

Expansionary monetary policy: Not the solution

Permanently low interest rates could be seen as a temporary solution to the debt crisis. By keeping borrowing costs low, highly indebted countries can service their debt more easily without needing immediate fiscal adjustments. Low interest rates have the potential to stimulate economic demand, which could boost growth and, over time, reduce the debt-to-GDP ratio.

The Eurozone was
originally designed
based on the principle of
monetary dominance.

However, a long-term expansionary monetary policy carries significant risks. First of all, it could distort investment patterns, incentivizing borrowing over saving. This could lead to over-reliance on debt, both by governments and private actors, compounding financial vulnerabilities in the long run. Over-indebtedness and misallocation of resources could eventually trigger a financial crisis, particularly in countries already facing economic underperformance.

Moreover, it overlooks the fact that while the Eurozone was originally designed based on the principle of

monetary dominance, slowly evolving structural factors - such as lower trend productivity growth, an aging population, and global excess savings - have made fiscal policy a more important and effective tool for macroeconomic stabilization, necessitating a shift away from the consensus model of monetary dominance. While low interest rates may provide short-term relief, they cannot address the structural weaknesses within the eurozone economy. What is needed instead are structural reforms aimed at improving productivity, fostering innovation, and ensuring that public spending is both sustainable and effective. Governments in highly indebted countries must take responsibility for reducing debt levels through fiscal discipline and targeted reforms.

Future of the Eurozone

If the current economic trends continue, the eurozone faces an increasingly difficult path. The growing debt burdens of countries like France, Italy and Spain combined with weak growth and insufficient fiscal discipline, could lead to a full-blown sovereign debt crisis. Without a shift toward responsible fiscal policies and structural reforms, the eurozone risks falling into a cycle of stagnation and instability. The EU's economic and fiscal heterogeneities will continue to widen, fostering further divisions among Member States and undermining the credibility of the euro.

CLOSING THE INNOVATION GAP IN THE EU



YANN LE PALLEC

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Revitalizing Europe's innovation: Private capital & pension funds

The case for a Savings and Investments Union to channel more capital into innovation in Europe is clear. But time is of the essence to proceed. That's why private capital as an instrument and pension funds as a vehicle could provide valuable support.

Since the creation of the EU single market the capital intensity of the European economy has grown three times less than in the United States. Europe is not only underinvesting. There is a broad consensus that its investments are not sufficiently focused on innovation, with most R&D spending concentrated in large companies operating in mature markets. As a result, Europe is missing new champions and is largely absent in key disruptive technologies. Europe risks losing its technological edge and falling into the middle technology trap, which could translate into a further erosion of its position in global trade and, ultimately, a loss of economic welfare for every citizen.

The investment paradox is twofold. First, Europe doesn't lack savings to

invest. Foreign markets attract European savings. In his report published last year, Christian Noyer estimated that one euro in five saved by Europeans is invested in foreign debt securities. Savings exceed investment by four percentage points of national income. By channelling these excess savings into a domestic use, most of the investment needs identified by Mario Draghi as necessary to restore competitiveness could be met without further burdening public balance sheets. The second aspect of this paradox is that Europe doesn't innovate enough because it lacks ideas or great minds. Europe is absent from many disruptive technologies, even though many of the patents for these technologies originate from research in European universities.

Mario Draghi's report made it clear that the roots of this double paradox run deep. Resolving it will require a deepening of the single market, and the financial industry has a role to play in this. Let's face it: Europe has ample savings and great minds, but capital costs and risk aversion hinder innovation. A large body of literature suggests that equity is the holy grail of funding innovative start-ups, not least because they have no tangible assets to offer as collateral for bank loans. Unfortunately, European equity markets are underdeveloped. The market capitalization of the European economy is about a third of that of the US economy, and even lower in the eastern part of the EU. As a result, the cost of equity is much higher than the cost of debt or a bank loan for a European company - currently around 200 basis points higher - and not lower than the cost of U.S. equity, despite lower interest rates in Europe. In other words, the equity risk premium is much higher in Europe than in the US. Again, 200 basis points higher. At the same time, bank lending standards in Europe are so high, not least because of the regulation framework, that micro-businesses less than 2 years old consistently report a financing gap. All this shows that Europe faces more hurdles to scale up young companies than the US. Empirical evidence suggests that this is particularly true in the later stage of their development, when the focus is on expansion, entering new markets and becoming market leaders, what is typically when financing needs exceed EUR 50 million.

It is essential to take forward the Savings and Investments Union in all its three dimensions: developing pan-

European capital market infrastructure, ensuring better access to finance for companies, and broadening investment opportunities for EU citizens. Unfortunately, Europe has been trying to make progress within the CMU framework for ten years. It has taken a few important steps, such as the introduction of legislation on European long-term investment funds in 2015; the creation of a European single access point for financial disclosure, which should become operational in 2027; and the recent decision to have a consolidated tape for stock markets. While all these measures are welcome, we, like many other observers, must acknowledge that they have not had a transformative impact.

Europe has savings and great minds, but capital costs and risk aversion hinder innovation.

Time is of the essence, however. Baseline credit conditions are benign for now, despite a high degree of political and geopolitical uncertainty. So, what else can be done? First, we should consider that private capital is and will be a critical tool to support innovation, as we are currently seeing in the US with data centers. Second, pension funds could be a suitable vehicle to provide more private capital to the European economy, as is the case in some Nordic countries. In Sweden, pension funds account for almost a third of domestic venture capital. Capital deepening in the Swedish economy has been significantly stronger than in the Eurozone since creation of the single market.

Examples like this show that the innovation Europe needs is taking place but at a scale that's too small. Europe can be faster to recognize inventive solutions but must not wait for a completed Savings and Investments Union to act.



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The relationship between innovation and investment: Creating an EU that fosters innovation through investment

Innovation and investment are two fundamental pillars of economic growth and competitiveness. A well-structured investment environment can significantly enhance a member state's ability to foster innovation, leading to technological advancements, increased productivity, and overall strengthened economic resilience. Creating successful innovation clusters requires a combination of economic, institutional/educational, and societal factors – which all need to work in symbiosis.

In his report on the future of European competitiveness, Mario Draghi highlights a significant innovation gap between the European Union (EU) and the United States (US). He emphasizes that this gap is largely due to Europe's failure to capitalize on the digital innovation and on emerging technologies. Draghi points out that only four of the world's top 50 technology companies are European. To address this challenge and increase the pace with economic competitors globally, Draghi argues that coordinated industrial policies, accelerated decision-

making processes, and investments of €800 billion per year are required to close the gap.

From my perspective there is no “silver bullet” or “moon-shot” strategy to close this gap. Rather, the EU needs a strategy where all member states collectively take individual action to close and finance the innovation gap. Inspiration could be found by observing the successful development of innovation in smaller economies such as Sweden, Taiwan, Israel, and South Korea can be attributed to a combination of strategic governmental policies, robust educational infrastructures, active public-private partnerships, and the effective deployment of financial resources targeted at fostering innovation ecosystems. These economies have successfully bridged the gap between research and commercialization, a challenge that remains across Europe.

Further, strategic government support plays a significant role. Countries like Sweden and Israel have invested extensively in both public and private research and development (R&D) and start-ups through governmental agencies, offering grants, subsidies, and investment to stimulate private sector innovation – especially through the defense industry. The proactive role of public-private partnerships cannot be overstated. Israel's Yozma program, which co-invested alongside private venture capital (VC), significantly boosted its high-tech ecosystem. Sweden's public investment funds such as Industrifonden and ALMI benefit from close collaboration between academia, industry, and public sector institutions creating strong innovation clusters. Swedish public pensions funds have also had a broad mandate for non-public investment, contributing to large investments in innovative companies.

**The EU needs a strategy
where all member
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take individual action
to close and finance
the innovation gap.**

By learning from successful small economies, Europe can not only develop more dynamic funding mechanisms, expanding pensions funds mandates thereby improving access to private equity and venture capital, and enhance public market incentives; but also

give people the confidence to become entrepreneurs. The Commission and member states need to take collective action to close the innovation gap by creating incentives for both private and public sector investments in innovation. To achieve this capital, needs to be allocated to academia and start-ups whilst actions to further strengthening the Single Market and the Capital Markets Union. Member states also need to act by creating incentives for citizens to invest by creating tax-incentives and investment accounts like Sweden's Investment Accounts (ISK).

Summing up, a society that fosters innovation through investment requires a multi-faceted approach, involving strategic R&D funding, broad array of investors, incentives to increase cross-border business, and strong public-private collaborations. This requires coordinated action both on member state and EU-level. The European Commission's Competitiveness Compass will play a vital role in ensuring coordination and exchange of best practice between member states. It should be accompanied by a new Juncker Plan, where we can activate private investments in innovative companies with public guarantees. By addressing these structural challenges, Europe can bridge its innovation gap and reestablish itself as a global leader in technological advancements.



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Promising European Tech IPO candidates will successfully meet financial markets

Why do many European unicorns choose to list in the US rather than in Europe?

The attractiveness of the US is structurally linked to the depth of its investor base, which is larger, wealthier and more specialised, as well as to its larger pool of listed companies, which offers greater comparability. Finally, the US is the largest market in the world for certain industries such as pharmaceuticals, biotech, and software.

Delving into the details, since 2018, only 50 European companies have gone public in the US, accounting for less than 5% of the total number of listings of European companies. Among these, 60% are from the Healthcare sector.

For which results? Euronext-listed issuers achieve higher valuations than US-listed European issuers. Liquidity in Europe and the US is at par for mid and large cap equities.

What explains the lack of attractiveness of IPOs for young, innovative and successful companies?

Innovative start-ups often offer a risk/return profile that is in line with

the mandates of venture or growth investors. In addition, venture and growth investors raise far more funds than European SMID funds and specialise in technology. IPOs should ensure continuity of funding at more mature stages, when the innovation has demonstrated that it can create a new market or replace an obsolete one. But Europe's financial markets face headwinds.

Firstly, the shortage of tech investors is illustrated by the very low allocation of European funds to the tech sector: only 4% (\$0.1T) is directed towards software and another 4% (\$0.1T) towards hardware, compared with 16% (\$2.7T) and 13% (\$2.2T) for U.S. funds, which limits Europe's capacity to finance tech.

Secondly, the financial performance of Tech IPOs over the last 5 years has been very poor, declining by an average of 49% among the 15 French Tech IPOs examined, with only two out of the 15 showing a positive return.

When examining the total amount raised through IPO transactions over the past five years, European IPOs have raised \$156 billion, which is three times less than the \$436.5 billion raised in the United States during the same period."

How can we boost the financing of innovation through IPOs in the EU?

To improve the attractiveness of IPOs, we need to attract stock market investors to IPOs in Europe. This can be achieved by offering them high-quality companies with a risk profile that align with their investment mandates: companies with strong customer validation of their products and able to demonstrate their profitability in the short term. Most importantly, valuations should accurately reflect the IPO risk, offering a discount of approximately 20% compared to listed peers or M&A transactions.

**IPOs should ensure
continuity of funding at
more mature stages.**

At the same time, on the demand side, investors need to create specialised vehicles dedicated to investing in tech IPOs in order to make the market attractive to companies. This is precisely what we have accomplished with CDC Tech Premium. The Fund was created two years ago by CDC Croissance with

the support of Group Caisse des Dépôt and Bpifrance. CDC committed 300 M€, supplemented by an additional 50 M€ from a leading insurance company. We received the Tibi approval in 2023.

What exactly are we financing? We finance Innovation and growth, we provide liquidity to venture capital and private equity and we facilitate post-IPO financing and liquidity.

How do we invest? We invest at the IPO or post-IPO stage through capital operations such as accelerated book building or follow-on offering. Our focus is on French and European companies within the Eurozone, with a preference for listings on Euronext and a priority (but not an exclusivity) on France. CDC Tech Premium targets strategic Tech companies with global market potential, across all sectors including energy, marketplace, robotic, medtech, biotech... We select companies with a market capitalization between €300 million and €7 billion as we seek firm with a certain level of maturity.

Last but not least CDC Tech Premium is a Cornerstone Investor taking a significant part of the free float. What are the benefits of this strategy for the market? We work on a fair valuation reflecting the IPO risk, we give advice on the equity story and the guidance and we ask for ESG practice improvement. How do we benefit from it? By receiving 100% of the shares we request, regardless of the book coverage. Additionally, as a cornerstone investor, our name is mentioned in the prospectus, enhancing our reputation in the market.



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Strengthening the EU's attractiveness for scale-ups and innovation

Europe has long been a hub of technological innovation and research, yet it continues to struggle with the retention of high-growth companies and the concentration of financial resources on the most promising sectors of the future. By comparison, the U.S. economy and its current exceptional equity market performance in 2023 and 2024 was in large part driven by its digital and technology companies, the so-called Magnificent 7. Their outstanding profitability and earnings-per-share (EPS) dynamics have contributed to roughly a third of the market capitalization of the S&P500 and around 60 percent of the S&P500 performance.

This allows these companies to invest billions of US dollars into research and development, thereby fortifying their global leadership position. For Europe to gain competitiveness and become less dependent on the U.S. and China in technology and digital services, policymakers at both national and EU levels must create an ecosystem that fosters technological and digital innovation, provides adequate funding, and reduces bureaucratic and talent hurdles for scale-ups.

To enhance the European investment ecosystem, an important first step is to strengthen venture capital and private investment. One of the primary reasons why European scale-ups relocate to the U.S. or Asia is the relative scarcity of late-stage venture capital. To counter this trend the EU should expand initiatives like the European Investment Fund (EIF) and European Innovation Council (EIC) Accelerator, focusing on later-stage funding. The EU should also encourage pension funds and institutional investors to allocate more capital to high-growth European start-ups by providing tax incentives or reducing regulatory constraints. It should promote cross-border investment funds that enable investors to support companies regardless of their country of origin within the EU.

A second key initiative is the creation of a unified European IPO market. European scale-ups often list on the NASDAQ or the New York Stock Exchange instead of European stock markets. To change this, Europe needs to develop a single, harmonized European IPO framework that reduces red tape and makes listing in Europe more attractive. The EU should offer financial incentives for European stock exchanges to support high-growth technology firms and to improve the liquidity in European financial markets to ensure competitive valuations compared to U.S. exchanges.

Europe should expand public-private partnerships and embark on more government-backed initiatives to de-risk investments in key sectors. This could take the form of launching co-investment programs where governments match private venture capital funding for innovative projects or establishing technology-specific investment funds focused on key areas as identified in the Draghi Report: AI, quantum computing, biotechnology, and clean energy.

Europe needs to
strengthen its digital and
technological sovereignty.

Europe also must streamline regulations for scale-ups. The EU's fragmented regulatory landscape is a major deterrent for growing companies. To ease this burden Europe needs to harmonize key regulations across Member States, especially in data privacy, digital taxation, and labour laws. Introducing a "scale-up visa" to enable fast-track hiring of talent from outside the EU would help ease

qualified labour bottlenecks. Simplifying tax structures and offering targeted tax incentives for R&D-intensive businesses would also help. Many start-ups struggle with complex bureaucracy when scaling across multiple European countries. Europe needs to move to implementing a single digital platform where companies can manage compliance requirements across all 27 Member States. It needs to standardize corporate tax reporting procedures and reduce the administrative burden associated with receiving EU funding.

To gain competitiveness, Europe needs to both retain its highly skilled workforce and attract global talent. Many European start-ups struggle to hire the best global talent due to restrictive immigration policies. Europe must implement a pan-European "Tech Talent Visa" for high-skilled workers in key industries. It needs to offer tax incentives for highly skilled foreign workers who relocate to the EU and work on improving mobility programs that allow researchers and innovators to work seamlessly across Member States.

Finally, in an increasingly hostile era of tariff threats aimed at reducing international trade dependencies in goods and services, Europe needs to strengthen its digital and technological sovereignty. To reduce dependency on foreign technology providers, Europe needs a quantum leap in increasing its investment in EU-based cloud computing, AI, and semiconductor industries. The EU and national governments should support European alternatives to major U.S. and Chinese tech giants and develop a unified European strategy for critical technology supply chains.

CEE REGION GROWTH MODEL



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Baltic growth needs continued prioritization of quality

What are the key structural challenges facing the Baltic region in terms of growth model?

To start with, one should recall that Baltic countries have been in the forefront of income convergence throughout their economic transformation that started after regaining independence. While there have been obvious bumps on the road the relative income has gained to around 80-85% of EU average, being still only around 40% in the turn of the century.

One could logically ask if there has been a particular common growth model that all Baltic countries have followed over these decades? Broadly speaking there has. But that has been in many respects more determined by the geopolitical must and economic environment rather than the result of any particular independently taken policy decisions. Exception here is obviously the basic decision of political orientation towards (or back to) European single market and related governance framework that was indeed instrumental.

All three are small economies, with no major relative advantage in terms of mineral resources or large-scale tourism locations, with relatively low capital stock when economic transition started. On the other hand, the relatively limited labor market pool has had strong educational background and the nature of the political transformation itself helped to avoid overly powerful vested interests to preserve too much older economic structures.

In that context it is not particularly surprising that the growth model has been generally determined by aspiration to take care of and improve quality rather than quantity. On the one hand it was important to integrate both trade and services through open trade and be open to foreign direct investments. That was important to allow inter alia stronger competitive pressures in domestic markets and additionally put pressure to overall quality of corporate governance and to foster relatively good entrepreneurial environment. At the same time, supporting human capital with advances in education and adequate social support schemes remained at the forefront. Also, general fiscal prudence, efforts to preserve financial stability and monetary stability provided by euro accession have themselves been fundamental parts of the growth model.

While it might be an unsolvable chicken and egg issue one could also claim that these same limitations of the initial capital and constraints of economic environment in combination with good labour market support pushed all countries to prioritise digitalisation of both public services themselves and also adding to IT driven sectors, including for exporting these services. At least for now this seems to have been comparative advantage for the region as a whole.

What are the main medium and long term public policy objectives for fostering growth in the Baltic region?

While economic structures have been with some variation (ie the role of Russian transit trade in the past, some divergence in primary export markets and some differences in industrial specialisation) the growth challenges are probably quite similar for all Baltic countries also now.

Beyond taking care of fundamental security and defence issues, the key challenge facing Baltic economies are further improving human capital,

preserving at the same time the quality of public services, and in parallel preserve fiscal sustainability.

Further improving the infrastructure interconnections and more generally the market integration is a sort of the basic hygiene here. Preserving the supportive and open business environment, including nudging for innovation, including for achieving environmental targets, is important. For most of these objectives, obviously, the education system remains important, but also generally the regulatory framework for entrepreneurship is important to preserve.

Beyond security, the
challenge is to further
improve human
capital and keep fiscal
sustainability.

What is the expected impact of EU initiatives?

EU as a gateway to a larger single market and good governance framework is itself obviously a cornerstone for the continued growth model. Therefore, any advance that we manage to muster by improving the functioning of the single market in Europe at large, is also important to Baltic economies. EU wide common financial arrangements are in that sense contributing factor, not growth contributors per se. Therefore, the quality of these arrangements in terms of supporting European common goods and services, is probably even more important than the quantities they provide.

True, the Baltic countries have been still more on the receiving end of the financial instruments. Partly, this has been a welcome contributor to the financial environment during the period of heightened geopolitical tensions, which have somewhat caused discrimination in the financial flows of the region. However, overall functioning and efficiency of the European capital markets is probably more important for the Baltic growth model than direct financing instruments.



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Poland's new long-term growth model

In the past two decades, Poland has achieved impressive economic progress. However, the current growth model approaches its limits. Businesses should focus on investments and innovation to increase productivity and continue convergence towards Eurozone standards. The Polish corporate sector is among the least leveraged in the EU and underuses its potential. Financial deepening is crucial for the forthcoming transformation.

Poland's economic success story

Poland's GDP per capita has tripled since the country joined the EU in 2004, and the economy has demonstrated strong resilience to external shocks such as the global financial crisis of 2008-09 and the COVID-19 pandemic of 2020-21. The Polish economy is highly diversified, which has helped it grow even when other CEE peers experienced slowdown. The country also benefitted from its high-quality labour force and impressive entrepreneurial spirit of local business. The country has attracted substantial inflows of foreign investment that helped moving businesses up global supply chains. The share of exports in GDP increased from 33% in 2003 to 52% in 2024. The unemployment rate is among the lowest in the EU, and the economy is externally balanced. EU funds have also allowed for major improvements in

infrastructure, creating more favourable business conditions. However, we believe institutions and governance have been more important than funds in underpinning economic expansion.

Economic pivot needed to embrace mid-term change

With GDP per capita at 80% of the EU average and nearing US\$25,000, Poland is now internationally considered a high-income country rather than an emerging economy. This necessitates a transformation of the economy, gradually reducing reliance on low and mid-tech sectors based on inexpensive labour, and shifting towards more advanced, capital-intensive industries that justify higher wages, which inevitably accompany rising output and incomes.

The export-oriented growth model, supported by FDI inflows, is gradually reaching its limit. Rising labour costs and expensive energy are undermining competitiveness in price-sensitive industries.

The domestic working-age population is shrinking, translating into a scarcity of labour supply. Tensions have been somewhat alleviated by improvements in net migration flows, especially from Ukraine.

Poland needs to transform its economy towards a more capital-intensive model.

Rising prices and wages are gradually undermining international competitiveness in labour-intensive tradable goods. Demographic trends have two negative consequences: first, a supply-side constraint to potential GDP growth; second, rising labour costs and their impact on international competitiveness. Despite some progress in the green transition in the energy sector over recent years, still around 60% of electricity in Poland is still generated from coal. The costs of carbon emission rights constitute an important component of price. High energy prices are another potential threat to international competitiveness.

The high share of small and micro enterprises is becoming an impediment to economic growth now. Enterprises employing fewer than 10 persons are three times less productive than firms with more than 250 employees. The corporate sector needs to consolidate and scale up.

One of the structural challenges in Poland is the low investment rate. In 2023, it stood at 17.7%, which was not only lower than in other CEE countries (Czechia: 27.3%, Slovakia: 22.3%, Hungary: 26.0%) but also below the EU average of 22%.

From labour to capital: Poland's economic transition ahead

Increasingly scarce and expensive labour necessitates a shift in the mix of production factor inputs towards capital, away from labour (capital deepening). Poland needs to boost its investment rate and increase physical productive capital to enhance productivity per worker/hour worked amid a declining contribution of labour. In practice, this requires investments in automation, robotisation, and digitalisation of processes. Further progress towards green energy transformation is essential to reduce costs linked to carbon emissions for manufacturing sector.

Poland needs to transform its economy towards a more capital-intensive model.

The starting point is not bad, given that the leverage of the economy is well below European standards, with private sector consolidated debt (loans and debt securities) at 55.5% of GDP versus the EU average of 125.3%. There is also scope for financial deepening. The economy needs more developed capital and financial system providing capital with diversified risk appetite and duration profile. It needs more developed equity and corporate bond markets as well as other financial institutions offering more risky forms of lending, such as venture capital or private equity. A successful EU savings- and investment union could greatly benefit Poland at this crucial stage of its economic development. Poland may continue economic convergence and avoid risk of incomplete convergence and risks associated with unfavourable demographics and expensive energy.



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The evolving growth model of the CEE region: The role of the banking sector

The Central and Eastern European (CEE) region has undergone a remarkable economic transformation over the past three decades. However, as global economic conditions evolve, the region's growth model requires adjustments. While past expansion was driven by foreign direct investment (FDI) and cost competitiveness, future growth must focus on innovation, human capital development, and sustainable financing.

A key shift necessary for long-term growth is the transition from a cost-based economy to one driven by innovation and high-value industries. While Poland, the Czech Republic, and Hungary have advanced in fintech, IT, and biotechnology, greater investment is needed to fully capitalize on these sectors. Venture capital is expanding, yet local banks remain crucial in financing innovation, ensuring businesses access the capital required for development.

Workforce and skill development are equally vital. With an aging population and labor market constraints, investment in upskilling is imperative. Despite strong educational institutions, a disconnect persists between academic programs and labor market needs. Banks can play a

key role in financing vocational training, digital literacy, and lifelong learning initiatives to close this gap and maintain a competitive workforce.

The energy transition presents another challenge, as many CEE economies remain heavily reliant on energy-intensive industries. Shifting toward renewable energy and energy-efficient manufacturing is essential for sustainability. Banks must actively support this transformation by offering green financing instruments such as sustainability-linked loans and green bonds that incentivize environmentally friendly investments.

To facilitate these economic shifts, the region's financing landscape must evolve. Traditional bank lending, while still dominant, is increasingly supplemented by alternative financing mechanisms. Capital markets must expand to provide long-term funding opportunities, with the Warsaw Stock Exchange emerging as a regional leader. Strengthening domestic financial institutions and deepening local financial markets will help mobilize savings more effectively through loan securitization and investment funds.

Despite the region's attractiveness, external investment is challenged by geopolitical uncertainties. Banks play a critical role in mitigating risks through trade finance, guarantees, and credit enhancements. Maintaining investor confidence in a volatile environment is crucial to ensuring capital inflows vital for sustained economic growth.

The future of the CEE region depends on a well-functioning financial sector that can balance stability with innovation.

The banking sector itself is a crucial enabler of these transformations. Banks have adapted to shifting conditions, supporting economic growth and financial innovation. Green financing is gaining prominence, with institutions funding renewable energy projects and energy-efficient infrastructure. Digital banking is also expanding rapidly, as banks invest in AI-driven services, digital onboarding, and cybersecurity. Meanwhile, the Baltic states have emerged as fintech leaders, fostering collaboration between banks and startups to develop innovative digital banking services and payment solutions.

However, significant challenges remain. Regulatory complexity continues to drive up compliance costs at both the EU and national levels, impacting profitability. Credit risk and non-performing loan (NPL) management demand attention, particularly in volatile economic conditions. Geopolitical risks and external dependencies further contribute to uncertainty, requiring careful financial planning and risk mitigation strategies.

A pressing issue in the region is the paradox of excess liquidity and weak credit demand. Many banks hold significant capital reserves but struggle to find borrowers. In Poland, this challenge has been exacerbated by stricter risk assessments, pro-consumer regulations, and legal rulings increasing banking sector liabilities. Regulatory measures related to mortgage lending and foreign currency loans have led to financial losses, making banks more cautious in extending credit. While Polish banks remain well-capitalized, access to credit is increasingly restricted, raising concerns about economic growth and investment in key sectors.

The future of the CEE region depends on a well-functioning financial sector that can balance stability with innovation. Banks must continue evolving beyond traditional lending, embracing capital market development, sustainable investment, and digital transformation. Policymakers should work alongside financial institutions to create a regulatory environment that fosters growth while mitigating risks. By addressing structural challenges and leveraging financial sector strengths, the region can enhance its economic resilience, drive investment, and secure long-term prosperity.



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The banking sector can play a key role in the economic model shift of the CEE region

The CEE region economic model after the economical regime changes in the '90s has been characterized by a strongly export-oriented growth model, based on foreign capital inflows (banking, FDI, EU funds) and local cheap labour force, which in many respects can be seen as extensive, and linked to the globalization of the production value chains. However, this growth model is exhausting: bank capital flows have been much lower since the 2009 credit crisis, EU funds have declined as economic development has increased, global trade growth has already slowed after the 2009 crisis and we have now entered an era of global fragmentation. In addition, Chinese competition in the industrial sector is increasing and technological change is significantly transforming the existing production chains in many industries. All these problems are exacerbated by the fact that labour is now more expensive and labour-force reserves are being depleted. This has led to a need for the CEE region countries to rethink their economic models. Strategy should address the problem of depleting labour pools.

Given that CEE countries are typically in a worse demographic situation than many Western and Northern European countries, the problem may be addressed through pension reform, more efficient use of existing labour and targeted immigration. Transforming production chains offer a good opportunity for CEE countries to move into higher value-added positions than before. However, it is not enough to have a cost advantage to do so, but also to be innovative requiring a significant increase in R&D spending in the CEE countries, which is currently much lower than in Western and Northern Europe. It is also important to recognize and accept that the CEE region is essentially made up of small, open economies, and that the EU is now the biggest supporter of the free trade system that has developed over the past 30 years of which the region is one of the biggest winners. They would therefore be the main winners of a stronger EU and stronger EU integration. For this reason, it would be essential for these countries to further deepen their integration with the EU in the areas of infrastructure (electricity, gas, high speed railway, research networks, etc.) and finance, e.g.: introducing the euro to stimulate investment, reduce transaction costs and strengthen resilience, or promoting common bond issuance for defense purposes to increase security.

Before the 2009 crisis, numerous Western European banks entered the CEE region and the former socialist countries' banking market. This has ultimately led to the region becoming "overbanked", with many players failing to achieve sufficient market share and thus economic of scale. After the credit crisis of 2009, the region's banking sector started to consolidate, helping to achieve cost synergies and economies of scale in each country, a prerequisite for constantly developing and low-cost banking services. OTP Bank has been at the forefront of this consolidation process acquiring 25 banks since 2001 and becoming a leading regional banking group with a presence in 11 countries and market-leading position in 5 markets, with a balance sheet total of over €100 billion. Banking groups with a strong CEE/SEE focus facilitate the deepening of regional economic links through their cross-border services, and banking groups with euro deposits can easily provide efficient euro financing to e.g. exporting companies in non-euro area CEE countries. The various European initiatives to support the EU's energy transition, strengthening of defence capabilities or the European production chains are certainly welcome. However, it is a feature of all such initiatives that, in addition to public/common EU funding, substantial private sector funding is needed to

achieve the objectives. And this is where the role of the banking sector comes in. For example, a common feature of CO₂ neutral power generation or the energy storage solutions is very high fixed costs - the capital cost of the initial investment - and minimal variable costs. So, the availability of cheap financing, which reduces the capital costs, and the banking system can provide, is particularly important for this type of investments. The OTP Group in line with the Green initiative of the EU had set and published a Green loan portfolio target of EUR 4 bn which we committed to reach by the end of this year. OTP Bank applies favourable loan pricing for clients applying for green eligible loan products, by transferring the green capital relief provided by national banks in capital adequacy measurement.

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STRATEGIC AUTONOMY AND COMPETITIVENESS OF EU PLAYERS



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Enhancing competitiveness of EU financial players amidst economic divergences

In the context of increasing economic divergence across the EU, enhancing the competitiveness of EU financial players is of vital importance for financing economic and social challenges. EU financial institutions must adapt and innovate to maintain their position in European and global markets in an evolving global economic landscape characterised by rapid technological advances and shifting geopolitical dynamics.

Let me outline key areas that can bolster the competitiveness of EU financial players while addressing the challenges posed by domestic ring-fencing practices in the supervision of cross-border banking groups.

1. Creating a true Savings and Investments Union (SIU)

Improving access to capital markets is crucial for the growth and competitiveness of EU financial players. This involves fostering a more integrated capital market across the EU, which can only be achieved by addressing remaining barriers to cross-border investment and enhancing the transparency and efficiency of capital markets. The SIU initiative is a vital step in this direction. By promoting the diversification of funding sources and encouraging investment in innovative sectors, the SIU can provide EU financial institutions with the necessary resources to compete globally.

2. Support for digital innovation and fintech integration

As the financial sector increasingly embraces digital transformation, the EU must prioritize the integration of fintech solutions within its financial ecosystem. Supporting innovation through regulatory sandboxes and facilitating collaboration between traditional banks and fintech startups can drive competitiveness. By fostering an environment conducive to technological advancement, the EU can position its financial institutions at the forefront of global financial services. Furthermore, investing in cybersecurity measures and digital infrastructure will enhance the resilience and security of financial systems, instilling confidence among consumers and investors alike.

3. Addressing domestic ring-fencing practices

Domestic ring-fencing practices pose significant challenges for cross-border banking groups within the EU. These practices can lead to inefficiencies and increased costs as banks are required to maintain separate capital and liquidity buffers in

each jurisdiction. Even if it is a controversial issue, addressing these practices by promoting a more cohesive and integrated approach to cross-border banking supervision while providing safeguards for national financial stability can enhance competitiveness. By reducing the burden of domestic ring-fencing, EU financial institutions will be better positioned to operate efficiently across borders and to ensure more efficient allocation of capital.

4. Strengthening the EU's international presence

To bolster the competitiveness of EU financial players, it is essential to enhance the EU's international presence in global financial discussions and regulatory frameworks. This includes advocating stronger for the EU's interests in international forums such as the FSB and the Basel Committee. By actively participating in these discussions with one voice, the EU can help shape global financial regulations that consider the unique characteristics of its financial markets, ensuring that EU financial institutions are not disproportionately burdened by international regulatory standards that are often US-centric.

5. Fostering sustainable finance

Despite the currently observed change of priorities focussing on sustainable finance within the EU is not only a moral imperative but also a strategic advantage. The EU is already a leader in the global transition towards sustainable finance by establishing standards and frameworks that encourage investment in green technologies and sustainable projects. By positioning EU financial players as pioneers in sustainable finance, the EU can attract global investments and enhance the competitiveness of its financial institutions.

Conclusion

Improving the competitiveness of EU financial players in the face of growing economic divergences requires a multifaceted approach. Prioritising access to capital markets, fostering digital innovation, addressing domestic ring-fencing practices, strengthening international presence, and promoting sustainable finance will create a more resilient and competitive financial ecosystem. By implementing these priorities, the EU can not only secure its position in the global financial landscape but also ensure that its financial institutions thrive in an increasingly interconnected world.



FRANCESCO VANNI D'ARCHIRAFI

Chairman of the Board – Euroclear S.A.

SIU: Seizing the opportunity

Seizing this unique opportunity to unlock the single market's potential

The current geopolitical juncture should be approached with a sense of opportunity for Europe. It can give us the political momentum to deepen the single market and undertake the necessary reforms to strengthen EU competitiveness and strategic autonomy in key economic sectors.

Recent reports and analyses by leading European figures, authorities, think tanks and stakeholders provided a wealth of recommendations. European authorities and Member States must act swiftly on the most impactful measures to enhance competitiveness.

To ensure that companies and investors benefit from cost-effective regulatory frameworks, the scale of the single market, and appropriate public support mechanisms, the development of a competitive and integrated Savings and Investments Union (SIU) should be at the heart of our financial services strategy.

Yet, a true SIU must deliver more than just integration; it must build liquidity depth, credibility, and trust in Europe's long-term financial future.

Attracting issuers and investors

Successful capital markets thrive on the active participation of their end-users. To enhance market depth and liquidity, it is essential to boost engagement from both issuers and investors, both coming from the EU and globally.

On the investor side, one of the most pressing challenges is the limited availability of risk capital and a small retail investment base in parts of Europe. The EU must harness its internal resources to increase the availability of long-term capital from both retail and institutional investors at every stage of a company's growth.

Equally important is the need to attract external investment. The growth of the Eurobond market demonstrates how European issuers benefit from access to a globally connected ecosystem of investors. This market, which began in the 1960s, has evolved into one of the world's most significant financial markets, supported by robust EU infrastructures—a true European success story.

When it comes to issuers, creating favourable conditions for strategic and high-growth companies to operate in Europe is crucial. The rapid pace of technological change requires a more flexible and agile regulatory framework, with a strong emphasis on competitiveness and innovation.

Strengthening European securities markets and the post-trade architecture

The post-trade sector still suffers from unnecessary fragmentation, preventing us from reaping the full benefits of the single market. We must accelerate efforts to enhance the efficiency of the European architecture and ensure it is ready for the next evolution of capital markets.

Fortunately, Europe already boasts strong market infrastructures with global reach, contributing to EU integration, strategic autonomy, and international influence of the EU. We need to leverage the sector consolidation that has already taken place and practical solutions that are effective today.

To immediately enhance market efficiency and competitiveness, we must foster an open and interconnected architecture that enables seamless access across the EU and caters to both the single market and the diverse local ecosystems. It's vital to ensure that the benefits of integration reach every corner of the EU.

Several market drivers and policy enablers are essential to advance this vision. We need to optimize the connectivity of settlement systems across all Member States and ensure the effective application of open access, competition, and interoperability principles. Addressing regulatory impediments to FMI intra-group synergies and consolidation is also crucial.

A true SIU must deliver more than just integration; it must build liquidity depth, credibility, and trust in Europe's long-term financial future.

Technology can be a powerful enabler. Distributed Ledger Technology (DLT) and digital assets offer numerous possibilities to improve efficiencies and foster a more integrated European ecosystem. We must scale digital assets and currencies in a safe and integrated manner, supported by open, interoperable, and resilient frameworks. It's important that private sector initiatives and public sector efforts work together in that regard.

Despite the challenges, I am confident that we can make significant progress by building on our successes. As the leading provider of CSD services, Euroclear will continue to act as a consolidator and a European champion with global scale. We look forward to collaborating with EU authorities, Member States, clients, and other market infrastructures in the next phase of development and strengthening our financial markets.



ODILE RENAUD-BASSO

President – European Bank for Reconstruction and Development (EBRD)

Stronger local financial ecosystems as key to European competitiveness

The sense of urgency to increase European competitiveness and renewed impetus to translate the goals of the Savings and Investments Union into concrete actions aligns well with several market developments, including the EBRD's initiatives. Efforts to link Western European stock exchanges and post-trade infrastructure providers are slowly taking shape with Euronext now the biggest listing and trading venue in Europe. The Nasdaq Nordic and Baltic markets continue to demonstrate the advantages of regional integration.

Yet national interests have kept EU member states largely developing their capital markets in isolation. Inefficiencies are amplified in the smaller Central and Eastern European (CEE) markets, including through fragmented infrastructure, shallow liquidity, poor access to long-term risk capital for corporates, and savings sitting idly in low interest yielding bank accounts.

A core challenge is indeed the lack of deep, long-term capital pools in CEE markets. Retail savings remain largely in bank deposits instead of investment products that drive economic growth. The absence of well-developed pension funds and asset management vehicles limit the flow of household wealth into capital markets. Expanding these investment channels is essential to build bigger, deeper and more integrated capital markets.

Governments and regulators need to work together to create harmonized rules which will ultimately facilitate a common approach to supervision. A single European supervisory framework appears to be by far the most optimal solution. However, it is not achievable unless the significant differences in core legislation—including taxation, corporate laws, and other regulatory frameworks—are properly addressed. Even without full harmonization, substantial improvements can be made through stronger cooperation among supervisory authorities. The Euronext College of Regulators can provide a model for this, offering a framework for licensing and supervisory practices and procedures to support cross-border trading and investment activity in the CEE region and beyond.

For overarching objectives to be realized, top-down measures need to be supported by corresponding bottom-up initiatives. Focusing on operational-level integration—by connecting and strengthening local ecosystems—provides a practical pathway to enhancing operational efficiency and reducing market liquidity fragmentation, ultimately fostering a more cohesive common capital market. This approach not only secures broad-based support from local stakeholders but also streamlines operations, reduces costs, and promotes cross-border collaboration. The way forward lies in embracing the diversity of European markets by developing a strong network of interconnected local ecosystems that facilitate cross-border

investments, rather than attempting to replicate the perceived ideal of the US capital market infrastructure.

In late 2024, eight CEE stock exchanges signed a Memorandum of Understanding (MoU) with the EBRD and officially confirmed their intention to work on integrating the capital market infrastructure in the CEE region. Their aim is to develop primary markets to facilitate access to capital for companies at the early stages of business development and expansion; achieve operational integration of capital market infrastructure in the region; and activate retail investors by promoting long-term investing, improving market liquidity, and reducing barriers to investment on regional exchanges.

The signatories emphasise that regional cooperation will help improve the capacity to channel retail savings into long-term capital market instruments while also enhancing the region's international competitiveness. By pooling resources and experience, CEE can become an attractive destination for capital investment and innovation financing, akin to the successful Pan-Baltic capital market that integrated Nasdaq Nordic and Baltic markets. If successful, this model could serve as a blueprint for broader EU capital market integration, demonstrating that a unified market can be built without sacrificing the diversity of national financial systems.

The way forward lies in embracing the diversity of European markets by developing a strong network of interconnected local ecosystems that facilitate cross-border investments.

In the capital markets space, the EBRD itself has invested EUR 1.45 billion, with a focus on broadening the financial instruments available, helping first-time issuers tap international markets.

By embracing the diversity of European markets and fostering interconnected local ecosystems, we can all pave the way for integrated capital markets which enhance international competitiveness and drives sustainable economic growth across the region.

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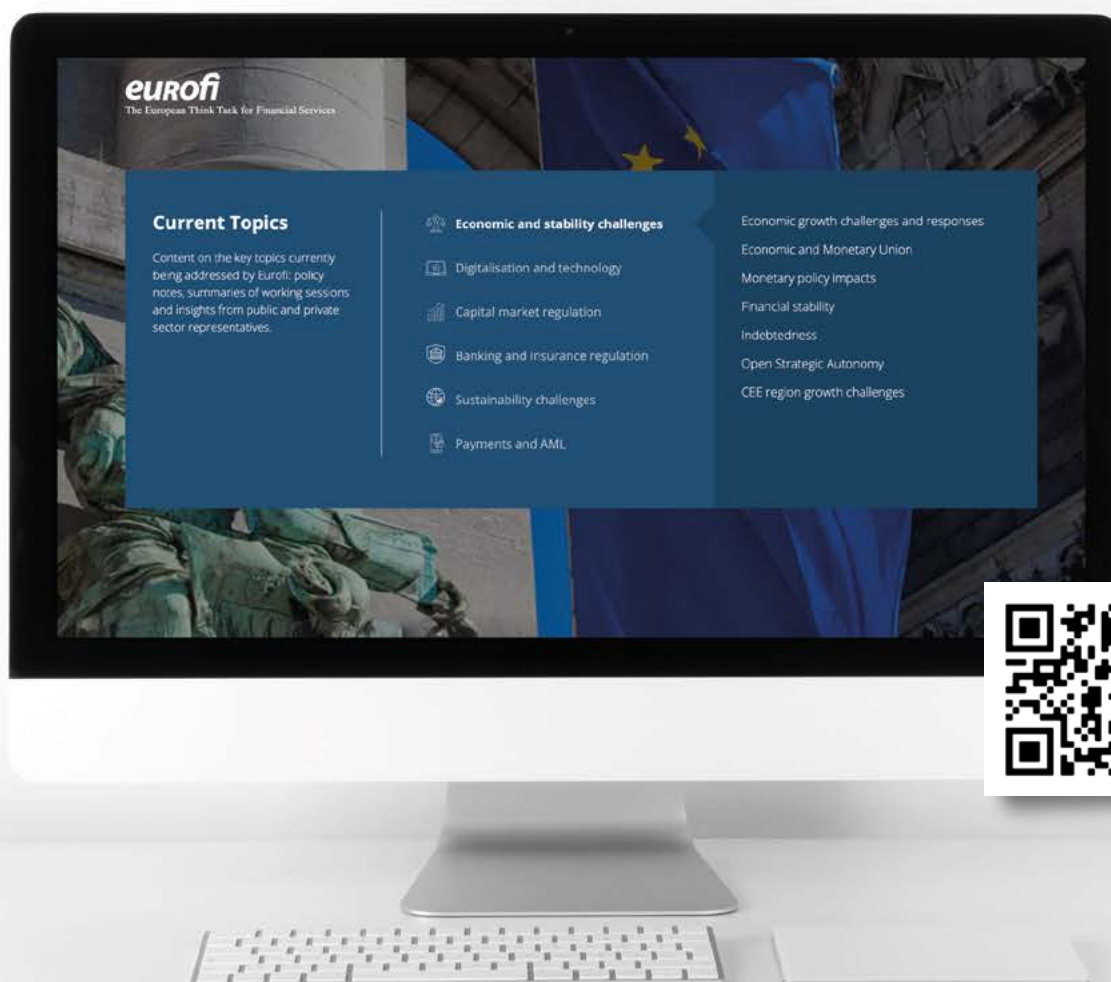
Banking and insurance regulation



Sustainability challenges



Payments and AML



COMPETITIVENESS OF THE EU BANKING SECTOR



UGO BASSI

Director - Banking, insurance and financial crime, DG for Financial Stability, Financial Services and Capital Markets Union – European Commission

Closing the gap: strategies to boost the profitability of European banks

The profitability of European banks has been fairly high across the board in the last couple of years, mostly thanks to the increase in interest rates. This follows several years where profitability was a pressing concern, particularly in the context of an international environment that presents numerous challenges. Factors such as the high segmentation of the banking system across national markets, varied national regulatory practices and competition from fintechs and other financial and non-financial firms complicate the landscape for European banks. Progress towards a European Savings and Investments Union (SIU) is crucial to preserve the competitiveness of the EU banking sector. In particular, actions that banks themselves could be undertaking should boost profitability, and hence their competitiveness.

From a regulatory and supervisory perspective, the EU banking sector is well regulated and well supervised – and resilient, as proven during the 2023 banking turmoil and as confirmed by successive stress test exercises. The uneven implementation of Basel III regulations across jurisdictions will impact mostly on the wholesale markets. While the EU started to apply the standards from 1 January 2025, except for the market risk rules, other major jurisdictions have not implemented yet, leading to distortions in the international level playing field and competitive disadvantages to EU banks in their trading activities. This unlevel playing field not only distorts the global financial system, but also creates inefficiencies in the banking sector and generates regulatory arbitrage likely causing risks to financial stability.

The EU has already delayed by one year the implementation of the Basel III market risk framework, until 1 January 2026. This was complemented by several supervisory steps coordinated by EBA. The European Commission is currently consulting stakeholders to gather their views on possible further steps in relation to market risk. Similarly, the European Commission is proposing to address banks' international level playing concerns in relation to liquidity requirements, by proposing to render permanent the currently transitory treatment of short-term securities financing with financial customers for the calculation of the net stable funding ratio, and will propose a review of the rules applying to securitisation, including prudential requirements in this area for banks later this year.

In addition to addressing regulatory and economic challenges, there is a pressing need for European banks to embrace digital transformation and innovation. Banks should be encouraged to invest in digital infrastructure and to prioritise initiatives that foster innovation within the banking sector. European banks can, thus enhance their efficiency, lower their operating costs, ultimately boosting their profitability.

Despite the very significant progress in banking regulation and supervision – with the single rulebook and with the ECB now supervising banks in the 21 Member States taking part in Banking Union, banking markets are still somewhat organised across national lines. This in part reflects national

differences in markets – for instances mortgage practices are not uniform across the EU, in part out of tradition, in part in response to tax and regulatory requirements. Also, retail markets remain organised often along national lines, also reflecting consumer laws. As a result, the banking sector has not been able yet to reap the benefits of the Single Market, also because the regulatory and supervisory framework itself is imposing to meet all prudential requirements at all levels – parent and subsidiaries.

Progress towards a European Savings and Investments Union is crucial for EU banks' competitiveness.

Banks have been extremely prudent in scaling up, in part because their profitability was scarce for a period, in part because the progressive build-up of capital required by the implementation of Basel standards took precedence over external growth. It is urgent that this process of scaling-up the banking sector is allowed to continue, as the EU financial systems needs large banks present across the EU. Cross-border mergers are even more necessary for the development of the Single Market and for the success of the SIU; they are essential for enhancing efficiency of banking operations and optimize resource allocation within the EU. This consolidation not only strengthens the competitiveness of banks in the EU but also serves as a critical step toward achieving a true Single Market in banking, where optimised cross-border capital and liquidity allocation can provide consumers with better services and products.

In conclusion, by prioritizing regulatory harmonisation and focusing on preserving an international level playing field, promoting cross-border integration, streamlining regulatory frameworks, and embracing innovation, policymakers can contribute to the growth and the competitiveness of European banks.



**JACEK
JASTRZĘBSKI**

Chair of the Board – Polish
Financial Supervision Authority

European banks: Too weak to compete?

Banking sectors across Europe show a wide variety in terms of profitability. Despite the fact that banks are operating in a relatively similar regulatory framework there are visible differences either in the level of the profitability ratios or their permanence over time.

The returns of European banks have improved over the past two years, but it should be considered rather in the long term so that the whole financial or economic cycle is covered. The current improvement is an evident advantage, as the profits enhance banks' capital. But since it is caused by currently high interest rates it can be assumed that the higher profitability will not be permanent.

There are several points of attention when analysing the European banks' return after the global financial crisis. There is a group of European countries with a relatively high and stable banks' return, including Nordic countries, Belgium and the Netherlands. Another one is the group of the CEE countries with more volatile ROE ranging from satisfactory to high levels. There is also a group, including South European countries and Ireland, where profitability is volatile and reaching negative levels in problematic years. The fourth group consists of countries with

stable but relatively low profitability, mainly Germany and France.

The EU banking sector is too diverse to find one specific solution to catch up with US banks in terms of return. The profitability of banking sectors from the first two groups also indicates that there is no common obstacle that prevents European banks to be highly profitable.

There are, however, some conspicuous issues, which need to be considered. The first one is that stability is more desirable than excessive variability which is connected with risk. That is not only the matter of taking suboptimal decisions due to uncertainty, but also the possibility of state interventions. Above-average returns may lead to rhetoric related to excessive burdens borne by borrowers, and further – to extraordinary measures (e.g. windfall tax, credit moratoria) being taken or imposed by states. Such interventions may adversely affect the banks' profitability.

The second issue concerns the profitability level. Very essential is the ability to generate adequate level of net interest margin. This depends however on the economic environment, possibility to invest funds in high-margin products, cost of financing and liquidity. Another way to enhance profit is the cost discipline. Many EU banking sectors, including the Polish one, have improved it over the last few years. Taking care of asset quality is also extremely relevant to avoid material fluctuations of return during the economic cycle.

The EU banking sector is too diverse to find one specific solution to catch up with US banks.

Talking about the profitability and competitiveness of European banks, an important issue arises: would giving the SSM and the SRB effective powers to define the allocation of capital, liquidity and MREL resources within cross-border banking groups, and thus abandoning the 'solo approach' be beneficial to European banks' competitiveness?

In this context it should be noted that host countries may be concerned that capital and liquidity could be transferred to parent entities, thus draining subsidiaries of resources and making them more vulnerable to external shocks.

While discussing an integrated approach to regulation and supervision of transnational banking groups, it

is therefore of utmost importance to provide safeguards which would properly address host countries' concerns. Certain prerequisites for starting further discussions can be identified.

Firstly, inclusion of the host countries in the decision-making processes of such centralised supervision would be absolutely needed.

Secondly, in the pan-European supervision model, when a financial crisis occurs, the ECB's financial aid resources should be accessible also to banks from the non-euro area.

Thirdly, we can hardly imagine a pan-European supervision without a European Deposit Insurance System. Without EDIS, possible consequences of centralised supervisory decisions would be borne by local DGSs, which would not be acceptable.

Fourthly, further harmonisation of certain substantive regulations remains one of the prerequisites. Currently, significant differences in national regulations (including insolvency laws) would make uniform or coordinated supervision of transnational banking groups a rather difficult task.

Fifthly, effective cooperation and exchange of information between the SSM, SRB and NCAs would be crucial. Formal arrangements and safeguards guaranteed in the EU law seem to be necessary, especially those pertaining to dispute resolution, but ultimately it is the mutual trust and quality of working cooperation that really matters.

Lastly, a clear division of competences between the European supervisor and the national ones would be vital. It would be necessary to eliminate overlaps and areas of no-man's-land, and to properly manage conflicts of interests. Effective transparency mechanisms should be provided by all means.



JEAN LEMIERRE

Chairmain – BNP Paribas

A strong european banking sector is key to strengthening Europe's sovereignty and strategic autonomy and to financing Europe's investment needs

In these new geopolitical times, Europe is rightly giving priority to ensuring its sovereignty and strategic autonomy. The investment needs to achieve these imperatives are vast – The Draghi report assesses the additional investment needs at EUR 750-800 billion per year by 2030. And these figures do not include the recently announced huge investments needed to bolster Europe's defence capacity. Confronted with these circumstances, the new Commission has set out an ambitious mandate placing competitiveness and the reduction of excessive dependencies in critical sectors as the central drivers of its agenda over the coming years.

It should go without saying that the financial industry is indeed a critical sector, and that the European banking industry stands ready to support this ambition. Our ability to do so, however, is hindered by some limitations of the EU financial regulatory framework.

In order to address the challenges to the competitiveness of European investment banks, three key levers are decisive.

Unlocking the securitization market

The Commission has announced a legislative proposal to review the Securitisation Framework by Q2 2025. This is most welcome, and a favorable review is to be expected, given the growing political support for Europe to have a strong securitisation market. Indeed, the Noyer, Letta, and Draghi reports have all pointed to securitisation as an important tool to contribute to the EU's competitiveness and its financing challenges. A return to issuance levels as seen before the financial crisis could progressively generate, as per Christian Noyer's estimates, an additional private financing per year of € 250 to 500 bn.

To make significant progress, the priorities for the industry are to unlock barriers for both issuers and investors. For banks that means in particular recalibrating prudential capital requirements. For investors such as insurers this would require adjusting Solvency II capital charges to re-incentivize them to return to the market. In addition, reducing barriers to market entry such as issuers' disclosure and investors' due-diligence requirements would be essential.

Ensuring a level playing for European investment banks, in particular regarding market risk

Last year, to preserve the global level playing field for internationally active European investment banks in respect to their trading activities, the European Commission postponed the implementation of FRTB by one year. The Commission indicated at the time that some major jurisdictions had yet to finalise their rules or communicate on their timelines for implementation. Today the reality is that the US Basel 3 endgame proposal is at a standstill, with implementation unlikely to start before 2027/2028, while the UK and Canada have also deferred Basel adoption.

In light of these developments, the best and simplest option to prevent any further erosion of the level playing field with third country investment banks is to defer the implementation of FRTB by an additional year.

Backtracking and preventing over-regulation and gold plating

The new Commission has pledged to deliver an unprecedented simplifica-

tion effort to improve Europe's competitiveness, with a first Omnibus series of measures related to the sustainable finance regulatory framework published at the end of February and others in the pipeline. This is therefore the right time to reconsider other existing and proposed financial regulations by applying a simplification and competitiveness filter.

In this regard, the simplification drive must also involve careful analysis of what other jurisdictions are doing or are likely to do. The US for example has a stress capital buffer which simplifies several micro and macro prudential objectives. Also, in view of the recent policy directions enunciated by the new US administration, it may opt for a soft and capital-neutral application of Basel III, while simplifying certain requirements in the area of stress tests or the supplementary leverage ratio. Europe should take close heed of these developments and adjust its stance accordingly.

The simplification mandate should be in Europe an opportunity to simplify and adjust the MREL requirements along the lines of the TLAC framework. Indeed, MREL is a European creation which supplements and overlaps the global TLAC framework standard established by the FSB. Adapting MREL rules in this way would significantly reduce the administrative burden for both resolution and competent authorities as well as for banks, be more understandable for investors, and improve EU banks' competitiveness. It should imply also the reduction of the P2R to avoid double accounting with Pillar 1, as has been decided in the UK in September 2024.

Lastly, to put in place the Savings and Investments Union, which the Commission has correctly identified as a horizontal enabler to achieve the sovereignty and strategic autonomy goals, it will be important to cancel or deeply reassess the Retail Investment Strategy proposal which in its present form would not be conducive to achieving the objectives of the SIU.



TANATE PHUTRAKUL

Chief Financial Officer & Member of the Executive Board – ING Group

Seizing the moment to foster pan- European banking

For all the justified attention to enhancing capital markets and creating a Savings and Investments Union, bank lending remains important to the Eurozone economy, with about half of business debt coming from a bank balance sheet. Such high reliance demonstrates two things. One, the importance of making available alternative means of funding to business. And two, the importance of maintaining a liquid and reliable bank funding channel. These two do not contradict each other. To the contrary, a well-functioning, strong banking sector operating across the EU is a pre-condition for flourishing capital markets.

The increasing policy attention to banking sector competitiveness is a welcome development. It is tempting to compare EU banks to their US peers. In doing so, we note that the EU single supervisory system is in place and works well. In addition, there is ample competition and EU banks have liquidity and willingness to support the economy. Yet it is a sobering fact that before 2008, the market cap of the largest Eurozone banks and their US counterparts were in the same ballpark. Today, the market cap of the largest US bank matches that of the 10 largest Eurozone banks combined. The prolonged negative monetary policy rate environment in the Eurozone has contributed to multi-year lacklustre bank profitability until just a few years ago.

And while EU bank profitability has recovered, several EU member states levy bank-specific taxes. Sometimes, these taxes are related not to profitability, but to balance sheet size, adding a procyclical element. Such taxes are draining banks' capacity to strengthen their balance sheet, extend credit, and maintain capital and dividends. Given that bank investors impose a certain cost of equity, bank taxes also risk banks pricing themselves out of market vis-à-vis competitors not subject to them.

A further clear difference holding back EU banks is the single US market versus Europe's fragmented banking and capital markets, from cultural, language, tax, bankruptcy, regulatory and supervisory perspectives. This also prevents EU banks from gaining scale. Such scale is increasingly needed to absorb costs that are predominantly fixed in nature. This applies in particular to technology outlays, in e.g. retail banking, payments, and financial markets. The more volume and clients a bank has, the better it can amortise those costs.

Yet despite these issues, I would like to take a "glass half full" perspective. Experience teaches us that in the most difficult of times, Europe comes together and takes breakthrough decisions. Indeed we currently witness a willingness among policymakers to consider options that were in the "unthinkable" domain until not too long ago.

**In the most difficult of
times, Europe comes
together and takes
breakthrough decisions.**

One of the most pressing issues we see at this stage, is the complexity of the EU's capital requirements framework, and the degree of regulatory discretion built into it. Partly as a result of this, EU banks maintain higher capital ratios than their US counterparts.

In addition, the EU framework features more buffers stacked on top of each other, not least macro-prudential ones. The buffers are particularly complex as many EU member states now impose high O-SII buffers, "positive-neutral" Counter-Cyclical Buffers, and sector-specific Systemic Risk Buffers or RWA add-ons that have a similar effect. We believe the best way forward is to lower cumulative requirements for banks. In particular the macro-prudential framework should be simplified and structural components should be

removed. In addition, a mechanism would be welcome to assess and remediate excessive buffer cumulation and overlap. An overarching goal should be to improve predictability of the whole framework.

Other priorities should include removing obstacles to cross-border liquidity and capital flows within banking groups and improving transferability between national DGS funds. These would further support EU banking sector consolidation.

The EU's simplification agenda is an important and welcome initiative. A systematic review of the regulatory framework in search for burden reduction opportunities should extend beyond ESG to cover all regulation.

Meanwhile, European banks themselves continue to free up capital, by e.g. optimising client portfolios, models and improving data quality. An instrument that can further help here is securitisation. The administrative burden for originators and investors could be reduced by streamlining due diligence and reporting requirements. Further steps towards standardisation and simplification would also help.

The positive sum of these policy actions will be bigger than its parts. For example, steps towards Banking Union create more opportunities for pan-EU consolidation. Larger, consolidated European banks are in turn better placed to make full use of a vibrant European securitisation market, to put their capital to maximum use for lending. Let us take this opportunity and allow a self-reinforcing positive cycle to develop in Europe.



FRANÇOIS- LOUIS MICHAUD

Executive Director – European
Banking Authority (EBA)

Resilient banks are key to foster European competitiveness

Over the last decade, EU bank resilience has achieved unprecedented level thanks to regulatory and supervisory efforts. Today, EU banks' capital levels are high, liquidity and bail-in instruments are ample, and credit is flowing into the EU economy. Meanwhile net profits remain close to all-time highs, which showcases that EU banks are strong and resilient.

Yet, the situation is more nuanced in contrast to US banks, who have generally been even more profitable over the last six years. This performance was supported by higher NII and NIM amid structurally higher US interest rates, and higher fees and other income has generated elevated return on equity and assets. However, cost efficiency paints a more mixed picture with rather sticky costs at EU banks. Regarding asset quality, the average cost of risks is only marginally higher than US banks over the same period. Finally, EU banks have been losing market share in certain market segments over the past decade or so, which may cause concern about EU strategic autonomy.

But again, a combination of shifting geopolitics, structural factors and

economic headwinds puts EU banks at new crossroads. In this context, recent reports urged the EU to act to preserve its strong and competitive position. EU banks must play a key role in this endeavour.

Against that backdrop, three priorities should shape the EU banking sector going forward.

Fostering global regulatory coherence and completing the EU single market

Since its inception, the EBA has promoted regulatory consistency and coherence at international and EU level. Looking at the EU sector, it is clear regulatory efforts have paved the way towards more robust and resilient banks.

The EBA is maintaining its efforts towards EU-wide Basel III implementation by delivering the mandates conferred by the legislators in a transparent, predictable and accountable manner. Such contributions meaningfully enhance international compliance and preserve a proper functioning of the European and global financial systems.

Beyond this, the EU must build a ESIU to unlock the full potential of the financial sector. In the current framework, banks can already allocate their capital across borders to growth-generating sectors. Greater cross-border banking would allow both consumers and businesses to access a broader range of financial services.

Finally, remaining gaps in the resolution regime need to be closed to strengthen the EU's ability to manage failing banks.

A holistic view of financial regulation and supervision

The EU and EBA prioritise implementation, delivery and supervision, and in this new regulatory cycle, we must view the current EU financial framework holistically. Its development over time responded to important considerations that led to successively or simultaneously strengthening of micro and macroprudential supervision, resolution, AML, consumer protection, and conduct. The current juncture offers an opportunity to assess whether the framework's overall design, implementation and impact are as intended and whether they bring sufficient efficiency. However, this does not mean deregulation.

The EBA works on ways to simplify undue regulatory burdens on banks, while maintaining financial stability and protection. Since its inception, it has focused on harmonised EU reporting and disclosure to support financial activities in a single market. It is now integrating prudential and monetary policies to

reduce the costs for stakeholders while addressing the needs of supervisory authorities. The intermediate step towards such integrated reporting is to facilitate data sharing which is currently being reported.

Boosting resilience to new challenges

Delivery with concise and clear mandates is also key to make banks future-proof to embrace opportunities and counter climate and digitalisation risks.

Now is the time to assess the framework's design, implementation and impact for efficiency.

To remain globally competitive, EU banks should accelerate efforts to further transform their business models to embrace new challenges. Current high profitability should be an opportunity to increase investment in digitalisation and in management information systems, to improve efficiency, revenue capacity and resilience.

Digitalisation affects bank business models and impacts competition, bring new opportunities, but cyber and ICT related risk and data security are by far the biggest drivers of operational risk for banks. According to an EBA risk survey, more than half of banks noted that they had been victim of at least one cyberattack in H1 2024. To protect against such risks, the ESAs are operationalising the framework on ICT risks and operational resilience.

In addition, enhanced risk management capabilities are needed to prepare for a shifting geopolitical landscape and transition to a more sustainable economy. Recent flooding and wildfires are forceful reminders that physical risks put strain on banks' balance sheets.

Going forward, Europe needs to balance all these priorities to ensure the resilience, preparedness and competitiveness of EU banks.



GABRIEL CUMENGE

Deputy Assistant Secretary -
French Treasury

The need for a shared diagnosis on the competitiveness of European CIBs

While most sectors of the European economy face the competitive challenges posed by the U.S., the relative decline of European CIBs over the last decade has been particularly sharp. Between 2014 and 2024, the number of European players in the top 15 largest M&A advisors in the EMEA region went down from five to only two. Similar downward trends can be seen in other highly strategic markets, such as equity and debt underwriting or trading activities, where European banks have lost market-shares even within their domestic markets.

The grounds to this competitiveness gap between U.S. and European CIBs are probably a mix of external and internal factors. They may include for instance differences in domestic macro-economic environments, diverging risk-appetite and innovation dynamics, as well as different cost structures. Some will also point to the role of securitization in helping U.S. universal banks optimize their balance sheet.

Regardless of which explanatory factors come on top, it is not for regulators to suggest specific remedies or strategies to reverse this trend, which by nature is an industry matter. However European

policymakers should be part of this discussion too, as they can contribute to improving the business environment and ensure that European players benefit from a levelled playing field.

In this regard, the first priority is to prevent any further deterioration of the situation. Although CRR3 came into force on January 1, 2025, the Basel III Endgame has yet to be transposed or implemented in the United States, and significant uncertainty remains about if and how it will be adopted. The United Kingdom has also decided to postpone its own set of rules, which exacerbates the situation for EU banks.

Certain banking activities are particularly sensitive to international competition and potential regulatory disparities, with market activities being among the most affected. Fortunately, in anticipation of the uncertainties surrounding the transposition of Basel III in the United States, EU co-legislators have equipped themselves with the means to respond to all possible scenarios.

Regarding the capital requirements applicable to market risks (Fundamental Review of the Trading Book – FRTB), which are a focal point of transatlantic competition issues, the European Commission has been empowered to postpone the entry into force of the new rules by delegated act for up to two years. This authority has already been exercised once, resulting in a one-year postponement to January 1, 2026.

The question of a further one-year postponement will need to be addressed promptly and this should be the right thing to do as we still lack clarity on the US/UK landing zone. Additionally, the Commission must propose a new delegated act providing measures to mitigate the quantitative and operational impact of Basel III on market activities for a period of three years, in line with another possibility opened by CRR3.

But regardless of what other jurisdictions do when it comes to Basel III, other significant steps can be taken immediately in order to help European players grow within their domestic market and participate in an efficient Savings and Investments Union. While US top-tier CIBs have expanded globally out of a deep, integrated domestic market, our European banking sector remains much fragmented along national lines, which prevents European institutions from reaching similar economies of scale and hinders their capacity to service their SMEs and corporate clients on a fully European basis. Part of this fragmentation is market-based and relates for instance

to the lack of standardization in banking products and client demand. But other aspects are regulatory by nature and could be reversed more easily, such as the current constraints on liquidity and capital management within paneuropean banking groups or overly cautious securitization rules. Besides integration, our banking sector would also benefit from a revamp of the European regulatory and supervisory framework, which has become overly complex for the industry. Streamlining regulatory requirements, in particular those derived from technical norms published by the EBA or the ECB, could be another material improvement of our environment. Now that European regulation and supervision have reached maturity, withstanding the past years' macroeconomic and financial shocks robustly, a simpler landscape would yield benefits for all, without sacrificing in any way the high standards for financial stability.

All these issues are pressing ones, which should be addressed through an informed, fact-based debate among public stakeholders. The Draghi and Letta reports have laid the ground by stating that financial markets and banks are part of the needed European effort on competitiveness. Now is the time to deep-dive into the banking competitiveness chapter: what the EU lacks is a shared diagnosis on the strengths and weaknesses of its banks, and on which actions to take looking forward. Some have recently suggested that the European Commission should bring forward to 2026 the publication of its report on the European banking sector, mandated by CRR3, and that it should include a dive into competitiveness issues into this analysis. We should all stand ready to contribute to this reflection.

SIMPLIFYING EU BANKING REGULATION



DENIS BEAU

First Deputy Governor –
Banque de France

Clearer, Smarter, Leaner, Stronger: simplification is not de-regulation

Over the last fifteen years, the European Union has made significant efforts to increase the resilience of its financial system. We can be proud of the progress that we have made so far both in terms of regulation, as the final package of Basel 3 has been implemented with the entry into force of CRR3, and supervision, with the successful integration of the Single Supervisory Mechanism. The European banking system has withstood the Covid-19 crisis, the subsequent high inflation and interest rate hike cycle and the 2023 banking turmoil. Its resilience is a testament to the hard work of European supervisors, regulators and bankers.

This success should not prevent us from reflecting on ways to improve, by simplifying, our regulatory and supervisory framework. Calls for simplification are ubiquitous these days, and it is most certain that not everyone understands it the same way. As EU supervisors though, we cannot stress enough that simplification should not mean deregulation, but more effective and efficient regulation. The EU has

been a leading force behind the Basel 3 framework, which should remain the cornerstone of banking regulation in all jurisdictions.

A first step towards simplification should be to conduct a “holistic” assessment of all the standards that apply to EU banks, including level-2 and level-3 texts. This work should encompass micro-prudential, macro-prudential, resolution requirements and help us identify areas where the cumulative layers of regulation have produced unintended consequences, in the form of undue complexity or additional requirements, with no value added for financial stability.

Without pre-empting the conclusions of such an assessment, there are already some well-identified areas with high potential for simplification.

As the recent EBA stacking order and capital buffers report clearly shows, there are many more overlapping layers of capital requirements and triggers of automatic restrictions on distributions in Europe than in other jurisdictions, and these features are not mandated by Basel 3. Comparisons can be misleading, but they can also give us food for thought as they shed light on EU-specific added complexities. Obvious first steps in that simplification direction would be for example to align the European MREL requirements with the Basel TLAC requirements for large banks or to streamline the multiple parallel MDA triggers, which can create uncertainty in the forward-looking management of capital.

**Simplification should not
mean deregulation, but
more effective regulation.**

Securitisation is another telling example where simplifying the current EU framework, while maintaining the important safeguards that were introduced after the 2007-08 financial crisis, could contribute to reviving the market and therefore enhancing banks' capacity to finance the green and digital transitions. As detailed in a recent position paper by the Banque de France and the ACPR¹, several

simplification levers could be activated, such as more proportional due diligence requirements, streamlined transparency requirements, enhanced supervisory convergence or more efficient SRT process. The fast track pilot project recently announced by the SSM is, in this respect, a step in the right direction.

More fundamentally, another well-known EU-specific complexity lies in the fact that our Banking Union is still incomplete. We need to finally start making progress on cross-border banking integration within the European Union. To that end, we should remove existing obstacles to cross-border liquidity and capital flows, with sufficient guarantees in terms of intra-group support; and we should set up a hybrid deposit guarantee system to ensure European support for national systems as a last resort.

Lastly, we as supervisors need to pursue our efforts to simplify and streamline our supervisory practices, towards a more risk-based approach. With the “SREP of tomorrow”, the SSM has rightly begun to do so, with greater prioritisation of supervisory activities and a much shorter process. Besides, there is room for further simplification of existing processes, for instance by standardising supervision tools at the SSM level, as this will make the best use of resources and enhance efficiency, or fine-tuning the organisation between vertical and horizontal supervisory activities, in order to reduce the ‘prudential burden’ for both banks and supervisors.

Simplifying the EU regulatory framework is a most daunting task, but it is essential to ensure that the complexity of our framework does not act as an obstacle to our policy goals.

1. *All-hands-on-the-green-deck-BDF-ACPR-position-paper-on-securitisation.pdf*



JOSÉ MANUEL CAMPA

Chairperson – European
Banking Authority (EBA)

Prudential regulation strengthens European financing and financial stability

Bank Resilience comes from Stability

Over the past several years, the European banking sector has remained resilient to shocks and experienced limited direct impact, despite the elevated uncertainty, arising particularly from geopolitical and cyber risks. At the same time, lending has continued to support economic activity and contributed to absorb the most adverse impacts of some of the shocks confronting EU firms. This has been built on the foundation of financial stability that we have fostered through the implementation of post-GFC regulation.

It was these very conditions that allowed banks to weather the COVID-19 pandemic; preventing a health and economic crisis from turning into a financial crisis. Banks were able to support customers and firms with liquidity, which also subsequently ensured a quick rebound of the economy. The revamped regulatory framework also provided for resilience to the shocks of the Russian invasion of Ukraine, which triggered wider

geopolitical tensions, driving up energy prices and intensifying inflationary pressures across the globe. Equally, following the banking crisis in March 2023, it was these Basel rules that helped prevent broader financial contagion.

Throughout this time, EU banks have maintained strong capital positions as well as achieving historically high profitability in 2024. The capital and liquidity positions of EU Banks are strong. The CET1 ratio stood at 16.0% and the leverage ratio at 5.7% as of June 2024, comfortably above the regulatory requirements. LCR also remained at robust levels of 161%, with NPLs remaining at historic lows.

The Net Benefit of implementing the Banking Package

As structurally leveraged institutions, banks need sufficient capital to absorb shocks, but too much can result in a higher cost for the economy and hamper future investment.

Firstly, the robust regulatory framework provided strengthens the governance and the measurement of risks, which allows banks to be better equipped to take good credit decisions and adequately manage their risk. Secondly, macroeconomic impact assessments performed by the EBA, ECB and competent authorities, show that these regulatory reforms have only short-term economic costs, which are far outweighed by the long-run benefits coming from a reduction in the frequency and severity of financial crises.

Resilience and competitiveness come from the stability Basel provides.

Lastly, no evidence shows the cost of regulation has led to credit being rationed, with evidence pointing that, on the contrary, credit supply flows well when banks are strong, and those banks with higher capital ratios are better able to support the economy through an economic cycle.

Creating a Globally Effective and Efficient Regulatory Framework

The EU is implementing the Basel III standards, and the EBA is supporting this trajectory through the delivery of its assigned mandates. While there is a clear pathway of implementation ahead of us in the EU, it is essential this is mirrored across jurisdictions to ensure global

financial stability and a level playing field. Remaining uncertainties on content and timing threaten the global compromise reached. The full benefits of Basel III may only be realised if the standards are implemented as intended by all member jurisdictions.

At this juncture, more than a decade has passed since the GFC, and it is high time to implement what has been already agreed and follow the most recent GHOS pledge to implement Basel III in full and consistently. Only then will it be an appropriate point to monitor and provide for certainty within the framework. We should continue to work together for a set of common standards that will preserve open financial markets and capital flows across the world.



MARKUS FERBER

MEP, Committee on Economic
and Monetary Affairs –
European Parliament

Fighting red tape in EU financial services regulation

At the beginning of her new mandate, the Commission President has announced a remarkable change of course: competitiveness, simplification and burden reduction have become the new political objectives of the new European Commission. This change is arguably more than welcome and also overdue, given how much Europe's industry and also Europe's financial services sector have lost ground over the past couple of years.

While everyone can agree in principle with the notion of cutting unnecessary red tape and burdensome reporting obligations, the matter tends to get more complicated when one gets into the weed of things. With the omnibus proposals aiming to reduce non-financial reporting obligations, the Commission has proven that they mean business, yet those proposals have proven controversial among some stakeholders and the jury is still out if they are going to be implemented quickly.

A critical stocktake

While addressing the burdensome sustainability reporting and due diligence requirements is a welcome first step, we must not stop there. On

the contrary, following its simplification agenda, the European Commission should conduct a critical assessment of the Union's entire body of financial services regulation to identify unnecessary complexities and red tape. In that context, the Commission should also not shy away from giving recently adopted legislation such as the most recent iteration of CRD/CRR another hard look. It is widely considered that the European approach to implementing Basel III is among the most complex in the world, which is particularly problematic as other large players such as the United States are increasingly unlikely to implement the Basel III finalisation package in the first place. Arguably, such a stocktake cannot be done by Commission officials alone, but should be based on a broad stakeholder consultation in order to identify those elements that cause the biggest amount of administrative burden.

A new accountability framework for the ESAs

Such a critical stocktake of the body of EU financial services legislation should not stop at the level of Directives and Regulations, but should also look at delegated and implementing. Often such implementing legislation contains highly technical, and often highly onerous provisions. The same goes for so called level 3 legislation taking the form of guidelines or Q&As prepared by the three European Supervisory Authorities. For such measures, the ESAs enjoy a high degree of freedom as there are no political checks and balances. In the past, this has sometimes resulted in ESA guidelines being excessively complex and burdensome.

**The ESAs should be
given an effective toolkit
to deal with instances
of "Goldplating".**

This insight also leads to broader and more fundamental questions about the decision-making process within the ESAs. When it comes to designing guidelines or Q&As, the only level of accountability is the Board of Supervisors, who tend to judge any proposals only by financial stability standards and often overlook general competitiveness or proportionality aspects completely. Against that background and to achieve a more holistic perspective in EU policymaking, we need to think about a new accountability framework for the European Supervisory Authorities

that at the very least also involves the European Commission in the design of level 3 measures.

Fight against goldplating

While the European Supervisory Authorities can be a little overzealous in some areas, there are other where they have been too timid or have not had the right tools. One of the ESAs' most important jobs is to achieve supervisory convergence. One key element of supervisory convergence is to make sure that national supervisors do not stack up additional requirements on top of already burdensome European rules. Addressing and ultimately preventing such instances of so-called "Goldplating" would already go a long way in fostering Single Market integration and would enable companies to operate across borders much more easily. The general rule should be that - unless otherwise and explicitly permitted - that the level of ambition targeted in any Directive should be the level of ambition that Member States are implementing, not more, not less. While the Commission has some tools at its disposal to foster Single Market integration, most notably infringement procedures, they can be quite heavy handed and lengthy. In order to tackle "lesser" violations that do not quite rise up to the level of an infringement procedure, the ESAs should be given an effective toolkit to deal with instances of "Goldplating". Such a reform should feature prominently in any new ESA review.



DARIUSZ ADAMSKI

Director Finance Institute -
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Towards a more competitive banking regulation in Europe?

Stability oriented prudential regulation

Since the GFC the European banking regulation has focused on improving risk-based regulatory capital and capital management. As risk detection and mitigation are the main goals of prudential regulation, European banks are now much closer to the point when higher risk activities cannot go undetected and unaddressed. Greater risk sensitivity and granularity has clearly made the European financial system safer and more stable.

Basel 3 and its implementation through CRR3 are the most recent landmark steps in this direction. A much more integrated supervisory landscape additionally reinforces the resilience of the sector. The underlying ultimate objective is clear: only a well-capitalised banking sector equipped with sophisticated risk mitigation tools can sustainably serve the economy and spare the society externalities associated with excessive risk-taking.

No space for simplification in the current regulatory paradigm

The very notion of regulatory simplification does not sit comfortably

with this direction of consistent regulatory developments based on the course chosen several years ago. Simplification can help eliminate some of its most vexing complexities. MDA triggers in the incremental stacks for solvency and resolution purposes may serve as an example. However, arguably such complexities are not a flaw of the system but rather its intended characteristics. What now may be approached as excessively complex technicalities has been meant to reinforce sophistication of the regulatory paradigm.

Excessive stability at the price of competitiveness

Yet there is a price to pay for the increased systemic stability and resilience, a cost for all the regulatory sophistication cherished and developed since the GFC. Low risks inescapably entail low returns. They are not conducive to innovation because innovation always requires risk-taking. Banks certainly have a significant role to play in covering European investment needs. However, the evolution of the regulatory landscape in Europe has not stimulated modern investment banking activities. Quite to the contrary, it has contributed to very conservative approaches to risk-taking in banking activities. And very conservative business models promoted by the European regulatory paradigm may not be in a position to proactively seek potentially more profitable business opportunities.

This point leads to another one, related to compliance costs and global competition. Risk detection and mitigation entails additional compliance costs. This is precisely why the US Basel III Endgame, proposed by the Biden administration, met with such a huge resistance from US banks before it was abandoned immediately after the Trump administration had taken over.

One can denounce the US policy choice as potentially undermining financial stability, making non-EU banks more prone to excessive risks taking. But at the same time higher risk appetite and lower compliance costs make the very same banks more competitive and capable of pursuing modern investment banking activities. It makes them more profitable and expansion-ready, while the regulatory straightjacket and the resultant low risk appetite have put their EU counterparts in a more difficult position. This is arguably why the Draghi Report called the EU to “assess whether current prudential regulation, also in light of the possible upcoming implementation of Basel III, is adequate to have a strong and international competitive banking system in the EU”.

In the SIU Communication the Commission announced that it will “publish in 2026 a report assessing the overall situation of the banking system in the Single Market, including the evaluation of the banking sector’s competitiveness”. It does not promise any bigger paradigm shifts, though, while the very idea of simplification implies that only tweaks at the margins are needed. This may lull European decisionmakers into self-congratulations while non-EU banks improve their competitiveness.

Deregulation may not be the best expression for what ought to be done to prevent the EU from losing distance to front-runners – undoing regulation for the very sake of reversing previous developments may do more harm than good. We should be mindful, however, that the principles and objectives of banking regulation crucial for the system’s resilience several years ago may not be entirely adequate today. And EU regulation is still stuck with a policy paradigm undermining the very foundations of the sector’s competitiveness. With the Basel III Endgame discarded now the call expressed in the Draghi Report to review prudential regulation more profoundly should be taken very seriously.



CHRISTIAN CASTRO

Head of Public Affairs –
CaixaBank

From regulatory simplification to regulatory efficiency

The new European Commission has outlined its strategic roadmap, the Competitiveness Compass, which translates key insights from the Draghi and Letta reports into a structured policy agenda for the upcoming years. This framework aims to align EU policies with the evolving global landscape by prioritizing strategic autonomy, reducing dependencies, enhancing security and defence, and closing the innovation gap. At the same time, it suggests starting a process of regulatory simplifications aimed at enhancing both the efficiency and quality of decision-making, while addressing the fragmentation of the single market.

Regarding the financial sector, the ongoing simplification plans are expected to rationalize existing requirements and align the current regulatory framework with EU strategic priorities, while safeguarding financial stability. These are, of course, very much welcome developments.

Over the past 15 years, regulatory enhancements, combined with banks' own efforts to improve their practices, have enabled Europe to build a highly resilient banking system. This strength was evident during the pandemic

and the crises affecting US regional banks. However, this has also led to an increasingly dense and complex regulatory framework, with multiple levels of rules and several European and national authorities involved.

Against this backdrop, the quest for regulatory efficiency could be divided into three fronts: a) addressing the multiplicity of rules; b) reducing complexity; and c) adjusting regulatory instruments and approaches.

First, the multiplicity of rules. In recent years, there has been a proliferation of regulatory layers, including Level 1 directives and regulations, Level 2 technical standards, and Level 3 guidelines ('soft law') applicable across Europe. All this adds up to national legislation (eg: to transpose EU directives) and the corresponding EU and national authorities responsible for their monitoring and enforcement.

Consequently, more often than not, the supposedly soft law becomes de facto hard law, with little distinction from Level 1 rules in practice. Finding a common ground for EU-rules cannot come at a cost of creating multiple overlays of technical standards, principles, guidelines, best practices, and similar others. Gold-plating practices also amplify the net impact of regulatory standards, making them, in practice, much more burdensome than initially anticipated.

Moreover, there are unilateral measures such as windfall taxes, that distort the level playing field, increase market fragmentation and affects banks' profitability with a consequent impact on their resilience and the provision of credit to the real economy.

A chance to rationalize existing rules, reduce complexity, and use better regulatory instruments.

Second aspect is complexity. The Commission has launched proposals to simplify ESG-related reporting and disclosures requirements. But streamlining requirements is just one part of the solution. It is also relevant to ensure consistency among requirements, simplify classifications and avoid adding up requirements without a clear cost-benefit justification.

Most importantly, there are logical technical limitations in the regulatory

approaches and metrics to deal with new risks such as ESG. The Green Asset Ratio is one clear example. It is a reality that, from a technical point of view, to design a robust and consistent metric in just a few years is a very difficult task. By means of comparison, for 'canonical' risks such as credit or liquidity risk, it took more than 50 years to develop.

Another clear area of action is securitizations. The current framework is creating obstacles for investors and institutions. It would be helpful to explore areas where more flexibility could be introduced (eg: using principles rather than rules), better align requirements with risks, and establish simpler and faster due diligence rules.

Third, choosing adequate instruments. Especially for new risks such as digital, cyber, and climate risk, it is necessary to avoid a 'capital-centric' view. Simply more capital does not seem to be the best solution for all types of risks. These new risks require more flexible, adaptive, and qualitative approaches. They are eminently dynamic and evolving. Focus on outcome-based regulations would also provide greater flexibility.

It is also essential to avoid over-interventionist approaches which can closely resemble price-based regulation. This can seriously affect commercialization of financial products and services, including insurance.

In conclusion, the new political cycle in the EU begins with extraordinary challenges. However, it also comes with a clear vision for the path that Europe should follow regarding regulation: to improve efficiency. We have a clear chance to rationalize the multiplicity of existing rules, reduce complexity, and use better and fit-for-purpose regulatory instruments for new risks.



JOERG HESSENMUELLER

Chief Operating Officer
and Member of the
Management Board –
Standard Chartered Bank AG

Less but better: simplifying EU rules for a more competitive financial sector

Regulation is instrumental in the proper functioning of economies and societies. It creates the rules of the game for businesses and markets, while protecting the rights of citizens.

Through regulation, EU institutions have also integrated the Single Market by adopting common standards that allow for frictionless trade while concurrently protecting consumers and the environment.

Over the years, the EU has developed a sophisticated regulatory system. Yet, EU regulation has been growing faster than in other advanced economies along with its complexity. The question now is how to rethink the EU's approach to regulation.

Firms operating in the EU face an intricate regulatory web which can create unnecessary constraints, stifle innovation, and hinder their competitiveness on the global stage. While this particularly affects small and medium enterprises, heavily regulated

sectors like financial services are also deeply impacted.

The development of the Single Rulebook has benefitted financial institutions by setting a common set of rules. Yet, the volume and prescriptiveness of some of these rules, coupled with the complexity and length of the regulatory process, create a significant burden for a sector that is the foundation for the competitiveness of the entire European economy.

The accumulation of legislative change often leads to very complex regimes with overlaps and inconsistencies. For instance, climate transition plans' requirements have been introduced in multiple ESG regulations with inconsistent definitions and misaligned application scopes.

This complexity is further exacerbated by the growing tendency of EU legislators to delegate rulemaking powers to regulatory agencies when political issues remain unsolved at level 1 thereby affecting legal stability and introducing economic costs without explicit political negotiations.

Furthermore, the average 18-month duration of the EU legislative process does not allow to deliver results at the needed pace, particularly in the fast-evolving digital space. Regulation usually changes on first contact with the realities of the market, so it often needs to be revised soon after application. This ultimately affects the stability of regulatory frameworks.

**Simplification shouldn't
be just about recasting,
but especially about
adopting a new approach.**

Fragmentation introduced at national level adds an extra layer of complexity. Member States regularly "gold plate" EU legislation when transposing directives while national competent authorities often interpret and enforce rules differently. This misalignment across the EU undermines the EU's common goals while creating risks of regulatory arbitrage.

Turning to the external dimension, the increasing reliance of EU legislation on extraterritorial clauses in a changing context of limited global cooperation and increased sensitivities around national sovereignty is also a source of major challenges for in-scope companies. Conflicting requirements across regions

risk inhibiting cross-border flows, such as channelling sustainable finance to where it is needed most.

Against this background, we believe that a change in approach is urgently needed. EU institutions should prioritise simplification.

We therefore welcomed the recent publication of the Omnibus package related to ESG legislation, which tables helpful proposals to streamline existing complex rules.

Yet, simplification should not be just about revisiting the stock, but especially about adopting a new regulatory approach.

Going forward, we believe that the development of new legislation should always consider the practical implications in terms of international competitiveness, and final rules should not go beyond what is necessary to achieve policy objectives. There is a difference between essential and 'nice to have'.

Second, legal clarity should not be left to technical standards, which in turn should not be used to address unresolved political issues nor to introduce measures with significant economic effects without explicit political arbitration.

Third, the supervisory approach should promote convergence and minimise fragmentation across Member States to fully reap the benefits of a single market and attract greater domestic and foreign investments.

Finally, strengthening international cooperation is of paramount importance as current regulatory challenges are global and interconnected by nature. Local rules should be consistent with international standards and strive to be interoperable.

As the Draghi report highlights, now it is time to act. The reasons behind this shift in perception have never been so compelling, and we are pleased to see that the Commission is making proposals to deliver simplification.

In this context, at Standard Chartered, we remain fully committed to engage with policymakers as they grapple with how to address today's fast-moving policy questions in a fashion that supports both growth and international coordination.



SANTIAGO FERNÁNDEZ DE LIS

Head of Regulation – BBVA

Competitiveness of the EU financial sector: Simplifying the regulatory framework

The competitiveness of the European Union financial sector hinges on having resilient, profitable, and attractive banks that can effectively contribute to financing the economy. A competitive financial sector fosters investor confidence, creates economic growth, and plays a vital role in shaping the future of Europe's economy. However, achieving this competitiveness is increasingly challenged by the fragmentation of the single market and the complexity of the regulatory landscape. In recent years, regulations have often become a barrier to growth and innovation, as they have grown excessively complex, fragmented, and misaligned with the needs of the financial sector. Simplifying the EU regulatory framework is thus an essential task.

Regulation: A double-edged sword

Regulation can be either a powerful lever for enhancing the competitiveness of banks if it provides certainty through a clear and straightforward legal framework, or a burden if it becomes overly complex, compliance-focused

instead of risk-based, or inefficient. Complexity needs to be assessed not only in quantitative terms (the number of regulations), but also in qualitative terms (i.e. complexity in the language, or the multiple cross-references to other pieces of legislation).

Over the years, the EU's financial sector has witnessed a growing rulebook, where regulations often overlap across various levels (EU-wide, national, and local), creating fragmentation. Different jurisdictions regulate the same areas but with varying speeds, approaches, and priorities, in some cases with extraterritorial reach. Operating in such an environment creates significant challenges for international banks, particularly in managing compliance costs and aligning policies across multiple jurisdictions.

But the excessive regulatory burden is not the only obstacle that stifles competitiveness. Other challenges include the failure to complete the Banking and Capital Markets Union. Additionally, the increasing intersection of banking regulations with horizontal legislation— especially in the digital and climate change domains — requires a cross-sectoral approach, so that their design does not create additional burdens on an uneven playing field.

Prioritizing simplification for a more competitive Europe

The European Commission has rightly recognized simplification as a key objective. Through the Competitiveness Compass they have outlined a set of measures to address regulatory complexity and promote economic growth. The objective is clear: simplify EU rules, align policies across member states, and improve the speed and quality of decision-making processes.

It is time to streamline and simplify the EU financial regulatory framework for the future.

A significant part of the simplification agenda includes focusing on reducing the administrative burden. The simplification of banking rules would foster a more resilient financial system. A stable and predictable regulatory landscape that is well-understood by all stakeholders is crucial for maintaining a competitive edge in the global financial markets.

Steps toward regulatory simplification

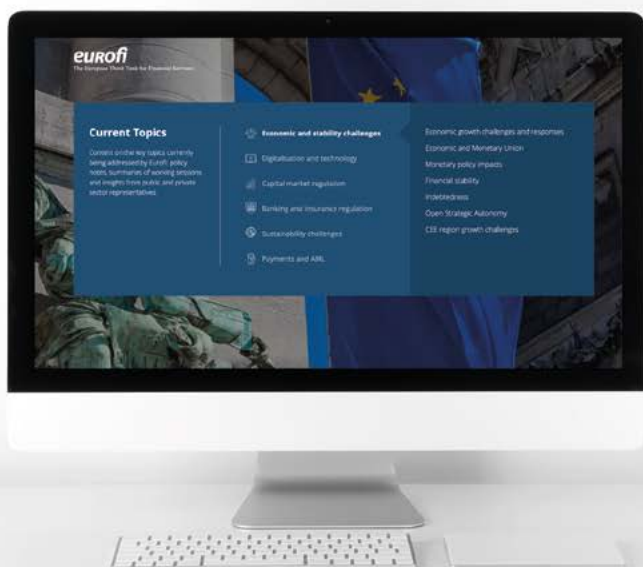
The simplification process needs to occur across all levels of regulation— Level 1 (EU laws), Level 2 (Delegated acts), and Level 3 (Q&As and Supervisory guidelines), and in all areas (prudential, sustainability, and digital regulation). It is key that simplification at one level does not imply more regulation at another level or at Member State level. The EC should also examine regulations that are in the pipeline, assessing whether they are needed or not.

A robust impact assessment must precede any regulatory changes to evaluate not only the implementation costs, but also the overlap with existing regulations, its coherence with international standards, and the impact on the competitiveness of European banks. If certain regulations are not meeting their intended objectives, regulators should revise or discard them. The burden of the proof should lie on the part of the need to regulate.

One of the most effective ways to simplify regulation for global banks is through greater regulatory convergence, to ensure that banks do not have to comply with disparate rules in different markets. At the same time, we should avoid extraterritoriality that often implies that EU banks compete abroad with more demanding standards than local players.

Conclusion

Simplification of the EU regulatory framework is a crucial ingredient of improving the EU banking sector competitiveness. Through a combination of reducing unnecessary complexity, converging regulations across jurisdictions, and conducting thorough ex- ante and ex-post impact assessments, the EU can create an environment that fosters growth and innovation. That will not only benefit financial institutions but also ensure that Europe remains an attractive market for investment and economic activity. It is time to streamline and simplify the EU financial regulatory framework for the future.



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Christophe Bories - Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France / **Petra Hielkema** - European Insurance and Occupational Pensions Authority / **Ricardo Garcia** - Bermuda Monetary Authority / **Ethan Sonnichsen** - NAIC / **Claudia Donzelmann** - Allianz SE / **Annick Felten** - Swiss Re Europe

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Jonathan Dixon - International Association of Insurance Supervisors / **Petra Hielkema** - European Insurance and Occupational Pensions Authority / **Francisco Espejo Gil** - Consorcio de Compensación de Seguros / **Xavier Michel** - Aéma Groupe / **Webster Coates** - Dai-ichi Life Holdings, Inc.



Q&A

MICHAŁ GAJEWSKI

Chief Executive Officer - Santander Bank Polska

Challenges and opportunities for Poland and the EU

What key development opportunities do you see for the Polish economy in the context of the current economic situation in the European Union?

After the transformation of 1989, Poland made a development leap, reaching a seven-fold GDP growth – the best in Europe and one of the best in the world.

After a short period of economic slowdown due to the COVID-19 pandemic, we can see the signs of economic revival. In 2024, the GDP grew by 2.9% while the forecast for 2025 is even more optimistic (3.5%). We are the leader of growth, and many investors turn to Poland, especially in the face of reshoring as European businesses need to shorten their supply chains.

Increasing the effectiveness of labour by higher expenditures on new production assets, more efficient management systems or automation of production processes are challenges of the Polish economy. Robotisation rate per 1000 employees in Poland is still four-times lower than in e.g. Germany, and it grows slower than labour costs.

Also, according to Eurostat, labour productivity in Poland has grown by 11.4% since 2019 – much above the EU average, similar to the US level. However, our starting point was lower and we have a lot of work to do.

Recently, development of infrastructural projects has also gained momentum. The investments in the Central Communication Port, high speed rail, local roads and expressway network are ahead of us. We still have to integrate less prosperous regions of Poland by developing public transport and decentralising our economic system so that development is not concentrated around the largest cities.

Our competitive edge is the educated and innovative staff whose labour cost is still lower than in Western European

countries. It creates a chance to attract large foreign investments in technological projects and R&D.

Polish companies face high energy prices as our energy sector depends on fossil fuels. The construction of a nuclear power plant, tapping the potential of on-shore and off-shore wind farms and development of an electrical grid to absorb energy from households to the system – those are the investments worth every penny.

Which sectors of the EU economy have the greatest growth potential in the coming years?

Europe has a chance to regain its competitive edge and get back on the quick growth track provided that it invests in four areas. First, technological research and AI, i.e. tools that help businesses transform and accelerate production processes. The development of the European economy cannot be based on technological achievements of the USA and Asian countries.

Second, investments in modern industrialisation to shorten the supply chain and stimulate the European labour market. The European industry must be rebuilt at a more technologically advanced level. We cannot go back to the extensive production economy from the past century. It is encouraging that the European Commission (EC) and leading countries of Western Europe understand this idea.

Third, transition to net-zero – meaning not only investments in the RES but also transformation towards energy efficiency. In the face of those challenges transformation is a must – it will cut production costs due to low energy prices and help mitigate climate change risks that Europe faces every year.

And finally, the fourth, most important change in Europe is the new defence industry funding model. We have witnessed a breakthrough change of Germany relaxing debt rules to boost defence budget. The EU has also taken some actions, e.g. a loan

package of EUR 150bn for member states, supporting not only arms purchases but also European companies operating in the defence sector and critical infrastructure. Those funds will boost development of many sectors in Europe. It seems that investments will remain high at least until 2030.

How can the banking sector support business development, particularly for small and medium-sized enterprises?

The banking sector in Europe is multifaceted and responds to the needs of every market segment. This is visible particularly in Poland, where the banking sector is very competitive, yet the demand for banking services keeps growing. However, the Polish banking sector is small when compared to Poland's GDP. Despite the solid PAT driven mainly by the net interest income, the banking sector's equity in 2024 accounted for 7.4% of the GDP, which is the second worst result in Europe. In the majority of the Eurozone it accounts for over 15% (in Luxembourg even 29.4%).

The recent years in Europe have been difficult due to persisting inflation caused by the war between Russia and Ukraine and growing energy prices. This triggered higher interest rates in the Eurozone, but also in Poland which still has one of the highest reference rates (5.75%).

Banks are still the most important entities financing enterprises, incl. SMEs. We know that geopolitical risks, uncertainty and high cost of funds keep the demand for loans at a relatively low level but we try to adjust our offering to every customer.

We can also play a role in boosting private investments in Europe by helping create new, safe and long-term investment products. Europeans have gathered massive resources that could help deliver those objectives. The EC works on broadening the access to such customised products (mainly pension schemes) and we want to play a part in it. Governments cannot take all the expenses, and banks have both the know-how and the potential for profit in the co-creation of such products.

What economic policy measures should be taken to enhance Poland's competitiveness in the EU and global markets?

We are in constant dialogue with the public administration and follow legislative projects of the EU. The banking sector needs clear and fair rules, while the market needs some deregulation

and legal stability to develop quicker and unleash the potential of many businesses.

We opt for introducing state guarantees for green loans. This will reduce their risk and cost of funding. Such mechanisms have been applied in some EU member states, also for other products, e.g. mortgage loans for families and strategic investments in the defence sector.

Investment incentives by the state will boost investment lending in Poland, which is currently too low. This is specific for the Polish sector – entrepreneurs have high cash resources, and the banking sector experiences excess liquidity, but an uncertain situation discourages indebtedness. The change of that sentiment could help Poland join the most developed countries already in the next decade.

Do the current banking regulations in the EU facilitate investment and economic growth, or do they require adjustments to better support entrepreneurship and innovation?

We can see pros and cons of the EU regulations. We opt for completing the capital and banking union to facilitate the exchange of funds within the EU and popularise banking services even more. This is undoubtedly the right step of the EC. We also look forward to deregulation announced by the EU in the current term of office of 2024-2029 (e.g. ESG reporting simplification, Omnibus). The business has waited for it for many years, and Santander Group also advocated for increasing competitiveness.

Some areas are overregulated, making it more difficult for the sector to operate, which affects financing of the economy. After the financial crisis of 2008 no one challenged capital requirements introduced to prevent the risk. Today, however, Basel III has been controversial because it imposes more and more excessive requirements onto banks.

In our opinion some regulations trigger the cost for banks without any benefits for customers, as in the case of a poorly designed banking tax in Poland that is based on assets and discourages lending.

We can also see that more efforts have been made to protect consumer rights, which is good as long as it does not imbalance liabilities of the parties to the agreement. We are concerned about the PSR and PSD3 that may lead to the bank's excessive liability for unauthorised transactions made at the customer's fault. We also oppose the actions of law firms challenging the reliability of WIBOR before Polish courts.

PRIORITIES FOR THE EU BANKING SECTOR



JOSÉ MANUEL CAMPA

Chairperson – European Banking Authority (EBA)

Financial stability and regulatory efficiency at the core of the EBA's mission

The Global Financial Crisis and the European sovereign debt crisis triggered two waves of major regulatory and supervisory overhaul in the EU. Enhanced prudential and resolution standards were an essential part of the international response. In the EU we complemented these reforms with the establishment of a Banking Union. This has resulted in more regulation and more intrusive supervision. These were intended. However, it is also important to ensure that they are efficient in achieving its goals.

Finance and banking are often complex activities. And rules governing this sector often mirror the complexity. Rules in the financial sector are risk-based, they need to ensure that risks in financial institutions are properly managed and accounted for. They also need to deliver on their objective of financial stability. The goal should be to provide complex rules when addressing complex issues, and proportional rules to the risks addressed. The rules should ensure that the burden in complying with reporting and supervisory requirements are minimised.

Efficient and Integrated reporting

When it comes to the EBA reporting framework, proportionality has been a driver from its inception. Increased proportionality and support to institutions in understanding and managing changes, following the implementation of the recommendations included in the EBA cost of compliance study published in 2021, contribute to reduce compliance costs. Focus is put on the “need to have” versus the “nice to have” as guiding principle both in the new and existing requirements.

The objective of more integrated reporting requirements is a catalyst towards more efficiency and effectiveness and less costs for stakeholders. The core idea is that authorities should closely collaborate in defining their data requests, to avoid redundancies and ensure that once the information is requested, it is shared among all the authorities. At the EBA we have been working at defining a fully harmonised and integrated supervisory and resolution reporting framework since our inception and all authorities are expected to thoroughly and openly assess and identify the data covered by it and streamline overlaps in their own requests.

Beyond that, the EBA is also working with competent authorities (CAs) to ensure that the reporting burden is not increased by unjustified additional requests beyond regular reporting. These requests may arise in the context of ad hoc data requests

to address specific concerns at a point in time, or from complementary requests by CAs to the reporting requirements in a specific topic. Such requests may be justified in certain cases, but the case for their need should be well explained, only for exceptional circumstances, limited in scope and temporary in nature. The EBA is also working with competent authorities on the assessment of the stock of existing reporting requirements from the perspectives highlighted above.

Additionally, the EBA is working with the ECB, CAs, and the industry, to achieve reporting integration in the banking sector, covering also statistical reporting, focusing on the definition of a common dictionary and common definitions. Ultimately, a central data collection point would be the long-term vision of the integrated system, to facilitate data sharing among all authorities.

**Efficiency provides simplification but
regulation should remain effective.**

The EBA contributes to regulatory efficiency

Beyond supervisory reporting, the EBA is also revisiting policies, products and its organisation more holistically in view to reduce administrative and undue burden and promote regulatory efficiency. The in-house Committee on Proportionality is advising the EBA since long on how to strike the right balance in delivering on its work programme.

It is important to scrutinise the framework at the end of a regulatory cycle and to revisit where policy products no longer deliver on intended outcomes. After fifteen years of the construction of the single rule book, and ten years of integrated supervision in the banking union, it is good to assess the relative performance of the rules and the role that supervisory convergence should play. We have made progress and with this progress things can be done differently, and the challenges differ. Yet, it is important that simplification and burden reduction equate by no means de-regulation. Financial stability relies on upholding our prior regulatory and supervisory efforts. Increasing certainty, simplicity and comparability of these existing rules may however strengthen the framework overall.



ANNELI TUOMINEN

Member of the Supervisory Board, ECB Representative –
Single Supervisory Mechanism (SSM)

Banks in a changing global landscape

While European banks have been resilient to large external shocks in recent years, there are unfortunately few signs of a “steady state” being within reach anytime soon in an environment marked by lingering uncertainty. At the global level, geopolitical risks remain high, shifts in macroeconomic policies by major players are possible, and regulatory uncertainties persist concerning the outlook for the full implementation of the Basel III reforms in key jurisdictions outside the EU. In Europe, the banking union remains incomplete as its third pillar of common deposit insurance is still missing, and progress on reinforcing our crisis management system (on the basis of proposals tabled by the Commission in 2023) has stalled. However, the recent strength that banks have shown in crisis episodes has led some commentators to question whether these improvements are really needed, instead arguing that capital requirements should be relaxed so that banks can be more competitive in financing the economy.

In the remainder of this contribution, I will outline how we can deal with these challenges and thereby reconcile policy objectives which may at first appear to conflict with each other.

Dealing with geopolitical risks and macroeconomic uncertainty

Geopolitical risks have the potential to affect both traditional and new risks in a multifaceted way that cuts across established categories. Potential changes in macroeconomic policies by large global actors could amplify such vulnerabilities, for example by compounding credit risks faced by banks in the context of a more sluggish economic growth outlook. Rising geopolitical risks in recent years have also been associated with an increase in reported cyber incidents. This has put banks' operational resilience and risk management frameworks under the spotlight.

We are aware that geopolitical risks are difficult to measure, especially in an environment of uncertainty. But we are asking banks to make an effort to take such risks into account in their scenario planning through the channels which they consider most relevant for their own business, and to make contingency arrangements for their risk management and governance practices accordingly. This also suggests that the principle which has served banks well thus far, which is that robust capitalisation is the first line of defence to guard against unforeseen external shocks, will continue to remain valid going forward.

Fostering a more efficient supervisory and regulatory framework

Several efforts are underway to streamline parts of the overall supervisory and regulatory framework in order to reduce its complexity. Last year, we announced a number of reforms

to our annual bank health check to ensure that it is more risk-based. With this guiding principle in mind, we are now looking at which other supervisory processes could benefit from a similar approach to make them more effective. The European Commission recently put forward proposals to simplify corporate sustainability reporting amongst others (the “Omnibus” packages). The ECB is contributing with measures to harmonise banks' statistical reporting. We have developed a database to keep track of ad hoc reporting requests to banks, and joint initiatives are underway with other European and national authorities as well as with the banking industry which should bear fruit in the medium term. The European Banking Authority is also looking to create a task force on simplification to carry out an overall review of the single rulebook.

Regulatory simplification should not come at the expense of banks' overall resilience.

While there is scope for additional regulatory streamlining, this should not come at the expense of banks' overall resilience. We should avoid repeating past mistakes where banks were often at the root of, or contributed to the amplification of, crisis episodes. Rather than debating the purported need to lower banks' capital requirements, which I would not favour, we should instead focus on boosting competitiveness through a more integrated system with harmonised requirements. This is also why it is important to complete the banking union as originally envisaged.

Conclusion

In a changing global landscape, the current debate on how to improve the growth and competitiveness of the European economy is welcome. Recent developments suggest that increased spending in defence will be needed going forward, which will come on top of the large financing needs related to the green transition. There are clear limitations as to what banks can reasonably be asked to do in these domains, which is why it remains critical to advance plans to establish a capital markets union. It is a good time for all stakeholders concerned to further buttress the resilience of the European financial sector.



MICHAEL THEURER

Member of the Executive Board – Deutsche Bundesbank

To implement, or not to implement: Geopolitics and Basel III

To implement, or not to implement Basel III? That seems to be the question on everybody's mind.

The new US administration's debate about if and how to implement the Basel III Endgame has sparked debate in the EU as well: Is European banks' competitiveness at risk due to a possible rollback of US regulations?

The evidence tells a different story. Inadequate (global) regulation and soft supervision made the 2008 financial crisis possible.

In contrast, the Basel III regulations already implemented have strengthened financial stability. Thanks to these rules, Europe's financial system withstood the turbulence of the Corona pandemic and the banking turmoil stirred by the failures of SVB, Credit Suisse and others.

At the same time, empirical studies find that the Basel III regulations did not have a significant negative impact on economic growth or lending activity. If we factor in the positive effects of regulation, like reduced volatility, the net effects on GDP tend to be positive.

Moreover, independent research shows that banks with higher capital levels tend to be more resilient and supply credit to the real economy more reliably, especially during times of crisis.

To be clear, bureaucratic red tape is a significant issue in every modern society, and it is something that the EU must address – and this concerns banking as well. But it takes a smart approach that reconciles financial stability with international competitiveness. How do we achieve that when finalising Basel III?

First, we remain focused on solid regulations to support sustainable credit supply for our real economies. If other jurisdictions were to dial down safety standards, turbulence from abroad might become more likely, making solid regulations at home even more useful. Will financial institutions then offshore? No, since many markets are rather local in nature and we expect institutions to have an EU license for the business they are undertaking on the continent. This concerns the overwhelming majority of banking.

However, second, with a view to international competitiveness and the level playing field, it is sensible to look into trading book activities, since these tend to be carried out in a truly global market – meaning that it is possible to offer them from anywhere to anywhere.

That is why the European Commission (EC) has a mandate, according to Article 461a of the CRR, to monitor the implementation of the fundamental review of the trading book

(FRTB) in third countries, and, “where significant differences are observed”, could amend the regulation; accordingly, the EC is monitoring international implementation progress and has already postponed the EU's FRTB-implementation by one year, to the beginning of 2026.

What are our next steps? Implementing FRTB-reforms on 1 January 2026 would allow to stop running old and new systems in parallel and could be accompanied by transitional relief measures. This approach seems practical. Since 2021, banks under the Single Supervisory Mechanism (SSM) have been using Basel III rules for market risk reporting. Supervisors have already conducted several inspections on this matter, and more are planned for this year. A significant portion of the EU's transition to these rules has been completed. The parallel use of Basel II.5 and Basel III systems is costly and it means that banks have to split their resources on two systems, where they should strengthen the new, the FRTB-approach.

At the same time, given the complexities and challenges associated with FRTB, it could be sensible to consider the above mentioned transitional relief measures to mitigate cliff effects. However, like we learned with the securitisation debacle during the 2008 financial crisis, trading activities can have significant externalities. Therefore, any of the potential relief measures have to be evaluated carefully – and should not be introduced if they lead to regulatory loopholes that could facilitate the build-up of bubbles or systemic threats.

**Basel III is and will continue to
be a solid and balanced basis
for sustainable progress.**

This very careful approach towards relief measures should also be applied, if the EC – rather than implementing the FRTB on 1 January 2026 – would understandably choose to delay implementation: The time gained should be used wisely to refine requirements where necessary, without compromising regulatory effectiveness.

We need financial markets that sustainably support the real economy. Thus, there is a genuine EU interest in sound regulation. A resilient banking system strengthens trust in stable economies, which is crucial in times of rising political and economic challenges. Therefore, while looking for sensible regulatory simplification, we should keep our regulation aligned with Basel III.



FERNANDO VICARIO

Chief Executive Officer – Bank of America Europe DAC
& Country Head, Ireland

European Banks - Key for EU competitiveness

EU banks stand at a crossroads, with a key role to play in the emerging Savings and Investments Union (SIU), while simultaneously facing challenges in a global landscape where European competitiveness slows. As the Draghi Report highlights, this requires considered thought and collective action.

Reflection is warranted on several fronts, including where investors are putting their money to work, and why historically we have seen a flow of EU capital to US markets, as investors seek superior returns. Higher US annualised returns have created a self-reinforcing cycle; stronger returns attract more capital and strengthened market depth, therefore widening the performance gap.

There is also evidence of US banks consistently investing in information technology. While not guaranteeing greater returns, this correlates with medium-term efficiency. Meanwhile, EU banks often face challenges upgrading systems, managing regulatory costs, and transitioning to cloud computing while developing digital solutions. Managing technology budgets and marrying maintenance with innovation is key. Scale matters as global banks leverage digital platforms to enter new markets. This is a competitive advantage EU banks must not lose sight of.

The EU has a real opportunity to collaborate and enable banks operating in the region to contribute to competitiveness through three key roles:

First, mobilising household savings currently in deposits, requiring harmonisation of investment products across EU markets and integration of financial infrastructures.

Second, increasing securitisation to transform EU capital markets, broadening investable assets while releasing banks' balance sheet capacity for further loans.

Third, enhancing EU capital markets by increasing secondary liquidity for EU assets through market making, a capital-intensive activity requiring larger international players.

However, progress in completing the Capital Markets Union and Banking Union remains a fundamental hurdle. Key obstacles include:

- A working EU Deposit Insurance Scheme
- Limited resolution mechanisms for small/mid-sized banks
- Siloed banking sector and lack of cross-border consolidation
- Varied legal and tax frameworks

This is a pivotal moment for EU based banks, that presents real opportunity. The EU could benefit from deeper capital

markets with more private sector financing and banking disintermediation, combined with expanded securitisation. The EU securitisation market has real room to grow. Securitisation offers well known benefits: risk transfer out of banks' balance sheets; increased lending without requiring more expensive capital; simultaneous financing for numerous SMEs; support for ECB policy, corporates and sovereigns during times of economic challenges.

This is a pivotal moment for EU based banks, that presents real opportunity.

EU authorities could also consider to review the prudential framework for banks. Capital requirements for equity, project and infrastructure finance exposures may be conservative, impacting banks' ability to support sectors necessary for an accelerated EU integration and competitiveness.

The approaching end of transitional arrangements for loans to unrated corporate clients could challenge SME financing without a pivot toward a more market-based economy.

Greater political and financial integration with a common fiscal capacity could also help enable EU based banks to compete globally.

The EU has a significant opportunity to truly deliver and now is the time to act decisively and empower its banking sector as a driver of competitiveness and growth.



BERNHARD SPALT

Chief Risk Officer – Commerzbank AG

Bridging the EU's funding gaps through the Savings and Investments Union

Mobilising private capital is crucial to bridge the Europe's funding. The Draghi Report underscores the critical need for private sector investment to complement public funding for sustainable economic growth, infrastructure development, and innovation in the EU. Given the financial challenges and ambitious targets set forth by the EU, public resources alone are insufficient to meet these goals. Recent statistics highlight significant funding shortfalls across various sectors. According to the European Commission, the EU needs to increase its annual investments in energy, industrial innovation and scale up and transport system by around EUR 480 billion compared to the previous decade – just for the clean transition – and the Savings and Investments Union can play an important role in this. According to Mario Draghi, EU household savings in 2022 were EUR 1,390 billion compared to EUR 840 billion in the US. Our own study from 2024 shows that 70 per cent of Germans focus on saving rather than investing.

But, despite higher savings, EU households have considerably lower wealth than their US counterparts, largely because of the lower returns they receive on their asset holdings. All of Europe stands to benefit from stronger capital markets, and banks are part of the solution – if they are enabled to do so.

Small and Medium-sized Enterprises Financing

Through specialised loan programs, credit facilities, and venture capital support, banks provide the financial resources that SMEs need to innovate, grow, and create jobs. This is particularly important as SMEs are the backbone of the European economy. Strengthening the securitisation market is one important short-term measure to free up capital for bank financing: The annual issuance of securitisations of GDP in the US was 4 per cent of GDP in 2022, while it was just 0.3 per cent of GDP in the EU. SRTs are the most powerful tool available to banks for managing risk in the portfolio while freeing up capital. Public recognition of securitisations as a driver of capital markets is a first step, but regulation must follow. For this, there is no silver bullet: a variety of technical changes regarding due diligence, transparency, capital and approval processes on EU and national level are needed to unlock the untapped potential.

Support retail investors

Turning savers into investors requires multiple things, including affordable advice for those that lack trust and experience in capital markets. Making investment advice affordable for everyone according to their needs, requires a mix of commissions and fees-based services. In addition, investors must receive clear and concise information and go through simple processes that do not create artificial barriers for them to enter capital markets. Increasingly complex questionnaires

and documentation during the advisory processes do not increase investor trust. What is also clear: No single product will be able to offer everything: high return, low risk, diversification and regional localisation. It will be key that investors remain in a position to make an investment decision that fits their intended purpose in terms of risk, return, objective and more. Investment must also become part of our financial culture, e.g. through incentives for the inclusion of capital-markets products in pension-planning. Creating eligibility for a wide range of retirement savings products will cater to diverse investor needs. Coupled with tax advantages and simple, diversification-focused regulations, this will facilitate direct investments in various assets.

Set the right incentives

Infrastructure projects take a long time to complete, yet long-term financing is subject to higher capital requirements under Basel. Additionally, the requirements for internal rating models have recently increased, which will likely lead to higher capital costs for long-term project financing business. RWA relief measures are an effective instrument to direct more external capital towards desired investment fields as long as they do not undermine the resilience of the banking sector. An infrastructure factor could be a helpful step. The review of the Green Asset Ratio is also important to incentivise transition financing.

Risk must be understood and managed but can and should not be completely avoided.

Perfection is the enemy of the good

Europe tends to strive for 100 per cent solutions and our regulatory framework becomes more and more complex, as we try to cover every possible scenario. But truth is: Risk must be understood and managed, but can and should not be completely avoided. This requires flexibility and judgement on what risk is acceptable. We need to focus on what's necessary for a good outcome and not paralyse ourselves trying to achieve all goals at once.

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BANKING UNION: COMBINING EU AND NATIONAL INTERESTS



PATRICK MONTAGNER

Member of the Supervisory Board of the ECB – Single Supervisory Mechanism (SSM)

Cross-border banking in the EU: from national silos to an integrated market

In today's competitive landscape, the number of pan-European entities remains very limited in the EU's still fragmented Internal Market, with many different national options permitted by the Capital Requirements Directive. This prevents European banks from achieving economies of scale, especially in terms of their IT systems. Removing barriers to integration will be key for European banks to remain globally relevant and continue to serve Europe's strategic interests. Restrictions on the movement of capital and liquidity persist, a legacy of the 2008 financial crisis, which resulted in ring-fencing practices that trap financial resources within national boundaries. The banking union was designed to break this cycle of fragmentation, but it remains incomplete.

When supervising a consolidated banking group, the ECB gives no

preference to either the parent entity or its subsidiaries. Our supervisory decisions are based solely on prudential considerations, not on national interests, and we have a strong track record of balanced, evidence-based supervision. The Capital Requirements Regulation does not, however, allow cross-border capital waivers. And while cross-border liquidity waivers are permitted, they have not been taken up.

The limited extent of cross-border integration reduces the potential for private risk sharing in the European banking market, increasing risks to financial stability rather than alleviating them. This fragmentation also hinders banks' ability to optimise liquidity management and undermines the diversification benefits of cross-border operations.

In the absence of major legislative changes, several practical options could foster banking sector integration.

As former ECB Supervisory Board Chair Andrea Enria suggested, "branchification" – converting subsidiaries into branches of a single legal entity – could be a way of overcoming capital and liquidity fragmentation within the current regulatory framework.¹ This model, while requiring careful coordination with deposit guarantee schemes, would avoid financial resources being trapped by allowing them to be allocated freely within a single legal entity. Obstacles to "branchification" still exist, however, in the areas of corporate law and governance, taxation, deposit insurance and relations with host-country authorities.

Cross-border liquidity waivers are another way of fostering integration, and they could potentially be enhanced through contractual intragroup guarantees made enforceable through supervisory tools. The ECB has proposed incorporating group support agreements into recovery plans, which could facilitate cross-border liquidity waivers while maintaining prudential safeguards.² These practical approaches show that some progress towards integration is possible even in the absence of comprehensive legislative reforms.³

More importantly, completing the banking union would enhance the resilience of the European banking sector and Economic and Monetary Union more broadly. The European deposit insurance scheme (EDIS) is

clearly a critical missing element. Currently, the prevailing perception is that in a crisis, a bank's credit standing would still reflect the strength of its respective national deposit guarantee scheme and the sovereign's ability to provide the ultimate backstop.⁴ EDIS, however, would significantly mitigate host countries' concerns about deposit protection and make it possible to move financial resources more freely. Furthermore, the ECB strongly welcomed the European Commission's proposal on crisis management and deposit insurance as an important step to increase the resilience of European financial markets in crisis situations and to address possible or actual failures of credit institutions within and across Member States.⁵

While legislative reforms are essential to reduce fragmentation in the European banking sector in many different areas, it is equally important for banks themselves to take proactive steps. European banks should leverage their current profitability to invest in modernising their IT platforms, ensuring they remain competitive and continue to provide high-quality services to customers across several countries. By enhancing their IT capabilities and by developing integrated and tailored platforms, banks can overcome the constraints of outdated, fragmented IT systems and increase synergies and scale. This would enable smooth cross-border operations while providing a consistent customer experience throughout the EU. However, tailoring these platforms to align them with the diverse array of national laws, such as those related to consumer protection, can present challenges and incur additional costs. Nonetheless, these technological advances will improve efficiency and customer service while complementing regulatory efforts to create a more unified and competitive European banking landscape.

1. Enria A. (2023), "The integration of the EU banking sector and the challenges of global competition", contribution for VIEWS, *The Eurofi Magazine*, 13 September.
2. Enria, A. and Fernandez-Bollo, E. (2020), "Fostering the cross-border integration of banking groups in the banking union", *The Supervision Blog*, ECB, 9 October.
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4. *ibid*
5. *Opinion of the European Central Bank of 5 July 2023 on amendments to the Union crisis management and deposit insurance framework (CON/2023/19).*



PETER PALUS

Member of the EFC/EWG
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of the Slovak Republic to EU

It is time for banks to fully reap the benefits of the Banking Union

The EU is facing an unprecedented situation as it is confronted by a shifting geopolitical landscape and declining competitiveness. In spite of that, the EU holds a unique competitive advantage compared to other world regions - European integration and the potential of the largest internal market in the world. If it manages to remove unnecessary barriers and obstacles within the internal market and fully leverage the single market, it could cultivate economic growth for decades to come. Moreover, with better efficiency in capital allocation, the financial needs identified by Mario Draghi in his report should be manageable. This challenge is also evident in the Banking Union, which, from a regulatory perspective, is undoubtedly a success. An integrated architecture based on harmonised framework has been established with harmonised prudential rules, a single supervisor, common resolution framework, and harmonised deposit guarantee schemes. However, the banks and consumers are still unable to fully reap the expected benefits. From a macroeconomic perspective, we are also not taking the full advantage yet, particularly in terms of the ability of

our banking sector to absorb shocks and thus mitigate the impact on the real economy.

The diagnosis of the current state and the way forward for strengthening and completing the Banking Union have already been formulated in the Eurogroup statement from June 2022. Its foundation is a holistic approach based on four workstreams; 1) framework for the management of failing banks, 2) common protection for depositors, 3) integrated single market and 4) diversification of banks' sovereign bond holdings. However, one key dimension is missing - a central focus on competitiveness, which could help to overcome the current deadlock. Given the recurring external shocks, along with a renewed emphasis on simplification, the Banking Union has a unique opportunity to leap forward.

The fundamental question in this context is: why does the EU have de facto almost identical conditions for a small local bank as for a cross-border international bank?

Unfortunately, this is a trap we have fallen into when creating the single market; driven by lack of trust and desire to protect national banking sectors and economies. To enhance the competitiveness of the banking sector, we should now seek to overcome this trap. Doing so could allow us to get over the current political deadlock that we have been unable to escape for a longer time.

**Apply the principle
of proportionality in
both directions.**

How? Why not starting with the creation of a fully-fledged Banking Union with a focus on large cross-border operating banks, allowing them to benefit from all advantages of the single market, including the free movement of capital and liquidity? Of course, this should come with an adequate transfer of burden-sharing to the EU level, including the establishment of a fully-fledged EDIS and the "Europeanization" of said banks. This means overcoming their link to member states by addressing the so-called sovereign-bank nexus and eliminating home bias. At the same time, the principle of proportionality should be applied for smaller and mid-sized locally operating banks. This includes opening a discussion on whether such banks need to fully

comply with all Basel III standards. In this way, we would apply the principle of proportionality in both directions. The system must remain open and support market access, yet it cannot be regulatory locked in favour of one group over the other. Of course, from a consumer protection perspective, such a structure must not lead to disparities. To sum up, the unity of the Banking Union must be preserved; only with a better incorporation of the principle of proportionality for its participants. This would lead to greater competitiveness of EU banks at the global stage and increased efficiency of EU banks at the local level.



ALBAN AUÇOÏN

Head of Public Affairs –
Crédit Agricole S.A.

The cost of the Banking Disunion

The growing competitiveness gap between the US and the EU economy is now thankfully at the centre of the European political debate.

Between June 2015 and September 2024, the average return on equity for the European banks supervised by the ECB was 6.4%, compared with 10.4% for US banks.

The EU has been falling back because it is paying the price of the fragmentation of its single market for banking and therefore the opportunity cost of the banking disunion. In a more and more conflictual global economy, the Single Market is our strongest asset and can be leveraged on for growth. As the IMF underlines, after the enlargement waves of 1995 and 2004, regions in new Member States saw their average GDP per capita rise by more than 30% compared to similar regions outside the Single Market. This highlights the growth potential behind integration.

We must think of Banking Union as an integral part of the Single Market. It is essential for financing the substantial investment needs linked to the energy transition, digitalisation, defence, European sovereignty and the ageing of the population.

The EU banking market remains significantly fragmented, with low cross-border synergies. Consolidated banking

groups are still unable to manage their liquidity and capital positions on a consolidated basis, leading to higher management costs, missed opportunities for better capital allocation and lack of stability through diversification. Notable barriers are the CRR3 output floor, which is set to apply by default at entity level, the capital and liquidity ratios, internal MREL obligations which hamper intra-group circulation of capital, and the macroprudential framework. Macroprudential tools' variety and intensity are much higher than in other jurisdictions. The O-SII buffer was activated neither in the US nor in China while it applies to more than 170 banks in the EU with national divergences that impact the level playing field.

These barriers result in poorly concentrated market structures. A larger number of smaller entities are competing for a reduced customer base – leading to a “high costs, low profits” model. This prevents the building of European champions capable of conducting EU-level activities and compete on the global stage.

Mario Draghi rightly describes this in his OpEd in the FT “High internal barriers and regulatory hurdles are far more damaging for growth than anything America might impose”. Enrico Letta, in a recent interview to RFI, highlighted that the European financial system risks becoming a colony of American finance. We have opened the EU's Single Market to third-country players, but we put impassable internal barriers that impede the development of EU players. EU banks need to challenge the dominance of foreign banks in Europe – where American Banks have 50 % of the corporate and investment banking market. EU banks need to assert their competitiveness on the global stage where our market share is shrinking due to a lack of reciprocity – European banks' share of US dealmaking fees has halved in a decade to represent only 12.6% of the total fee pool in the US in 2024. US banks command 78% of their national market and dominate by far the investment banking global landscape.

Tackling fragmentation in the Banking Union is the way forward.

In this new geopolitical context, either we suffer this economic war, which is rather existential, or we develop and strengthen our Banking Union and Capital Markets Union. One supports the development of the other, since in

both settings we risk being dominated by US banks and market players.

Central supervision in the banking sector has not helped to remove barriers. An integrated market cannot be built and promoted only through supervision. We cannot build a market via the police! There is a lack of trust in Europe – from certain stakeholders – towards mechanisms (resolution within hours) and EU institutions. For crisis management, we have built a huge and costly cathedral with no worshippers! They prefer staying at home. This leads to the creation of further obstacles across Member States.

We must think at consolidated level to overcome obstacles to cross-border activity. The Banking Union should be recognised as a single regulatory and prudential jurisdiction, to improve intra-group circulation of capital and liquidity, promote cross-border investments and foster the creation of European champions. Furthermore, resolution rules need to be fit for purpose and not distort the level playing field, at the expense of healthy competition. The CMDI framework is an administrative construction which does not address the economic issues of fragmentation.

The EU integration process was built through crisis moments, as a necessity-driven process. It has been a pragmatic approach. Hence, today, we call for pragmatism and a long-term political vision: tackling fragmentation in the Banking Union is the way forward to enable Europe to weather the current unstable global environment and strengthen its economy.



CHRISTIAN EDELMANN

Managing Partner Europe –
Oliver Wyman (UK)

Banking on unity: A strategic vision for Europe's financial future

The typical discourse surrounding the European Banking Union starts with a baseline acceptance of the status quo, suggesting that only minor adjustments are needed or even possible.

In the current geopolitical context of trade wars and the erosion of the rules-based order, however, a much more ambitious strategy is needed.

The industry has made significant progress toward integration in recent years through initiatives such as the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). But further integration is essential, not only to ensure all banks adhere to consistent standards but also to improve competitiveness on a pan-European and, ultimately, a global scale.

Consider sectors such as healthcare, telecommunications and automotive, which have embraced cross-border business and regulatory frameworks and now are well-positioned on the pan-European and global stages. In healthcare, the European Health Data Space facilitates the secure exchange of health data across borders, fostering innovation and enhanced patient care, while the European Medicines

Agency is the principal regulatory body, akin to the FDA in the United States. The telecommunications sector has benefitted from the European Union's initiatives to abolish roaming charges and establish uniform standards. In the automotive industry, European legislation governs the entire homologation framework, encompassing all regulations for obtaining new vehicle roadworthiness certification.

In stark contrast, the banking sector remains burdened by a patchwork of national regulations and supervision that stifles its potential for growth and stability across Europe.

In the European banking landscape I envision, a single license process would apply to all institutions of a certain scale operating across multiple markets, allowing them to function under a harmonized set of rules. Such an arrangement would enable them to provide services without the hindrance of varying national regulations or supervision.

All European banks would operate under a unified deposit insurance scheme, relieving them of contributions to national schemes where they exist. Liquidity would increasingly be managed in EU-level sovereign debt, with a weaker domestic sovereign nexus. Furthermore, consumer protection for banking clients and insolvency laws would be more aligned, fostering confidence in a genuinely single market.

The banking sector remains burdened by a patchwork of national regulations and supervision.

This wouldn't entail more regulation overall; indeed, quite the opposite. Given the importance and interconnectedness of finance, the EU may want to use the banking sector to create a blueprint that will ensure adequacy, effectiveness and efficiency across all European regulation.

Such an approach would create a market environment in which the management of both sides of the balance sheet is not constrained by a multitude of domestic regulations. It would be further supported by a revitalized European securitization market, facilitating active balance sheet management.

What's more, banks operating under an EU license would encounter significantly reduced challenges for cross-border mergers and acquisitions. Variations in legal structures between branches and subsidiaries would become absolute. Consequently, national regulatory and governmental bodies would play a substantially diminished role in these transactions.

As for timing, Europe's broader objectives urgently require a new approach to banking oversight. The unprecedented financing demands arising from the war and new security imperatives, green initiatives, and digital transformation cry out for simplified bank-capital requirements.

It is well-documented, for example, that Europe lags behind both the United States and China in financing for startups. U.S. companies, specifically, receive five times the investment compared with European startups. And in 2024, China launched a tech lending program in which the central bank collaborated with 21 banks to provide loans to small- and medium-sized tech companies at reduced interest rates.

Some might argue that adjusting capital requirements to provide relief for political objectives would violate the risk-based principle set out by the Basel standards. In that case, Europe would need to find a way to achieve its objectives with stronger involvement from development banks.

Either way, a more harmonized pan-EU regulatory framework for European banks is imperative. This needs to be complemented by a strategy to align the banking sector with the strategic financing objectives of Europe, covering the entire financing spectrum of banks, non-banks and capital markets.

The time has come to embrace a genuinely integrated banking union that will not only enhance financial stability but also stimulate innovation and growth—helping Europe become more competitive on the global stage than it is today.



JOE HENEGHAN

Chief Executive Officer, Europe -
Revolut

A competitive Banking Union requires a European Union ready to take on Big Tech

As always, Europe is strongest in a crisis. Even before the recent escalation in geopolitical tensions, the new Commission had prioritised accelerating the Banking Union, and reinforcing the Single Market across a range of financial services from savings, to investment and payments. The political determination in Member States and the Parliament to deliver those changes appears more robust than it's ever been.

While this new burst of energy and ambition for financial services is exciting to behold, to succeed in securing the future of finance, policymakers must redouble their efforts to regulate Big Tech. While much groundwork has been laid, thanks to the DMA and DSA, the next twelve months will be the real test.

Will social media platforms be required to take greater responsibility in preventing financial scams under the new payments services regulation? Will the Commission use its powers to genuinely force the big online platforms to treat European citizens and business more fairly? Will Europe again lead the world to drive beyond Open Banking to Open Finance and even Open Data?

On all of these issues, Revolut's stance is clear. Our priority is supporting policies that empower our over 50 million customers. We genuinely believe regulation can drive innovation and competition, but it must target the right things.

The rapid expansion of Big Tech into financial services presents a challenge that cannot be ignored. Companies like Meta, Google or Apple are transforming the financial landscape by leveraging their vast user bases, data-driven insights, and technological advantages. These firms provide digital wallets, peer-to-peer payments, and even credit services, all of which compete directly with banks. However, unlike traditional and digital banks, Big Tech companies do not face the same prudential regulations, capital requirements, or consumer protection standards. Their impact can often fall outside the traditional remit of purely financial regulators.

This imbalance places a disproportionate regulatory burden on financial institutions, making it hard for European Banks and fintechs to truly compete with Big Tech. Ultimately, it creates a two-tier system where highly regulated entities, such as banks, face disadvantages, while consumers are exposed to greater risks.

If left unchecked, this trend could lead to market concentration, reduced competition, and systemic risks within the EU's financial ecosystem. As part of the Banking Union, the EU must ensure that the impact of Big Tech on financial services is managed properly.

**The rapid expansion
of Global tech Giants
into financial services
presents a challenge
that cannot be ignored.**

One obvious short term issue is Big Tech's culpability, notably social media providers, in enabling scams against European citizens. These platforms have become hotspots for romance and purchase scams, investment fraud, and phishing attacks.

Revolut's most recent fraud report¹, based on data from the first half of 2024, highlights the alarming role of social media in facilitating authorised fraud across the EU. The findings reveal that over 60% of victims of authorised fraud were targeted via Meta platforms,

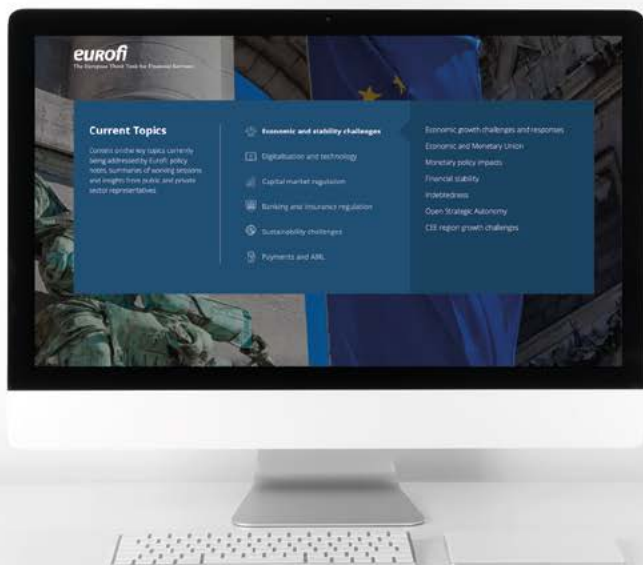
with Facebook accounting for nearly 40%, WhatsApp close to 20%, Instagram over 5%, while Telegram exceeded 10%, and X stood at around 5%. The trend is particularly striking at the national level: in Poland, more than 55% of authorised fraud victims were targeted via Meta, while in Denmark, this figure surges to 73%.

Despite being the primary gateway for financial scams, tech platforms face no liability for the harm they are enabling, specifically, no financial obligation to compensate victims, no penalties, and no accountability for failing to prevent fraud. The lack of robust verification mechanisms and insufficient coordination with financial regulators exacerbates the problem, leaving European consumers vulnerable. Even in the most obvious areas, such as when a platform is paid to promote fake ads by scammers, there is negligible chance they will be held accountable for the harm caused.

This issue is currently up for debate as part of the Payment Services Regulation. It is a very clear test of will for EU policymakers. To safeguard the integrity of the Banking Union, the EU must implement stricter oversight and enforcement measures to hold tech platforms accountable for financial fraud. While these companies should ultimately be financially liable for fraud, a key first step would be to ensure they only allow advertisements from financial institutions authorized by regulators and every ad using a financial brand is checked before it is shared with millions of Europeans.

The next twelve months is an opportunity for Europe to demonstrate its resilience, leadership, and vision for the future. Policymakers face a choice: either maintain an uneven playing field that favors dominant global tech companies or uphold the regulatory principles that have made Europe's financial system one of the safest in the world. We hope that they will rise to the occasion, meeting this challenge with the boldness and determination needed to shape a stronger, more integrated financial landscape. Now is the time to back Europe's banks, its fintechs, and its innovators.

1. https://cdn.revolut.com/pdf/Revolut_Consumer_Security_Report_H1_2024.pdf?utm_source=social_media&utm_medium=linkedin&id=fraudreport&utm_term=not_paid



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EU BANK CRISIS MANAGEMENT FRAMEWORK



**DOMINIQUE
LABOUREIX**

Chair – Single Resolution
Board (SRB)

MREL. A key tool to preserve financial stability and long- run competitiveness

The minimum requirements for own funds and eligible liabilities, or MREL, is a critical tool for ensuring resolvability at bank level and financial stability at global level, and is intimately linked to the ins-and-outs of the EU resolution framework.

In the wake of the Great Financial Crisis, global policymakers at the Financial Stability Board (FSB) worked to solve a twofold problem – ensuring the end of expensive banks' bailouts while putting in place industry safety nets in preparation of the next inevitable crisis. To this end, the FSB developed the Total Loss-Absorbing Capacity (TLAC) standard for global systemically important banks (G-SIBs). The TLAC requirement protects taxpayers by ensuring that bank shareholders and certain creditors are first in line to absorb losses.

Then, the FSB members implemented these standards at home. MREL is the

European Union's implementation of the TLAC standard.

Naturally, MREL is tailored to the specificities of the European framework. MREL differs from TLAC in two ways. First, MREL requirements extend to all banks earmarked for resolution and not only the G-SIBs. Second, MREL is much more tailored to the specific resolution strategies and characteristics of each bank. In practice, this approach means that requirements for G-SIBs in the EU look on average higher when comparing to their US peers. Crucially, EU banks can cover a large part of MREL, unlike TLAC, with cheaper non-subordinated liabilities.

Nevertheless, some European banks have been complaining about international level playing field. We need to be cautious here. Comparing only the percentage requirements in different jurisdictions is not enough. The wider picture matters. In fact, the prudential metrics that underpin MREL and TLAC – risk-weighted assets (RWAs) and leverage – are computed differently in the Banking Union and the US. With these factors at play, also coming from the macro-prudential framework – plus the key differences between MREL and TLAC – comparing between countries is anything but straightforward.

Also, MREL in Europe needs to cater for the rigidities of our framework. In the EU, in fact, shareholders and creditors must absorb losses for the equivalent of 8% of total liabilities and own funds (TLOF) before an institution can receive solvency support from the Single Resolution Fund. In contrast, other jurisdictions, such as the US, have the flexibility to invoke a systemic risk exception in certain situations – allowing them to bypass such burden-sharing requirements, as seen during the recent US regional banking turmoil. This is why, in Europe, a right amount of MREL is critical to underpin the credibility of a resolution decision without fostering moral hazard.

The situation should evolve further with the implementation of the Basel III regime. Basel III introduces stricter RWAs thus increasing capital requirements. MREL will mechanically go in the same direction. Though the interplay with other already existing requirements, such as the leverage requirement and the link to 8% TLOF, implies that MREL should increase

less than proportionally with respect to capital.

Regardless of the possible changes in the prudential framework, we should remember that one of the key lessons from the 2023 crisis is that when resources like MREL are absent, or not sufficient, the cost of intervention can be steep. Recognising this, the FDIC last year moved to expand TLAC-like requirements to more banks through its long-term debt proposal. The new US administration has not yet announced its plans for this reform. Meanwhile, European banks are at this point MREL compliant—putting us a few years ahead of the curve.

Reaching full MREL compliance in the Banking Union, in fact, took a whole decade. MREL buildup was one of the key items of a broader risk reduction agenda, devised and monitored by the Eurogroup, with the ultimate aim of breaking the risk of taxpayer funded bail-outs. Now that the MREL targets are met, it is not the time to backtrack. MREL targets serve us well. MREL, and the broader resolution framework, acts as an insurance policy for future growth, ensuring financial crises don't derail progress. This hard-earned gain deserves recognition, but the focus must now shift to banks' ability to deploy these resources in a crisis—a central theme of the SRB's strategy.

**Our system's credibility
hinges on banks having
enough loss-absorption
capacity in all scenarios.**

In conclusion, the credibility of our system hinges on banks having enough loss-absorption capacity in all scenarios. A credible and well-equipped crisis management framework, in turn, is the foundation of a dynamic and resilient banking sector. A stable and predictable crisis management framework makes the banking sector more resilient, which, in turn, drives competitiveness in the long run.



FERNANDO RESTOY

Chair – Financial Stability
Institute (FSI)

Resolution funding: finding the balance

The resolution framework that was put in place following the great financial crisis aims to provide credible alternatives to bail-out of failing firms. Banks' loss absorbing capacity (LAC) is core to the effectiveness of the framework. G-SIBs must maintain TLAC of at least 18% risk weighted assets (RWA) or 6.75% of total leverage (whichever is the higher). However, these are not the only banks that would be systemic in failure.

In the EU, LAC requirements apply to all banks in the form of MREL. Unlike the FSB TLAC Standard, MREL is adjusted for each bank based on its expected resolution strategy and considerations of resolvability. While TLAC is the baseline for EU G-SIBs, they are subject to an MREL add-on to align with the general EU approach to resolvability.

This approach has resulted in EU systemic banks being subject to higher LAC requirements than similar banks in other jurisdictions. It has been estimated that the EU requirements result overall in a surcharge of roughly 4% RWA for systemically important EU banks compared to those in the US.¹ Moreover, the scope of application of MREL requirements is wider than resolution-related LAC requirements in many other jurisdictions. Approximately 300 EU banks, including more than 80 large banking groups in the Banking

Union (BU), must meet MREL. In the US, only the 8 G-SIBs are subject to TLAC requirements.

Yet, the US regional bank failures of 2023 highlighted the importance of adequate LAC for banks other than G-SIBs, and, indeed, there have been moves in the US to expand that scope with a proposal to require banks with \$100 billion or more in assets to issue long-term debt sufficient to recapitalise the bank in resolution.²

However, it is valid to ask as well whether the EU implementation of LAC requirements poses burdens on EU banks that should be alleviated by reducing MREL or simplifying how it is set. It is impossible to calibrate LAC requirements with scientific precision, and simplification is always desirable provided that the ultimate objective is not compromised.

To answer this question, we need to look at the broader framework. Resolution is not credible or feasible without funding, but that funding can come from a range of sources which include resolution funds, deposit guarantee schemes (DGS) and governments, in addition to banks' LAC. The balance between LAC, that pushes the costs of failure management on to the bank's creditors and shareholders, industry-sourced funding, which mutualises those costs across the banking sector, and public backstop funding is a policy decision that is made in the wider institutional context.

Less stringent MREL requirements would need more flexible external funding in resolution.

The BU framework for the resolution of significant banks contains conditions for the provision of external support that are more restrictive than in other jurisdictions: thus, the framework includes possible funding from national deposit guarantee schemes and the single resolution fund (SRF). However, to the funding available from the national DGS in resolution is severely restricted by a stringent least-cost constraint. Moreover, access to the SRF is subject to conditions, including loss-sharing through the prior write down of at least 8% of the failing bank's liabilities and own funds. Furthermore, there is no such a thing as a systemic exception that could enable the above constraints to be overridden to make external funding

available for resolution in appropriate cases. Finally, there is no public backstop that could be used if other funding sources cannot achieve the resolution objectives.

While the current EU framework is unlikely to be optimal, it is internally consistent. The tight restrictions for external support certainly justify relatively stringent MREL requirements to facilitate bail-in. However, this is not to say that change should not be considered. There is certainly scope for enhancing the use of DGS funding in the resolution of mid-sized and small banks, and it is to be hoped that the CMDI package can achieve this.

However, any material reduction in MREL would probably need to be compensated by other sources of funding. It could imply, for example, relaxing the conditions of access to the SRF, but this in turn could mean greater costs are mutualised across the national banking sectors. Or lower MREL could be balanced by greater flexibility in public funding, such as the government stabilisation tools, but this could be inconsistent with efforts to break the nexus between banks and sovereigns. Although MREL calibration may appear to be a technical exercise, any material adjustment would require sensitive political choices.

1. *Resolution of banking crises: what are the loss absorbency requirements in Europe and the United States?*, Bulletin de la Banque de France, May-June 2024.
2. See M Gruenberg, "Remarks by Martin J Gruenberg, Chairman of the FDIC, on the resolution of large regional banks – Lessons Learned", August 2023 and FSB, 2023 Bank Failures – Preliminary lessons learnt for resolution, October 2023.

Disclaimer: The views are those of the author and not necessarily of the Bank for International Settlements.



LUDEK NIEDERMAYER

Vice-Chair & MEP, Committee
on Economic and Monetary
Affairs – European Parliament

Strengthening EU bank crisis management: A test of the EU's ability to deliver

The EU's single market is its most valuable economic asset, essential for stability and prosperity. However, progress in strengthening it has stalled. Increasingly complex EU regulations interact with national rules, creating barriers that make it difficult for businesses—especially small ones—to trade across borders. IMF estimates suggest that these trade barriers equate to tariffs of over 40% for goods and 100% for services.

A more integrated financial market would allow capital to flow where it is most needed, particularly in key areas such as defence, productivity, and decarbonisation. It would also help diversify risks, lower regulatory costs, and enhance financial stability. However, reluctance among member states to advance financial integration has stalled the Banking Union for over a decade, blocking initiatives such as DEBRA, which could boost equity financing in the EU economy.

Expanding the resolution scope to small and medium-sized banks

Extending resolution tools to medium-sized banks is crucial, given their regional economic importance. These banks require additional tools for crisis management to ensure financial stability, protect depositors, and reduce the economic impact of financial crises. Expanding rule-based resolution mechanisms would create a more resilient and integrated financial system.

Inconsistent resolution approaches and national ring-fencing

The lack of harmonised resolution practices across member states leads to uncertainty, regulatory fragmentation, and weakened trust between national and EU authorities. Instead of following a clear and predictable framework, many member states continue to rely on ad hoc state aid for crisis management. This undermines market stability and creates inconsistent outcomes for banks facing similar challenges. The absence of uniform rules also weakens the level playing field, which is crucial for healthy competition across the single market.

Additionally, ring-fencing measures, intended to safeguard the domestic financial stability of individual member states, further fragment the internal market and limit banks' ability to operate efficiently across borders. While national interests are legitimate, excessive ring-fencing contradicts the goals of a single financial market and reduces the competitiveness of European banks compared to their global counterparts. It also prevents efficiency gains that should be achievable for pan-European banks. Addressing these concerns requires greater harmonisation of resolution mechanisms and a more coordinated EU approach to financial stability, underpinned by mutual trust between regulators and the entities they oversee.

**Better EU bank crisis
management is key to
strengthening financial
stability and integration.**

Completing the Banking Union with a European Deposit Insurance Scheme

A crucial missing component of the Banking Union is the European Deposit Insurance Scheme (EDIS). Without full implementation, depositor protection remains uneven across member states, increasing uncertainty during financial crises. A unified deposit insurance scheme would enhance market stability, reduce the need for national

bailouts, and minimise risks associated with fragmented crisis management approaches. While EDIS is not part of the CMDI proposal, it is worth noting that the European Parliament's ECON Committee recently reached an agreement on the gradual build-up of EDIS.

CMDI as an important evolution

The proposed Crisis Management and Deposit Insurance (CMDI) framework aims to strengthen EU banking crisis policies by extending resolution tools to medium-sized banks, reducing reliance on taxpayer money through industry-financed safety nets like Deposit Guarantee Schemes (DGSs) and the Single Resolution Fund (SRF). Eligible banks that meet specific conditions could access these funds to protect depositors and maintain financial stability.

However, the CMDI proposal has faced significant resistance. Large banks oppose medium-sized banks gaining access to the SRF, despite financial stability concerns affecting institutions of all sizes. Some member states resist harmonised EU-wide rules, preferring discretionary national interventions. Additionally, proposed adjustments to MREL requirements for medium-sized banks using transfer strategies have sparked concerns about regulatory advantages for certain institutions.

These obstacles illustrate why progress on the Banking Union—and broader efforts to deepen the single market—has been slow. Overcoming these challenges would send a strong signal that deeper financial market integration, including initiatives such as the 28th regime, can advance, strengthening EU competitiveness and economic resilience. If these issues remain unresolved, Mario Draghi's warning that the current model is unsustainable could materialise sooner than expected.



NICOLETTA MASCHER

Head of Financial Sector and Market Analysis – European Stability Mechanism (ESM)

Strengthening bank crisis management through transparency and cooperation

The EU's bank crisis management and deposit insurance (CMDI) framework has enhanced system resilience, as evidenced by the 2023 crisis. However, remaining loopholes create uncertainty and impede further market integration. The lack of a European Deposit Insurance Scheme (EDIS) and insufficient resolution funding arrangements are key structural gaps. Such an incomplete architecture leads to uneven depositor protection across jurisdictions and undermines the banking union's objectives. Moreover, regulatory inconsistencies persist; addressing these through the CMDI reform would improve flexibility and predictability in managing crises, boost confidence, and promote harmonisation in areas essential for an orderly wind-down of troubled banks, ensuring an effective interplay of rules.

In the absence of a unified safety net, ring-fencing restricts the movement of capital and liquidity within cross-border banking groups. As a result, banking groups need to maintain extra resources at local level and ensure that

subsidiaries can continue operations independently in times of stress. However, this fragmented approach hinders integration, reduces efficiency in capital and liquidity allocation, and weakens the EU's ability to manage financial crises effectively. Ultimately, it weakens the ability of European banks to compete effectively on a global scale.

Funding in resolution remains a key gap. The Single Resolution Fund (SRF) and the European Stability Mechanism (ESM) backstop could provide essential funding, but the delayed ratification of the ESM Treaty creates uncertainties about the suitability of the framework in place. Moreover, without a reliable liquidity in resolution (LiR) mechanism, concerns over large bank failures and contagion persist, reinforcing home-host tensions and complicating cross-border crisis resolution. The EU's unique characteristics make the search for a solution more complex. Member States and EU institutions need to renew their efforts towards cooperative approaches.

Reforms should ensure that key elements, specifically EDIS and LiR, are credible, consistently applied, and backed by strong coordination. This requires decisive top-down action. Ratifying the ESM Treaty is essential to ensure swift access to resolution funding. In parallel, cooperation, transparency, and pre-emptive crisis management must improve to prepare the ground for broader reforms. Alert mechanisms should evolve to capture emerging risks and trigger timely interventions. Greater transparency through enhanced public disclosures can help build trust. Initiatives such as the European Banking Authority's centralised Pillar 3 disclosure hub could help boost market confidence by providing clearer insight into banks' financial positions. Although this is a good step forward, additional measures are necessary. Improved coordination between national and EU authorities is critical to boosting confidence. Cross-border crisis simulations and joint exercises can ensure that host and home authorities align expectations, thereby reducing the likelihood of unilateral defensive actions.

An incomplete bank crisis management framework impedes further market integration.

Further mechanisms are needed to reassure host countries. Trust-building requires legally binding intra-group support mechanisms for parent banks

to support distressed subsidiaries under clear supervisory triggers, reducing host authorities' concerns. Additionally, a LiR facility should ensure access to critical funding, preventing market panic and depositor uncertainty. Clearer guidelines for protecting depositors and critical functions during and after resolution would ease fears of disadvantaging local economic agents. Enhanced coordination and a more consistent application of macroprudential tools across Member States would be beneficial, with a stronger role of the European Systemic Risk Board to promote policy convergence.

A resilient banking union needs a stronger crisis management framework; we encourage progress on this front as highlighted in the Eurogroup Work programme. Key priorities include establishing EDIS, securing fully predictable resolution funding, and introducing legally enforceable intra-group support. On top, macroprudential policy convergence, early-warning mechanisms for emerging risks (including climate shocks, cyber threats, and geopolitical instability), improved data transparency, and cross-border coordination, would provide stakeholders with greater confidence in the shared framework. Stronger crisis management through coordinated action is increasingly critical to ensure financial and operational resilience, in the face of new global challenges. Trust is the foundation of financial stability: rebuilding trust requires closing structural gaps in bank crisis management to be able to move towards a fully integrated banking union, where all depositors are protected equally, and systemic risks are mitigated effectively.



MACIEJ SZCZĘSNY

President of the Management Board – Bank Guarantee Fund

Credibility is key for the future of EU bank crisis management framework

It has been over 10 years since the EU introduced the Single Rulebook and 2 of the 3 pillars of the Banking Union. While the Single Supervisory Mechanism (SSM) was implemented fairly smoothly, the Single Resolution Mechanism (SRM) continues to face challenges, and the European Deposit Insurance Scheme (EDIS) is yet to be regulated.

Since 2015, EU countries have dealt over 30 failing banks. Most were fairly insignificant in size, with no critical functions, and were resolved through national insolvency proceedings. However, even in cases involving larger banks, national regulators have tended to avoid applying the EU resolution framework. This reluctance prompted EU to propose the Crisis Management and Deposit Insurance (CMDI) package, with objective to:

1. Enhance the resolution framework and broaden its scope.
2. Strengthen the role of deposit guarantee schemes (DGS) in bank crisis management.
3. Harmonise crisis management approaches across the EU.

While there is broad consensus that the EU bank crisis management framework

needs enhancements, opinions on the best solutions for CMDI package vary widely. In the pursuit of compromise, efforts to accommodate the concerns of different stakeholders have led to increasingly complex structures and processes being proposed. As the head of the Polish resolution authority (BFG), which carried out four resolutions so far, I believe that adding further complexity to the crisis management framework is not the right approach.

To enhance the EU resolution framework, we need to build trust, between home and host nations, between Member States and EU authorities, and trust that the CMDI will make the resolution a practical solution for failing banks. To build trust, the CMDI package must be credible. Perhaps it is worth to take a step back and reassess the regulations from a broader perspective. In my opinion, resolution framework should be simple, flexible, and effective.

CMDI should prioritise simplified procedures. Resolution decisions are often taken within a short timeframe and under high uncertainty. An overly complex framework would be difficult to implement over a so-called “resolution weekend”. High complexity also increases the burden on banks, particularly in resolution planning and operationalisation testing. Our experience at the BFG suggests that a highly complex resolution framework does not resonate well with the general public, which undermines some of the key objectives of resolution, particularly financial stability.

Resolution framework should be simple, flexible, and effective.

To build trust in resolution, we should allow for greater flexibility. I believe that stringent burden-sharing rules have been major obstacle in applying resolution rules. BFG has very negative experience with bailing in uninsured deposits at a co-op bank in Sanok. It led to a loss of trust and liquidity crisis in the resolved bank. It prompted BFG to seek a private-sector solution, where the top 8 banks voluntarily contributed funds towards resolution of the systemic Getin Noble Bank to avoid any deposit bail in.

If safeguarding all deposits, became one of practical resolution goals, the framework would be simpler and more flexible. In my view, the possibility of

bailing in deposits is one of the main reasons resolution have been avoided as it is both economically and politically challenging. Therefore, once a failing institution passes the public interest assessment, in my view its resolution should ensure the safeguarding of all deposits. Bank that fails PIA should be subject to insolvency proceedings with only the guaranteed deposit payouts.

Implicitly guaranteeing all deposits in resolution would also require a more flexible approach to the strict 8% TLOF bail-in rule. It is surprising that such rigidity is applied to an arbitrarily set threshold, leading to excessive CMDI complexity to ensure compliance. I believe it should be sufficient to bail in any outstanding capital instruments and (MREL) eligible liabilities—excluding deposits—before public funds can be used for recapitalisation. Greater flexibility in the 8% rule would make the resolution framework more practical and reduce the need for complex discussions on the role of DGS funds in resolution. It would also cut banks’ regulatory burden—for example, IT systems would no longer be required to handle instant deposit bail-ins.

Finally, to make resolution more effective, MREL-setting rules should be reconsidered. Currently, many banks meet their MREL requirements primarily through core equity. However, by the time a bank is deemed failing or likely to fail (FOLTF), its equity has often been depleted. I believe that MREL should be set as a share of bail-inable debt or AT1 instruments only. This would ensure that at the time of resolution, an institution holds financial resources to be bailed-in.

In conclusion, a simple, flexible, and effective resolution framework is key to strengthening trust and ensuring resolution becomes the preferred solution for failing banks across the EU.



AXEL MARMOTTANT

Head of Capital and Resolution
– Crédit Agricole S.A.

Geopolitics force Europe to change: impacts on Bank Crisis Management?

Resolution aims at protecting taxpayers from state bail-outs and promoting financial stability. In the EU, CMDI reform aims at widening the scope of resolution to small and medium banks characterized by a regional scope. Today, **geopolitics force Europe to change: what are the impacts on Bank Crisis Management?** In these times of heightened geopolitical instability and alleviation of the regulatory burden in the American banking system, the priority for Europe should be to ensure the banking crisis management system enables the reinforcement of banking union with strong resolution authorities, promotes financial stability within Europe and enables adequate balance sheet management at bank level.

At a global level, indeed, the SRB should consider being the spokesperson of the European banking system vis-à-vis other international resolution authorities. This would have precise applications on the details of bail-inability of instruments issued outside the EU. The scattered questions asked by European banks to the international authorities is counterproductive and paves the way for a fragmented approach within European banks, which is problematic in case of deterioration of relationship with

international authorities, and notably American ones.

At European level, strong European authorities are key to enable the development of a true Banking Union. Thus, the competence and powers of the SRB Executive Session must be kept in order to avoid a diluted and fragmented oversight of resolution at national level, and prevent ring-fencing attitudes among member-states. The internal MREL requirements, systematically imposed to foreign subsidiaries, limiting the ability to freely allocate capital and impeding a free-flow of liquidity, are another key constraint that should be removed in a true banking union, thus fully acknowledging crossborder intra-group support, which would thus contribute to reduce the burden of the crisis management setup.

Then, **at banks level**, to ensure financial stability, the final version of CMDI should make sure that MREL remains the first line of defense in resolution, and restrict at a maximum the use of DGS to fund the MREL gap to access SRF. Indeed, bail-in has been promoted by BRRD to avoid state bail-outs, enabling the absorption of loss and recapitalization of banks by their shareholders and creditors.

In this context, minimum MREL ratios ensure shareholders and creditors bear the major share of the burden of resolution. A minimum MREL of 16% seems an adequate threshold, in line with the existing levels within EU.

A fine-tuning of CMDI is key to protecting banks competitiveness.

Furthermore, the resort to DGS for small and medium banks going into resolution needs to be clearly framed and restricted, to stay in line with DGS' initial goal, protect covered depositors and not to absorb losses. To this extent the "super-preference" for DGS needs to be kept in the creditor hierarchy. Limiting the access to the DGS or SRF is a way to limit additional contribution post resolution of all other bank participants, which would eventually be invoiced to customers. In addition, vigilance should be paid to post SRF contribution requirements in the final version of CMDI. Their level should avoid procyclicality.

Some unexpected side effects of CMDI at bank levels should be carefully monitored, notably when materializing

through additional costs eventually paid by customers. The list is extensive, three examples only here:

the current accounting treatment by banks of Irrevocable Payment Commitments (IPCs) used for the contribution to the SRF may be reviewed if some provisions require a call of IPCs on return of a banking license, and may materialise through significant unexpected costs.

any consideration of maturity in the creditor hierarchy would induce procyclical movements of creditors on their investments when a bank faces difficulties. This could lead to an unintended swift deterioration of liquidity coverage ratios, adding unnecessary trouble in a crisis situation.

additional layers of constraints applicable to retail distribution of Senior Preferred and Senior Non-Preferred instruments do not seem appropriate. This type of concern is already dealt with in the MIFID rules and is totally alien to CMDI topics. The operational complexity induced may dry-up this source of retail refinancing, a useful diversification of banks funding.

Thus, a fine-tuning of CMDI is key to protecting EU banks competitiveness.

Finally, authorities should pay attention to **cross-effects of regulatory packages**. CRR 3 entering into force, and notably introducing an output floor on Risk Weighted Assets, will eventually impact MREL requirements calibration: for eligible liabilities requirements as for capital buffers, the EU authorities (ECB and SRB) should target together a neutrality and a stability in the amounts required in banks balance sheets, keeping in mind protecting EU banks profitability is key in the current political and regulatory global context.

DIVERSITY IN THE EU BANKING SYSTEM



HELMUT Ettl

Executive Director – Austrian
Financial Market Authority

Cut the red tape, not the rules: simplifying finance without deregulation

Fanciful notions of deregulation are about to sweep across the Atlantic and could pose an enormous threat to our Global Financial System that has only just recovered from the last Global Financial Crisis (GFC). The lesson learned from the GFC was the need to build up regulatory capital requirements to protect our economy from the drivers of financial instability. From empirics we derived early warning indicators and capital buffers to prevent the worst-case scenario.

Yet, there is no glory in prevention. History repeats itself and many economists recall Hyman Minsky's "financial instability hypothesis" which states that investors and institutions begin leveraging up and taking bigger risks when the memory of the crises fades.

However, we have developed an extremely comprehensive and granular European rulebook. It therefore seems appropriate to re-evaluate this set of

rules with the aim of reducing burden and complexity. We welcome efforts to consider targeted simplifications that provide real relief to the institutions and supervisory agencies. Targeting simplification efforts to achieve better, not less resilient, supervisory frameworks is key to our future success as regulators and supervisors, or as European banking champions. Any efforts to simplify the regulatory framework must be based on a sound risk assessment.

This is where simplification comes into play. We should strive for an efficient financial system able to weather future storms. To achieve this, processes, requirements, and supervisory frameworks should be as simple and efficient as possible, and without unjustified costs. Simplification is a solution for reducing the administrative burden on financial institutions and supervisors alike. Deregulation, on the other hand, is a destructive strategy that jeopardises the resilience and hence the competitive edge of our European financial market.

A key question will be to what extent less granular regulation would provide supervisors with more scope for adequate, proportional application—proportional to the bank's business model, size, and risk. This naturally raises the question of maintaining a sufficient level playing field in the open European banking market. To what extent does the oversight exercised by the European Banking Authority (EBA) need to be strengthened?

In this respect, the question of risk tolerance and the associated flexibilisation of supervisory minimum engagement rules would also have to be discussed. The question of adequate risk tolerance is closely linked to the question of fault tolerance. As long as supervisors pursue an implicit zero-default objective, risk tolerance will remain low.

Efforts for simplification should be coordinated between European and national agencies: there must be a joint effort rather than a race to the bottom. Simplification must also not occur to the detriment of our international credibility: we must not exude any impression of the EU no longer being fully committed to international standards like the Basel framework. The European Single Rulebook has proven a gamechanger for the single market.

Can Simplification be guided by proportionality and uncoupled from the competitiveness debate? Small-to-medium sized institutions form the backbone of the Austrian financial market – such institutions aren't really in competition with US or UK banks. However, their economic performance should not be hampered by overly complex requirements. Instead, these players should drive simplification. Small-to-medium sized banks would benefit from burden reduction as it would lower the barriers to market entry. In turn this would support market diversification and provide regional institutions to rural regions.

Should we be discussing a two-tiered system with separate requirements ("small banking box") for big and small players, as was initially mooted and rejected in the early 2000s? Differentiation within the same system addresses challenges faced by banks with differing sizes, risk exposures, etc. without losing the holistic view of the entire market.

**Simplification must be
balanced with the need
to safeguard a strong and
resilient financial system.**

One final consideration should not be overlooked in the discussion about simplification and burden reduction: the banking industry has implemented the European rulebook. These costs have already been incurred. When implementing new changes, it should not be overlooked that they will entail new costs, and therefore a cost-benefit analysis should be conducted.

Simplification must be balanced with the need to safeguard a strong and resilient financial system and not be mistaken for deregulation.



PATRICK MONTAGNER

Member of the Supervisory Board – Single Supervisory Mechanism (SSM)

Balancing diversity and stability in European banking supervision

The European banking system has continuously evolved, with diverse business models emerging to meet particular economic and social needs. From mutual banks established to support specific communities to modern digital challengers addressing new consumer preferences, this diversity reflects the needs of EU consumers and our economic history. The creation of European banking supervision in 2014 was a crucial milestone in establishing a common supervisory approach that respects this historical diversity while ensuring that prudential standards are applied consistently.

Today, the ECB directly supervises 114 significant institutions across 21 countries, which form a rich ecosystem of banking models.¹ They include global systemically important banks (two of which are mutual groups) as well as domestic lenders, universal banks, sectoral and diversified lenders and more specialised institutions. This diversity strengthens the resilience of the financial system by reducing the correlation of risks at the macro level, yet it also requires sophisticated supervisory approaches. The design of our

supervisory framework is particularly relevant in this context, as it addresses the issue of proportionality. The ECB focuses on significant institutions while national competent authorities supervise less significant institutions, ensuring that the intensity of supervision matches the complexity and systemic importance of each institution.

The ECB's supervisory philosophy is neutral towards business models – any differential treatment stems from banks' risk profiles and complexity, not from their legal form or specific business models.² This principle is embedded in our Supervisory Review and Evaluation Process (SREP), where business model analysis plays a central role.³ Supervisors assess profitability drivers and key ratios based on long-term viability. They evaluate governance structures with an understanding of the differences between cooperative banks and commercial banks, and they compare banks against relevant peers.

The ECB is placing greater emphasis on the unique characteristics of specific business lines, individual banks and clusters of banks to better identify patterns or issues that require tailored supervisory actions. This proactive approach aims to develop supervisory strategies to address vulnerabilities at an early stage, potentially including escalation measures.

As announced in May 2024, recent reforms to the SREP methodology demonstrate our commitment to enhancing the effectiveness and proportionality of our supervisory approach.⁴ The revised framework has brought several improvements to the way we assess business models. The new methodology introduces a more structured assessment of banks' forward-looking strategies and their ability to implement these strategies. It also enhances proportionality, simplifying internal reporting for smaller banks.

The banking sector is facing transformative challenges that require close attention from supervisors. The need for enhanced IT systems is requiring substantial investments in technology while creating new operational risks. Banks need to significantly modernise their IT infrastructures, which are often burdened by legacy systems, in order to meet customers' evolving expectations for banking services, adapt to demographic shifts, enhance security and improve efficiency by reducing production costs. The Digital Operational Resilience Act is an important step in addressing some of these challenges, but questions remain about how to ensure a level playing field between banks and technology-

focused competitors that are willing to enter some of the traditional banking activities. In the EU, only a few – often relatively new – institutions have managed to create fully integrated platforms for some business areas to address these IT and data challenges.

The ECB applies high supervisory standards across a diverse banking landscape.

Market integration is another key consideration. Reducing system frictions can lead to more integrated EU banking groups, fostering competition, improved customer service and innovation. This requires strong governance and comprehensive risk management, which should be implemented effectively in both parent entities and their subsidiaries.

Overall, European banking supervision must balance the benefits of diversity with the need to ensure a level playing field. We need to maintain the integrity of the Single Rulebook, but we should also allow for a variety of business models, ensure that requirements are applied proportionately and support innovation while managing the associated risks. Success in these areas will be key to ensuring that the European banking sector remains competitive while serving the diverse needs of the European economy.

1. ECB (2025), "List of supervised entities", February.
2. See the "Strategic intents" page on the ECB's banking supervision website.
3. ECB (2024), "Supervisory methodology 2024".
4. Buch, C. (2024), "Reforming the SREP: an important milestone towards more efficient and effective supervision in a new risk environment", *The Supervision Blog, ECB*, 28 May.



SOLEDAD NUÑEZ

Deputy Governor –
Banco de España

Diversity of banking business models: a strategic advantage for the future

Europe's wide diversity of business models is not unique; it is a result of a historical heritage of finance adapting to the local economy. Europe's diverse economy necessitates a variety of banking business models. This diversity arises from economic dynamics that drive the coexistence of different business models to efficiently meet the economy's financial needs. It is important to recognise the strength that a diverse banking landscape represents for financial stability, as diversification is a robust means of mitigating risk.

However, it is crucial to clarify that supervisors and regulators neither promote nor support specific business models. Our primary role is to ensure the European financial system's stability by conducting thorough reviews to verify that banks have adequate risk management systems, robust governance and viable business strategies. Any business model must meet these three criteria.

Our responsibility is not to ensure the coexistence, complementarity and development of the diverse range of existing business models, but rather to ensure that each bank is viable and solvent. The market itself will

determine the business model's viability based on its adaptability to market needs. Supervisors analyse business strategies and their evolution in the course of monitoring banks' viability given the potential implications for financial stability. From the supervisor's perspective, therefore, any business model is valid as long as it complies with the established regulatory framework and ensures sustained profitability over time, guaranteeing its long-term viability and sustainability.

In this sense, supervisors tailor their actions based on a bank's characteristics and activities, which are tied to their business model.

The Single Supervisory Mechanism's latest strategic review implemented some new supervisory approaches, such as the risk tolerance framework, to better focus joint supervisory teams on each bank's specific risks. This risk-based approach, in tandem with the multi-year approach, aims to translate supervisory priorities into specific activities that allow for supervision to be more sharply focused on each bank's most significant risks.

In addition, in this ever-changing environment, both banks and supervisors must adapt to new market trends. Banks must position themselves to face new challenges and risks, adjusting their business models to new forms of client interaction, financing needs and competitors. Supervisors, meanwhile, must also tailor their methodologies to such aspects to ensure financial stability. Supervisory activities must be designed to accommodate new risks and the specific characteristics of each bank, which are largely defined by its business model. Ultimately, being more risk-focused means being more efficient. Proportionality in supervision should thus be determined by risk profile, not business model.

**All business models are
valid if they comply with
regulation and ensure a
sustained profitability.**

In this context, horizontal reviews, or transversal activities that complement other supervisory tasks, are often necessary to analyse some specific risks or general aspects of the activity. Nevertheless, the results must always be interpreted from the perspective of each bank and business model. Supervisors' in-depth understanding of banks allows them to properly interpret analysis

results, draw accurate conclusions and take appropriate measures to mitigate risks or deficiencies that they detect.

Furthermore, the regulatory framework must consider all the financial sector's characteristics. A fundamental principle for the proper functioning of markets and fair competition is that every actor must be subject to the same rules: "same activity, same risk, same regulation". However, there is room for some proportionality under this principle, especially regarding the reporting obligations of smaller banks, without undermining the purpose of regulation. We cannot lose sight of the fact that regulation is intended to establish a clear and stable framework that ensures a robust financial system that fulfils its function of efficiently channelling funds. It follows that all banks must comply with this framework.

In conclusion, the European banking ecosystem's intrinsic diversity results from the sector evolving to meet the economy's various financial needs. Regulators and supervisors cannot favour or oppose any particular business model, but must ensure that all are subject to the same regulatory and supervisory framework, ensuring a robust financial system. The diversity of business models is a valuable asset in the European economy. Consequently, it is necessary to ensure that all business models are able to adapt to the challenges that are currently emerging, such as digitalisation, the increasingly prevalent use of artificial intelligence and the imperative transition towards a sustainable economy.



JACQUES BEYSSADE

Secretary General –
Groupe BPCE

Diversity of European banking models strengthens the financing of our economy

The Draghi report published last September 2024 has made it clear how the EU economic landscape is alarming. The competitiveness gap between the EU and the United States has dangerously widened: between 2002 and 2023, the GDP differential increased from 15% to 30%. Moreover, Europe suffers from an investment deficit in new strategic technologies, compared to China and the USA which would require an annual investment of around 700 to 800 billion euros from the EU to bridge the gap.

Moreover, with their limited budgetary and fiscal capacities, both Member States and the European Union cannot finance all investment needs in transition, which the European Commission estimates to be around 1000 billion euros per year (600 billion for the green transition alone, 200 billion for the digital, and 200 billion for defense).

Public authorities and banks have the same objective: to ensure the effective financing of the economy and to achieve the EU's transitional goals: Digital, green, social, and strategic (EU Defense). This requires an appropriate framework

for supervision and regulation that allows each stakeholder to pursue this objective, with a proper balance between financial stability and the competitiveness of the economy.

That is why policy makers and private sector have to work hand-in-hand to deliver pragmatic solutions that will bolster our competitiveness. It will not be possible without a real simplification of the EU supervision framework, with prudential rules and day-to-day supervision respectful of the diversity of business models.

Firstly, it is important to keep in mind that without a strong and diversified banking sector, the EU economy will not be able to achieve its sustainable goals. European studies estimate the cost of the energy transition for EU countries around 1.3 trillion euros per year by 2030 and 1.54 trillion euros per year between 2031 and 2050. States alone will not be able to finance these needs. That is why, to finance our social, green and digital transitions, it is key that specificities of all banking models are recognised, especially the universal and cooperative banking model.

This unique model offers significant assets: a territorial approach and a strong relational model, based on genuine proximity to territories, serving all clients through a complete range of banking services, and providing long-term support to our clients. This is the DNA of BPCE which combines the solidity of a major international group with an in-depth understanding of all regions that we serve. BPCE finances 22% of the French economy and supports 35 million customers through more than 6000 branches in every region. The group is also a leader in access to housing, local authorities, the hospital sector, protected persons and the leading bank for local public companies.

**Recognising diverse
banking models and
simplifying supervision
will bolster the EU
competitiveness.**

Keeping that in mind, EU policymakers and regulators should adopt a new policy continuum based not only on the stability but also on the financing of the economy. That is why we fully support the French authorities in this approach, which requires real impact assessments on competitiveness and European sovereignty for each new piece of EU

legislation. This “financing the economy test” will be a real game-changer for the EU economy. It will, for example, show the real impact that the adoption of Basel IV would have on financing capacity, and allow us to make more informed decisions.

Secondly, we also need “Simplification” to boost the EU competitiveness and to achieve our main transitional goals. Some practical measures should be implemented in this regard. The “Savings and Investments Union” should pave the way for securitization, which will release the full capacity of the EU banking sector to finance the economy. Also, the new prudential requirements for market risk (Fundamental Review of the Trading Book - FRTB) should allow a proper development of capital market. Without a further one-year deferral and temporary adaptations, it will not be possible to ensure a level playing field with our main competitors.

I am convinced that the European banking sector, based on relational, universal and proximity models, is a powerful asset in these crucial times. We stand ready to work with regulators and supervisors to deliver real change, on the ground, where no other banks could deliver it. I am convinced that the cooperative relational banking model will allow Europe to reposition the financial sector as a strategic, long-term sector capable of engaging in ambitious investments. It is the way forward.

We should work collectively and rigorously. There is a new Commission, and it is time to put forward our ideas.



DANIEL QUINTEN

Member of the Management
Board – National
Association of German
Cooperative Banks (BVR)

One size, not fit for all: the Need for a new Approach to Banking Regulation

Since 2007 numerous actions have been taken to strengthen the banking sector. Enhanced capital and liquidity requirements and higher sensitivity for ESG risks have allowed credit institutions to master important shocks during the past years and be well-prepared for future challenges. However, the continuous striving for crisis resilience and for greening finance has created relentless regulatory machinery aiming to cover every possible eventuality with increasingly complex rules. During the past 10 years banks had to digest around 250 RTS/ITS and about 6800 Q&As. The European Single Rulebook has become increasingly burdensome to handle for all banks, but especially for smaller cooperative banks. For them regulation has become a threat to their existence. Mergers are the only way out. But when regulation -and not the market- becomes a predominant driver for mergers, then something is wrong.

To improve the situation, we demand a clear signal: a moratorium. No new regulation is currently necessary. We are now at a point where it is impossible for institutions to adequately follow

regulation at all levels, from EU regulations to Q&As, guidelines and supervisory expectations. The sheer amount and complexity of regulation has developed into a risk in itself. A moratorium would be a credible reset.

Such moratorium should go hand in hand with a holistic review of the entire regulatory framework, as called for by the central bank governors of Italy, France Spain and Germany. This review should include all rules applied to European banks, including at level 2 and 3, to prevent unintended regulatory complexity that exceeds the direction in level 1 texts. The assessment would encompass the microprudential, macroprudential and resolution frameworks, but also other areas where the European framework is too complex and may create competitive distortions.

But we even have to go a step further and make our rulebook more diverse in two ways: First, we need simpler – not less prudent – rules for smaller, non-complex institutions. The current rulebook is inflated, by standards developed in Basel for large international institutions and by all the Level 2 and level 3 bureaucracy. We need something simpler for banks operating locally and doing plain vanilla business. Simpler regulation does not mean regulation light. The simple regulation that we mean is much less complex, focused on a limited number of key indicators, but not less strict and it does not hamper competition. The British and the Swiss regulators and actually all other major jurisdictions outside the EU, have developed regulatory frameworks for smaller institutions, along these lines. Financial stability remains the name of the game, not regulatory paradise so that these frameworks could be a model for the EU.

**We demand a clear
signal: a moratorium.
No new regulation is
currently necessary.**

A diverse rulebook also has to better reflect the cooperative banking model and cooperative group structures as many features differ significantly. After the 2007 financial crisis, which cooperative banks mastered much better than many others, some particularities were considered in the regulatory framework. For a younger generation of regulators and supervisors, however, that is past history; uniformity seems to be key. Thus, it is increasingly difficult to raise understanding for

specificities, like our group structures. The key word here is “inverse pyramid” structure, meaning that small local banks own the big central institution and jointly control it. Or take “return on equity”. Our primary focus is member benefit and not profit and we only have to remunerate subscribed capital, not retained earnings. Thus, you risk comparing apples with pears when you do not consider the context. We therefore need to better anchor the diversity of business models in the single rulebook.

Finally, we believe that it will not be enough to adjust the rulebook. We need regulatory discipline, as outlined in the recently published and widely seen study “less is more” to which we contributed. That implies reviewing and refocusing the mandates of the ESAs with the aim of a stronger governance. The ESAs should only adopt guidelines or recommendations when explicitly mandated by level 1 regulation. Moreover, any RTS, ITS or guidelines should strictly respect the limits of the mandate given in the level 1 text, while the control mechanisms for level 2 and level 3 acts are enhanced. The Commission should get the right to amend drafts for level 2 texts, while the EP and Council should be able to object to parts of any standards only. More possibilities to appeal against level 2 and level 3 acts should be created both to the ESAs’ Board of Appeal and the European Court of justice, especially on the grounds of that the legal mandate was not respected.



ANDREAS PRZEWLOKA

Chief Executive Officer – State Street Bank International GmbH

Safeguarding the safekeepers: specificities and strengths of custodian banks

Global custody banks are not often at the centre of policy discussions yet they play an important role in contributing to the orderly functioning of the financial ecosystem. They facilitate access to the broader financial ecosystem, including the payment, clearing and settlement infrastructure, and by safekeeping and administering investors assets they help ensure the efficient allocation of capital underpinning savings and investments.

The custody bank business model

Safekeeping and asset administration services are at the core of the custody bank business model, with large institutional investors such as asset managers and asset owners as the typical clients. History offers some important lessons for the fundamental importance of custody banks. From the collapse of investment trusts in the 1930's to the Bernie Maddoff scandal of late-2008, investor are put at risk when their assets are not properly safeguarded.

Robust custody regulation, such as the Investment Company Act of 1940 and the UK Pension Act of 1997, has helped produce the highest protection for client

assets. These are lessons which are very much relevant today in the context of the development of the digital asset market, which will need to be supported by strong investor protection standards and a robust custody framework of the assets.

However, one point that is often missed from the current policy discussion is that even though custody banks are authorised, regulated and supervised as any other bank, their business model is unique and clearly distinguishable. As 'safekeepers' of their clients assets, custody banks do not make markets in the assets they service, nor do they make investments decisions on behalf of their clients. Similarly, custody banks operate as directed agents and do not have the ability to transact for their clients without proper instruction.

As a consequence, the liquidity, credit, market and operational risk profiles of custody banks vary from other types of banks, something that is not always adequately reflected in regulation and supervisory expectations.

A regulatory framework not always fitted to custody banks

One clear example is evident in the Basel 3 capital framework for credit exposures. While custody banks do provide important credit access to their investment fund clients, this lending activity is ancillary to their core business of safekeeping and asset administration and generally involves overdraft protection and other short term extensions of credit. As a result,

Preserving the role of custody banks requires tailored regulatory and supervisory frameworks.

the size and composition of the custody bank's balance sheet is mainly driven by the client's needs rather than by the bank's financing decisions.

Nevertheless, capital rules treat lending to regulated investment funds, such as EU UCITS, as exposures to unrated corporates, a category that does not recognize the unique nature of an investment fund counterparty. While the Basel 3 agreement creates a new category of "investment grade" corporates which receives a lower risk weight, unfortunately this is limited to entities with a public listing. This one-size fits all approach unfairly restricts custody banks' ability to provide credit to

EU UCITS and other regulated entities, which often need them to accommodate day-to-day operational needs. This is a point that will have to be further clarified by EU supervisory authorities once the transition period for corporate exposures comes to an end.

Evolving supervisory expectations

From a supervisory perspective, supervisory expectations in relation to climate and wider sustainability related risks will inevitably become even more challenging and complex, particularly with decarbonisation objectives over emissions from client assets held in custody and administration. Custody banks are not and should not be able to gate clients' ability to make investment decisions. Climate and other sustainability related policies should recognize that custody banks cannot influence client ownership of specific assets.

Finally, there is also a growing regulatory and supervisory focus on the growing importance of NBFIs. Under EU legislation, banks are already required to carefully assess and control their counterparty risks, including those arising from non-bank entities, standards that will increase further with the last Basel 3 package. In this context, it is important to realize that the relationships that custody banks have with regulated entities in the NBFI space are of high quality and low risk, with limited exposure amounts and virtually no history of credit loss.

Looking forward to stronger and more unified EU capital markets

As the EU focuses on a deeper CMU, one point missing in the policy discussions is the operational differences that continue to exist in the fund depositary and servicing space. The ability to achieve maximum scale and efficiency in EU fund operations is still limited today by the lack of a EU depositary passport. This contributes to a fractioned market and works against the prospects of developing truly European fund operations.



GUY CORMIER

President and Chief Executive Officer – Desjardins Group

Global banking: Different models, common goals

The diversity of banking models around the world is shaped by a combination of cultural and social values, economic structures, regulatory reforms and historical factors. In the US, a more flexible regulatory environment encourages innovation and diverse business models, while Europe's rigorous regulations prioritise stability and risk management. Canada, with its balanced regulatory approach, blends aspects of both, which influence its banking model. This regulatory fragmentation results in different banking models tailored to regional norms and priorities.

Diverse financial landscape

The US offers a competitive financial model with multiple players and state-specific regulations, benefiting from a skilled workforce, advanced infrastructure and a robust capital market. This culture encourages risk-taking and innovation. In contrast, Canada's financial sector is more concentrated, dominated by a few large players with a reputation for stability and resilience, as seen during the 2008 financial crisis and the COVID-19 pandemic. Large banks and regional institutions such as Desjardins Group, North America's largest cooperative financial group, are rapidly digitizing services to reduce costs and improve customer experience. European financial institutions, with roots

dating back to the Middle Ages, offer diverse banking models that reflect the economic and regulatory diversity of member countries, addressing regional needs and enhancing stability.

Diverse regulatory landscape

Canada's principles-based and proportionate regulatory approach strikes a balance between stability and innovation. By setting clear objectives without imposing rigid solutions, it allows institutions to adapt to changing market conditions. Proportionality tailors regulation to the size, complexity and risks of each institution, reducing the burden on smaller firms while maintaining security. Cooperation between provincial and federal regulators further strengthens the system, helping to harmonize rules and ensure a level playing field. This encourages innovation and supports a vibrant sector. Europe's regulatory framework, while coordinated at the EU level, allows for adaptation by individual countries, ensuring high standards of financial management and stability. Meanwhile, the US has a fragmented but flexible regulatory system that promotes stability, competition and innovation. Each system has its strengths, and the best approach depends on regional needs and objectives. Regulators face the ongoing challenge of balancing stability with competitiveness, fostering innovation while reducing burdens. Strengthening risk management and supervision is essential to prevent crises and ensure a level playing field, especially as we move towards a digital economy.

The harmonization of regulations strengthens the Canadian financial system.

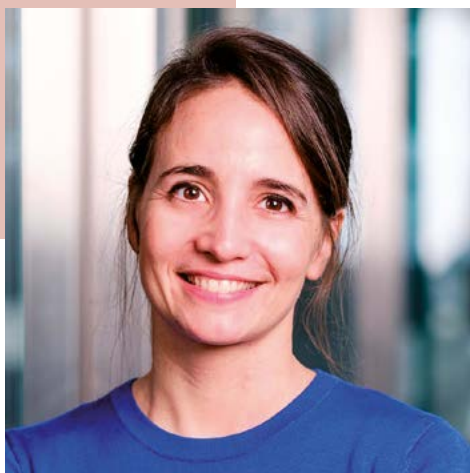
Desjardins Group: An efficient and robust cooperative model

For 125 years, Desjardins Group has demonstrated the effectiveness of the cooperative model within an adapted regulatory framework. With a presence across Canada and an international reach, Desjardins plays a crucial role in providing financial services to individuals and businesses while maintaining a robust democratic governance that has evolved over time. By combining modernity with co-operative values, Desjardins demonstrates that co-operative financial institutions can be both competitive and robust while remaining

true to their mission. A key element of Desjardins' success is its collaboration with its provincial regulator, l'Autorité des marchés financiers (AMF), and the legislature. This partnership has allowed Desjardins to maintain its cooperative structure while aligning itself with the regulatory standards of Canada's larger banks. This alignment is crucial given Desjardins' status as a systemically important financial institution. The harmonization of provincial regulations with federal and international standards has created a level playing field and enhanced the stability and soundness of Canada's financial system. This alignment is crucial as Desjardins issues debt internationally, ensuring compliance with best practices and international standards. This harmonization not only ensures Desjardins' competitiveness but also strengthens its credibility and reliability around the world. Finally, Desjardins has made the necessary investments and evolved its business to serve its members and clients as effectively as its peers. This dual approach of regulatory compliance and organisational discipline has been instrumental in Desjardins' success story.

Looking ahead

In today's interconnected global economy, with changing geopolitical dynamics, emerging technologies and risks, it's essential to address regulatory fragmentation and its impact on the diversity of banking models. Balancing competitiveness, innovation and stability is crucial to ensuring the long-term resilience of the global financial system, paving the way for growth, cooperation and a stronger future.



PRISCILLE SZERADZKI

Deputy Chief Executive Officer
– Confederation Nationale
du Crédit Mutuel & President
of the European Association
of Cooperative Banks

Diverse business models in the EU: fostering growth, innovation and inclusion

Europe can be proud of its banking landscape, in which cooperative banks play a key role. Over a century, we collectively managed to build a diverse and sound banking ecosystem, ensuring that citizens and businesses across the European Union have access to banking services that meet their needs and expectations. In this landscape, cooperative banks are able to provide “tailor made” banking services, adapted to all public segments. Answering each customer’s need is at the core of cooperative banks business models for the very simple reason that our decision-making processes rely on our customers, through their membership capacity. As a result, we cultivate client-centered relationships rather than product-centered ones.

Our strength no longer needs to be proven. Cooperative banks provide services to 210 million people – nearly half of the European Union population – and account for nearly 25% of retail

banking services across Europe. Cooperative banks provide critical support to SMEs, households, and underserved regions. Even in times of crisis, they have shown resilience, maintaining strong capital positions and continuing to support local economies.

To navigate the current environmental, digital and geopolitical transitions ahead, it is crucial not to weaken the sound European banking system, based on the coexistence of diverse business models and various governances. There is room for any viable business model. Therefore, we are supportive of a balanced regulatory framework that does not discriminate between business models.

A sound and well-balanced regulatory framework is absolutely key to ensure the protection of citizens and prevent financial crisis in Europe. However, we have now reached a point where an ever-growing set of highly prescriptive regulation, product-based rules - trying to catch up with an Anglo-Saxon approach -, supervisory expectations, reporting requirements as well as often-overlapping capital requirements, are making it harder for European banks to remain competitive. Ultimately, this situation presents a risk of diverting focus from serving customers in times of economic uncertainty. The continuous expansion of secondary legislation adds to the compliance load, potentially hindering innovation and business growth – especially when new market players do not face the same level of scrutiny.

**Europe can be proud of
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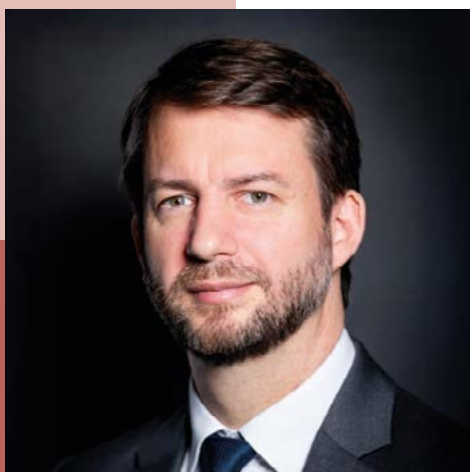
Now is the time to seize the momentum and strike the right balance: relying on our strengths that are coveted by many foreign players and fostering innovation thanks to an adapted regulatory framework, without creating unfair advantages. For instance, the rapid rise of digital-only providers and fintech companies – which often operate under lighter regulatory obligations and lower costs -, might create an uneven competitive environment, which could come to the detriment of customers, as these providers primarily serve the more tech-savvy segment of the population. In contrast, cooperative banks remain committed on the long-term financial well-being of Europeans, embracing technology while maintaining human connections amidst sweeping

digitalization. However, some legislative proposals risk limiting their ability to offer fairly priced services, pushing them toward a mere utility provider role and weakening their competitiveness.

Regulations that have a direct impact on the commercial activities of banks, such as the Digital euro and the Retail Investment Strategy, must therefore be carefully balanced. Cooperative banks, with their strong commitment to financial inclusion and local economic development, should not be hindered by overly rigid or restrictive rules. When it comes to the Digital euro for instance, unintended consequences on financial stability and local lending should be carefully managed.

On a global scale, the uneven implementation of Basel III reforms further underscores the need for a level playing field, as European banks continue to navigate complex regulations that are not always aligned with those faced by their non-European peers. As the European Commission works on its simplification agenda, we are supportive of a holistic approach, one that not only reviews existing legislation, but also carefully assesses frameworks that have yet to be implemented. New regulatory requirements should not come at the expense of growth, innovation and sovereignty. The Financial Data Access regulation, for example, raises serious concerns, as the regulation not only adds complexity, but also presents significant risks to cybersecurity and the sovereignty of Europeans’ data.

GLOBAL PRIORITIES FOR THE INSURANCE SECTOR



CHRISTOPHE BORIES

Assistant Secretary for Financial Regulation – Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France

A European method for a protective, competitive and climate-proof insurance sector

Over the past decade, the insurance sector has demonstrated remarkable resilience, notably thanks to the robustness of its prudential framework.

The entry into force of the review of Solvency 2 and of the IRRD early 2025 makes the European industry more equipped to face the current economic environment and climate-related challenges.

The Level 1 review achieves an unprecedented balance, succeeding both in reducing capital requirements, which will guarantee a better financing of the economy and greater competitiveness while also integrating the management of financial-related climate change risks. These new regulations are now calling for strong, coordinated translations into national law.

Transposing the IRRD will reinforce policyholder protection by better preparing the sector for potential financial difficulties. In parallel, the ongoing Level 2 discussions on Solvency 2 should be aligned and respect the balance reached in Level 1 discussions. The review of long-term guaranty measures (LTG) must be data-based, while the renewed long-term equity mechanism (LTEI) must enable insurers to take full advantage of it. Changes to prudential requirements for securitization will also be pivotal to contribute to the success of the regulatory reform announced by the Commission for this year.

As Europeans become more and more aware of the challenges ahead, we must continue to prepare ourselves. Industry, supervisors and regulators need to look ahead on the impact of climate change on all aspects of insurance sector operations.

First, we should support EIOPA's ambitions for a dedicated prudential treatment of sustainability risks. It must be carefully calibrated to address the urgency and reality of these risks while also maintaining the competitiveness of the industry. Second, as efforts regarding sustainability risk management plans are moving in the right direction, we share the goal of minimizing the burden on undertakings while establishing a coherent and proportionate approach to sustainability risk management. Coordination with existing sustainability reporting requirements, as well as a level playing field with the banking sector will be key. Third, we must continue our efforts to address the protection gap for natural catastrophes, as it is vital to ensure a wide coverage rate across all parts of the EU, particularly the ones most exposed ones to natural disasters. Thus we need to enhance our understanding of natural catastrophes' impacts. In this context, we must think broadly: reflections on a European-wide system to pool natural disaster losses could open interesting avenues, but any potential implementation will necessarily have to be coordinated, and consistent with existing national frameworks, as it should not disrupt what is already working well. The role of the private sector should not be overlooked, as room for improvements to better involve private capital still exists, such as the development of insurance linked securities and reinsurance captive undertakings as alternative ways or reinsurance to cover increasing risks.

Simplification is also a key factor for this success. It requires reviewing our regulatory building method, with more precise impact studies upstream, a strong principle of proportionality in reporting and a requirement for efficiency of regulatory requests. The review of the securitization framework must be carried out in this objective, by focusing on easing the reporting and due diligence requirements, which constrain the use of this tool too strongly.

Simplification also requires a pragmatic approach, including by modifying strongly proposals already on the table if they do appear to add complexity. The Retail Investment Strategy seems a perfect case study. Some simulations show that the customer journey time could be significantly lengthened (from 3 to 6 hours) and would lead to a large rise (+60%) of the volume of documents to be provided by insurers. Such an outcome would not align with the intended objective, making it necessary to implement a smart and extensive simplification of the proposal. The same goes for FIDA: while we share the ambition to create a favourable framework for innovation, the text currently on the table remains too complex, costly and appears to create new risks. As a consequence, we think that its impact on the European economy must be thoroughly reassessed to ensure that the risks and burdens it may involve do not outweigh its potential benefits.

**Regulatory stability,
climate readiness
and simplification
are key tools to face
current challenges.**

However, simplification should not be confused with deregulation: guaranteeing robust risk management, as the core business of insurers, is essential for our competitiveness and the protection of policyholders. The robustness of European standards is also a guarantee of Europe's competitiveness: through the adoption of the ICS by the IAIS last December, the EU is a standard setter at the international level, while allowing the entire globe to converge towards a common protective, robust and secure framework.



PETRA HIELKEMA

Chairperson – European
Insurance and Occupational
Pensions Authority (EIOPA)

Regulatory simplification and competitiveness: The challenge for supervisors

A robust regulatory framework is essential for a flourishing insurance sector. This is true not just in Europe, but also worldwide.

At a global level, the International Association of Insurance Supervisors (IAIS) is the body responsible for standard setting. The European Insurance and Occupational Pensions Authority (EIOPA) is actively involved in various aspects of IAIS work – EIOPA's Chair was recently elected as Executive Committee Vice Chair and EIOPA participates in other key committees. Together with members of its Board of Supervisors, EIOPA can ensure that global standards are robust, protecting policyholders and financial stability. Furthermore, EIOPA plays an important role in the development of implementation methodologies.

EIOPA's global cooperation efforts are driven by the recognition that the challenges faced in the EU are not unique but rather are shared by other regulators and supervisors around the world. The growing importance of

emerging risks like climate change and cyber risk and protecting consumers while encouraging market innovation are a few examples.

The recently adopted Insurance Capital Standard (ICS) is a good example of this cooperation. The ICS aims to provide a globally comparable, risk-based measure of IAIGs' capital adequacy, creating a common language for supervisory discussions on group solvency and promoting global alignment across group capital standards. It represents a significant step towards global consistency in the regulation and supervision of IAIGs and this can only help to reduce the challenges faced by insurers operating across multiple jurisdictions.

Many of the building blocks of the ICS can also be found in Solvency II, the framework regulation that underpins Europe's insurance sector, reflecting its overall effectiveness.

Nonetheless, a key challenge for regulators and supervisors alike is how to balance calls for regulatory simplification without compromising standards. This is particularly important considering the current debate around competitiveness. Insurers needing to compete on a global scale have cited burdensome regulatory requirements as a hindrance to progress.

Burden reduction was top of mind during the recent review of Solvency II. From supervisory experience, it was clear that improvements could be made to the proportionality framework. Reporting is undeniably an essential component of effective oversight yet can also be cumbersome.

The new framework introduces new rules for so-called small and "non-complex" undertakings, broadening the circle of undertakings that can benefit from proportionality measures, bringing about a more transparent and consistent application of the rules. Small insurers meeting a limited set of qualitative and quantitative criteria will benefit from proportionality measures following a simplified notification process to the supervisor. For all of them, this equals a reduction in administrative burden.

These new proportionality principles are a win for small and medium-sized insurers, for supervisors and the sector. Importantly this approach allows supervisory authorities to allocate their resources efficiently to more closely oversee large and complex firms with higher risk profiles. Finally, this approach supports market diversity, competition and innovation in Europe's insurance industry which are highly important factors for competitiveness.

However, reducing unnecessary burden and streamlining rules cannot be at any cost.

EIOPA's view is that a more efficient and proportionate regulatory framework will enable insurers, pension funds and supervisors alike to focus on what matters most: providing innovative, affordable, and sustainable financial solutions to Europe's citizens and businesses. By cutting red tape and eliminating unnecessary complexity, it becomes easier to unlock new opportunities for growth, investment, and job creation.

**There has to be a balance
between simplification
and keeping regulatory
frameworks fit
for purpose.**

Yet simplification should not undermine financial stability, high standards of consumer protection and the ability of supervisors to properly supervise. Before taking the decision to reduce data requirements, there has to be certainty that losing such data will not diminish a supervisor's ability to assess risk, or measure progress on sustainability and closing protection gaps.

It is therefore important that supervisors work closely with policymakers, regulators and industry to ensure that the right balance is struck between simplification and ensuring that regulatory frameworks remain fit for purpose. This is why EIOPA, in addition to active participation in the IAIS, also engages in bilateral regulatory and supervisory dialogue with third countries. By maintaining open and collaborative relationships with supervisors in Europe and beyond, EIOPA can contribute to a more cohesive and interconnected insurance regulatory landscape, ultimately supporting the stability and integrity of the European insurance market, as well as promoting sound regulatory practices across the globe.



RICARDO GARCIA

Managing Director – Bermuda Monetary Authority (BMA)

Bermuda's role in addressing the protection gap: Savings and natural catastrophe

Asset intensive reinsurance (AIR) is the reinsurance of asset intensive insurance products, which are characterised by having long-term nature and financial guarantees. AIR contracts are normally differentiated by their collateralisation arrangements. Circa 80% of AIR transactions in Bermuda are collateralised and in most cases assets are held on the balance sheet of cedents with its economics being transferred to the reinsurer.

Economic and demographic factors and a large retirement protection gap are the key drivers behind the growth in these transactions. AIR has grown materially in the US, but its growth has been on par with the growth of asset intensive insurance. AIR in the EU is immaterial and not expected to grow materially, because the demand and supply for guaranteed rate products are low unlike in the US. When done right AIR can carry benefits such as reducing the protection gap by providing capital to insurance guaranteed products, limiting shift to fee-type products where the investment risk is born by policyholders common in the EU, diversifying investment assets while enabling those that support the

real economy, better Asset-Liability Matching (ALM), etc. AIR, however, can also carry material risks such as aggressive investment strategies posing market, credit and liquidity risks, potential conflict of interest, inter alia.

Bermuda's risk-based solvency regime, which is Full Solvency II Equivalent, has NAIC Qualified and Reciprocal Jurisdictional Status and is compliant with the Insurance Core Principles of the International Association of Insurance Supervisors provides a good basis to supervise AIR, but its idiosyncratic risks require an additional layer of supervisory intensive measures for effective supervision. The BMA has made material supervisory and regulatory enhancements over the last two years, spanning across all three pillars of our regulatory regime to ensure it remains fit-for-purpose.

For quantitative requirements, changes were made to the valuation regime, including technical, governance and disclosure changes to and prior approval of the use of the scenario-based approach and enhancements to our lapse and expense capital charges. These changes had a material impact on the Total Asset Requirement (TAR) for asset intensive reinsurers.

Regarding qualitative requirements, since January 2023, all closed block life reinsurance transactions must be approved by the BMA and we engage cedent regulators as part of the approval process; the BMA does not approve transactions that regulators of the cedents are not comfortable with. The BMA carries out TAR analysis, which includes a comparison of the TAR under both the cedent and the BMA regulatory basis; our experience shows that the TAR of Bermuda reinsurers is comparable to those of the cedents. The BMA also uses targeted prudential measures such as requiring higher levels of solvency, capital add-ons, reserve add-ons, restricting dividends, and imposing liquidity and capital maintenance arrangements to deal with idiosyncratic risks. Additionally, the BMA introduced the following changes: a high-bar approval process for affiliated and/or connected party assets, enhanced liquidity and stress testing requirements and requiring a large portion of our market to produce recovery and/or resolution plans. Finally, the BMA has issued a consultation paper on the Application of the Prudent Person Principle for investment management.

On reporting and disclosure requirements, the BMA has introduced enhanced reporting for lapse, liquidity and assets, requiring reporting at CUSIP/position level. The BMA carried

out thematic studies and published white papers on the Bermuda market: *Supervision and Regulation of PE Insurers in Bermuda*; *Bermuda Long-term Insurance Market Analysis and Stress Testing Report*; *Liquidity Risk in the Bermuda Long-term Insurance Market*; *Collateral Structures in the Bermuda Long-term Insurance Market and Private Credit*. As importantly, the BMA published a consultation paper on Proposed Enhancements to Public Disclosure Regime. This paper requires public disclosure of assets at the CUSIP/position level, information on liabilities at the product level and additional ALM disclosures.

BMA's approach to asset intensive reinsurance and climate related risks.

Bermuda is a Natural Catastrophe (NAT CAT) global leading reinsurance market offering both traditional and non-traditional solutions and playing a critical role in addressing the NAT CAT protection gap. The BMA has a robust regulatory framework ensuring a resilient commercial reinsurance sector that supports global capacity and diversification of risk and an insurance-linked securities sector which provides third-party capital to increase global reinsurance capacity; and also a mature captive market helping organisations managing climate change and sustainability risks. The BMA has provided guidance for climate risk management and governance, while working on finalizing a disclosures approach. We have also conducted climate risk management assessments and industry surveys.



ETHAN SONNICHSEN

Chief Government
Affairs Officer - NAIC

Building resilience remains paramount for insurance regulators

In November 2024, U.S. state insurance regulators and the National Association of Insurance Commissioners (NAIC) welcomed the successful conclusion of the International Association of Insurance Supervisors (IAIS) process, which determined that the Aggregation Method (AM) provides a basis for implementation in the U.S. of the Insurance Capital Standard (ICS). The decision marked the end of a multi-year, robust, and technical comparability assessment reflecting the commitment of the international insurance supervisory community to moving forward together and the importance of having appropriate jurisdictional flexibility. Reaching this milestone was also a testament to the resolve of insurance supervisors to collaborate on setting standards that protect policyholders and enhance global financial stability.

With the task of finalizing the ICS now complete, IAIS members now move to implement the ICS, which will be via the AM in the U.S. The NAIC will work domestically on its approach to implementing the AM and has created a new working group dedicated specifically for this purpose, including addressing areas of work highlighted

as part of the IAIS comparability assessment.

Collaboration and coordination will continue with our international counterparts as they adapt the ICS to their respective jurisdictional approaches and as the IAIS works on developing an appropriate implementation assessment framework. As the IAIS enters this ICS implementation phase, resulting in greater consistency and comparability within group supervision should help with challenges of a level playing field.

Even while busy finalizing the ICS and transitioning to its implementation, insurance regulators around the globe also have been faced with, and are responding to, a variety of other challenges.

The NAIC recently released our 2025 initiatives, one of which is ensuring resilience, relevance and prosperity for generations to come. To help achieve this, one of our other initiatives is focusing on NAIC committee priority issues, such as artificial intelligence, risk-based capital, catastrophe risks, protecting retirement savings, examining health insurance market dynamics, and engaging with our international counterparts, to name a few.

These initiatives will help U.S. state insurance regulators continue to address operational resilience issues in the insurance sector. As it relates to climate risk, the NAIC will focus on continuing to implement the National Climate Resilience Strategy for Insurance as it will drive faster and more effective risk reduction by state insurance regulators in 2025 and beyond. As part of our efforts, emphasis on pre-disaster mitigation to reduce climate impacts and assisting consumers in accessing more insurance options will continue. Supporting this work is the NAIC's Catastrophe Modeling Center of Excellence to ensure that state insurance regulators have insights into climate models and the risks in their respective markets in order to implement sound, targeted resilience efforts.

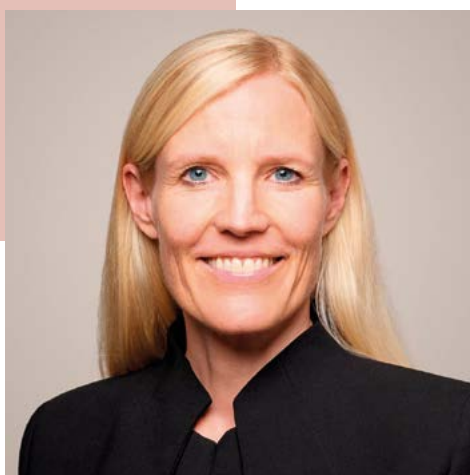
As it relates to risk from growing digitalization, state insurance regulators will be reviewing our cybersecurity incident and market-disruption frameworks, which builds on existing data security requirements, and enhancing coordination among state insurance departments. We will also be enhancing consumer privacy protections and supporting states as they implement artificial intelligence bulletins for their markets, seeking to

support innovation while protecting consumers at the intersection of insurance and technology.

Resiliency will be considered as part of our efforts to review and refine our Risk-Based Capital (RBC) regime. The NAIC recently established a task force whose role will include evaluating when to integrate new risks into the RBC formulas, the data needed for setting associated factors, and approaches for addressing emerging risks. Sound oversight and regulation to ensure resiliency as the sector and risks it faces evolve is key.

**Sound oversight and
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Through our collaboration efforts, we see the risks and challenges faced in the U.S. broadly echo those faced by our international colleagues. The IAIS' five-year strategic plan reflects the collective vision of the global insurance regulatory community and focuses in part on the need for the insurance sector to deliver on the societal purpose of insurance to help build resilience – especially in the emerging and evolving areas such as climate risk and digital innovation. We will look forward to working with our international colleagues on these, and other issues, in hopes we can drive the conversations toward better policyholder protection, financial literacy, and operational resilience.



CLAUDIA DONZELMANN

Global Head of Regulatory
and Public Affairs – Allianz SE

Regulatory simplification and robust risk management – a balance to strike?

In recent years, the global landscape has been increasingly shaped by rising geopolitical tensions and a surge in economic nationalism. The 2024 global elections super cycle, where citizens in over 70 countries went to the polls, significantly altered political and economic priorities in many of these countries. These developments have profound implications for the European Union's economic environment, prompting the EU to reassess its own strategic priorities to maintain and enhance competitiveness on the global stage. As the new EU Commission navigates these challenges and seeks to foster a more favorable business environment, one of its key tools is reducing regulatory burdens (aka simplifying regulatory frameworks) across various sectors, including and particularly financial services.

As a representative of a global insurer and asset manager, headquartered in the EU, I welcome that the newly appointed Commissioner for Implementation and Simplification, who is tasked with coordinating the Commission's efforts to identify ways to streamline and consolidate regulations while

maintaining agreed policy objectives, has started work swiftly. After the release of the Commission's first Omnibus simplification package - focused on sustainability - in early March 2025, more Omnibus packages are to come, as revealed in the Commission's 2025 work program. This willingness to act quickly is an important signal to EU businesses - large and small.

But, but, but: the simplification initiative also brings with it questions and concerns; one in relation to the insurance industry is how to balance simplification of regulation and the need for robust risk management. As a strong supporter of good regulation as a unique business enabler – allowing us to build our business securely - I am convinced that simplifying regulation does not equate to a dilution of risk management. Here is why:

The insurance sector, by its nature, is deeply intertwined with the principles of risk management. At its core, the industry is built on the foundation of assessing, pricing, and mitigating risks. Yet, the regulatory landscape governing our sector has grown increasingly complex over the years. While the intent behind these regulations – to ensure financial stability and protect consumers – is unquestioned and remains paramount, the complex, sometimes inconsistent web of rules increasingly stifles innovation, hinders operational efficiency, and ultimately threatens insurers' competitiveness and growth.

**Simplification of
regulation does not
equate to a dilution
of risk management
standards.**

Conversely, streamlined regulation can enhance our sector's agility, enabling us to respond more effectively to emerging risks. By reducing unnecessary bureaucratic burdens, insurers can allocate more resources to advanced risk management, leveraging technologies like data analytics to predict potential threats and implement counter measures before risks materialize. Moreover, simplified regulation can reduce barriers to innovation and encourage investment in digital solutions, such as artificial intelligence, that improve underwriting processes, enhance customer experiences, and optimize claims management. This is particularly crucial in an era where digital transformation and technological

advancements are reshaping the insurance landscape.

To achieve this, a collaborative effort from policymakers and industry stakeholders is essential. By fully embracing the simplification initiative and working together in a spirit of trust to identify areas where regulations can be streamlined without compromising the integrity and stability of the insurance sector, we will move things forward and achieve our joint goal of safeguarding the EU's economic growth and competitiveness. This involves, in my opinion, not only a thorough evaluation of existing regulations to determine their relevance and effectiveness in addressing current and future risks, but also a review of the policymaking process itself, which has become more complex and unstable over the years, with less emphasis on competitiveness.

Evaluating the latter could include placing even greater emphasis on competitiveness early in the process (i.e. during the impact assessments), improving the interaction and sequencing of sectoral and increasingly horizontal regulation (in some cases also the interaction between different pieces of sectoral regulation), and limiting the number of review clauses and delegations to Level 2 and 3 acts.

In conclusion, as the EU strives to bolster its global competitiveness amidst rising geopolitical and economic challenges, regulatory simplification for me emerges as a key strategy. Through thoughtful simplification policymakers and industry stakeholders together can create a regulatory environment that not only supports innovation and growth but also upholds the highest standards of risk management. This approach ensures the long-term stability and success of our industry, protecting and growing our customers' most valuable assets in times of unprecedented uncertainty.



ANNICK FELTEN

General Manager –
Swiss Re Europe

Addressing digital transformation and climate-related risks

Already for a while, the topics of digital transformation and managing climate-related risks have been top of mind for regulators and businesses alike. Swiss Re leverages digital advancements and AI-driven analytics to enhance its risk management and underwriting processes. Similarly, the company has been managing climate-related risks on both the asset and liability sides.

Traditional AI technologies are increasingly being integrated in re/insurers' core processes. In underwriting, AI examines data such as historical claims and customer profiles to assess risk and identify patterns, allowing underwriters to focus on complex cases and improve decision-making speed and accuracy. AI-powered tools also streamline claims management, by using visual intelligence damage recognition, automating document verification and fraud detection, providing real-time updates, and thus reducing manual effort and costs. In addition, AI integration strengthens risk management by using bots and agents to improve internal control frameworks.

AI offers benefits but also poses risks, including data privacy concerns, operational inefficiencies, intellectual property challenges, cybersecurity threats, legal risks, and the potential for inaccurate or misleading outputs. Mitigating these risks requires robust

governance frameworks, defining risks, assigning roles, conducting risk assessments, and establishing controls for transparency, accountability, and human oversight. Providing AI literacy training, adopting ethics codes, and creating review committees are essential. Regulatory compliance with frameworks such as the AI Act, GDPR, Solvency II, and IDD supports effective risk management and ensures AI decisions remain transparent and auditable.

Going beyond traditional AI, Agentic AI – AI systems capable of making autonomous decisions without human intervention – are set to become more prevalent in the coming years, initially having a limited impact but assisting in managing datasets, automating decisions, and enhancing operations.

Governance is at the core of Swiss Re's thinking as it strives to incorporate both traditional and agentic AI technologies into its processes. Through the adoption of a responsible AI framework with governance, transparency, and human oversight, potential risks can be mitigated, ensuring trustworthy AI-driven decisions. This proactive approach enhances performance and positions AI as a key enabler of long-term success.

Building on its commitment to achieve net-zero by 2050 and responsive to legal requirements, Swiss Re has recently published its first Climate Transition Plan. This plan outlines Swiss Re's approach (incl. targets) to reduce greenhouse gas emissions across underwriting, investments and operations, and defines a clear action plan.

Optimizing core processes is crucial for addressing digital transformation and climate-related risks.

In underwriting, Swiss Re employs a process to identify and assess climate-related risks. This involves analyzing both physical risks (such as extreme weather events) and transition risks (such as regulatory changes and market shifts). The company uses modeling techniques and collaborates with scientific institutions to enhance its understanding of these risks. Swiss Re has developed various strategies to manage climate risks, including diversifying its portfolio to reduce

exposure to high-risk areas, investing in climate-resilient infrastructures, and engaging with clients to promote sustainable practices. The company also emphasizes the importance of scenario analysis to anticipate potential future impacts of climate change.

When it comes to investments, Swiss Re integrates climate risk management into its investment processes. The company aims to transition its investment portfolio to net-zero greenhouse gas emissions by 2050. This involves setting interim targets, such as reducing the weighted average greenhouse gas intensity of its corporate bond and listed equity portfolio by 35% by 2025. Swiss Re also invests in green, social, and sustainability bonds, as well as renewable energy infrastructure projects. The company engages with investee companies to encourage them to align their business models with the goals of the Paris Agreement and to disclose their climate-related risks and opportunities.

With respect to operations, Swiss Re is committed to reducing its own operational greenhouse gas emissions. This includes reducing energy consumption, using 100% renewable electricity, and reducing business air travel.

In order to successfully address the challenges linked with digital transformation and climate-related risks, re/insurers need to continuously reevaluate and optimize their core processes. Regulators can play an important enabling role in this respect and they can best do that by striking a sound balance between requiring re/insurers' sustained focus on material risks and ensuring that they have sufficient flexibility to tailor their approaches to their specific circumstances.

INSURANCE PROTECTION GAPS



JONATHAN DIXON

Secretary General –
International Association of
Insurance Supervisors (IAIS)

Fostering societal resilience against the impact of natural disasters

Natural catastrophes (NatCat) can have devastating consequences, not only economic losses but also human and societal impacts. The extensive destruction brought by recent events such as the California wildfires and floods in Valencia leave deep scars on communities. These disasters may also have wider financial stability impacts.

Insurance has a significant societal role in enhancing NatCat resilience by providing effective disaster preparedness (ex ante) and by absorbing losses otherwise born by consumers and businesses (ex post). Insurance can provide risk assessment and risk management solutions that help communities minimise potential damages. It can also incentivise risk mitigation and risk prevention measures. Furthermore, insurance offers financial support for recovery and rebuilding efforts, thereby minimising

potential secondary impacts caused by delayed responses.

Not all economic losses are, or can be, covered by insurance, resulting in a protection gap. These gaps are further increasing, driven by climate change and growing exposures in high-risk areas. With the impact and pace of climate change intensifying, protection gaps and the resulting losses are likely to increase further.

Addressing these gaps is a broad societal challenge that requires an urgent, coordinated response from a range of parties, including governments, supervisors, the insurance industry, international organisations, and local communities and consumers.

Insurance supervisors have a critical role in addressing NatCat protection gaps and in fostering a multi-stakeholder collaborative approach to tackle this complex societal issue. The IAIS, in its Call to Action, made it clear that addressing NatCat protection gaps is relevant to all insurance supervisors, regardless of their mandate. Since the release of the Call to Action, supervisors globally have been taking measures in support of the five areas of action outlined in the report. Some examples are outlined below.

Regarding the role of supervisors in assessing the magnitude and drivers of protection gaps, the Central Bank of Ireland recently undertook analysis on the nature and scale of the flood protection gap in Ireland, and the European Insurance and Occupational Pensions Authority (EIOPA) has created a NatCat protection gap dashboard.

With regard to creating an enabling regulatory and supervisory environment to support the availability of insurance and uptake of coverage, the Angolan Insurance Regulation and Supervision Agency (ARSEG) and the World Bank Group International Finance Corporation have partnered to help Angolan insurers develop an agriculture insurance market and products. This initiative includes a financial education element, as well as consideration of innovative insurance products and services such as parametric insurance.

In an example of successful collaboration with other partners, in 2024 the IAIS and OECD supported the G7 publication of a High-Level

Framework for Public-Private Insurance Programmes (PPIP) against Natural Hazards. The G7 Framework underscores that narrowing the protection gap requires a collaborative effort between multiple parties, including governments, insurance and the insurance sector, and sets out important parameters for the successful design and implementation of such public-private schemes.

The IAIS is committed to continue supporting its members in 2025 to address NatCat protection gaps. Some examples of that support are:

- In April, we will publish an Application Paper on the supervision of climate-related risks in the insurance sector. This report supports supervisors in integrating climate-related risks into their supervisory mandate, from financial stability and inclusion to market development as well as policyholder protection and fair treatment of customers.
- As part of its annual Global Monitoring Exercise, the IAIS will publish a Global Insurance Market Report (GIMAR) special topic edition in October that will provide an analysis on the potential impact natural catastrophes could have on financial stability, based on in-depth empirical studies of several significant NatCat events.
- The IAIS is also conducting joint work with partners, including:
 - Staff papers co-authored with the Financial Stability Institute (FSI) on the topic of parametric insurance and the climate-related reinsurance protection gap (forthcoming).
 - Co-authoring with the World Bank an input paper for the G20 Sustainable Finance Working Group (SFWG) on assessing and addressing NatCat insurance protection gaps, as part of the SFWG's priority focus on adaptation.

Tackling insurance protection gaps and fostering long-term societal resilience to NatCat risks requires decisive and coordinated action from all stakeholders. The role insurance supervisors can play in finding multi-party solutions to this challenge will remain a priority topic for the IAIS.



PETRA HIELKEMA

Chairperson – European
Insurance and Occupational
Pensions Authority (EIOPA)

Natural catastrophes and insurance: Managing risk and building resilience in EU

Europe is the fastest-warming continent in the world. Extreme heat is becoming more frequent while precipitation patterns are changing. Precipitation extremes are increasing in severity, and recent years have seen catastrophic floods. At the same time, southern Europe can expect more severe droughts¹.

The insurance industry plays a unique role in raising the resilience of society and the real economy. Insurance products protect economic wealth and social welfare by pricing risks accurately and providing compensation after natural catastrophes events. However, as climate change increases physical risk exposures, risk-based premiums are expected to rise over time. This could reduce both the affordability and availability of insurance products covering climate-related hazards in the medium to long term.

Between 1980 and 2023, only around a quarter of the losses caused by natural

catastrophes across Europe were insured, with material differences in the protection gaps across countries and perils. Given the current trajectories of climate change, these insurance protection gaps are expected to become even wider in the future. This is why adaptation and mitigation measures need to go hand in hand. In the short term the insurance sector can shield itself from increasing risks by raising prices and deciding on which risks it can continue to cover. In the longer run, the gap will put into question (re)insurers' role in providing financial resilience. This requires action on different fronts.

Firstly, adaptation measures that are implemented ex-ante to a loss event, such as water-resistant walls in case of flood risks, reduce the policyholder's physical risk exposure. As such, adaptation measures can be a key tool to stabilize risk-based premium levels and to maintain the future availability and affordability of insurance products covering climate-related hazards. In this regard, EIOPA introduced the concept of impact underwriting, which refers to how insurance companies can contribute to the adaptation of society and the real economy to climate change through their underwriting practices in terms of data, risk assessment and expertise, thereby promoting and incentivizing policyholders to take up climate-related adaptation measures.

**The insurance industry
is crucial in raising
climate resilience by
promoting adaptation.**

While the current implementation of adaptation measures in the European insurance market shows progress, a global comparison suggests there is further room for improvement.² Efforts are needed to standardise the implementation of climate-related adaptation measures in insurance contracts, for instance through dedicated risk-based certificates and programs. The risk-based recognition of adaptation measures in premiums, for instance through discounts, merits further analysis. In addition, raising awareness about climate risks and related prevention measures is also needed.³

Finally, further innovation is needed to place adaptation measures at the core of all insurance products. For this, new technologies such as the use of satellite data, open-source data and models⁴ and AI play a significant role.

Secondly, the insurance sector should engage with policymakers to develop national and European approaches for reducing the impact of catastrophes. In a new joint paper, EIOPA and the ECB highlight how individual insurers and consumers often fail to factor in the broader economic benefits of insurance⁵. Combined with the expectation that governments and EU Member States will cover losses after disasters, insufficient insurance coverage slows recovery from disasters, burdens fiscal budgets and misses the essential benefits of ex ante risk management. Analysis shows that national schemes help improve insurance coverage and reduce the insurance protection gap. Examining the design features of such national schemes can inform potential EU solutions to support and supplement national initiatives. Pooling insurance risks of businesses and households across the EU could increase diversification benefits and reduce the cost of capital. Strengthening EU disaster risk management can contribute to national adaptation efforts. It is in the long-term interest of insurers to contribute to the development of such solutions.

1. *European Climate Risk Assessment | European Environment Agency's home page*
2. *Impact underwriting: EIOPA reports on insurers' use of climate-related adaptation measures in non-life underwriting practices - EIOPA*
3. *Consultation on a blueprint for an awareness tool for natural catastrophe risks and prevention measures - EIOPA*
4. *Open-source tools for the modelling and management of climate change risks - EIOPA*
5. *EIOPA and ECB joint paper: Towards a European system for natural catastrophe risk management - EIOPA*



FRANCISCO ESPEJO GIL

Assistant Director,
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Aligned for risk reduction: the role of insurance in societal resilience

In the context of growing risks and losses, and of the insurance approaches to this, it is helpful to review risk as the composition of hazard, exposure and vulnerability. *Hazard* is the causal agent of the damage (i.e., a hurricane), *exposure* is the number of elements (population, homes...) potentially affected by a hazard and *vulnerability* is composed by *susceptibility*: the capacity of a given exposure to be damaged (i.e., elderly people are more susceptible to heatwaves) and *response capacity*: an indication of the societal capacity to return to the previous state after being hit.

Insurance is obviously a provider of response capacity by indemnifying losses quickly and certainly, minimizing the economic impact of catastrophes, but it can also reduce susceptibility by means of incentivizing risk prevention. Loss data give an indication of where exposure should not be raised any higher and, in extreme cases, of where it should be reduced. Exposure has grown exponentially since the Industrial Revolution: both the number of humans and their economic output, translated

in property value are in all-time records. Therefore, with a huge exposure, losses grow accordingly. Hazard is also going up. A warmer climate is, in general, a more dangerous one, with perils such as flood, hail, heatwaves, drought or wildfires increasing. Climate change is, then, another aggravating factor for higher losses.

Insurance business requires accumulating capital beforehand to pay for potential losses later. More losses translate into more expensive premiums, but this process cannot grow forever: there is a point at which premiums become unaffordable for the policyholders and, as a result, insurance protection gap widens. Another source for expanding protection gaps are insurers themselves: when damages lose their random character, risks become uninsurable and insurers leave some markets and perils. There are several ways to try to avoid this, and often act combined: coinsurance, reinsurance, new insurance products such as parametric and cat bonds, and public-private partnerships (PPPs). All of them intend to broaden the funding base, to add financial capacity, or both. The need for these measures grows in parallel with losses and governments, through insurance regulation, have a key role to play in, at least, two ways:

- Acting on the supply side of affordable insurance products. Measures can range from making cover against some catastrophic risks available, to making the extension of insurance policies compulsory for these risks, up to compulsory insurance. In most cases, this implies the creation of a specific (re)insurer for cat risks.
- Incentivising risk prevention. With rising exposure and hazard levels, the only way to keep insurance in the game is reducing susceptibility by means of premiums or deductibles and/or through cooperation between insurance and other bodies dealing with risk reduction. Sharing insurance loss data and loss experience with those in charge of creating building codes and land planning is basic, and the role of regulators in loss data collection and disclosure is crucial.

There is no single and universal solution, but some principles are useful to reduce protection gaps: expanding mutualisation, enhancing financial capacity and aligning all the private and public actors of the insurance industry with the common, shared goal of maintaining insurability and reducing risks. For this ultimate goal, insurance has to be aligned with other players. These ways intend to make insurance

sustainable, so it will continue to provide economic resilience to society, but it cannot stop there: insurance must also be a conveyor of physical resilience to both continue making societies more resilient and keep insurance sustainable. Silo thinking won't get us into this virtuous circle.

Spain has one PPP in place since 1954. Recently, the country experienced its most expensive insurance loss event: the Valencia floods of 29th October 2024. Four months later, Consorcio de Compensación de Seguros (CCS) has made payments on about 80 % of the 240,000 claims filed. The huge number of claims is a token of the own design of the scheme: In Spain it is compulsory to extend the cover of most policies for the extraordinary risks, meaning that above 80% of residential, commercial and industrial properties and 100% of the 140,000 cars damaged were insured and, thus, automatically had flood insurance. The capacity of the scheme has been reinforced by joining forces with the private sector, through an ad-hoc agreement so that 38 insurers work together with CCS in filing claims and assessing losses. This agreement has been reached in a matter of days thanks to decades of joint work and shared goals, and has been essential for speeding-up the loss compensation process. All the loss data will be shared, as usual, with national, regional and local authorities, hoping that, should something like this happen again, society will be better prepared to cope with it.



XAVIER MICHEL

Director, Head of Public Affairs
France & EU – Aéma Groupe

Demutualization in the face of climate risks, mutualist insurers' battleground

Resilience and insurability, two sides of the same coin

The first step in building community resilience is to ensure the insurability of climate catastrophes.

The 2023 report by EIOPA and the ECB points out that only around a quarter of losses suffered as a result of extreme weather and climate events in the EU were insured, and that this gap is set to widen due to the increasing severity and frequency of natural disasters caused by climate change.

For insurers, this acceleration and aggravation of hazards translates into higher costs. In France, for example, prices have risen by 55% in 2 years. In a general context of protection of purchasing power, the insurance market has not increased rates beyond inflation, and has not passed on this rise in reinsurance costs to policyholders, assuming most of the increase in retention. In 2023, Aéma Groupe even increased its redistribution capacity, paying out over 9.2 billion euros to its policyholders. True to its mutualist model, with no financial shareholders, Aéma Groupe's level of redistribution of benefits (in Property & Casualty

and Health-Provident) and financial products (in Savings-Retirement) to its members and customers is among the best on the market. Yet, faced with sharply rising out-of-pocket expenses and tariffs, and suddenly tougher reinsurance conditions for insurers, the question of the insurability of certain risks and territories arises.

Insurers alone cannot provide all the answers to climate insecurity and protection issues. Current protection systems will not suffice. Insurance has a part to play in a more global model that needs to be reinvented. This model must be the result of a proper articulation between the intervention of the State and that of the insurance sector, and propose a more global approach to risks. We need to think in terms of prevention and anticipation, integrating mitigation and adaptation efforts, contributing to the emergence of a culture of prevention, implementing genuine structural prevention while raising the awareness and responsibility of citizens and political decision-makers, and ensuring the implementation of proactive land-use planning policies.

In this sense, the climate change adaptation plan announced by the EU will be essential to guarantee the climate resilience of our Union and the effective protection of our citizens.

Technology and data sharing: Beware of demutualization risks

Insurance, unlike other financial products, is deeply rooted in the principle of mutualization. It is not simply a commodity to be exchanged, but a social contract that distributes risk within a community. Data sharing and artificial intelligence in insurance carry the risk of undermining this fundamental principle by inadvertently encouraging demutualization.

**Insurance has a part to
play in a more global
model that needs
to be reinvented.**

These risks are particularly acute in the case of protection against natural disasters. On the one hand, some players could use the data to develop geographic segmentation strategies that would call into question the solidarity of the cat nat compensation scheme. On the other hand, there is a risk of a significant downgrading of certain territories and a loss of value for certain properties. These risks are present, for example,

in the proposed FiDA regulations. At a time when discussions are underway on mutualization at EU level to cope with the increase and intensification of climate risks (following the publication of the ECB and EIOPA proposal), the EU is preparing to provide, with FiDA, the tools for segmentation and "cherry-picking right risks" on a platter. It is therefore essential to erect safeguards to prevent this risk of demutualization, to ensure that everyone is protected, and to avoid property devaluation in the regions most exposed to risk.

Mutualist insurers: Social buffers in the face of social crises

The mutualist model, which is democratic and rooted in local communities, enables us to inform politicians of citizens' current and future needs, to identify regulatory anomalies and risks, to formulate proposals to guarantee the best possible protection for as many people as possible, and to support citizens by responding to their need for protection.

The proximity of mutualist insurers to local populations and their territorial anchoring, while is by no means an innovation, is a fundamental characteristic that enables us to better respond to the risks associated with natural disasters, and to provide faster, more effective coverage. Mutualist insurers are key players in the prevention, support and accompaniment of populations, acting as close as possible to their members to help them through the difficult times in their lives.



WEBSTER COATES

Chief Compliance Officer –
Dai-ichi Life Holdings, Inc.

The role of Japanese life insurance companies in addressing natural disasters

Japan is one of the most earthquake-prone countries in the world. Most Japanese can remember where they were and what they were doing at the moment when past large-scale earthquakes hit, and we generally have a high awareness of the need for disaster preparedness in our own homes and families. Not only earthquakes, but other large-scale natural disasters such as flooding from typhoons and devastating rains have been a common occurrence. Natural disasters result not only in property damage, but have also often resulted in losses of life and injuries. Over time, the Japanese life insurance industry has developed a number of protocols to help support customers impacted by natural disasters.

As a life insurance company, we focus on three crucial aspects to support customers following large-scale disasters such as recent earthquakes, typhoons and floods. First, ensuring the swift and appropriate payment of insurance benefits, by relaxing certain documentation requirements in cases such as when insurance certificates or personal identification documents may have been lost or damaged during

a disaster. Second, providing payment holidays or relief from lapse rules to ensure that policyholders can continue their contracts even if their income temporarily decreases in the aftermath of a disaster. Third, contributing to the provision of necessary funds for evacuation-related living expenses and housing/life reconstruction by offering reduced loan interest rates and adjustments to loan conditions. We have also paid hospitalization benefits in cases where customers had to cut their treatment short due to a disaster.

In response to increasing disaster-related losses, in recent years Japanese non-life insurance companies have raised fire insurance premiums and implemented a system that classifies flood risks for each municipality into five levels, adjusting premium rates according to the risk level. As life insurance companies have not seen devastating insurance claims or solvency issues due to disasters, our industry has not invoked earthquake exclusions in life policies but have paid all claims. Similarly, the life insurance industry has not raised premiums due to disasters, but many firms are advancing their analysis of the potential impact of different climate scenarios on the life insurance business.

The Japanese life industry developed protocols to support customers impacted by natural disasters.

The analysis and quantification of the impact of climate on the life insurance business is still not established internationally, and each company is conducting research and analysis through trial and error. Since 2020, Dai-ichi Life group has started an initiative to statistically analyze the correlation between peak summer temperatures and claims performance. We focused on the increased health risks caused by elevated summer temperatures and conducted an impact analysis on mortality and hospitalization, assuming various future climate scenarios. A scenario assuming rising temperatures projected that mortality claims would increase by approximately 0.2% in the 2050s and 0.8% in the 2090s compared to baseline data from 2010-2019. Additionally, in fiscal year 2021, we conducted an analysis of the impact of elevated summer temperatures on hospitalization. Under a similar climate scenario, we estimated that the increase in hospitalization for heat-related diseases would result in an

increase of 100 million to 200 million yen in hospitalization benefit claims in the 2090s, compared to fiscal year 2019 hospitalization benefit payments by our three Japanese life insurance subsidiaries of about 60 billion yen. Moving forward, we will also consider investigating the occurrence of various diseases, approaches from a medical perspective, and impact studies from overseas companies, as we work to understand the overall risk for the group.

Finally, going beyond our role in supporting customers in their time of need, Dai-ichi group leverages our large balance sheet and role as an institutional investor to contribute to damage mitigation strategies for natural disasters. In a first for Japan, Dai-ichi Life invested in bonds issued by Aichi Prefecture (a municipality in central Japan) in February 2025 with funds earmarked specifically for disaster prevention. These “Green Bonds” (with a total face value of 5 billion yen) were issued for flood control measures and earthquake prevention. The prefectural government will use the funds raised through these bonds to fund coastal area improvements as climate adaptation measures, such as developing rivers with insufficient flow capacity by dredging and embankment modifications to strengthen flood control measures. Public-private collaboration is expected to increase further in the future as local governments seek support from institutional investors to help strengthen resilience against disasters.

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THE EUROFI FINANCIAL FORUM
COPENHAGEN - DENMARK
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THE EUROFI HIGH LEVEL SEMINAR
NICOSIA - CYPRUS
15, 16 & 17 APRIL 2026

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Q&A

CHRIS BETZ

Chief Information Security Officer -
Amazon Web Services (AWS)

Cyber-resilience in the age of artificial intelligence

How is AWS helping its financial services customers innovate and optimize their operations? What are the future prospects?

Today, the pace of technological change is unprecedented and the financial services sector is not immune to this. In a rapidly shifting landscape, financial firms are investing in technology to modernize IT infrastructure and using cloud technology to reimagine how they operate, elevate customer experience, and stay secure and resilient. There are stark differences between those who invest in technology and those that don't. This is reflected in their ability to provide essential financial services that transparently and easily meet the needs of citizens across the EU and around the world as well as to operate with both efficiency and environmental care. At AWS, we work closely with financial services organizations to help them harness the power of cloud computing, artificial intelligence (AI), and automation to scale operations, optimize costs, and focus on what truly matters – innovation and business acceleration – rather than getting bogged down in IT maintenance.

Financial services are about trust. Being worthy of trust and being trusted. Innovation in finance is as much about resilience, trustworthiness, and efficiency as it is about modern customer products. The financial sector faces an ever-growing cyber-threat landscape, with attackers becoming more sophisticated amid regulatory pressures increasing. But true cyber resilience extends beyond mitigating attacks – it is about ensuring that when incidents do occur, businesses can recover swiftly and continue operating without disruption. That is why AWS continues to invest in cutting-edge security tools, AI-powered threat detection, and resilient cloud architectures that empower financial institutions to stay one step ahead of adversaries.

The next big frontier? AI, including generative AI and AI agents. These technologies are unlocking entirely new ways to improve fraud detection, risk management, and customer experience. But they also warrant close consideration of risks, especially in terms of security and compliance. Our focus at AWS is to help

financial institutions integrate AI responsibly while also helping to ensure the strength of their security postures.

If we look beyond the EU, from a global perspective, what do you think are the most effective public interventions when it comes to achieving the objective of enhancing the cyber resilience of the financial sector? Are European authorities equipped with the right tools? Have we overcomplicated things without really focusing on the outcome?

Cyber resilience is not something any one country or region can tackle alone – it is a global challenge, requiring a coordinated and collaborative approach between regulators, financial institutions, and technology providers. The financial industry is deeply interconnected so global approaches that focus on fostering supervisory collaboration, public-private partnerships, and real-time intelligence sharing are the most effective.

The EU has already taken significant steps with the Digital Operational Resilience Act (DORA), setting a strong regulatory foundation. However, we need to make sure that we leave space for improvement, learning from our experience and global best practices. Public-private partnerships play an important role in this space, for example by fostering best practices in relation to threat intelligence sharing and incident reporting. On the latter, as discussions continue around centralizing incident reporting in the EU, looking at global best practices like these can help strike the right balance between compliance and efficiency.

In order for DORA to be a success, we also need to make sure that the European Supervisory Authorities (ESAs) and national regulators have the right resources to match their expanded mandates. Ensuring regulatory agencies have the right resources and are able to architect their programs to achieve consistent and more effective risk management as it applies to supervised

firms but also, importantly, themselves will be critical. Further, in a rapidly changing world, living risk processes take on an even more important role relative to traditional control approaches. The ability of a financial institution to rapidly identify risk, prioritize and take appropriate action to mitigate becomes even more important.

Similarly, the ability of regulators to assess institutions' capability to identify and respond appropriately across the breadth of existing and new risks is critical today and will be even more so in the future. Point-in-time checks will have diminishing value, especially as threat actors are willing to employ a broad variety of tools designed to bypass well-understood controls. Technology can play a critical role here. We are seeing a real opportunity for Supervisory Technology to help regulators manage this growing complexity. Instead of relying on periodic reports and manual assessments, supervisors can leverage AI-driven analytics and machine learning for ongoing monitoring and compliance.

For financial firms, this shift could be a game-changer. More efficient supervision means fewer surprises – clearer expectations, faster feedback, and more consistent regulatory assessments. Ultimately, better enforcement does not just benefit regulators – it helps firms focus on resilience as an ongoing practice rather than a reactive exercise. And that is a win for the entire financial ecosystem.

How is AI and Generative AI impacting cybersecurity? Are we less safe as a result of the emergence of Generative AI? How do we make sure we stay ahead of attackers given the constant evolution of technology? Do you have any specific concerns and recommendations related to the financial services sector?

We know generative AI is being used to aid threat actors' efforts, for example, improving phishing campaigns, and making it easier to gather information for social engineering to name just a few. However, generative AI can and is also being used to improve technologies to help make systems more secure.

That means embedding security by design – ensuring strong governance, transparency of our AI models, and customer control over their data. For example, with services like Amazon Bedrock, organizations can build generative AI applications with confidence, knowing their data remains private, encrypted, and never shared outside their environment.

It is important to emphasize that cyber resilience is built on multiple layers of defense. AI is an incredibly powerful tool, but it

should complement, not replace, established security measures. Strong fundamentals – like encryption and multifactor authentication – are still critical. The firms that combine these foundational principles with AI-driven insights will be best positioned to stay ahead of emerging threats.

What are the first lessons from the implementation of DORA at AWS and its financial sector customers? Are DORA requirements achieving their objectives? Can more be done by market participants or supervisors to leverage the use of technology and AI in particular to fight cyber-risk e.g., in terms of cooperation, exchange of best practices?

The early months of DORA's implementation have been a learning curve for the financial sector. DORA provides a unified framework for operational resilience, which is something financial firms have been asking for to replace the patchwork of national regulations. That is a win. But with any regulatory shift, there is always an adjustment period. Many financial institutions are still working out how to integrate DORA into their existing risk management strategies without adding unnecessary complexity. As such, we are already observing some friction – especially when it comes to concerns about overlapping with other frameworks, such as the NIS2 Directive and the GDPR.

The biggest lesson so far? Compliance alone is not enough. Regulatory frameworks like DORA provide the basis, but resilience is not about ticking boxes – it is about embedding security into the fabric of an organization so that it becomes second nature.

Another major takeaway is that technology has to play a bigger role in cyber resilience. Financial firms and regulators alike are still scratching the surface when it comes to using AI and automation to strengthen security. AI-driven threat detection, predictive risk management, and automated compliance monitoring have the potential to transform how firms stay ahead of cyber threats. In this context, there is a huge opportunity for closer public-private collaborations – involving financial institutions, regulators, and cloud providers – to develop best practices and security frameworks that remain future-proof.

Ultimately, DORA is a step in the right direction, but the real test is whether financial firms see it as an ongoing process of learning and adaptation to ensure they are prepared for new cybersecurity threats which will emerge in the future.

DIGITAL FINANCE TRENDS AND PRIORITIES



FAUSTO PARENTE

Executive Director – European Insurance and
Occupational Pensions Authority (EIOPA)

Digital transformation in insurance: lessons learned and future priorities

Digital sectoral legislations and horizontal frameworks adopted during the previous European legislature have laid the groundwork for a more resilient, innovative, and consumer-focused financial sector. Therefore, further refinement and prioritisation are needed to ensure objectives are fully achieved, particularly in safeguarding consumer interests.

The implementation of these frameworks underscores the need to balance risk mitigation and innovation. DORA, for instance, is being crucial in enhancing the operational resilience of financial entities, essential for consumer trust in an increasingly digitalised world and amid geopolitical tensions. However, concerns exist that administrative burdens, particularly for smaller insurers, could stifle innovation.

Similarly, MiCAR has provided clarity for crypto-assets, creating a regulatory framework that promotes innovation while addressing risks such as market manipulation and consumer fraud. Yet, applying it to decentralised finance (DeFi) remains complex, with concerns about consumer protection. The borderless and decentralised nature of DeFi poses challenges for regulators and insurers, particularly in ensuring transparency, fairness, and accountability.

For insurers that rely heavily on data, the interaction between sector-specific digital laws and broader frameworks like GDPR and the Data Act has highlighted key lessons. While these frameworks aim to harmonise the digital single market, challenges of overlapping requirements exist, which add on complexity and hinder consumer protection. Greater coherence and consistency between sector-specific and cross-sectoral rules is needed. For example, GDPR's data protection requirements sometimes clash with the need for data-driven innovation in insurance, such as personalised products. Moreover, beneficiaries of insurance or pension products are not necessarily the policyholders, which is not always recognised in legislation. Further, while the AI Act only applies to health and life insurance, Solvency II applies to the use of AI for all insurers, requiring careful monitoring when implementing the AI Act for health and life insurance. Thus, sector-specific guidelines are needed to address the supervision of other lines of business, to ensure convergent EU supervision and that AI doesn't lead to excessive segmentation or exclusion of certain consumer groups.

Priorities for the European Commission should focus on effectively implementing existing legislation, including the AI Act and FiDA. Ensuring these frameworks are operational, will be crucial for the sector's development. For instance, the FiDA framework needs to be rolled out in a way that enhances data sharing and interoperability while safeguarding consumer rights, especially regarding data ownership and consent. Ongoing oversight is also essential to ensure digital innovations align with regulatory standards and consumer interests remain

Digitalisation offers opportunities, but challenges must be managed to protect consumers.

protected. This includes regular assessments and updates to existing regulations as the digital landscape evolves. EIOPA's Expert Group on data use is well-positioned to contribute to these efforts, offering insights into the role of data in insurance and helping to shape a regulatory environment that fosters both innovation and consumer protection.

Meanwhile, enhancing digital infrastructure is vital for integrating new technologies and services within the insurance sector. Many insurers are still burdened by legacy systems, hindering their ability to take full advantage of digital advancements. Addressing these challenges through targeted investment will be key to ensuring a competitive and innovative insurance landscape. The Commission could prioritise equipping consumers with the knowledge and tools to navigate new technologies and products. Empowering consumers to make informed decisions is essential for maintaining trust and ensuring fair outcomes. The digital transformation of the insurance sector progressed significantly during the previous legislature, but consumer protection must keep pace with innovation. While frameworks such as DORA, MiCAR, and the AI Act have provided a solid foundation, further efforts are needed to address emerging risks, clarify regulatory uncertainties, and support innovation in a way that prioritises consumer interests. EIOPA stands ready to support these efforts and continue to contribute to a regulatory environment that fosters innovation, resilience, and consumer protection.



SIMONAS KRĖPŠTA

Member of the Board of the Bank of Lithuania – Bank of Lithuania

Striking a balance between market development and risk management

Digitalisation and the rise of fintech have significantly transformed the European financial services landscape, bringing widespread and rapid change. These advancements have benefitted consumers immensely but have also posed challenges for financial supervisors tasked with identifying and addressing emerging risks.

Lithuania has been at the forefront of this fintech evolution. By prioritising financial innovation at the governmental level and fostering collaboration between institutions and private entities, the country has created a regulatory environment that supports innovation and accelerates the growth of fintech startups. This effort has resulted in a thriving ecosystem that includes more than 250 licensed financial institutions and supportive companies.

In 2014, Lithuania introduced one of the first regulatory regimes for crowdfunding. Five years later, the country witnessed the rapid growth of neo-banks, electronic money, and payment institutions. These developments have enhanced competition, increased the availability of financial services, and improved accessibility for consumers.

Today, Lithuania is one of Europe's leading fintech hubs. Its payment sector serves over 30 million clients across the EU – remarkable for a country with a population of just 2.9 million. Consumers enjoy benefits like cross-border services, instant payments, and user-friendly apps. With the MiCA regulation and the opportunities provided by AI on the horizon, even more progress is expected.

However, innovation comes with the emergence of new risks. Therefore, robust mechanisms are needed to detect and manage novel risk factors. Lietuvos bankas has adopted an innovation-friendly approach by analysing fintech products and services from both the technical and business model perspectives. This ensures that adequate risk averseness and safeguards are in place. The focus now is on improving market maturity through active dialogue with market participants, offering consultations, providing training, and sharing best practices. Additionally, supervisory activities are being enhanced to uphold high standards and address irregularities in a timely and decisive manner.

Looking at the possible future development of the financial sector in Europe, I see two major challenges standing in the way of innovation: the fragmented EU single market for financial services, and the lack of a fully integrated supervisory and regulatory framework. Despite undeniable progress over the last few decades, the EU's financial market retains significant trade barriers, as highlighted by recent IMF estimates. Addressing issues like the elimination of IBAN discrimination and the expansion of cross-border access to financial products

will require a dedicated effort. From a regulatory perspective, good examples such as the Single Supervisory Mechanism (SSM) and the establishment of the Anti-Money Laundering Authority (AMLA) demonstrate the potential to reduce national fragmentation and improve cross-border risk management in other fields, namely capital markets.

**Innovation comes with new risks.
Therefore, mechanisms are needed
to detect and manage them.**

Fifteen years after the global financial crisis and the subsequent major regulatory reforms, now is the right time to assess their effectiveness. It is crucial to preserve initiatives that deliver tangible benefits while refining those that hinder competitiveness. In Lithuania, we are currently engaging closely with market participants and reviewing the national regulatory framework. Our focus is on simplifying regulations while upholding strong risk management and consumer protection standards. If adopted across Europe, this pragmatic approach could drive the emergence of a more innovative and competitive financial market.



BARBARA NAVARRO

Head of Research, Public Policy
and Institutional Relations – Santander

Digital finance in 2025: Trends, challenges, and policy priorities

Global systemic banks must navigate a complex landscape where fintech companies, established tech players, and decentralized finance are reshaping financial services. To remain competitive, banks must harness emerging technologies, collaborate with market disruptors and adapt to shifting regulatory demands where the name of the game and priority of the New European Commission is Competitiveness.

2025 Digital finance top global trends

Embedded finance has become mainstream. Consumers and businesses access payments, lending, and investment services directly through e-commerce platforms, ride-hailing apps, and social media networks. Banks increasingly adopt Banking-as-a-Service (BaaS) models, leveraging open APIs to collaborate with fintech companies rather than compete against them.

Technology giants have expanded their footprint in digital finance, leveraging vast user data and AI-driven insights. Their dominance in digital payments, cloud banking, and AI-powered financial services intensifies competition with banks. With UX and convenience as their core strengths, big techs challenge traditional financial institutions by offering frictionless and personalized financial experiences. Trust is the main anchor that allows traditional players to hold an advantage.

Artificial intelligence is a cornerstone of financial services in 2025, revolutionizing fraud detection, credit scoring, and customer engagement. AI-driven robo-advisors provide hyper-personalized investment solutions, while predictive analytics optimize risk management.

Quantum computing, though in its early stages, holds the potential to revolutionize financial modeling, risk assessment, and encryption, presenting both opportunities and cybersecurity risks for financial institutions.

Instant cross-border transactions have become a reality, driven by DLTs and Central Bank Digital Currencies albeit the US has pushed the brake in the latter favoring the rise of stablecoins. Governments and financial institutions are deploying CBDCs to enhance financial inclusion, improve payment efficiency, and reduce dependency on cash. While CBDCs offer benefits, they also introduce risks related to monetary policy control, cybersecurity, and financial stability.

Policy priorities of the new Commission for a better-regulated digital finance ecosystem

The past legislative mandate in the European Union saw the introduction of mass digital legislation and horizontal frameworks aimed at fostering innovation while ensuring financial stability, consumer protection, and cybersecurity.

Key regulations such as MiCA, DORA and the Data Act have shaped the digital finance landscape. However new challenges and gaps have emerged. While the EU has taken a proactive approach to risk mitigation, some regulatory measures may have inadvertently created compliance burdens, mainly for smaller players but also for larger European ones

A more tailored, risk-based approach could help strike a better balance between fostering innovation and mitigating systemic risks. Harmonizing enforcement across Member States and reducing administrative burdens and costs, for all, small and large European players, should be a key focus in the next political cycle.

Harmonized regulations for cross-border digital payments can improve efficiency and reduce regulatory arbitrage. Central banks and financial regulators must collaborate on interoperability standards, AML protocols, and monetary policy coordination to ensure seamless global transactions.

Conclusion

The digital regulatory wave has laid a strong foundation for digital finance in the EU, but adjustments are needed to refine existing regulations, enhance supervisory effectiveness, and ensure financial services remain competitive and innovative. Striking the right balance between innovation and risk mitigation remains a challenge, particularly in areas such as AI governance, DeFi regulation, and cybersecurity oversight. The EU Competitiveness Compass provides a strategic roadmap for fostering digital transformation, but implementation and regulatory coordination will be critical in ensuring that financial digitalization supports both growth and stability.

Digital finance should enable competition under a simplified regulatory framework.

In the next political cycle, policymakers must prioritize regulatory clarity, supervisory modernization, and cross-sectoral cooperation to ensure the EU remains a global leader in digital finance. Additional guidelines and harmonized enforcement mechanisms will be essential in reducing compliance burdens and fostering innovation across the financial ecosystem.



GILLES MOËC

Chief Economist – AXA Investment Managers

What legislative framework to facilitate innovation?

AXA has been serving 95 million clients across more than 50 countries for the last 40 years. Data has been at the heart of AXA's business expertise for many years, allowing underwriters to adequately assess risks faced by clients and manage potential claims that may arise. Enhancing digitalization, is thus essential to our operations, enabling us to leverage data to the benefit of our clients and the society at large.

As innovative and efficient solutions matter to our clients, the use of digital tools is one of the key pillars of the AXA strategy. For example, Artificial Intelligence (AI) provides added value in process automation to facilitate our clients' journey with robotic process automation and optimal claims recognition in claims management. The AXA Digital Commercial Platform (DCP) also exemplifies well innovation aimed at better serving our commercial line clients. It combines technology with strong risk management expertise to help companies anticipate and manage multiple crises, like climate change and geopolitical threats. One service offered by AXA DCP is AXA Wildfire, a wildfire management service that relies on AI and geospatial analysis, evaluating over 20 risk factors to provide risk maps and analysis updated on a regular basis and which therefore enable tailored prevention advice.

Such innovative developments can be facilitated by a legislative framework that considers the European competitiveness objective in policymaking. As highlighted in Mario Draghi's report on the Future of European Competitiveness, closing the innovation gap is a key imperative for enhancing EU competitiveness. Indeed, when the pandemic struck, the ECB estimated that the digital economy stood at a bit more than 6% of GDP in the EU, against more than 8% in the US. Given the role this sector can play in boosting productivity across the whole economy, supporting the development of digital activities is key to narrowing the gap in growth dynamics which has widened across the Atlantic. The new European Commission (2024-2029) also put innovation as a central element of its Competitiveness Compass, focusing on various technology sectors, including artificial intelligence, semiconductors, quantum technologies, clean energy technologies, space technologies, as well as connected and autonomous mobility.

However, it is fair to recognize that the EU Digital Legislative Framework has developed rapidly in recent years and became complex and dense. Overly complex and redundant regulations lead to high costs for companies, potentially hindering innovation, and stifling competitiveness. Based on our insights and practical experiences with the implementation of the EU Digital Legislative Framework (including GDPR, DORA, and the AI Act), the current priority should be to implement already adopted regulations and avoid adding further complexity through unnecessary Level 2 guidelines and delegated acts. This is particularly crucial for the EU AI Act Level 2 legislation,

as numerous cross-sectoral guidelines are anticipated in the coming years, alongside EIOPA's proposed guidance on interpreting insurance sector legislations in the context of AI systems.

Simplification will help safeguard the competitiveness of the European industry. The European Commission's agenda for simplification, beginning with the Omnibus Simplification Package for Sustainable Finance, presents an opportunity to consider simplification within the Digital Framework as well.

Insurers are keen developing innovative digital solutions that matter for their clients.

When evaluating the need for potential new digital regulation, we would recommend a step-by-step approach based on specific use cases, while also adapting to the geopolitical landscape and international developments. For example, the proposed framework for Financial Data Access (FIDA) appears misaligned with the European Commission's goal of reducing complexity on companies to enhance competitiveness. Trialogues on FIDA are about to start and if at one point, the proposed regulation might hamper the EU competitiveness goal, EU policymakers should maintain the flexibility to consider the withdrawal of FIDA as an option.

Dialogue among all stakeholders, including consumers, is essential for identifying where simplification in the EU Digital Legislative Framework is necessary to enhance the EU competitiveness. This will enable the insurance sector, among others, to continue developing innovative prevention and protection solutions that matter to their clients.

CAN AI BE A GAME CHANGER FOR BANKING AND INSURANCE?



**PETRA
HIELKEMA**

Chairperson – European
Insurance and Occupational
Pensions Authority (EIOPA)

From “Traditional AI” to “Generative AI”: Implications for the insurance sector

The launch of ChatGPT in November 2022 marked a significant shift in the field of artificial intelligence (AI), changing the way businesses use AI today. While the underlying deep learning technology is not fundamentally new - for example, so-called “deep fakes” have been circulating online for several years - the new models have an unprecedented ability to process and respond to human queries and generate content such as text, images or video.

Insurance companies in Europe have been using AI for several years. EIOPA's 2024 Digitalisation report found that 50% of non-life insurers and 24% of life insurers were already using AI in various areas of the insurance value chain, including pricing and underwriting, fraud detection or claims management.

Most of these use cases were based on “traditional AI systems,” supervised

machine learning technology, where the AI algorithm is trained on pre-labelled data to generate outputs such as predictions or scores. Drawing on their experience using mathematical models, insurance companies have developed robust governance and model risk management techniques around the use of these AI systems.

However, the commoditisation of Generative AI tools has lowered the barriers to entry for AI adoption and opened the door to a wide range of new use cases in insurance, from developing customised contracts and terms and conditions, to streamlining regulatory reporting and compliance documentation, to extracting information from various unstructured data sources.

Generative AI use cases may have varied levels of automation: they may be used as an augmentative tool in back-office operations, requiring human input/prompts for content generation, or as semi-autonomous “Gen AI assistants”, where the tool generates full outputs such as a contract or a “next best action” recommendation, that still require human validation. In the future we would expect to see more autonomous “Agentic AI” applications deployed with no or minimal human intervention, for example by replacing existing chatbots with limited functionality.

Rapid technological developments such as Generative AI require an agile and flexible approach from both insurance companies and supervisors alike.

Insurance companies need to update their governance and risk management frameworks to take into account the unique characteristics of these new tools. For example, the adoption of Generative AI may increase their reliance on a reduced number of third-party service providers. In addition, commonly used data management controls and accountability techniques may need to be re-evaluated to prevent inaccurate or biased results, while maintaining a holistic perspective on all deployed systems and their collective impact.

From a regulatory perspective, it is important to address the risks posed by AI systems while ensuring that stakeholders can reap the benefits. In the EU, the AI Act takes a risk-based approach, classifying AI systems by their risk levels. It recognizes that third party service providers share

accountability for ensuring AI systems are deployed responsibly in Europe, especially general-purpose AI systems like Generative AI.

The European Commission's AI Office recently provided guidance on the definition of AI systems. This guidance references mathematical optimization methods and traditional statistical models. It also clarifies that simple models performing only basic data processing are excluded from the scope of the AI Act. These clarifications suggest that the impact of the AI Act on the insurance sector may be more proportionate and targeted than originally anticipated. It is important to note that in insurance the AI Act only considers as high-risk pricing and risks assessments in life and health insurance, while the insurance sectoral legislation continues to apply, whether these systems are considered AI or not.

**Generative AI offers
new opportunities in
insurance – governance
must keep up.**

In view of AI systems that did not exist or were not widely used at the time the sectoral legislation was adopted, EIOPA has recently launched a public consultation on an Opinion on AI governance and risk management. The Opinion sets out high-level principles that supervisors expect firms to develop to ensure the responsible use of AI systems. It highlights risk-based and proportionality considerations in its approach. The principles-based nature of the Opinion ensures sufficient flexibility to adapt to new developments in this area. The Opinion explicitly excludes from its scope prohibited AI practices and AI systems considered as high risk under the AI Act, while staying close to the guidance provided under the AI Act in order to maintain a harmonised approach without overlap.

As digitalisation is a global phenomenon and efforts to harness its potential and mitigate the risks need to be coordinated at the international level, EIOPA is playing an active role in promoting consistency through the International Association of Insurance Supervisors (IAIS), which recently published an application paper on AI.



PHILIP EVANS

Director, Banking Policy –
Bank of England

Artificial intelligence in UK financial services

Artificial intelligence (AI) is expected to bring considerable potential benefits for productivity and growth in the financial sector and the rest of the economy. AI adoption has increased rapidly in UK financial services over recent years, with many firms highlighting enhanced operational efficiency and higher productivity as some of the areas with the greatest expected increase. For the financial sector to harness the benefits of AI, we need to have policy frameworks that are designed to manage any risks to financial stability that come with them.

For the past five years, the Bank of England and the Financial Conduct Authority have been running a periodic survey of how financial services firms in the UK are using AI and machine learning. The latest survey, published in November 2024, covered nearly 120 firms, including banks and insurers, among others. We found that 75% of firms are already using some form of AI in their operations, a notable increase from 53% in 2022. We also found an additional 10% are planning to adopt it within the next three years.

The insurance and international banking sectors are leading the way with around 95% of respondents using AI. Firms are using and planning to use AI across a wide range of business areas. In aggregate, the largest such area is operations and IT, with around 22%

of all reported use cases. This is twice the proportion of the next largest area, namely, retail banking with 11%. General insurance is third with 10% of use cases.

Some of the most prevalent early use cases for AI have been fairly low risk from a financial stability perspective. 41% of respondents said that they are using AI to optimise internal processes, while 26% are using AI to enhance customer support. Potentially more significant use cases from a financial stability perspective are emerging, such as for credit risk assessment, algorithmic trading and for capital management.

AI is expected to bring considerable potential benefits for productivity in the financial sector, and these benefits are expected to grow in the next three years. Enhanced data insights, improved fraud detection, and increased operational efficiency are among the top advantages cited by firms. However, these benefits come with associated risks. Data privacy, security, and bias are significant concerns that firms must address to ensure ethical and responsible AI use. It is important we continue to develop our understanding of these risks to harness AI's full potential.

The Bank of England and the PRA adopt a technology-agnostic approach to supervision and regulation of artificial intelligence and machine learning. Our core principles, rules, and regulations therefore do not usually mandate or prohibit specific technologies; we expect firms to meet our existing rules on data management, model risk management, governance and operational resilience (including reliance on third parties), regardless of the technology they are using.

**AI could transform
financial services, offering
numerous benefits while
posing new challenges.**

However, being technology-agnostic does not mean being technology-blind. Risks may arise that relate to the use of specific technologies and certain technologies may also raise novel challenges for firms and regulators, which may mean it is difficult for firms to understand how existing rules apply to that technology. In those cases, we may issue guidance or use other policy tools to clarify how the existing rules and relevant regulatory expectations apply to those technologies. To support

this work, we are launching an AI Consortium of the private sector and AI experts to help us understand more deeply not only AI's potential benefits, but also the different approaches firms are taking to managing those risks which could amount to financial stability risks.

International collaboration is crucial as we look ahead. The international regulatory community has had great success in understanding new issues and innovations in financial services, where we have learned together, from each other, and developed shared principles for how to approach such cross-border challenges. Looking ahead, it will be crucial for international bodies and national authorities to continue collaborating to ensure we have the capacity to monitor AI adoption across the financial system, to assess whether our current regulatory frameworks adequately address vulnerabilities, and to consider ways to enhance those where necessary.

In summary, AI could transform the UK financial services sector, offering numerous benefits while posing new challenges. While not jumping to knee-jerk policy responses, we need to keep under review whether our microprudential and macroprudential policies remain sufficient to maintain financial stability. In so doing, we can harness AI's considerable benefits for economic growth in a safe and sustainable way.



KEITH BERRY

General Manager,
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Solutions – Moody's

AI is already changing the game for banks and insurers

Artificial Intelligence (AI) is rewriting the rules of the banking and insurance industries. From streamlining basic operations, to improving risk management and reimagining the customer experience, AI will create both new growth and new risks.

Generative AI (GenAI) is transforming how financial institutions operate. An analysis of Moody's Research Assistant usage patterns demonstrates that users are accessing 60% more data and insights and reducing task time by 30%, significantly improving decision-making efficiency and insight generation.

According to McKinsey, GenAI alone could add \$200–\$340 billion annually to the banking sector through productivity gains. Meanwhile, the insurance industry is seeing a seismic shift from reactive (and paper based) claims processing to proactive (and data driven) risk prevention. New business models are emerging, use cases are proliferating, and challenges—both technical and regulatory—are mounting.

However, looking ahead, success will require robust governance frameworks and reliable, verifiable

data to enable responsible large-scale deployment of AI.

AI impacts the top and bottom line

Versatility and adaptability are AI's superpowers.

In banking, chatbots powered by GenAI are already providing 24/7 personalized customer support, cutting response times and boosting customer satisfaction.

GenAI has helped fraud detection has leveled up as well by analyzing complex transaction patterns in real time, and by flagging anomalies with precision, which collectively save billions in avoided losses.

At the same time, in insurance, claims management is being digitized, automated and enhanced with GenAI underpinned tools, significantly speeding up settlements. Risk assessment processes are leveraging AI-targeted data from wearables and "Internet of Things" devices to price policies with surgical precision. Synthetic customer profiles even allow insurers to test marketing strategies without compromising privacy.

Hyper-personalization and more human interaction

For all the front-end glitz and glam regularly showcased, the ability to use AI to automate back-office tasks – such as compliance, research and simple document processing – is impactful and immediate. It is also enabling entirely new business models.

The future isn't about choosing between AI adoption or caution, it's about mastering both.

For example: in banking, AI-driven insights let banks offer tailored financial products, such as dynamic loan terms. In insurance there is a focus on empowering customers with AI-driven insights and forecasts of risk that allow them to take proactive action to reduce risks and, thus, reduce premiums.

Inevitably, AI will reshape the current job market. However, AI will also enable quality and productivity gains, helping junior analysts to produce work that matches the quality of seasoned professionals and allowing for more time for higher value tasks and customer interactions. Additionally, AI has the potential to mitigate information

overload, alleviating professional burnout, further enhancing workforce efficiency and well-being.

Challenges: Trust and applicability

For all its promise, AI's ascent isn't without risk. Banks and insurers handle incredibly sensitive information, and AI's hunger for data raises the specter of breaches or misuse. Extensive testing and user training are essential to prevent misapplication of AI models. Therefore, banks and insurers face a challenging adoption process to confidently implement these models.

The "black box" problem — where AI's decision-making is seen as opaque — complicates accountability and trust, especially in regulated sectors where processes must be clearly articulated and decisions must be objective. Integration with legacy systems also poses a technical headache as many firms still run on decades-old infrastructure ill-suited for AI's demands.

European regulation: Balancing innovation and control

In Europe, the advancement of AI is being closely monitored under the EU's pioneering Artificial Intelligence Act. This labels certain banking and insurance use cases — like AI-driven credit scoring or health insurance pricing — as "high risk," triggering strict requirements for transparency, fairness and governance. Banks must ensure their AI systems don't discriminate, while insurers face scrutiny over how AI assesses risk without violating privacy or ethics. The upside? Compliance could build trust and open markets. The downside? Fear of the unknown could stifle innovation in the short term.

The road ahead: Promise meets pragmatism

AI's potential to revolutionize banking and insurance is undeniable, with new business models emerging, use-cases constantly evolving, and data-driven innovation unlocking new revenue and cost-cutting measures. Yet the challenges — privacy, bias, legacy tech, and regulation — demand a delicate balance. In Europe, the EU AI Act exemplifies this tension, seeking to push responsibility without choking progress. For financial services companies, the future isn't about choosing between AI adoption or caution, it's about mastering both simultaneously.



BENOÎT SUREAU

Partner, FS Risk &
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Trust AI for successful transformation in the financial industry

Less than three years after the introduction of Generative AI (GenAI), many companies have now incorporated AI into their core business strategies and are looking for scaling its adoption. In the financial sector, more than three-quarters of European companies report using AI, but most remain in the initial phases, particularly regarding GenAI. AI adoption within the financial sector primarily focuses on enhancing back-office operations, with some progress in customer-facing applications and client interactions. While the European firms have accelerated their AI adoption over the past year, they still have lower levels of investment, research, and deployment in AI compared to US financial sector.

The usage of AI varies within the financial industry, with a GenAI usage more prevalent in insurance companies compared to banks. In the insurance sector, insurers are exploring its potential for providing consumer advice, improving pricing, underwriting processes and claims procedures. Banks are experimenting chatbots for customer support, general process automation, fraud detection and risk management. AI Innovation and its potential impact is evolving fast, as demonstrated by the

emergence of Agentic AI (autonomous AI agents performing complex tasks).

The potential for increased productivity and revenue growth that AI could bring is considerable. While AI enables significant cost savings through automation and improvement of existing processes, its significant potential lies in enabling new business models. AI has the potential to create new methods of customer interaction and new products, driven by hyper-personalized experiences. For example, in insurance, AI can enable more personalized insurance products and dynamic pricing models based on real-time data.

Generative AI as a new driver of AI adoption in the banking and insurance sectors

Unlike traditional AI, which may be confined to specialists' use, GenAI is widely accessible. The extensive and rapid adoption of GenAI by individuals, serves as an accelerator for AI adoption including traditional AI. The relatively slow adoption of AI within the financial industry was initially hindered by challenges such as fragmented data sources, poor data quality or limited scaling potential. The emergence of data-centric models and the transition to cloud computing, already have alleviated some of these barriers. Moreover, GenAI is not a standalone solution and should be part of a comprehensive AI strategy, alongside predictive analytics, machine learning, robotic process automation (RPA) and –most importantly –people.

When done right, Trust AI empowers the business by creating guardrails to accelerate innovation.

Trust is a key factor of the scalability of AI in the financial services

When artificial intelligence was only used in specific applications, the potential damage caused by disappointing returns on investment, inaccurate outputs, or compliance failures was limited. Now, employees may rely on it daily and customers regularly engage with AI-powered experiences and services. They should trust that data is used responsibly and that the AI the financial institution uses can be trusted. As AI becomes intrinsic to operations and market offerings, companies will need to manage the risks of large-scale deployment and confirm sustained value from their AI investments. Trust in

the reliability, transparency and fairness of AI is crucial for widespread adoption and for safely transition the AI systems from pilot to production at scale. A rigorous assessment and validation of AI systems, clear governance framework, risk management practices and controls become nonnegotiable for scaling.

Evolution of the AI regulatory framework in EU

The European Union's regulatory framework includes the AI Act, effective from August 2024, which complements existing laws such as GDPR and DORA, ensuring data protection and operational resilience. The AI regulatory framework also includes specific industry regulations, such as Model Risk Management (MRM) in the financial industry.

The ambitions of the EU's GDPR and AI Act are commendable, and the AI Act provides legal certainty to facilitate investment and promote innovation. However their complexity and the potential for overlaps and inconsistencies could hinder developments in AI by EU industry actors as outlined in Draghi's reports. Regulatory requirements were identified as a challenge by companies across all industries this year. This may result in a slower adoption rate in Europe compared to US competitors, who are already ahead of Europe in AI.

The EU Competitiveness Compass, launched in January 2025, opportunely proposes measures to close the innovation gap, such as "AI Gigafactories" to train large models and an "Apply AI" strategy, aiming to boost industrial adoption. It also promotes a simplification and harmonization of legal rules across the EU such as GDPR. Implementing these initiatives promptly could lower barriers for AI innovation, enabling companies to scale their solutions more easily.

AI INNOVATION IN CAPITAL MARKETS



TSVETELINA PENKOVA

MEP & Vice-Chair, Committee
on Industry – Research and
Energy, European Parliament

Is the existing EU framework fit for AI in finance?

In a new era of rapid technological advancements, artificial intelligence (AI) is playing an increasingly central role in financial services. As financial institutions seek to leverage AI to improve efficiency, enhance customer experience, and develop new financial products, the question of whether the existing EU financial, digital, and data legislations provide an appropriate framework to support AI-driven innovation in the capital markets sector while ensuring stability, transparency, and consumer protection is more relevant than ever.

The EU has taken proactive steps to regulate AI and data usage through various legislative initiatives, including the AI Act, the Data Governance Act, the Digital Markets Act, and the Digital Services Act. These regulations aim to balance innovation with risk mitigation, ensuring that AI applications in finance uphold ethical standards, transparency, and data security. However, the

complexity and rapid evolution of AI technologies raise concerns about whether these frameworks are flexible enough to adapt to emerging challenges and opportunities in capital markets.

AI's growing role in capital markets presents a range of benefits, from improving trading algorithms and fraud detection to enhancing risk assessment and regulatory compliance. By leveraging AI-driven analytics, financial institutions can better manage vast amounts of data, refine investment strategies, and automate processes that traditionally relied on human oversight. However, these advancements also introduce risks related to data privacy, algorithmic biases and cybersecurity threats.

The AI Act establishes a risk-based approach, classifying AI applications into different levels of regulatory scrutiny. While this provides a foundation for responsible AI deployment, the financial sector's specific needs may require additional regulatory clarity. Given the sector's reliance on real-time decision-making and automated processes, ensuring that AI models are explainable, auditable, and compliant with existing financial regulations is vital. Furthermore, the intersection of AI with cloud computing and quantum technologies introduces new regulatory challenges, particularly concerning data sovereignty, cybersecurity, and interoperability across financial institutions.

**The EU is establishing
the worldwide standards
in the sector with many
other countries following.**

The EU's financial regulations, such as the AI Act, Markets in Financial Instruments Directive (MiFID II) and the General Data Protection Regulation (GDPR), provide crucial guardrails for AI deployment in finance. However, the question remains whether these frameworks are sufficiently agile to address the rapid evolution of AI-driven innovations and if they are future proof in order to mitigate unforeseen negative impacts. For instance, while MiFID II promotes transparency and investor protection, it does not explicitly account

for AI-powered decision-making systems that may influence market fairness and efficiency. The real effect of the AI Act still remains to be seen, subject to its proper implementation, and to be evaluated in a few years on its impact on financial institutions. However, despite the challenges, it is worth noting that the EU remains the leader in the AI legislation and implementation. The EU is establishing the worldwide standards in the sector with many other countries following the model.

To ensure the EU remains competitive and fosters responsible AI innovation in financial services, additional sector-specific rules may be necessary. A key consideration is the need for harmonized AI governance across financial institutions to avoid regulatory fragmentation. However, what needs to be ensured is that regulatory oversight is not majorly outpaced by innovation and emerging technologies.

Thus, the EU Competitiveness Compass has highlighted AI, cloud computing, and quantum technologies as key areas for bolstering Europe's global competitiveness. We can see that the proposed additional measures aim to strengthen the EU's digital infrastructure, foster AI-driven innovation, and enhance regulatory frameworks to support technological advancements. As these measures take shape, they could provide financial institutions with clearer guidance on AI deployment while ensuring consumer protection, market stability and foreseeability.

In conclusion, while the existing EU financial, digital, and data legislations provide a strong foundation for AI integration in capital markets, there are gaps that need to be addressed to ensure long-term resilience and competitiveness. Striking a balance between fostering AI innovation and maintaining financial stability will be crucial in shaping the future of AI-driven financial services in the EU.



VOJTECH BELLING

Executive Director, Financial
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Artificial Intelligence in the Czech capital market: A Growing Influence

Artificial intelligence (AI) is steadily gaining importance in the Czech Republic, including in the financial sector, in line with global trends. Financial institutions commonly employ AI for data analysis, process automation, and trend forecasting, mirroring developments seen in other markets. Additionally, the Czech National Bank (CNB), similarly to other supervisory authorities in the EU and elsewhere, has also begun integrating AI into its supervision of financial institutions.

As shown, inter alia, by the ESMA Public Statement on the use of Artificial Intelligence, financial institutions in the EU primarily use AI in back-office functions, such as for conducting targeted marketing campaigns and streamlining administrative processes. The latter also includes the development of tools that automate the incorporation of new regulations into companies' internal procedures. AI in the Czech Republic generally still primarily plays a supporting role in investment services. However, its actual or potential use

extends from robo-advisors providing investment recommendations and analysing recorded customer calls, to algorithmic trading systems capable of responding to market fluctuations within milliseconds, to investment funds integrating AI into their strategies.

The CNB, as the central bank and the integrated financial market supervisor in the Czech Republic, has followed these developments closely. The regulatory framework for AI is, for the time being, comprised solely of the relevant EU regulation, with no national gold-plating. The CNB embraces the principle of technological neutrality. Regardless of whether or not AI is used by supervised entities, they are all bound by the same rules.

As a central bank, the CNB conducted its first experiment with generative AI for medium-term macroeconomic forecasting in 2025. Drawing on historical economic data, this analysis aimed to predict year-on-year inflation trends. Although the results showed that AI-based models can, in certain instances, outperform traditional economic methods, significant challenges remain, crucial for fully integrating AI tools into standard procedures.

As a supervisory authority, the CNB utilizes AI to innovate its own supervisory processes. An example is our generative AI tool for monitoring influencers, which automatically analyses digital content to detect and assess investment recommendations. This process begins with the collection of relevant digital content, which is then converted into a machine-readable format. AI subsequently conducts a faster and more accurate review of these large data volumes, reducing the time-consuming manual review of social media posts.

**We should aim to
ensure that any new
rules do not worsen the
conditions for European
competitiveness.**

Another example is the use of AI tools in reviewing various documents produced by entities which fall within the CNB's supervisory scope, such as licensing documentation, annual reports, or prospectuses. A customized generative AI model checks whether uploaded documents conform to regulatory requirements based on structured checklists and generates

recommendations where necessary. Although human intervention and checking remain necessary, these AI tools already reduce administrative burdens and increase the efficiency of documentation reviews and thus strengthen supervisory oversight of financial institutions.

Rather than revolutionizing the capital markets or the process of financial supervision, AI utilisation in the Czech Republic has so far underscored its advantages in processing large data sets and alleviating routine tasks. Its capacity for swift, large-scale data analysis yields notable savings in both time and resources. Nonetheless, the human factor remains indispensable in AI deployment, with the ultimate responsibility lying with the individual managing the AI tool - taking a "human-in-the-loop" approach.

Ultimately, the extent to which AI transforms the market will depend on the degree of trust placed in these technologies and on further advances in their reliability and trustworthiness rather than on the robustness of the regulatory framework governing them. In this respect, the existing rules are more than sufficient for the current level of deployment of AI in the capital market. Indeed, there is a strong case for even moderating the existing EU rules, in the framework of simplification of regulation. Even if a new regulatory framework may need to be developed over time in order to react to future AI development, we should aim to ensure that any new rules do not worsen the conditions for European businesses and their competitiveness in using AI.



ANNA DUNN

Chief Financial Officer, EMEA –
JPMorgan Chase & Co.

Ensuring technology regulations align with the EU's competitiveness agenda

J.P. Morgan is a strong proponent of Artificial Intelligence (AI). We view AI as a business imperative which can help us serve our clients and communities better and be more efficient in our daily activities. Our AI use-cases span fraud detection, risk and personalized financial services. We have also developed our internal AI capabilities, with our LLM Suite designed to enhance productivity and innovation.

Europe is a strong contributor to AI development globally. 22% of the world's leading AI researchers studied in Europe, yet only 14% continue to work in the region. Moreover, multiple European technology firms have moved their headquarters or listed in the USA. This drain from Europe is occurring for a complex cocktail of reasons including funding, investment appetite and energy cost differentials. One factor also consistently cited is European technology regulation. To quote the Draghi report: "The EU's regulatory stance towards tech companies hampers innovation: the EU now has around 100 tech-focused laws and over 270 regulators active in digital networks across all Member States." Additionally, global technology

products have been withheld in the EU due to regulatory concerns.

Less technology in Europe could be taken to be a positive depending on the nature of the technology and its risks. However it does prompt reflection on the regulatory framework and whether it is filtering only harmful technologies or functioning as a more general deterrent. In short, is the European technology regulatory framework well drafted to encourage growth and innovation whilst preventing harm?

For the financial sector, the question we would pose is what is the potential harm in AI usage which is not already addressed via consumer protection, model risk control requirements, and operational risk measures – among other requirements. There is a robust regulatory framework around risk management and anti-market manipulation that apply to our activities regardless of the technology used, or consumer protection laws and regulations such as those relating to anti-discrimination, fair lending, and unfair or deceptive acts and practices.

For technology in the EU more broadly, it's worth enumerating that the technology regulatory framework includes the General Data Protection Regulation (GDPR), the Digital Operations Resilience Act (DORA), the Data Act, the Digital Services Act (DSA), the Digital Markets Act (DMA) and, most recently, the EU AI Act. Combined these Acts alone are over 500 pages of regulation, with areas of ambiguity in their interplay and their interpretation.

Is the European technology regulatory framework well drafted to encourage growth and innovation?

For example firms in many cases have had to rely on case law for interpretation of GDPR provisions. Meanwhile the Data Act, DSA, DMA and AI Act, all interact with GDPR and state that they apply without prejudice to GDPR. However there is little guidance on what the specific interplay is. For example, it is as yet unclear what the impact of GDPR privacy rights is under the AI Act. The upshot is that firms operating in the EU are operating in an environment of complexity with regulatory and legal uncertainty, often requiring significant resource to understand relevant laws.

Removing ambiguity from the EU AI Act in the upcoming Guidance is an opportunity for the European Commission. It would be helpful for financial firms as well as broader technology innovation for the forthcoming Guidance to be clear, concise, developed in partnership with industry and crucially to not layer more requirements onto firms subject to existing oversight mechanisms. One example of where guidance is needed is around when AI "provider" obligations are triggered as a result of a "substantial modification". AI providers are subject to a greater number of obligations, meaning that in order to avoid inadvertently being captured as a provider, financial firms will be disinclined to take risks. Providing financial firms with regulatory certainty will provide them with a better foundation on which to innovate.

More strategically, the EU has an opportunity to encourage innovation and growth by adopting a more flexible, technology-neutral, and principles-based approach to AI regulation. This approach will provide greater international harmonization, and will assist European technology companies and consumers by providing a level playing field for global expansion. Specifically the upcoming Cloud and AI Development Act and the Digital Simplification package will provide a valuable opportunity for the EU to refine its regulatory approach within the context of its competitiveness agenda. Currently, the AI Act regulates specific use cases based on perceived risk levels, rather than the actual risk presented by the outcomes of these use cases. Although a risk-based approach is sensible, it may impose disproportionate obligations on use cases that do not present significant risks in practice. By addressing these issues, the EU can foster a healthy AI ecosystem and ensure that technology regulations align with its competitiveness agenda.



ALEXANDRA RICHERS

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AI Innovation: Vast technical revolution with huge human responsibility

The integration of Artificial Intelligence (AI) in capital markets is revolutionizing the financial sector, offering a myriad of opportunities and challenges. This transformation is driven by the need for increased efficiency, better risk management and enhanced customer service. Here are some key aspects that could shape the future of capital markets:

In the search for relevant use cases that offer added value, we see process efficiency as one focus area. AI technologies are streamlining back-office operations by automating routine tasks such as data entry, reconciliation, and compliance checks. This automation reduces manual effort, minimizes errors, and increases operational efficiency. For example, AI-powered systems can process vast amounts of transaction data in real time, ensuring accuracy and compliance with regulatory requirements.

Risk management is also important. AI can improve risk assessment and risk management by identifying potential risks and predicting market volatility. This enables more informed decision-making and helps financial institutions to better manage their risk exposures. For example, AI models can simulate

stress scenarios and assess or help to predict intraday liquidity flows their impact on the portfolio.

In terms of regulatory compliance, AI can automate compliance processes, monitor transactions for regulatory compliance and generate reports, reducing the burden on compliance teams. This is particularly important in an increasingly complex regulatory environment.

In addition, AI can play a crucial role in fraud detection. AI systems can detect unusual patterns and anomalies in transactions, helping to prevent fraud and ensure regulatory compliance. By using deep learning, these systems can also detect new and unknown fraud patterns that may be missed by traditional methods.

As part of market sentiment analysis, AI can analyze news, social media and other sources to measure market sentiment and predict market movements. This enables investors to make informed decisions and benefit from market trends.

AI can uncover hidden patterns and insights from large datasets, providing a deeper understanding of market dynamics. This helps financial institutions develop better strategies and gain competitive advantages by offering better services and generating higher revenues. This can lead to a stronger market position and a higher market share.

AI Act and Financial Regulation impacts demand also to leverage the huge responsibility.

In terms of customer service, AI-powered chatbots and virtual assistants can provide instant support and information to customers, improving the customer experience. These systems can answer frequently asked questions, supports the execution of orders and provide personalized recommendations.

Last but not least the automation of various processes through AI can lead to significant cost savings for financial institutions. This applies to both operating costs and costs associated with regulatory compliance.

AI Act and Financial Regulation impacts demand also to leverage the huge responsibility, responsible AI and data is required.

The European Union's AI Act and financial regulations play a crucial role in ensuring the responsible and effective use of AI in the capital markets. These regulations address ethical considerations, such as data privacy, transparency, and accountability. They provide clear guidelines for the use of AI and ensure that AI systems are fair, unbiased, and do not discriminate against any group.

The AI regulation proposal affects almost all economic and industrial sectors. It is particularly important to ensure consistency with existing regulations and supervisory structures. Double regulation in an inconsistent legal framework must be prevented in order to avoid legal uncertainty and barriers to innovation.

AI systems in capital markets must comply with data privacy regulations such as GDPR, ensuring that personal data is handled securely and ethically. This includes implementing data protection measures and respecting individuals' rights.

Moreover financial institutions have to address and mitigate biases in AI algorithms to ensure fair treatment of all clients. This involves regularly reviewing and adjusting algorithms to avoid discrimination.

The adoption of AI may lead to changes in the workforce, with some roles becoming automated and new roles emerging that require AI expertise. This necessitates retraining and upskilling employees to meet new demands.

In summary, AI innovation in capital markets presents a promising future, with the potential to revolutionize the industry and drive significant improvements in efficiency, risk management, and customer service. As the financial sector continues to embrace AI, it is essential to navigate the regulatory landscape and uphold ethical standards to ensure a sustainable and inclusive transformation.

CRYPTOASSETS AND EU FINANCIAL MARKETS



CARLO COMPORTI

Commissioner – Commissione Nazionale per le Società e la Borsa (CONSOB)

MiCAR implementation: challenges and opportunities for the EU crypto market

The Markets in Crypto-Assets Regulation (MiCAR) represents a landmark initiative in the European Union's effort to establish a comprehensive and harmonized framework for crypto-assets. As implementation progresses, its impact on risk mitigation, market efficiency, and investor protection remains a subject of discussion.

While MiCAR aims to unify crypto regulations across Member States, timely implementation, pending the various transition regimes, and supervisory convergence represent the current major challenges. National competent authorities across the EU are fully aware of these challenges and have intensified their joint efforts to work within ESMA, in strict collaboration with the EBA and

the European Commission, to ensure a smooth transition to MiCAR.

MiCAR's phased implementation - mid-2024 for stablecoin issuers and early 2025 for crypto service providers (CASPs) - coupled with differences in national grandfathering rules, has raised concerns regarding regulatory fragmentation. Whilst some Member States had pre-existing virtual assets regimes or national registration requirements only based on AML controls, others are approaching crypto regulation and supervision for the first time, potentially creating temporary divergences and risk of regulatory arbitrage. Additionally, the implementation of MiCAR raises doubts on the interpretation of key provisions, including the interplay with PSD2, the classification of crypto-assets, and reverse solicitation. ESMA, with the EBA and the European Commission, work to reduce uncertainties that may undermine legal certainty and create inconsistencies in regulatory application, ultimately hampering the good functioning of the EU passport, including market entry conditions and authorization processes.

On top of Q&As and Guidelines, ESMA has issued several public statements and opinions to provide clarity and promote convergence. For example, its statements on the transitional period and the treatment of non-compliant stablecoins clarify supervisory expectations during MiCAR's early stages. Additionally, ESMA's opinion on the broker model addresses concerns over global crypto group trading structures, while its supervisory briefing on authorization establishes guidelines for assessing CASPs during the review of the applications. These initiatives demonstrate ESMA's and national

Timely implementation of MiCA and supervisory convergence represent the current main challenges.

authorities' commitment to delivering consistent approaches in this evolving and complex sector.

Furthermore, competent authorities are actively exchanging information on thematic areas and individual cases to ensure harmonized supervisory outcomes, regardless of where authorization requests are filed. A notable focus is on developing a common approach to crypto custody, recognizing the unique challenges posed by blockchain technology compared to traditional finance. Recent cases have raised concerns regarding the segregation of client assets and security protocols, highlighting the need for further guidance to mitigate potential risks.

Ensuring that MiCAR is applied uniformly across the EU requires significant supervisory coordination, given the novel risks, diverse business models, and global reach of some crypto players. As a result, discussions are likely to emerge on the potential benefits of a more integrated supervisory approach at the EU level, particularly for large crypto-asset service providers. Centralizing oversight could enhance efficiency, consistency, and risk management in this inherently cross-border market, albeit pros and cons should be carefully considered.

In conclusion, MiCAR marks a milestone in the regulation of a unified European crypto market, consistently with the recent international standards developed by the Financial Stability Board (FSB) and IOSCO. However, its success depends on timely and consistent implementation across Member States. Also, the sector will likely be affected by the anticipated actions on crypto assets in the USA.

Addressing supervisory fragmentation and ensuring a balanced approach to regulation and innovation will determine whether the EU can fully harness the benefits of crypto-assets while safeguarding financial stability. As crypto markets evolve, further supervisory convergence at the EU level will be critical to fostering a cohesive, competitive, and trustworthy ecosystem. Additionally, a robust regulatory framework could increase investor confidence, allowing EU capital markets to benefit from the efficiencies of blockchain technology. Any future review of the current MiCAR framework should be based on an in-depth analysis of these considerations.



FERNANDO RESTOY

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New regulatory landscape for stablecoins

The US has recently adopted a notably innovation-friendly stance, particularly around payment stablecoins. Apparently, the main purpose of the new regulation is to promote the use of stablecoins, particularly outside the US, in order to further strengthen the ability and willingness of foreign agents to hold and use dollar-denominated digital assets. That could further help fund the relatively large public and trade US deficits.

In order to achieve that goal, US authorities have declared that there is a need to achieve regulatory clarity by introducing federal legislation. In turn, legislation has the potential to also help give stablecoins a stamp of legitimacy that could help promote their use by a wider segment of the domestic and foreign populations, not only for payments but also for store of value purposes.

As Analysis of the current drafts of the GENIUS and STABLE Acts, which are currently under discussion in the US Congress, suggests that the intention is to limit the issuance of stablecoins to depositary institutions and non-banks complying with specific licensing and regulatory requirements. This is less restrictive than the approach in the EU, where only credit and e-money

institutions can issue stablecoins, called e-money tokens. Importantly, draft US legislation does not explicitly ban stablecoin issuers (both banks and non-banks) from offering interest payments. If approved, this would contrast with the EU's framework, which explicitly prohibits interest payments on stablecoins.

The Markets in Crypto-Assets (MiCA) framework aims to ensure these tokens mimic the characteristics of e-money under existing EU directives while maintaining a clear distinction between these tokens and other financial instruments, like traditional banking products. That – arguably more restrictive – approach is consistent with the absence of any direct intention by EU authorities to promote the use of stablecoins. The argument has often been made that the existing payment infrastructure – particularly after the Single Euro Payments Area (SEPA) and the Instant Payments Regulation (IPR) – and the forthcoming introduction of the digital euro somehow weaken the public policy case of arguably less safe alternatives to process payments in the EU.

This scenario underscores potential competition issues could lie ahead if the proposals go ahead in the US between stablecoin arrangements in different jurisdictions. In particular, EU rules constrain the authorised issuers of stablecoins more and make them less attractive for users. Moreover, those regulatory discrepancies could indeed strengthen the international role of the US dollar vis-à-vis other currencies.

The case for a significant regulatory adjustment in the EU is, at best, unclear.

However, it is doubtful whether an attempt to mitigate the effect of diverging regulation on international currency competition would be enough to justify a sharp move towards more regulatory flexibility in the EU to mimic the approach taken in the US. This is so for several reasons:

- First, enhancing the international role of the euro has never been a direct policy objective for EU authorities. This has always been considered as simply a by-product of the stability-oriented policies in the euro zone. Moreover, more balanced fiscal and trade positions make international positions in euro-denominated assets somewhat less relevant than in the US.

- Second, the current EU legal framework allows European banks and other players to become active in promoting and supporting stablecoins. Moreover, MiCA already provides the stamp of legitimacy that is now sought by emerging legislation in the US.
- Third, more flexible requirements, especially the possibility for stablecoin issuers to remunerate balances, would immediately introduce an attractive substitute for bank deposits. Together with more flexibility for non-banks to issue stablecoins, that could potentially trigger significant disintermediation and damage commercial banks' business model, with potential financial stability implications.
- Finally, even with regulation, stablecoins could hardly achieve the same degree of safety as insured deposits or central bank money, which benefit from the trust central banks have built up. Therefore, wider use of those instruments would heighten the consumer protection concerns that were a key reason behind the current approach in MiCA.

Disclaimer: The views are those of the author and not necessarily of the Bank for International Settlements.



GEORGE THEOCHARIDES

Chairman – Cyprus Securities and Exchange Commission

MiCA should only be considered a starting point

MiCA represents a major step forward for the protection of investors in financial markets and its adoption, together with MiFID II and DORA, will make the markets intrinsically safer places. However, such is the pace of digitalisation in the market that MiCA should only be considered a starting point. The evidence clearly highlights that there is still much to be done to raise financial literacy levels so as to enable newly ‘empowered’ citizens to avoid making disastrous investment decisions. Thus, planned reforms must go hand in glove with education to raise levels of financial literacy. The urgency for financial education is more so now, because trading in crypto assets has drawn in many new, increasingly young, and sometimes financially illiterate investors to these emerging markets, where significant risks remain.

We believe that the Markets in Crypto-Assets Regulation will bring more legal certainty and lead to a more mature and stable EU crypto market. By putting in place clear and robust standards, it could limit speculative market practices, enhance consumer confidence and strengthen investor protection. The Regulation will likely facilitate the integration of crypto-assets into traditional financial markets, making it easier for banks and other financial

entities to offer crypto-related services to their customers such as custody, trading and payment solutions.

Such is the pace of digitalisation in the market that MiCA should only be considered a starting point and in particular, MiCA doesn’t cover the full spectrum of crypto assets, such as NFTs, which will remain outside its scope. Additionally, the issuance of stable coins will fall under central bank regulation, while trading and service provision will fall under ESMA and Securities and Exchange Commissions. But to address the question of risk mitigation head on, the urgency for financial education is rising, because trading in crypto assets has drawn in many new investors to these rapidly evolving markets.

Although the uptake of crypto within the traditional financial market has been relatively slow, crypto markets offer a new asset class, providing investors with the opportunity to diversify their portfolios. The tokenisation of financial assets is likely to reduce significantly operational costs, enhance market efficiency and reduce settlement risks. As we see it, technology is the bedrock for growth of the financial services industry. It is the role of regulators to recognise future trends and to anticipate potential risks and side effects. Better cooperation and coordination arrangements between financial Regulators and other authorities still need to be developed, not just to ensure we follow the same rules under MiCA, but also on matters of consumer protection, AML, cyber security, and our engagement with digital platforms.

Planned reforms must go hand in glove with education to raise the levels of financial literacy.

With the EU taking active steps to widen access to financial markets, it is critical that it takes into consideration that the risks can be higher in assets regulated under MiCA. As regulators we need to sharpen our knives to safeguard the financial system and protect investors. Inevitably, some participating firms will not survive within the intense regulatory environment that MiCA will create. This can only be a good thing because firms that have a strong compliance culture will thrive and the ones that do not will have to find homes in other industries.

The MiCA Regulation has the potential to unlock significant opportunities

for the EU’s financial markets, driving innovation and positioning the EU as a leader in digital finance. However, its implementation and enforcement might present challenges, particularly as different Member States will adopt varying transitional periods, which could complicate compliance across jurisdictions. This variation could lead to inconsistent application of the regulation and create uncertainty for businesses operating across borders. Additionally, some common criticisms regularly voiced by the crypto industry are that MiCA’s requirements could stifle innovation, especially for smaller companies and start-ups, by imposing high compliance costs and regulatory burdens.

Therefore, the reality is that given the constantly evolving nature of cryptocurrencies, coupled with the absence of a robust global regulatory framework, some responsibility for consumer protection must lie with investors themselves. Fortunes have been lost through fraud and scams, but with proper regulation risks from crypto assets, can be mitigated, but not completely banished. Investor education will remain key.



LAURENT MAJCHRZAK

Group Head of Digital
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The use of Blockchain by Finance will be regulated or will not happen

Rarely in the history of finance have we seen such an upheaval in infrastructure that allows us to foresee such a profound disruption in investment and payment methods. In 15 years, we have witnessed the emergence of blockchain technology, which was born with the promise of revolutionising the methods of transferring value, without the constraints of traditional finance. Technical efficiency was natively associated with the use of anonymity and absence of regulation.

Beyond the first technical weaknesses, it did not take long for some organisations and individuals to see the potential to circumvent regulations. The absence of regulation and the scandals and other scams that have resulted from it have caused important damage to the collective perception of the interests offered by this technology in terms of transparency, immediacy and immutability of records. For many years, traditional financial institutions have been extremely cautious about the use of blockchain, too often associating it with cryptocurrencies and the scandals that paved the way for the first steps of emerging financial activity into blockchain.

This explains why it is above all individuals who have rushed into the space opened up by the use of the blockchain with an assumed speculative objective. It was not until 2024 that some authorities began to gradually give some form of legitimacy to these digital assets that had previously been banned.

We are now experiencing a fundamental turning point in which a number of institutional and corporate investors are preparing to experiment with investing in digital assets, but with a very different approach. Indeed, the institutional investor is more concerned about the risks inherent in the custody of these assets, such as operational, counterparty, cybersecurity, compliance, and reputational risks.

The very rapid development of this technology on a global scale and the easy access of its use for individuals has allowed the emergence and development of pure players to this ecosystem and some of whom have reached a size comparable to many traditional finance players. However, when compared to traditional finance players, they have an undeniable advantage in terms of technological agility, but less expertise in applying the regulatory provisions imposed on the entire world of finance. Some national EU regulators have fostered the emergence of new national players by sometimes adopting less stringent regimes, which have created some distortion of competition with traditional finance players. With the entry into force of MiCA, we are witnessing a clear paradigm shift with rules strengthening at EU level and the beginning of standardisation of rules for all players in the blockchain ecosystem. The latter has also seen the development of new digital asset offerings from traditional finance players, driven by their clients new demand.

European regulators will strive to establish a level playing field across the Blockchain ecosystem.

There is no doubt that European regulators will strive to establish a level playing field across the Blockchain ecosystem, in particular by imposing similar monitoring obligations on all transactions.

These controls will include associating wallets with their holders and economic beneficiaries, ensuring the origin of assets, tracing their journey through the blockchain, identifying

suspicious transactions, and reporting fraudulent actors and assets. Regulatory developments in Europe are slowly moving away from the wild west view of blockchain, and are directing the EU financial industry towards a more regulated use of blockchain to reap the benefits in terms of operational efficiency without limiting protections against fraudulent activities.

Even if in detail, the regulatory burden weighing on these new Blockchain-native players is still not quite the same as that imposed on traditional finance players, a first fundamental step in Europe towards a more regulated use of the Blockchain has certainly been taken with MiCA and we can imagine that regulators will continue to enact standards aimed at guaranteeing standardised controls on financial transactions, whether they are carried out and operated on Blockchain or in traditional financial infrastructures.

The major players, particularly in the banking world, have now understood this and have taken note of their strength. Beyond the technological gap which was rapidly filled, they benefit from a positioning reinforced by the wide range of traditional solutions they can also offer to their clients, with hybrid capabilities in their digital and traditional asset custody and distribution offerings, while delivering risk management and applying regulatory compliance framework that has a strong track-record.

Blockchain's pioneers were motivated by disintermediation and anonymity. However today, we are witnessing the paradox that the initial use of this unregulated ecosystem has highlighted the importance of defining a usage framework that replicates the conventional financial objectives and practices.



CHRISTIAN STEINER

Director, Regulatory
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The crypto industry can help to attain the Savings and Investments Union (SIU)

What are the objectives of the SIU?

The reasons are stated in the Commission's "Call for Evidence" (CfE) on the SIU: *"The report of Mario Draghi and Enrico Letta highlighted remaining inefficiencies in EU's capital markets, in particular a significant savings and investment mismatch in the EU, where citizens' wealth is being underserved by low-yielding deposits, and companies, particularly young and innovative ones, are struggling to meet their capital needs due to inadequate financing options."*

The Mission Letter to the Financial Commissioner summarised the objectives:

- To develop SIU and leverage the enormous wealth of private savings support the wider objectives
- Focus action on supporting people to save better
- Fostering capital for innovation, unlocking digital finance, and ensuring competitiveness

Crypto industry an essential part for the SIU and financial growth

Open up private savings | support wealth creation

The peak of the global crypto market reached \$3,8T in Dec. 2024. For context, Gold's market capitalization is approximately \$19,6T, Apple's is around \$3.4 trillion, and Bitcoin's is around \$1,6T as of March 2025. This demonstrates that the crypto industry grew strongly over the last decade. Globally, approximately 563M citizens own crypto assets (data 2024). In the EU, this is about 49,2M owners in 2024, whereas in 2023, it was around 30,7M. Crypto-interested investors are more likely to deposit money in traditional brokerage than non-interested (NBER, 2024). Interestingly, the CfE states that in 2023, EU citizens held €11,63 trillion or 31,01% of their savings in currency and deposits.

Crypto supports
the SIU, innovation,
digital finance,
education, blockchain,
investments, crypto.

The numbers clearly show the significant interest in financial markets and specifically crypto. The crypto sector could empower and democratise finance by being an alternative asset-class that can hedge against inflation and currency debasement independently from standard structures. Crypto-assets are de facto investments in innovation and wealth creation that also motivate the traditional sector to enhance and upgrade. This is remarkable given that the crypto industry **was unregulated or loosely regulated** before MiCAR.

Support investment | Unlock digital finance | Bolster Competition

The crypto industry can support redefining established concepts of the legacy financial system. Like the advent of the internet, crypto ushers in a new era of digital finance. Here are some non-exhaustive examples of how the crypto sector contributes to SIU's objectives:

Blockchain settlement-operated banking systems: These offer real-time settlement, which is more efficient, transparent and secure.

Tokenisation of securities, real-world assets, bonds, and commodities: This

simplifies investment and creates new ways of funding in diversified vehicles.

Banking the unbanked: Providing financial inclusion and participation without intermediaries. DeFi platforms offer interest-bearing (staking) while smart contracts render investment processes more efficient, secure, transparent, and accessible.

Increased transparency and security: Blockchain's features of traceability and immutability can help build trust in the financial system.

Cross-border and Early-stage funding: Investment without borders and traditional limits, accessible 24/7 year-round. New option for early investors taking risks in innovation, new products.

Financial education: The foundation to a successful SIU. Crypto encourages people to explore monetary science and investment principles. Understanding the inception of Bitcoin requires studying the history of money and key financial concepts like gold value, interest rates, and inflation – highlighting the importance of financial literacy that will build investment culture.

How does MiCAR support these objectives, and what is the evidence?

MiCAR brings about a balanced and tailor-made crypto regulatory framework. It fills the regulatory vacuum by providing concrete solutions. Specifically, MiCAR establishes a customer protection framework and imposes new prudential requirements as well as a wide set of governance, conduct, and supervisory elements. It further lays down rules on crypto-assets and the authorisation process. Altogether, it ensures a level playing field and fair competition, rising standards and professionalism. Therefore, this empowers MiCAR to support the SIU by sealing the **credibility and recognition** of the sector. There is strong evidence that crypto will continue to grow under MiCAR, as reflected in its increasing institutional adoption, rising mainstream interest, greater retail participation in diverse crypto projects and improved regulatory clarity for new fintechs.

Conclusion

The crypto sector undeniably provided a positive impact on the current financial system and the social awareness of finances. The previous observations are strong evidence that the industry is here to stay as the new regulated asset class that can support and contribute to the SIU's objectives in many ways and even become a driving force.



SETH HERTLEIN

Vice President, Global
Head of Policy – Ledger

Europe needs MEGA regulatory reform to stay relevant

“The golden age of America begins right now.” President Donald Trump announced America is back. Next came swift policy changes to reverse the managed decline of the Biden years and spur American growth. It recalls President Reagan’s Morning in America. But what of Europe’s managed decline?

Brussels insiders smugly refer to the EU as a “regulatory superpower.” This, of course, is an oxymoron. It is also self-defeating — akin to tying one’s legs together before a race. Regulation makes markets neither stronger nor safer. It makes them less competitive, less innovative, and more expensive: conditions ideal for large foreign companies that can afford to subsidize the higher cost of European customers from more profitable operations elsewhere.

Last fall, former ECB President Mario Draghi published a damning report on Europe’s uncompetitiveness. One alarming finding was that the GDPR, crown jewel of the so-called “Brussels Effect,” reduces profits for small European tech firms by 12% to 15%! Add on the cumulative costs of the panoply of EU tech regs and you can see why European companies are at such a disadvantage. Inevitably, this causes promising European startups to fail or get acquired, such as the recent acquisition of Bit Stamp, Europe’s oldest

crypto exchange, by Robin Hood, a younger American competitor.

In February, Draghi issued a warning: *“Forget the US — Europe has successfully put tariffs on itself.”* Draghi has been sounding the alarm for months over the EU’s regulatory self-strangulation. In a recent op-ed he wrote, *“the EU has allowed regulation to track the most innovative part of services — digital — hindering the growth of European tech firms and preventing the economy from unlocking large productivity gains.”* Similarly, German Renew MEP Svenja Hahn pled directly to the Commission:

We need much more simplification, we need to reduce superfluous laws and regulations,... [W]e have to simplify the excessive digital laws. We finally have to be at the forefront of innovation, not regulation.

The first step to solving a problem is admitting you have one, and while Europe’s problems are clear, so are the solutions. Trump’s 3-part plan for the US economy would also work for Europe.

Slash spending and taxes

Economies don’t grow because of government; they grow in spite of it. And while a strong economy may eke out modest gains despite government drag, too much will eventually choke it. This is the story of the EU.

Trump unleashed the DOGE to cut trillions from the federal deficit while seeking to allow workers and entrepreneurs to keep more of what they earn. The combination is a powerful flywheel for growth, investment and R&D — things the EU economy desperately needs.

A government cannot regulate its way to market dominance, but it can regulate its way to irrelevance.

Don’t simplify; Deregulate

EU leaders now pay lip service to “simplification,” a hollow euphemism that belies their lack of will to deregulate. They talk of simplification while building a new regulatory agency called AMLA. This regulatory morass is crippling Europe’s tech industry. Pruning around the edges is not enough. EU tech regulations should be repealed wholesale. To fail to do so is to admit defeat.

Trump again points the way. Federal agencies froze new regulations and struck old ones. Federal offices have been shuttered. In his recent address to Davos, Trump pledged to eliminate 10 old regulations for every new one. The EU should cut more.

Prioritize innovation

While the EU regulates, Trump promotes disruptive technologies to extend America’s competitive advantage. He named David Sacks the first Crypto Czar and empowered him to shepherd pro-growth policies through the government. Trump signed an executive order establishing a first-of-its-kind Strategic Bitcoin Reserve. Trump’s pro-crypto agenda was capped at the first Crypto Summit at the White House where he declared the US will be the “crypto capital of the planet.”

In the end, Trump and Draghi are saying the same thing: bloated governments harm citizens by suppressing growth and restricting economic freedom. The diagnosis is the same, but the prescription differs greatly. EU leaders timidly talk of simplification while DOGE leader Elon Musk wields a literal chainsaw of deregulation.

To stay in the race the EU need simply to release the fetters it placed around the legs of European tech companies. Repeal disastrous regulations like MiCA, the TFR, the AI Act, and the Data Act. These laws’ thousands of pages are a noose of paper around the neck of EU tech. A government cannot regulate its way to market dominance, but it can regulate its way to irrelevance.

In 1981, a time not unlike today, Reagan famously said, *“In this present crisis, government is not the solution to our problem; government is the problem.”* To make Europe great again, the EU must make MEGA regulatory changes.

SCALING UP TOKENIZATION AND DLT



DENIS BEAU

First Deputy Governor –
Banque de France

Europe's path to tokenised finance: Scaling, stability and market confidence

Improving financial infrastructures with distributed ledger technology

Distributed Ledger Technology (DLT) is fundamentally improving payment infrastructures by enabling the tokenisation of financial assets. Tokenisation consists in issuing, recording and exchanging financial assets or real assets, in the form of digital tokens on DLTs such as blockchains. Significant progress has been made on the exploration of the advantages and consequences of this innovation, and how we could adapt our tools as central bankers on the wholesale front.

Eurosystem exploratory work in 2024 have shown how important the momentum is, as over 200 tokenised transactions totalling €1.59 billion have been processed, using real central bank money. These experiments, involving more than 60 market participants, have focused on key use cases including the security lifecycle, payments, and cross-currency settlements.

Tokenisation presents efficiency gains driven by enhanced traceability, automation throughout the security lifecycle and shorter settlement towards To. It could also streamline cross-border transactions, thereby lowering costs and increasing market liquidity. Additionally, tokenisation could provide greater flexibility with programmability, expanding the range of investment opportunities.

The settlement asset conundrum: Maintaining central bank money as a safety pivot in a tokenised world

Financial crises have underscored the critical importance of secure settlement assets. Banque de France, alongside other central banks, has long promoted the use of central bank money in wholesale transactions – a principle enshrined in the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMIs), as it is the safest settlement asset, with no liquidity nor credit risk. However, as tokenisation accelerates, there could be an increasing reliance on private settlement assets, particularly stablecoins, while other forms may emerge, such as tokenised commercial bank money. Although stablecoins aim to maintain a stable value relative to one or several assets, and to offer operational advantages in terms of speed and adaptability, they can pose acute risks if they are not supported by a solid regulatory framework (e.g. opacity of their reserves, limited stabilisation mechanisms and redemption rights, liquidity fragmentation and counterparty risks)

The emergence of a wholesale Central Bank Digital Currency (wCBDC) offers a strategic counterbalance to the rising prominence of stablecoins. By ensuring that central bank money remains accessible on DLT platforms, a wCBDC could erase liquidity and credit risk, mitigate liquidity fragmentation, reduce regulatory arbitrage, and uphold the role of central bank money – thereby reinforcing financial stability and preserving confidence among market participants. This is particularly relevant in a global landscape shaped by deregulatory trends.

Balancing innovation with financial stability and EU sovereignty

On the regulatory front, initiatives adopted in 2023 like the European Markets in Crypto-Assets (MiCA)

regulation have created a harmonised environment for crypto-asset providers and stablecoin issuers, guaranteeing legal certainty in Europe. The DLT Pilot Regime, with its derogatory framework, has enabled controlled experimentation in trading and post-trading of tokenised securities under real-life and safe condition. A coordinated EU policy framework promoting dialogue among financial actors, technology providers, and supervisory authorities is vital. By pre-empting risks and enhancing interoperability, it fosters innovation while preserving financial integrity and boosting market confidence.

On the innovative side, the Governing Council's decision in February 2025 marks a significant milestone. Building on the success of the exploratory work in 2024, where three solutions were tested to settle tokenised transactions in central bank money – provided by Banque de France, Deutsche Bundesbank, and Banca d'Italia – the Eurosystem has endorsed a dual-track strategy for a euro wholesale CBDC.

In the short term, the Eurosystem will develop a solution based on these three approaches tested in 2024, enabling the settlement of tokenised transactions using euro central bank money. This wholesale CBDC is key to market confidence, scaling tokenisation, and financial stability.

Wholesale CBDC is key to market confidence, scaling tokenisation, and financial stability.

In the long term, this initial solution will pave the way for a more integrated solution. As other currency areas leverage on tokenisation to gain market traction, developing a shared public-private infrastructure in Europe – such as a European shared ledger – has become crucial, and aligns with the yet-to-be-achieved Savings and Investments Union. This must foster market integration, streamline cross-border transactions, and preserve the anchoring role of euro central bank money in our two-tier monetary system, supporting a resilient and sovereign European financial ecosystem in the digital age.



SASHA MILLS

Executive Director for Financial
Market Infrastructure –
Bank of England

Scaling up tokenisation and digitalisation in the UK

In recent years, the financial landscape has been undergoing a significant transformation, driven by the advent of digital technologies and innovative financial instruments. Innovation occurring in wholesale financial markets today could have a truly transformative impact. Tokenisation - the process of issuing or representing assets in the form of digital tokens, often using distributed ledger technologies - and the wider adoption of new technologies have the potential to make post-trade processes faster, cheaper and more efficient, restructuring our financial system and the way we engage with it.

Public authorities have an active role to play in the reinvention of wholesale financial markets. This is both as enablers of innovation and providers of public infrastructure, and as regulators to ensure adoption happens in a way that preserves financial stability and is safe for participants in these financial markets. As it stands today, the implementation of programmable ledgers and tokenisation initiatives in traditional financial markets, for both securities and money, is at the experimental or early adoption stage in the UK. The Bank of England (the Bank) has been active in facilitating

innovation in wholesale markets, in relation to both assets and money.

The Digital Securities Sandbox (DSS), a joint initiative between the Bank and the Financial Conduct Authority (FCA), is a significant milestone for the UK. It gives the Bank the power to 'turn off' rules to enable industry experimentation with tokenisation in a safe and secure environment which protects financial stability while supporting innovation. It supports the issuance, trading, and settlement of both digitally native securities and 'digital twin' tokenised securities, and will play a key role in the UK Government's issuance of a digital gilt (DIGIT) that was announced by the UK Chancellor at Mansion House in November 2024. By applying this proportionate approach to regulation, the DSS is supporting new firms that are driving the adoption of digitalisation and tokenisation and will allow this activity to scale up in the UK.

Tokenisation can improve investor access and introduce more liquidity into the market. By enabling fractional ownership, it unlocks access to previously illiquid assets or those with high barriers to investment. The perimeter of assets used in activities such as repo, lending and collateralisation could also be widened through tokenisation, and the tokenisation of new types of assets could open up and develop new markets where infrastructure was previously cumbersome. These larger and more diverse markets are how this innovation can drive growth.

**Tokenisation has the
potential to make
post-trade processes
faster, cheaper and
more efficient.**

Digitalisation more broadly also has the potential to revolutionise post-trade processes by making them faster, cheaper, and more efficient. Programmable ledgers and smart contracts could consolidate and collapse trade and post-trade functions, resulting in reduced settlement risk, streamlining operations and cutting costs significantly. However, to unlock more of the benefits, including the programmability of securities, money needs to keep up with developments in tokenised assets. The Bank is considering ways to preserve and enhance the usefulness of central-bank money as a settlement asset for digital asset transactions, for example through

the work taking place on the Bank's Real-Time Gross Settlement system and through a programme of experiments to test use cases and functionalities around new forms of central bank money.

Tokenisation and digitalisation should preserve the global nature of financial markets, but these changes risk market fragmentation. A key part of preventing this will be the adoption of consistent standards internationally, and we are working with other international regulators and standard setting bodies to develop a common understanding of the benefits and risks of tokenisation. For example, the Bank is participating in the Bank for International Settlements' Project Agorá, which explores how tokenised commercial bank deposits and central bank money may be exchanged on a public-private programmable platform, initially focused on cross-border payments. To the extent tokenised assets bring similar risks to financial stability as other assets, they should be subject to equivalent regulatory standards.

In conclusion, across wholesale financial markets the Bank of England is committed to exploring opportunities for innovation and working alongside innovators to ensure this digital transformation benefits everyone. The continued experimentation and development of these technologies can ultimately redefine the frontiers of market connectivity, financial system efficiency and sustainability. However, wholesale financial markets do involve a lot of risk, and it is important that innovation happens in a way that is safe for participants and does not propagate risk in the financial system.



MATHEW OSBORNE

Policy Director Europe – Ripple

Tokenising real-world assets: The next leap in financial innovation

The tokenisation of traditional financial instruments such as treasuries, bonds and exchange-traded funds (ETFs) is thrusting capital markets into the digital world of 'real-time' and 'always-on' trading and driving efficiencies for firms.

We've seen a groundswell of institutions leaning into the tokenisation of real-world assets such as securities, funds and FX. New and emerging use cases in tokenisation are streamlining processes that have traditionally been complex, inefficient and costly.

Ripple has deep experience in this. In 2016, we led the way in the tokenisation of fiat currencies using the XRP Ledger (XRPL), piloting a programme with banks to provide faster, transparent and more cost-efficient settlement of cross-border payments.

The momentum has continued in recent months, with partnerships with leading issuers of tokenised real-world assets (RWAs). Earlier this year, Ondo Finance, announced that it would bring tokenised US treasuries onto the XRPL, giving institutional investors access to Ondo's Short-Term US Government Treasuries (OUSG) which can be instantaneously minted and redeemed 24/7 using Ripple's USD stablecoin (RLUSD). In 2024, Ripple

partnered with Archax, the UK's first FCA-regulated digital assets exchange, to facilitate tokenising money-market funds on the XRPL, as well as with the Singapore-based OpenEden to offer tokenised US Treasury Bills for institutional DeFi access.

New features and tools on public blockchain are supporting regulatory compliance and enhancing security, such as clawback and freezing features. On-chain identity solutions allow firms to enhance their KYC processes and mitigate compliance risk.

Medium to long-term opportunities in tokenisation

The opportunities in tokenisation extend beyond efficiency gains and are not limited to institutional adoption. By enabling fractional ownership, tokenisation significantly lowers barriers to entry to investment, especially for retail investors. These tools also help SMEs and scale ups by significantly reducing the cost of raising capital.

We anticipate that the tokenisation of real-world assets will continue to deepen and broaden new opportunities across traditional financial services. Going forward, there is huge potential for tokenisation to bring liquidity and access to historically illiquid markets such as bonds and even specialised assets like carbon credits.

A good example is collateralisation for DeFi lending. Stablecoins or tokenised US treasuries can support lending on DeFi platforms where collateral is locked into smart-contracts and released when the debt has been paid. These sorts of lending arrangements – like other transactions being transformed by tokenisation and DLT – benefit from being automated, decentralised and disintermediated.

Tokenisation has huge potential to bring liquidity and access to historically illiquid markets.

There is certainly more work to be done to co-design a robust yet accommodating legal framework around tokenised assets to ensure wider adoption. For example, the UK's Property (Digital Assets etc) Bill seeks to ensure that tokenised assets are legally recognised as objects of personal property, providing clarity on their status and enforceability. This could

create further opportunities for sectors such as real estate.

What next for the EU regulatory framework

The European Union has been proactive in getting ahead of other jurisdictions, with regulatory initiatives like its DLT Pilot a welcome step in the right direction. Tokenisation presents a huge opportunity to enhance growth and competitiveness across the European bloc, particularly by providing access to finance and capital markets through the EU's Savings and Investments Union.

A key challenge for the uptake of tokenisation in European financial markets is the viability of the cash leg for transactions. While alternatives exist, including CBDCs and tokenised commercial bank money, stablecoins present the fastest, most efficient and widely adopted offer.

The Markets in Crypto-Assets Regulation (MiCA) has provided regulatory clarity for stablecoins, although its lack of openness to overseas-issued and non-Euro stablecoins creates barriers. The increased requirements for systemic stablecoins could also impede the EU's emergence as a tokenisation hub, although the European Central Bank's recent announcement to support central bank money is welcome.

To foster further tokenisation, the EU's review of the DLT pilot should be expedited to allow for increased flexibility and higher limits for commercialisation. A centralised approach to supervision could ensure consistent and adaptive regulation.



TOM DUFF GORDON

Vice President of International
Policy – Coinbase

The future of finance calls for a permissionless architecture

Despite years of digital advancements, many financial systems remain outdated, with slow and complex settlement processes that can take days. The deficiencies of the current financial system are sometimes masked by consumer-friendly innovations, such as the introduction of mobile payments apps. But while they are digital, and may feel instant, they still rely on traditional banks and settlement rails to actually move money. And because they are closed systems, they limit users to sending money within their own networks.

Tokenization of assets on permissionless blockchain networks can change this. Rather than just adding new interfaces to old systems, permissionless networks rebuild financial services from the ground up with open, programmable rails—bringing everyone and everything onchain. This enables true peer-to-peer transactions and direct connectivity between all participants—regardless of which provider they use.

Permissionless base layer financial market infrastructure is crucial for the future of finance due to its unique advantages over permissioned systems. These networks enhance resilience through decentralization, ensuring

no single point of failure. They offer superior security with immutable, cryptographically secured transactions and enable seamless interoperability between blockchain applications, DeFi platforms, and traditional systems. Additionally, permissionless systems drive cost efficiency by eliminating the need for separate infrastructures for different applications. Together, these features provide a more secure, resilient, and cost-effective foundation for the financial markets of tomorrow.

The future lies in permissioned systems built on a permissionless base layer. These systems can meet critical regulatory requirements while maintaining the benefits of decentralization. This allows financial institutions to maintain control over participants, ensuring that only pre-approved entities can interact with the platform, all the while benefiting from the transparency and auditability of permissionless networks. Privacy concerns are managed through the permissioned layer, restricting access to sensitive data to authorized parties only. Furthermore, data reporting becomes more efficient as permissioned systems can leverage the trustless nature of public blockchains to verify transactions without relying on centralized authorities. This combination of control and openness ensures regulatory compliance while harnessing the full potential of blockchain technology.

The Basel Committee on Banking Supervision (BCBS) should reevaluate its approach to the prudential treatment of digital assets, especially those transacted on permissionless blockchains. Instead of applying blanket punitive capital requirements, the BCBS should focus on developing principles that enable banks and financial institutions to engage with digital assets, such as DLT-based securities, on permissionless systems in a responsible manner. Banks should be allowed to assess their exposure to these digital assets just as they would with traditional assets, considering key factors like governance, controls, and risk mitigation. This approach would encourage innovation in the sector while maintaining financial stability.

**The future lies in
permissioned systems
built on a permissionless
base layer.**

Collaboration between the EU and the US is essential as both regions progress in digital asset regulation. The US President's Executive Order emphasizes

the need for tokenization and permissionless blockchain technology in financial markets. Meanwhile, the EU's DLT Pilot Regime explores the integration of DLT into capital markets. To ensure the continued advancement of this field, the EU and the US should work together within international bodies like the BCBS to support the development of permissionless base layer financial market infrastructure.

As tokenization and DLT adoption in capital markets accelerate, the EU must move beyond the DLT Pilot Regime and update its capital markets rulebook to fully embrace digital assets. A key step is supporting on-chain cash settlement assets like wholesale CBDCs, tokenized commercial bank money, and stablecoins, which are essential for global interoperability and cross-border transactions. The EU should allow MiCA-authorized stablecoins for on-chain settlement outside the DLT pilot regime. Additionally, addressing fragmented custody rules across member states with a unified regulatory framework is vital to enable cross-border custodial services and foster the growth of DLT-based financial markets.



DAVID DUROUCHOUX

Deputy Chief Executive Officer –
Société Générale FORGE

How can banks better serve clients engaging with digital assets?

Banks have generally taken a cautious approach to the crypto asset class which has been growing actively for over a decade now (Bitcoin 2009, Kraken 2011, Coinbase 2012, Ethereum 2015, Binance 2017, SG FORGE 2018).

With the price of Bitcoin reaching highs above 100k€ and the passage of time, the active client-base has grown steadily, generally without the benefit of consumer protection regulations present in the regulated investments market.

Many such clients now seek an aggregated service combining assets from Traditional Finance (TradFi) with Decentralized Finance (DeFi).

What could banks offer them?

First, ensuring safe custody of crypto assets is key, so as to be able to enter securely into this technology which relies strongly on IT and cryptographic tools which can be attacked. Cryptography makes it possible to create accounts and passkeys which cannot be broken, but the surroundings tech stacks can be (internet pages, social hacking, etc.), as we have seen in the recent Bybit case. Banks have the processes to manage

this complexity and provide end-to-end secure environments.

Second, those assets have to be offered in a compliant manner. Regulated banks are subject to the highest standards, ensuring that clients accessing crypto assets have been passing strong KYC procedures before landing on their web or mobile app.

Third, the clients will increasingly need a flexible offering to bridge between traditional assets and crypto assets: that the reason why Societe Generale FORGE issued EurCV, the first Euro-based stablecoin. Issued by a bank, and thus compliant with both banking regulation AND with the DeFi world, it acts as a form of commercial bank money adapted to delivering products and services of the new digital world.

To be fully effective, it needs to interoperate smoothly with other banks and with the central bank. That is the reason why we support the adoption of a wholesale CBDC under a form of a token to reduce the technology gap between the two forms of digital money and to guarantee a seamless experience at the minimal cost of operation.

This wholesale CBDC would be a strong anchor, issued by the central bank, and is the best choice for regulated banks who want to issue or operate stablecoins while keeping an appropriate level of risk management in the service of their clients.

**Wholesale CBDC is a
strong anchor for banks
who want to operate
stablecoins securely.**

Taking a step back

The Draghi report showed that the key driver of the rising productivity gap between the EU countries and the US has been digital technology ("tech") - and that Europe currently looks set to fall further behind. An important reason why EU countries' productivity diverged from the US in the mid-1990s was Europe's failure to capitalize on the first digital revolution led by the internet - both in terms of generating new tech companies and diffusing digital tech into the economy.

To address this productivity gap, the European economy needs to better integrate new technologies. In certain areas of the financial sector, adoption

of blockchain or distributed ledger technology (DLT) could offer the potential for very significant productivity gains due to the automation of market transactions and of the back offices of financial institutions.

The potential market of blockchain on the EU economy is significant. The Global Financial Markets Association (GFMA) has estimated that DLT has the potential to create ~16tn USD global markets for illiquid assets by 2030.

The AFME states that EU is currently well-positioned in the race on primary issuance of tokenized bonds, but needs to remove regulatory blockers to enable at-scale development of blockchain-related financial services.

The EU has also been a pioneer in markets in cryptoassets by being the first large economic zone to enact a comprehensive regulation on cryptoassets and stablecoins with the MiCA Regulation. Currently most major international market participants are registered under national cryptoassets regulations and working towards compliance with MiCA, or already have a MiCA license.

The stablecoin market is currently around USD 200Bn outstanding, of which 99% is USD underlying. Comparing to the current forex reserves worldwide made of 60% of USD and 20% of EURO, we see the potential for a Euro-based stablecoin market reaching EURO 60Bn.

Societe Generale FORGE expects significant growth in the market for tokenized assets, and is working actively alongside with, mostly, European partner-banks who share a common vision for regulated and secured instruments within the crypto ecosystem.

GFMA Report, "The impact of DLT in Global Capital Markets", impact-of-dlt-on-global-capital-markets-full-report.pdf (May 2023)

AFME, Use of DLT and Tokenisation in Financial Markets A Proposed Vision and Policy Recommendations, 20241104_AFME Submission to EC_Final- update.pdf (November 2024)

Draghi report link: 97e481fd-2dc3-412d-be4c-f152a8232961_en (europa.eu)

We thank the **Polish Presidency of the EU Council**
and **the partner institutions** for their support in
organizing the Eurofi Warsaw Seminar



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CYBERSECURITY AND DIGITAL OPERATIONAL RESILIENCE



GERRY CROSS

Director Capital Markets and Funds – Central Bank of Ireland

DORA – a new era in digital operational resilience

Since 17 January, Europe's new Digital Operational Resilience Act has been live. DORA is a new style of "ecosystem" regulation, representing a multifaceted approach to digital operational resilience. DORA is a good example of regulatory simplification with its focus on outcomes rather than rules.

While a small number of policy products are still going through the legislative finalisation process, most of the technical standards that provide DORA's implementation details have come into effect. This significant task, completed by the three European Supervisory Authorities (ESA) together with more than 40 national competent authorities (NCA) and other agencies, has demonstrated that effective outcomes-focused collaboration can deliver harmonised, proportional and high-quality financial regulation for Europe.

Now that DORA is live and being implemented by financial regulated entities, convergence of supervisory approaches to implementation will be important. This should seek to ensure that DORA's harmonised cross-sector

approach is appropriately reflected in implementation by the more than 40 national authorities. This will not be an easy task, but good engagement and discussions are underway at ESA and NCA level to ensure just that.

That DORA is indeed live can be seen in ICT-related incident reporting which is now under way. Incidents are now being reported across the Union as required and the ESAs as well as NCAs are monitoring and analysing these closely. This will over time transform knowledge, preparedness and responsiveness.

In April, financial regulated entities subject to DORA will have to submit the Register of Information (RoI) of contractual ICT services provided by third-party providers and this will form the basis on which the ESAs will identify and designate the most critical ICT services provided by third-party providers.

The supervision of financial regulated entities in accordance with DORA will take time and has to fit in the respective supervisory engagement plan of a given financial regulated entity. This of course means that financial entities will be assessed at different times, similar to supervisory engagements for other outcomes.

DORA is a good example of regulatory simplification with its focus on outcomes rather than rules.

An important topic continues to be financial oversight and monitoring of the outsourcing chain. The initially proposed level 2 requirement in this regard was ultimately omitted from the level 2 regulatory technical standard on technical legislative grounds. It will nonetheless remain essential for firms to ensure effective oversight of all their outsourcing arrangements on an ongoing basis.



FRANÇOIS- LOUIS MICHAUD

Executive Director – European
Banking Authority (EBA)

DORA: focus on the first months of application

DORA is a breakthrough in financial regulation and supervision. For the first time, the requirements on digital operational resilience, which were spread across different legislations, are now streamlined through a single, harmonised framework for all regulated financial entities.

DORA addresses in a comprehensive and consistent way cyber risks, vulnerabilities, and the dependency of the financial sector on technology companies. As these risks are evolving fast, fastly, good risk-based supervision requires us to be forward-looking and to anticipate future issues coming into our way. In recent months, banks have been suffering from Distributed Denial-of-Service (DDoS) activity linked to geopolitical events, a surge in mobile banking trojans, and an increase in the complexity of the attack vectors. Data breaches through fraud, supply chain attacks, social engineering campaigns and politically motivated hacktivism also remain prominent drivers behind cyber threats.

All this suggests that we cannot be complacent. While it is clearly early days to draw the first lessons from the implementation of DORA, the EU

financial sector's investments in ICT security infrastructure may start bearing some fruit. The number of successful attacks resulting in a major ICT-related incident in autumn 2024 has not risen further compared to spring 2024 in spite of increasing sophistication and a continued high number of attacks.

After three months of DORA application, some other considerations can already be drawn.

Firstly, DORA started applying in January 2025 and did not provide for a transitional phase. However, its requirements are not entirely new per se. Indeed, they leverage on existing sectoral legal practices and expectations. In the banking sector, a lot of work had already been done as a response to EBA's guidelines on outsourcing, on ICT and security risk management, on incident reporting. Banks have been accustomed to this for years. For them, the bulk of the adaptation to DORA consists of translating previous requirements and filling some gaps.

Efforts for smaller institutions to comply with DORA may admittedly be higher as they have so far been subject to less demanding sectoral requirements. Still, they have an important role to play to offer to clients and the EU economy as a whole a good level of resilience. With this in mind, supervisory expectations will vary depending on the size and overall risk profile, and the nature, scale and complexity of services, activities and operations of each financial entity, assuming that the risks have to be properly mitigated by all of them in any case.

DORA: a milestone to streamline & strengthen the approach to ICT resilience for EU financial sector.

Secondly, in a statement published at the end of 2024, the three ESAs identified the areas for increased attention from financial entities in the first months of DORA application. The effective management of ICT-related incidents is a cornerstone of DORA, as it can help identify threats and address vulnerabilities. Banks should be equipped to record, classify and report their major ICT-related incidents, and to follow-up properly. Supervisors report these major ICT-incidents to the ESAs, which can thus have a comprehensive overview on the ICT threat landscape.

During the first eight weeks of reporting, the EBA received reports on more than 500 incidents, affecting mostly IT systems, payment services and on-line banking.

Moreover, in the context of their third-party risk management, banks will need to have ready their registers of contractual arrangements for competent authorities. The latter will share them to the ESAs by 30 April 2025 to designate critical third-party ICT-providers (CTPPs), which will be placed under the ESAs oversight. ICT resilience being a cross-sector issue by nature, the ESAs created a common oversight function, to maximise efficiency, simplify reporting and coordination issues and ensure consistency.

Financial entities can prepare leveraging on ITS on the Register of Information and on the 2024 ESAs dry-run exercise, which showed that while a very large number of financial entities were already prepared or well advanced in their preparations, others need to intensify their efforts. Data quality should improve across the board, to ensure this register is a relevant third-party risk management tool for the financial entities themselves.

Going forward, the ESAs will also support supervisory convergence across the EU, to ensure a consistent approach in supervising DORA and related policy instruments. This will contribute to a level-playing field, legal certainty and transparency for financial entities, ICT third-party service providers and competent authorities, thus enhancing EU's resilience and competitiveness.



FRANCESCO MAZZAFERRO

Director General of
Secretariat – European
Systemic Risk Board (ESRB)

Preparedness is key to financial sector resilience

Since 2017, the ESRB has been working on systemic cyber risk in the EEA and identified key features of how a cyber incident of sufficient speed and scale can propagate through the financial system and threaten financial stability. The financial system performs a number of key economic functions which support the real economy and heavily relies on robust ICT infrastructure for the continuous delivery thereof. The increasing digitalisation of financial services in combination with the presence of high value assets and data make the financial system vulnerable to cyber incidents.

Core vulnerabilities are either idiosyncratic – unique to each individual entity – or common – prevalent or similar across the system. Common vulnerabilities are for example insufficient oversight of widely used ICT third party service providers (ICT TPPs) and the supply chain (which is now an excellent cornerstone of DORA), inadequate cyber hygiene or lack of investment in cyber threat intelligence and cyber security. Such vulnerabilities may be exacerbated through high interconnectedness and non-substitutability of actors and services once an incident occurs.

The motive behind malicious cyber activity depends on the threat actor. Cyber criminals' main goal is profit seeking and sometimes political activism while nation state's primary objectives are covert reconnaissance, projection of power and sometimes overt destruction of critical infrastructure or retaliatory action within the geopolitical context; to some extent overt action follows covert espionage. What all actions, however, have in common is that cyber risk does not respect borders and moves in different ways and across layers of the system than traditional financial risk. This makes it inherently difficult to quantify.

The ESRB's primary focus has been on (i) the potential impact of a systemic cyber incident, (ii) all actors' preparedness and (iii) the system's resilience as a whole.

At all times, it is essential that both, authorities and the private sector share information on vulnerabilities and in case the risk materialises, related incidents. DORA provides a structured and cross-sectoral framework for the sharing of incidents. However, to increase the level of preparedness, also information sharing beyond existing incidents should be continuously fostered and seen as an integral part of our collective approach to cyber resilience. To raise the general level of awareness, the ESRB has continuously been advocating for that.

**No entity in the financial
system exists in isolation
and thus carries a
distinct responsibility.**

To raise the level of preparedness, the ESRB developed a framework for cyber resilience scenario testing (CyRST). This framework guides macroprudential authorities in their pursuit to test the financial sector's resilience and preparedness. In this setting, testing as many dependencies as possible is crucial and financial entities need to be aware of their place in and effect on the financial system. The scenario should focus on the impact of the system-wide cyber incident on firms and how they manage their response and recovery, rather than the detailed technical factors that caused the incident. The scenario would ideally be uniform and apply to all firms involved and thus support a system-wide assessment thereafter. This high-level framework has already been adopted by several authorities in the EEA and the number is continuously growing every year.

In the event of a crisis, cooperation and coordination frameworks are essential to minimise a potential coordination failure. In 2021, the ESRB recommended the European Supervisory Authorities (ESAs) to develop a pan-European systemic cyber incident coordination framework (EU-SCICF) alongside DORA. This framework is now operational and will be key in assessing financial stability implications during a cyber crisis. Cooperation within a country, between countries and in global networks is essential. Therefore, the EU-SCICF gathers all relevant actors in the EEA and acts as bridgehead to other frameworks.

From a macroprudential perspective, the development of cyber maps for the entire system would greatly benefit our understanding of systemic cyber risk. On one layer, the financial system with all its connections such as interbank and payment systems. On a layer below, one must consider all technological dependencies, ICT TPPs' interconnectedness among each other and with the financial sector. This could give us a better understanding of how cyber risk truly moves through the system and enable macroprudential authorities to act accordingly. In the end, no entity in the financial system exists in isolation and thus carries a distinct responsibility in the overall system's resilience. However, a common approach to data sharing among the supervisory community is essential in our collective effort.



ULRIK NØDGAARD

Governor – Danmarks
Nationalbank

Cybersecurity and digital operational resilience: pending and emerging issues

The cyber threat is pervasive, exacerbated by the geopolitical situation, and ever-presently manifested via state actors and organized criminal groups with increasingly advanced capabilities. The financial sector plays a critical role in society, and advanced cyberattacks against financial institutions or payments systems have the potential to threaten financial stability on a systemic level.

Strengthening cyber resilience is complex work and requires continuous efforts along many fronts, both within individual entities and collectively. At Danmarks Nationalbank, we have prioritised work on cyber risks in collaboration with the financial sector since 2016. The financial sector's joint work on cyber risks takes place within the framework of the public-private collaboration forum FSOR, Financial Sector Forum for Operational Resilience, initiated by Danmarks Nationalbank nine years ago. FSOR is chaired by Danmarks Nationalbank and participants include systemically important banks, data centers, owners of critical payments infrastructure, representatives from insurance and pension sectors, and key authorities.

FSOR has initiated a series of mitigating measures that can be described as

two waves. The first wave concerns preventive measures, while the second wave focuses on contingency measures. Among the preventive measures are threat-based red team testing of entities in the financial sector under the TIBER-DK programme. TIBER tests take place in live production environments, i.e. in the critical systems that are used to support the daily activity in the financial sector. In a TIBER test, the entity is to identify, prevent and respond to advanced cyberattacks from ethical hackers – a so-called red team – to gain learning on protecting societally critical activities against cyberattacks and preventing the cyberattacks from causing damage. Danmarks Nationalbank was among the first central banks to implement TIBER, building on a framework developed by the European Central Bank, ECB. In Denmark, many tests have been conducted since 2018, and this has generated crucial learning serving to strengthen cyber resilience across the Danish financial sector. The Digital Operational Resilience Act, DORA, establishes threat-led testing, TLPT, as mandatory for significant financial entities in the EU. Danmarks Nationalbank is the authority for TLPT in Denmark.

Another preventive measure facilitated by Danmarks Nationalbank is the regular mapping of cyber maturity in the financial sector. The mapping is done via surveys conducted among FSOR members to gain insights into the sector's self-assessment of its cyber resilience, creating important learning and the opportunity to benchmark against peers.

**Strengthening cyber
resilience is complex work
and requires continuous
efforts along many fronts.**

Although the Danish financial sector has significantly increased its cyber maturity over the past decade, it is not possible to fully protect against and prevent all cyberattacks. Among the initiated contingency measures is the establishment of a joint crisis response among FSOR members, the FSOR Crisis Management. In case of a severe cyberattack, coordination between FSOR members and communication to the public is key to contain the incident and handle reputational risk. FSOR Crisis Management is regularly tested to ensure that it is efficient functioning.

Another initiative to enhance crisis management and business continuity is the collaboration between the Danish Financial Supervisory Authority and Danmarks Nationalbank on a stress test of operational resilience at the sector level. The starting point is that an incident has occurred, and the companies' cyber defenses have been breached. The purpose of such tests is to examine how individual entities handle a large-scale, long-term operational IT incident in collaboration with other companies in the financial sector, FSOR's crisis management, and authorities. The results can shed light on the need for additional mitigating measures to increase operational resilience in the sector.

Furthermore, we are working towards a long-term payment contingency measure in Denmark, increasing the number of payment cards that can be used off-line to ensure basic consumption for at least a week.

Considering the geopolitical situation and the maturity of the Danish financial sector, Danmarks Nationalbank are also working on business continuity and recovery measures in extreme but plausible scenarios. The work should result in recommendations on how the financial sector can prepare for such scenarios and continue to carry out the most societally critical activities if damage has occurred.

The cyber threat landscape is constantly changing, and both entities and authorities must continuously evolve with the threat to stay ahead of developments. It is therefore crucial to continue work on strengthening cyber resilience through both preventive and contingency measures.



**VINCENT
MAAGDENBERG**

Chief Risk Officer – Rabobank

Strengthening resilience: Lessons from DORA implementation

The Digital Operational Resilience Act (DORA) aims at a situation where EU financial entities can withstand and handle significant ICT disruptions. Its implementation this year has doubtlessly raised the resilience level and aligned them with customer expectations, as most customers have become fully dependent on digital banking systems. The interconnectedness with the economy of bank apps and related financial systems means disruptions can have cascading effects, highlighting the need for comprehensive resilience strategies. DORA is a good start, but more is needed.

The requirements in DORA are not entirely new, as they build on the 2019 EBA Guidelines on ICT and Security Risk Management. In the Netherlands, Dutch law also has required banks for years to perform systematic ICT risk analyses and to have clearly formulated policy principles for managing outsourcing risks. Therefore, banks did not have to start from scratch, though DORA made explicit what banks were already required to do. Furthermore, DORA expanded the scope by including more critical service providers, which is a positive and necessary development given the increasing interconnectedness.

One item that DORA now makes explicit is the importance of collaboration with all critical ICT providers. Although for some of those providers a robust partnership approach was already in place, DORA ensured that the framework is also implemented with those critical ICT service providers where this was not yet existent. This certainly strengthens digital resilience and fosters continuous improvement and proactive risk management. Also the shift to thinking in end-to-end (product) processes and not solely at individual applications contributed to resilience. Here we have also leveraged existing regulations namely the Bank Recovery & Resolution Directive to determine which processes are critical and important. In this way we have made maximum use of what existed already with the new Act coming into play.

This process also highlighted the necessity for comprehensive training and awareness programs fostering a resilience-focused mindset throughout the organization.

Given our critical role in the economy, banks also have a responsibility to assist their clients. We noted that clients appreciate banks that proactively inform them on how to achieve and maintain digital resilient. For instance, SMEs are particularly vulnerable given their relatively small size, lack of ICT knowledge and outdated infrastructures with weak security protocols. Without taking over responsibility, we are now actively informing our SME clients to mitigate these risks.

In becoming digital resilient DORA is a good start, but more is needed.

Besides working on their digital resilience as envisioned by DORA, the banking sector is also witnessing new trends such data centralisation, cloud computing, outsourcing, (Gen) AI and quantum computing. In addition to what DORA is requesting it's therefore important that banks, critical ICT financial service providers and their supervisors leverage technology and AI to combat cyber-risk. More enhanced cooperation and openness about the exchange of cyber threats, lessons learned, and best practices is needed as it can play a crucial role to remain top in class. Regulatory bodies can support these efforts by providing clear guidelines. However, the challenge is that we must warrant that this

information does not fall into the hands of cybercriminals. This would be significantly counterproductive to the efforts made.

On top of what DORA requires, recent geopolitical trends also makes it essential to prepare for scenarios, playbooks and the frequent testing of them where hybrid threats make that banking apps do not function. This underscores the need for not only financial institutions but also energy suppliers, telecom operators, and other vital processes in our economy to become more resilient against military and hybrid threats while maintaining a robust democratic framework. This requires a shift in thinking and behaviour across all sectors of our society.

Given these threats and high dependency on digital infrastructures, it would be beneficial for the European Commission, Member States, EU supervisors, banks, payment service providers and other relevant critical ICT service providers to explore ways to enhance resilience together. To mitigate the risk of a total fall-out, one could think about the setting up of a crisis runbook at national level for the most critical banking services to mitigate the risk of not having access to current accounts and payment processing, which are essential to our customers and the (regional) economy. First at national level and thereafter expanding to European level.

In an unstable world banks play a crucial role in protecting the financial infrastructure, supporting society and facilitating employees to be prepared to enable them to play an important role in crisis situations. This is what our clients expect from us.



FENITRA RAVELOMANANTSOA

Head of Cloud Regulatory
Affairs, EMEA – Google

DORA oversight: fostering a collaboration is a key

The Digital Operational Resilience Act (DORA) is now in effect, setting a new course for the EU financial sector. Google Cloud, alongside our financial services customers and regulators, has been actively engaged in DORA readiness preparations since the requirements were finalized in 2022, and early experiences offer valuable insights.

A primary lesson is the huge importance of proactive and open communication and transparency during both the draft regulation and the implementation phase. As the CTPP oversight framework is novel, we believe that a dialogue between regulators, financial entities, and ICT providers is key. We believe we are on the right track to continue this transparent exchange.

To directly support customers and ensure transparency, Google Cloud has taken concrete steps: updating our contractual terms in February 2024, providing clear mappings for both Google Cloud and Google Workspace to help customers understand how our contracts, controls, and processes support their compliance efforts. We've also published essential resources, including the DORA FAQs, an ICT Risk Management Customer Guide, the

Register of Information Customer Guide and the Third-Party Risk Management Resource Center. These resources provide critical information on our risk management practices, subcontractor management, and the necessary data for customers to complete the relevant Register of Information templates for Google Cloud services.

DORA marks a pivotal moment for the tech and financial ecosystem. This represents a fundamental shift in financial regulation, with the European Supervisory Authorities now positioned to shape the oversight rules directly governing ICT providers.

As the first challenge, it's crucial to acknowledge that ICT providers operate differently to financial entities. These differences, including organizational structures, development cycles, and service delivery models like the shared responsibility model in cloud computing, may be significant. The regulators have a unique opportunity to establish an oversight framework focused on achieving the desired resilience outcomes, while allowing flexibility in how tech companies achieve them. For example, requirements related to internal controls or audit processes may need to be tailored to the cloud environment, recognizing the shared responsibility model and the continuous delivery of services. Regulators should also be mindful of the rapid pace of technological change and design frameworks adaptable to future innovations. Recognising the dynamic nature of cloud technology, Google Cloud is committed to collaborating with regulators more broadly by sharing our technical expertise and insights.

DORA' marks a pivotal moment for the tech and financial ecosystem.

Another major consideration is the consistent interplay between European and national supervisors, when CTPPs are being directly overseen and indirectly as an ICT provider to supervised financial entities, to avoid potentially conflicting views. For example, differing views on specific provisions can lead to confusion and delays. To mitigate this, continuous cooperation between European and national authorities is crucial, alongside a focus on desired outcomes rather than overly prescriptive methodologies.

To effectively combat cyber-risks, market participants and supervisors can further leverage technology and AI through

enhanced cooperation and the exchange of best practices. Promoting industry-wide information sharing is crucial, with DORA outlining considerations for voluntary sharing of cyber threat intelligence. Establishing common standards for data sharing would also enable a more effective response to cyber threats and operational disruptions.

AI offers significant potential for the industry, and Google Cloud integrates AI into its cybersecurity strategy, using machine learning to automate security tasks and enhance response capabilities. Mandiant, now part of Google Cloud, provides expertise in threat intelligence and incident response, complementing AI capabilities. As a leader in cybersecurity, Google Cloud is committed to continuing to share our knowledge and expertise with both financial institutions and regulators to enhance cybersecurity across the industry. Google Cloud has used its experience as a leader in the security field to provide thought leadership to support the development of pooled Threat-Led Penetration Testing (TLPT). These efforts are all aimed at fostering a greater understanding of the technological landscape and addressing evolving cyber threats.

Lessons learned from DORA implementation by Google Cloud and its financial sector customers highlight the importance of open and early dialogue between the stakeholders. In terms of achieving DORA's objectives, it is still early days, but we are confident that with support and collaboration between stakeholders, the digital operational resilience across the European financial sector will be significantly enhanced.

OPEN FINANCE AND FIDA NEXT STEPS



FAUSTO PARENTE

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Open finance: European Union's next step

Open finance is a key component of the European data strategy. It unlocks the potential of data sharing, facilitating broader objectives such as data-driven innovation, digitalisation, retail access, and enhancing competition. By providing a framework for secure and controlled data sharing, open finance can enable the development of new business models and revenue streams, benefiting both consumers and financial institutions.

While the increased availability of customer data facilitated by open finance is expected to lead to more precise and tailored risk assessments for policyholders, it also raises potential concerns. For instance, increased data use could undermine the mutualisation principle, resulting in more individualised approaches that may lead to price discrimination, affecting vulnerable customer groups. Moreover, the increased availability of customer data raises privacy and data

security concerns, highlighting the need for robust safeguards to protect sensitive customer information.

The Financial Data Access (FiDA) proposal, currently under negotiation, provides a framework for the development of open finance in the EU – overall aiming at enhancing opportunities for customers “to benefit from open, fair, and safe data-driven innovation in the financial sector”. The primary objective of the regulation is to empower customers, giving them effective control over their financial data and enabling them to make informed decisions about who and how will use it. Upon consent, operators in the insurance market (undertakings, intermediaries, the newly created Financial Information Service Providers – FISPs) could reuse customers’ historical data for a more accurate assessment of their financial and insurance needs and potential risks, fostering a more competitive and innovative ecosystem. Since the sharing schemes introduced by FiDA should require improved interfaces (versus current practices such as screen scraping), higher quality and timeliness of shared data are expected to support the development of innovative services.

EU's open finance initiative: Weighing benefits and risks.

A key question regarding the development of the EU open finance framework is whether it is truly needed and whether the effort to create it is justified. Some market participants argue that before proceeding, there should be clear evidence of demand and use cases, and an assessment of the potential impact on the industry, especially given the costs involved. Others believe innovation will flourish and drive demand, making justification unnecessary.

EIOPA supports policymaking rooted in evidence and impact assessment. However not all potential impacts of enabling legislation can be established ex ante. It is difficult to anticipate how FiDA will evolve and whether it will truly drive open finance growth, as expected. For instance, will FiDA create incentives to develop new business models, products, and services benefiting consumers? What impact will it have

on the industry, and will consumers ultimately be willing to share their data? The debate around FiDA highlights the complexity of developing open finance and the need for careful consideration of its potential impacts.

Ahead of the trialogue negotiations, several questions about FiDA remain. Will consumer consent function as intended, given consumers real control over their data, or will it face similar challenges to those seen with cookie consent, where consent is often given without a true understanding on what is being agreed? Why is only the financial sector addressed? Could FiDA create an imbalance by opening data to third parties, such as gatekeepers, in a way that puts the European industry at a disadvantage? How will its implementation be structured: gradually or all at once? What role will the European Supervisory Authorities (ESAs) play? And is it possible to create regulation in an efficient way, thereby avoiding a large need for clarification at Level 3?

Ultimately, open finance has the potential to significantly benefit the European financial sector. However, developing it will require careful consideration of the complex issues involved. To this end, FiDA should be designed with a willingness to adapt and evolve over time. Adopting a step-by-step approach, with FiDA applying to different products at different stages and allowing sufficient time to develop standards, can be very helpful. Such an approach, coupled with evaluations of its impact, can strike the right balance between innovation, consumer protection, market specificities and industry dynamics, enabling a regulatory framework that benefits both consumers and financial institutions.



REGINA DOHERTY

MEP, Committee on Economic and Monetary Affairs – European Parliament

Data sharing in the European financial sector

We are living in an era where data, data protection, and the economic possibilities for customers, data holders, and data users, are the subject of endless conversations. In the financial services sector in particular, the impact of the digital economy has been transformative, overhauling traditional methods of doing business and opening up new frontiers for innovation and faster, bespoke, and personalised services.

The journey is ongoing and there is no end in sight. As with most journeys of discovery, we feel there might be something out there but we're not sure what it is, where it is, or how long it will take to get there.

To date, we have seen legislative frameworks struggling to keep pace. To an extent, this makes sense. It is not the role of policy-makers to decide where the next innovative frontier will be. Consequently, there will always be a lag. However, it can also make sense to develop legal frameworks that allow the space and time for new products, services, and ideas to emerge.

That is why having a broad and innovation-friendly framework for data sharing can be valuable in general. The

challenge is to make sure the framework is not overly onerous or burdensome so that it ends the journey before we even get there.

This challenge has only become more acute in recent months. Europe is living in a post-Draghi, post-Letta world. We should be conscious of the need for a renewed focus on competitiveness and innovation, particularly given the geopolitical context. Europe is falling behind in a number of spheres and the economic realities of this are very much biting.

In theory, this is exactly what any data-sharing framework should be helping to ameliorate - empowering consumers, data holders, and data users to better access the benefits offered by the digital economy. However, it is something that requires time and precision to finalise in order to ensure that it really achieves these aims. Indeed, achieving these aims should be the litmus test.

It is right also to take account of legitimate concerns that exist in relation to the way forward. Individuals have a right to expect that their data will be secure and under their control. Data holders want to know that they will not be overburdened. Data users want an opportunity to develop their offerings. Data sharing could offer potential opportunities for the EU economy and society, but also potential risks if it is not done right.

It is clear now that after some doubt, proposals for the next steps in terms of open finance remain live and the work continues. As a result, it behoves everyone to engage with the process.

The challenge is to make sure the framework is not overly onerous or burdensome.

Therefore, it is worth giving the work on these frameworks the time needed to achieve results and we should not be afraid to ask the difficult questions. This includes questions about current market demand, scope, timeline, data interoperability, and the nature of the schemes. It is more important to get the basics right than to rush to an overbearing and overly precise open finance framework that does not inspire confidence.

Draghi speaks about being less prescriptive and relying less on ex ante regulation. This spirit could be applied to data sharing also.

More broadly, it is very important that we respect the values of the single market and the freedom to provide services. This should not be undermined.

Frameworks like this do not exist in isolation either. Over the recent years, a significant amount of legislative work has been done to create legal structures to support the digitalisation of the economy. From instant payments, to data sharing, to data protection, and operational resilience, the financial services sector is dealing with new rules and structures that did not exist a few short years ago, and a significant amount of consolidation work is needed. It has come as part of a wave of change, in light of the fast moving nature of digitalisation. Each framework has a value in itself, however when these frameworks diverge or create duplications then frustrations arise. As part of the broader work of simplification, it is worth looking at where all these structures can work better together. One framework should not mandate structures or standards that differ from another where such structures could instead interact much more seamlessly. When it comes to the digital economy, a holistic approach can bring benefits that a siloed approach cannot.

In conclusion, when it comes to data sharing and open finance, there are many moving parts. It is the role of legislators to examine critically all elements and ensure that the outcome achieves the aims it sets out to do.



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FIDA: preparing for effective implementation

The proposal for a European financial data access regulation (FIDA) aims to extend the logic of sharing payment data, introduced by PSD2, to the entire financial sector, moving from “open banking” to “open finance”. The draft text is under discussion since June 2023 and trilogues are expected to open soon with a view to improve and finalize the text and to contribute to the development of data exchange in the EU.

FIDA is indeed part of a broader Commission strategy, already launched during its previous mandate, to foster the development of data-sharing services in the EU. In its recently published Competitiveness Compass, the Commission plans to develop a strategy for the European data union.

In this spirit, the FIDA Regulation aims to benefit customers by fostering competition and innovation, while strengthening the customer’s control over their data. The list of potential use cases most often cited includes contract comparators, savings and asset management tools, as well as more comprehensive account aggregators, but we can also imagine more novel use cases, with solutions facilitating the

sharing of information as part of the “know your customer” process, or the fight against fraud.

FIDA should also provide legal certainty by regulating activities already carried out by certain players under poor conditions. Indeed, much of the financial data within the scope of the regulation is already collected by third parties: this collection is made outside a specific legal framework, often through *web scraping* techniques that do not obey the best security standards. The implementation of financial data sharing schemes and the development of secure data sharing solutions would address this issue.

However, as with any text relating innovation in the financial sector, the balance between openness and security, and the trade-off between the potential benefits of new use cases and the operational or financial risks involved, are delicate exercises.

**FIDA can and must
certainly be further
improved to better
address the concerns
of market players.**

This is why the introduction of such a data-sharing framework is the subject of criticism and concern on the part of certain market players who hold the data. According to them, the cost and complexity of implementation would exceed the expected benefits in terms of competitiveness, the opening up of data would lead to increased cyber risks and could raise sovereignty issues, giving an advantage to “bigtechs”; finally, in insurance, the opening up of data could endanger the principle of risk pooling. These concerns clearly need to be taken into account, and to a large extent they have already been raised in the discussions in the European Parliament and the Council. These discussions led to significant improvements in the initial proposal on important points: staggering the opening up of data into three phases will extend the implementation time for sharing the least standardized data in digital form, the possibility of applying a remuneration for data sharing will help to offset costs, the specific regulation of data access by Bigtechs should limit the risks to data sovereignty, finally anti-reverse engineering measures are to reduce the threats to business secrecy and in particular to pricing models.

FIDA can and must certainly be further improved to better address the concerns

of market players. It must also be improved with a view to its operational implementation: a supervisory authority, tasked with enforcing the text, can only be particularly sensitive to this aspect. Three principles would ensure the proper implementation of this future regulation: first, simplification wherever possible, second, clear signals to the market and, third, European supervision for players acting at European level. Here are a few illustrative examples. With a view to simplification, the merger of the statutes of financial information service providers, established by FIDA, and account information service providers under PSD 2 could be studied. In order to best prepare the market and give it real incentives to set up schemes, a detailed timetable with deadlines should be provided for by the Regulation. The text should also contain mechanisms to ensure the genuine cooperation of all stakeholders, including at a technical level: the implementation of PSD 2 has taught us not to neglect these operational aspects. Finally, the assessment of gatekeepers should be carried out at European level by the Commission (which monitors gatekeepers in the DMA) or by European Supervisory Authorities (ESAs) in order to ensure fair, consistent, simple and effective supervision. With the same logic, the assessment of financial data sharing schemes should be carried out at European level unless they operate on a purely national level.



MARY-ELIZABETH McMUNN

Deputy Governor, Financial Regulation – Central Bank of Ireland

Innovation, regulation and supervision – making open finance work

Innovation plays a key role in our economic growth, competitiveness and wellbeing. Innovation in financial services is an important part of that, and has the capacity to bring many benefits for consumers, businesses and the wider economy.

While naturally associated with the private sector, the public sector plays a crucial role in enabling innovation, as well as ensuring its safe adoption – thereby maximising the benefits while minimising the risks. This is important, as risks must be appropriately managed if the benefits of innovation are to properly accrue over the longer term.

For financial sector innovation, Regulation and Supervision plays a pivotal role in this regard. Through appropriate guardrails, Regulation establishes trust – essential for innovation to be widely adopted, particularly in the area of financial services. Supervision in turn provides a mechanism for maintaining that

trust through the cycle, by ensuring innovative firms are well run, products are appropriately designed, and neither introduce undue risks for their consumers or the system.

The role of regulation and supervision for innovation in financial services has long been recognised in Europe, with a number of important pieces of enabling regulations enacted over the last decade. European supervision has also been keeping pace with innovation – deepening our understanding, adapting our approaches, while continuing to ensure innovative firms meet the fundamental expectations for regulated entities entrusted with the public's money.

While there has already been significant innovation in financial services, given the pace of digitalisation in our society we may well be only at the beginning of the transformation of our financial system. For technology isn't just introducing new entrants, new products and new ways of serving customers – it is also, with the help of regulation, breaking down barriers and enabling businesses and consumers to do more. Data, and the use of data, is a fundamental component of this.

While data has long been the lifeblood of the financial sector, rapid digitalisation and advances in technology have made it increasingly so. In a data-driven world, empowering consumers with their financial data means empowering consumers with their financial lives.

For this reason, the Central Bank of Ireland recognises the benefits for innovation and consumers of Open Finance, and supports the Commission's proposed framework for financial data access (FIDA), subject of course to data ethics frameworks and robust safeguards being in place.

The public sector plays a crucial role in enabling innovation, as well as ensuring its safe adoption.

But for Open Finance, and indeed FIDA, to work there are certain principles it, like all regulation, needs to follow.

Firstly, interoperability. As technology breaks down barriers, it is important we don't embed new ones into the future. Open Banking taught us that there needs to be a level of standardisation to

enable integration and interoperability among different financial institutions and third-party service providers. We need to be mindful of this for Open Finance, and ensure we design the framework in a way that enables interoperability between different schemes as they develop.

Secondly, costs and benefits. Recognising trade-offs, and weighing costs and benefits is an important feature for any regulatory intervention. While it is not policymakers' job to protect incumbents, but rather to ensure any transitions are orderly, it is important that the costs introduced by regulations are outweighed by the benefits they will deliver. This is something we need to be mindful of – but not something that should be perennially used to halt progress.

Thirdly, supervisability. It is crucial that any regulations assigning responsibilities to Competent Authorities, or where new sectors are subject to oversight, are capable of being supervised – and that policymakers consider this when developing legislation. These elements must work in practise. As I said, Supervision plays an important role in maintaining trust in the financial system. As such, including clear requirements on the role of Competent Authorities in terms of Financial Data Sharing Schemes (FDSS) and ensuring they can effectively supervise Financial Information Service Providers (FISPs) is important for the future and enduring adoption of Open Finance.

Finally, it is crucial we remain focused on ensuring FIDA is delivering in the best interests of consumers. Protections for consumers, including data protection and privacy and ensuring they retain full control over how their personal and non-personal data is used is key. As is the proposed mandate for the ESAs to develop guidelines on how personal data should be used – giving consumers confidence and assurance to embrace the potential of Open Finance.



**DENIS
ROUSSET**

Chief Risk Officer –
Groupama

The opportunities opened up by FIDA raise dangerous challenges

Context and spirit of FIDA regulation

Initially, it is noted that some service providers already enter customer spaces after obtaining access codes/passwords from customers. This practice constitutes illicit web scraping as the provider has not been authorized by the system owner to access this IT environment. FIDA concerns all data held and processed by financial institutions (banks, insurance) and their intermediaries, aiming to provide a secure sharing framework. Health data and data held by small intermediaries are notably not concerned.

Legislative process

Trilogues are expected to begin in the first quarter of 2025, with the Council and Parliament largely aligned with the Commission's text. It is unlikely that the draft regulation will be completely suspended. However, there may be changes to make the system optional, either at the data holder level or at the Member States level. This option would be temporary to allow different members to acclimate to this system. Nordic countries seem more receptive to this text than others

1. Arguments of fintechs to promote the reform

Fintechs will be able to propose innovative services to the client, with their explicit consent. The data belongs to the citizen who should be able to use it to access new rights, particularly in insurance and asset management.

Additionally, access to data facilitates the automation and digitization of value chains, stimulating competition and reducing costs for financial institutions.

Finally, the opening of insurance data enhances the interoperability of contracts through standardization and smooth information exchanges between insurers and clients, providing access to tailored products, especially for populations sometimes excluded from traditional offers.

2. Counter-arguments of the industry

Data is precious, and the data holder is its guarantor beyond what the client can imagine. Their consent cannot be informed as they do not measure the extent and sensitivity of the information entrusted to their financial partner. Digital sovereignty is at stake, even if GAFA are supposedly excluded from the system. Moreover, the massive availability of data increases the risk of fraud. Banking experiments on PSD2 favor partnerships with chosen actors. Instead of new rights, clients will be exposed to new risks.

**Instead of new rights,
clients will be exposed
to new risks.**

Before any savings, the operational cost of the data availability system will be enormous, impacting profitability and consequently the price of products. Data is indeed stored by different actors (agents, brokers, distributors) in a multitude of IT systems, and an impact study is essential to measure these costs.

Finally, digitization, driven by contract interoperability, will simplify offers to focus solely on price, neglecting guarantees tailored to specific needs. This undermines the advisory and supportive role of insurers. Moreover, by standardizing insurance prices individually instead of incorporating new populations, certain risks typically covered through mutualization and solidarity, such as climatic perils, will be excluded. This exclusion creates a significant problem, leading to an

insurance gap for those vulnerable to climate-related events.

3. More systemic consequences of the reform

The client relationship is based on the duty of advice, which requires the collection of a large amount of data that cannot be shared. Insurance is not just a service offer. FIDA risks transforming the profession into a "junk food supermarket."

Moreover, the level playing field is not respected, the compensation proposed to compensate insurers who deliver their data will be marginal compared to their actual acquisition costs. Competition is unfair, especially in the era of AI, which will allow fintechs to exploit the data made available.

Finally, targeting the most profitable clients by fintechs will leave the highest risks to traditional insurers, endangering risk mutualization and the principle of solidarity, a pillar of the insurance model.

Finally

It is desirable to limit the opening of data to those that allow the development of services without endangering the insurance model. Mutual or capitalist insurance systems have allowed us to navigate exceptional climatic events, secure the industrial fabric, and offer the greatest number of people the opportunity to build their lives with confidence. Less than already very satisfactory competition on insurance coverage, clients demand services to organize their security and protect their future in a context of climatic and geopolitical transition. In this respect, certain information held by insurers can be useful to fintechs to offer innovative services. The scope and modalities of data sharing must be strictly proportionate to an objective of progress in a secure environment, without endangering a currently efficient and strategic insurance system for the protection of our societies.



GLORIA HERVÁS ORTEGA

Head of Public Policy –
Santander

FiDA, a step towards a customer centric, data-driven economy

Context is a key ingredient in the analysis of FiDA from the perspective of the opportunities it may bring. Over the past years, data sharing ecosystems had two characteristics, (i) they had a sectoral view with a focus on financial services and (ii) the rationale behind them was an effort to foster competition in certain markets with new players and business models. As the digital economy thrives with the emergence of new technologies and customer behavior changed, this perspective has positively evolved in part over time. Recently, data has acquired the consideration of an asset of strategic relevance to improve companies' competitiveness.

In this context, data access and use in secure environments is becoming a geopolitical objective for governments amid increasing protectionist policies related to strategic sovereignty. The European Union has traditionally approached data in silos, or what it called "data spaces", but has more recently shifted into approaching data in a cross-sectorial fashion, one that best reflects the realities of data ecosystems. Nonetheless, there is still much work to do and still today the main regulatory approach to data sharing is on the financial services space with the

evolution from open banking (PSD2) to open finance in the form of the Financial Data Access (FiDA) regulation.

The FiDA proposal, released in June 2023, has been navigating the regulatory process since then. While the underlying objective of fostering meaningful innovation for the benefit of EU businesses and citizens continues to be the core of this proposal, over last months several elements have changed that are worth considering in the development of this regulation. Most notably the geopolitical context in which we find ourselves, and the European Commission's drive to simplify the regulatory burden for companies and the focus on making Europe competitive in the international arena.

While FiDA's initial *raison d'être* is commendable and shared amongst most stakeholders, the proposal as currently stands fails to address three main challenges to ensure it is future proof and geared towards competitiveness. These challenges relate to the potential impact on the European data ecosystem, the current geopolitical landscape and its own approach.

Firstly, beyond the technical aspects of the proposal, it is critical to understand the potential impact that FiDA may have on the ecosystem (both companies and consumers) before moving forward. Hence, an exhaustive and comprehensive impact assessment is required to better understand the ramification it may have. The EU better regulation principle and new simplification objectives, as a key enabler of Europe's competitiveness, calls for EU actions to be "informed by the best available evidence", which we currently do not have.

While FiDA's initial *raison d'être* is commendable, the proposal needs to address challenges.

In addition to this, putting the analysis of the expected demand of potential solutions steaming from FiDA at the core of the proposal is fundamental. Focusing on use cases (instead of data categories) that may have a high expected demand will make FiDA more meaningful for citizens and will impose less burdens to companies subject to the regulation. At the end, this will revert in benefits for everyone as companies will dedicate more resources to those use cases that appears as more relevant for citizens and businesses.

Secondly, the geopolitical context has taken the center stage in every discussion and should not be ignored. Putting in context Europe with other jurisdictions with a clear focus on deregulation, brings to the forefront the challenges Europe confronts. It is essential that European companies can develop their data services and products on a levelled-playing field vis-à-vis other global competitors. This will, in turn, allow European companies to thrive in a highly dynamic global market.

Lastly, FiDA should not be perceived as an end-game scenario, but rather as a step towards a truly cross-sectoral data sharing ecosystem that places consumers in the center and genuinely fosters a data-driven economy. It is in the combination of data from different sectors where the maximum benefit can be achieved for all. Data sharing should be regulated in a horizontal, cross-sectoral perspective in order to maximize innovation opportunities. A good example of this could be accessing data on energy consumption, for instance data coming from utilities, mobility (e.g. airlines, train) or energy performance certificates (EPCs) to enhance green financing and provide sustainable investment opportunities for consumers and SMEs.

If and when FiDA tackles and successfully resolves these challenges in a balanced fashion, is where the potential benefits related to the promotion of innovation in a data-driven economy can become a reality.

Now is the time in which all stakeholders need to work together to ensure that FiDA is fit-for-purpose.



LAURENT BERTONNAUD

Head of Public Affairs France –
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Protecting our citizens' financial data is fundamental for Europe's security

In the context of the renewed ambition to restore Europe's competitiveness, a data driven economy is an important and valuable aim. For the financial industry, greater availability of data leads to better risk assessment and monitoring, better fraud detection and better customer experiences with some new horizons for more individualized offering.

However, we consider that innovation cannot be driven by regulatory intervention, which would have the very complex challenge to provide the right balance between additional value for diverse categories of end users and market players, security challenges, and complexity and costs of implementation. We firmly believe that the focus should be put on fostering innovative market-led initiatives in actively nurtured sectoral ecosystems rather than imposing a new mandatory framework pretending to cater to the evolving needs and constraints of all stakeholders.

Many concrete examples show that data sharing is already flourishing and can be further developed within the current regulatory framework in Europe (GDPR, PSDx, Data Governance Act...). However, it is worth noting that these

legislative initiatives have not enabled the emergence of significant European players in open banking services. Additionally, because of its overly broad scope, its systemic ambition and its unnecessary duplication with existing regulations, FiDA will require significant new investments and therefore divert resources from digitalization projects requested by customers. For these reasons, we believe FiDA in its proposed form would contribute negatively to European competitiveness. Protecting the access to European citizens' financial data is a matter of sovereignty and security that deserves great attention. Europe is facing an uneven playing field in the access to data in a world where an extremely limited number of players have built monopolistic positions. FiDA does not address sufficiently the risk of these actors taking further advantage of more data – directly or via third parties – with no possible fair competition.

Building resilience in a world of increasing and fast evolving cyber-risks is at the top of all stakeholders' priorities. Social intelligence or retro engineering capabilities coupled with the advent of artificial intelligence open new and dizzying challenges in terms of privacy, cybersecurity and consumer protection. By multiplying volumes of exchanges of financial data, including personal data, FiDA will inevitably increase the inherent level of risk for European citizens. This increase in risks would have a cost that no one can assess today. Overall, this could harm the trust everyone can have in their digital usages.

Is hyper-individualization the key priority today?

As FiDA would create new market players (financial information service providers - FISPs) that would be on the receiving end of large quantities of confidential customer data, implications for data security and privacy necessitates, at a minimum, a regulation and a supervision of these new entities to the same standards as those applied to regulated financial institutions. As an example, DORA with its current embedded proportionality principles for smaller players, will imply added risks and does not seem compatible with any compulsory participation in a scheme which gathers players who are subject to different rules. Trust is a key asset in any customer relationship in the financial sector, which must be preserved. In that respect, liability between FISPs and financial institutions cannot be blurred. In fact, customers will always be tempted

to seek the liability of established and regulated players like banks, who in turn need to keep control over their client's data protection.

Digitalization is constantly reshaping the way economies perform with fantastic opportunities for individualization of products and services. At the same time, individualization comes with important challenges on social inclusivity. If we value that the decision to share financial data rests on the customers' shoulders only, supervisory and data protection authorities have all observed increasing unethical practices on online environments (e.g., nudge, gamification, use of social media or affiliates to market services) to influence customers' decision-making or from a provider perspective to select abusively the best customers only. We regret that discussions on FiDA do not consider enough this difficult aspect, with the risk of having new players targeting only the best customers and leaving others in a position of increased vulnerability.

Despite improvements introduced by the Parliament and the Council, we believe that our concerns on potential demand, on level playing field, competitiveness and data protection remain largely unaddressed. We still believe that this proposal is not aligned with Commission's current objectives of competitiveness and simplification.



MARC ROBERTS

General Counsel –
Raisin GmbH

Financial Information Data Access Regulation from a Fintech perspective

One of the main goals of the Financial Information Data Access Regulation (“FIDA”) is to extend the information services to further products, including mortgages, loans, savings products and certain types of insurance. Even though, with this step, the legislator wants to open up new opportunities for market participants and to promote data-driven innovation, from a market perspective it de facto adds an additional layer of regulation to already highly regulated products. That’s why from our perspective a careful balance of costs and benefits is needed for the successful introduction and implementation of the Regulation.

Firstly, it should be outlined that already open banking itself goes beyond regulated access to data and it also includes bank cooperations with Fintechs. Another important aspect that needs to be mentioned is that such integrated services are also highly beneficial to the customer. They allow for a larger variety of products. Some products - such as e.g., wealth management - were previously only available for the richest clients and can now be accessed by many more. Open banking on a cooperation basis also makes cross-border offerings of financial

products substantially easier and last but not least the products can be offered cheaper as the development costs can be shared among market participants.

If we look at some of the most successful ventures - particularly in Europe - in the financial sector over the past years, there are diverse companies that are data driven. Many of these companies focus on cooperation with banks or other Fintechs rather than on the regulated access to data under PSD-II. Open finance in such a wider sense includes many cases, in which products or services, which are for different reasons not core to an institution, are provided via integration of third party products or services.

There are numerous reasons for such cooperation including:

- A product may be new on the market and therefore requires special knowledge and technology that are offered by third party providers.
- The cost for incumbent players to develop new products may be higher. In case of a separate development the fixed cost can economically be shared between several service recipients.
- The products can be rolled out quicker as companies specializing on a product provide these to other market players who then act as distribution partners. The potential scope of such arrangements is as large as the banking sector itself and may be relevant in all parts of the value chain.

We believe that in the current economic situation the regulatory burden - which is already substantially higher in the European Union in comparison to other jurisdictions - should be rather reduced than increased.

For example in the savings area there are platforms for deposits. This allows different banks to offer their deposits on market-places in Europe. This can be seen as an example of the practical application of the capital markets union based solely on cooperation. We should highlight that these platforms are not dependent on forced access to data from

third parties as such data is shared based on mutual cooperation.

We strongly believe that new regulation should be analysed looking at the specific consequences for the current market and the potential costs of the implementation. The purpose of regulation should be to look at specific deficiencies of the market and address these. The legislator needs to focus not on the broad concept of fostering innovation, which is difficult to achieve in practice, but rather on avoiding the creation of additional regulatory bureaucracies for market participants. We believe that in the current economic situation the regulatory burden - which is already substantially higher in the European Union in comparison to other jurisdictions - should be rather reduced than increased.

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POLICY PRIORITIES IN THE PAYMENT AREA



BURKHARD BALZ

Member of the Executive Board – Deutsche Bundesbank

Achieving strategic autonomy in EU payments by building on strong foundations

Digital payments are of great strategic importance, not only for the further development of efficient financial markets but also for a prosperous economy as a whole. The increasing trend towards digital payments has also led to a growing dependence on non-European card schemes and BigTechs, especially those based in the United States. The ECB's recently published "Report on card schemes and processors" revealed that international card schemes accounted for approximately 61% of euro area card payments in 2022. The domestic payment methods used in Europe are often country-specific, rather than being available throughout the entire euro area: Germany's popular Girocard scheme and the French Cartes Bancaires ecosystem are two such examples.

The retail payment strategies of the European Commission and the Eurosystem have highlighted the need for the EU to take strategic measures to lessen reliance on non-EU payment providers, a necessity further underscored by recent geopolitical developments.

These strategies and regulatory policies complement each other, building upon one another, enabling Europe to achieve a remarkably efficient payments infrastructure for account-based payments governed by rulebooks drawn up by the European payments industry and running on infrastructure mainly owned by European banks or, in some cases, by European central banks. The SEPA Regulation established a standardised framework across EU Member States, facilitating seamless and efficient transactions throughout Europe. The Instant Payments Regulation then took things a step further. It brought substantial benefits, such as enabling instant transfers around the clock, enhancing the speed and reliability of transactions, and supporting the growing demand for digital and mobile payment options among consumers and businesses alike. The Payment Services Directives (PSD and PSD2) provided the foundations for opening up the banking system and fuelling the development of innovative payment services whilst improving consumer protection. Building on these achievements, the upcoming PSD3/PSR regulation, currently undergoing the legislative process, will press ahead with the objectives of its predecessors. The Digital Operational Resilience Act (DORA) is a significant stride towards strengthening resilience in the digital space, especially in the financial sector. DORA contains extensive regulations on cybersecurity and the management of cyber risks.

What is still missing is a European payment solution at the point of interaction for end users that builds on these foundations – a solution which allows payments across Europe, offering a uniform user experience and European governance. The European Payments Initiative (EPI) is aiming to provide such a solution through their Wero wallet, using SEPA instant payments to move funds. EPI's focus has now turned to introducing further use cases such as e-commerce and payments in bricks-and-mortar retail. They are looking into offering additional functionalities and working towards ultimately achieving greater geographical coverage beyond the five participating core countries where the market base is already strong. There needs to be a concerted commitment to forging ahead in the direction set by Wero's launch.

Strategic autonomy is crucial for ensuring the EU's long-term competitiveness and resilience in the global payment.

The introduction of a digital euro would do much to strengthen Europe's sovereignty, resilience and efficiency. With the digital euro, over 350 million people in Europe would have a standardised digital means of payment that they could use throughout the euro area and it would consequently bring euro cash into the digital era by providing a public alternative to private payment instruments. The digital euro would run on European payment rails and help make private payment solutions more competitive by reducing the current fragmentation of the digital payment landscape in the euro area through European standards and it could serve as the basis for new, innovative value-added services.

Strategic autonomy is crucial for ensuring the EU's long-term competitiveness and resilience in the global payment landscape. Progress has been made but the journey ahead is complex. By working together, European stakeholders can carry on building a thriving, innovative and resilient payment ecosystem for the benefit of all.



ULRICH BINDSEIL

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

ECB supporting innovation and competition in EU payments sector

In a world of increasing uncertainty, it is not surprising that risks of financial instability and the international role of the euro are foremost in the minds of European central bankers. Ensuring that the euro continues to be the monetary anchor in the EU is of utmost importance to the ECB. The ECB is actively pursuing key policy initiatives to uphold the integrity of our financial systems, paving the way for increased innovation and competition in the payments sector to strengthen EU autonomy and unlock opportunities. Embracing digital transformation while ensuring that our payment systems remain safe, efficient, and inclusive is at the heart of the Eurosystem's retail payments strategy (RPS). The primary goal is to support the creation of homegrown pan-European point-of-interaction payment solutions. Currently, most retail payment solutions focus on national markets resulting in being unable to achieve the economies of scale that the euro area offers and a dependency on a few non-European market players for payments across the Single Euro Payments Area (SEPA). This also hampers competition, innovation and resilience, and is thus an issue of concern.

The ECB has continually encouraged market participants to develop and implement pan-European instant payment end-user solutions. In tandem, the ECB has worked closely with the industry to ensure that the clearing and settlement layer can support instant payments. The Instant Payments Regulation is aimed at accelerating the roll-out of instant payments in Europe. In preparation for the various deadlines therein, the Euro Retail Payments Board (ERPB), chaired by the ECB, has developed a high-level communication strategy to raise awareness of instant payments. Furthermore, the ECB recently adopted a decision to implement its policy to allow non-bank payment service providers access to central bank-operated payment systems, including TARGET. The broader access criteria are aimed at enhancing the efficiency of the European retail payments market, fostering competition and innovation, and supporting the uptake of instant payments in the EU.

Under the RPS, the ECB is also championing open banking initiatives. Central to this effort is the SEPA Payment Account Access (SPAA) scheme, developed by the European Payments Council under the direction of the ERPB. The SPAA scheme enables 'premium' payment services beyond the regulatory requirements of PSD2 and supports a wide variety of payments use cases. By promoting interoperability and standardisation, the SPAA scheme aims to dismantle barriers to entry for new market participants and foster innovative payment solutions and a more integrated and competitive payment services environment. Fostering collaboration between established financial institutions and fintech firms through ongoing dialogue and cooperation aims to address potential conflicts of interest and align strategic objectives.

The digital euro project is key to European sovereignty and complementary to the RPS. It would provide a digital means of payment for citizens and businesses across the euro area in shops and in e-commerce. The digital euro would ensure that the European payments landscape is not dependent on foreign solutions. Not only the potential threat of service withdrawal but also the growing prevalence of foreign-denominated stablecoins make the euro area vulnerable to economic coercion: it is key for monetary policy transmission that the euro is the unit of account. This is important to maintain efficiency, avoid fragmentation and ensure sound inflation measurement. However, the ECB has challenges ahead in implementing a digital euro. Those include robust data protection for a high level of privacy while deterring illicit activities and the technical implementation of an offline functionality, which is important for user-friendliness and resilience.

The ECB is paving the way for innovation and competition in the payments sector.

Looking at wholesale transactions, building on the Eurosystem's recent exploratory work in which 64 participants, across 9 jurisdictions, settled almost €1.6bn of DLT-based transactions, the Eurosystem will expand its initiative to develop a solution which is interoperable with existing infrastructures as soon as feasible while further analysing a more integrated, long-term solution for settling DLT-based transactions in central bank money.

The above ECB's initiatives are not merely about keeping pace with change; they represent a concerted effort to position Europe as one of the leading areas in the digital economy. By embracing this transformative journey with a spirit of collaboration and innovation, Europe can build a payment ecosystem that is not only resilient and secure but also competitive and forward-looking.



ULRIK NØDGAARD

Governor – Danmarks Nationalbank

Improving security and efficiency in payments through collective effort

In a time of geopolitical uncertainty and fragmentation, the demand for resilience and strategic autonomy in payments is growing. This is also the case in Denmark. Different initiatives with the Danish central bank as catalyst seek to improve both security and efficiency in payments.

As in other European countries, digital retail payments in Denmark are largely based on card payments, and the use of international payment cards is on the rise. This increases dependence on large non-European card companies.

In a digital society like Denmark, where 9 out of 10 payments in physical stores are made digitally, citizens' payments are highly dependent on digital payment solutions working. Therefore, work is being done in Denmark to ensure a nationwide contingency measure with payment cards. The ambition is that all adult Danes with a payment card from one of the three widespread card brands (Dankort, Mastercard and Visa) should be able to make offline payments in pharmacies and nationwide grocery stores for at least one week. This ensures that citizens with their payment cards will be able to pay for basic necessities for an extended period if the connectivity is disrupted.

Although card payments make up the majority of digital payments in Denmark, alternative digital payment solutions to payment cards, notably credit transfers, have existed for many years. In addition, the efficiency of credit transfers has increased with the modernization of the Danish payment infrastructure, for example, it became possible to make instant transfers between bank accounts at the end of 2014. In 2024, instant payments accounted for about 45 per cent of total credit transfers in Denmark, in part due to person-to-person payments. However, so far credit transfers only make up 6 per cent of digital payments in physical stores and e-commerce.

More instant payments in physical stores and e-commerce can increase the efficiency and resilience of retail payments and strengthen strategic autonomy. This is because instant payments use a different, separate infrastructure than other payment solutions, including payment cards, and can involve fewer intermediaries. Widespread use of instant payments in retail can therefore put citizens in a better position if another widespread payment solution is unavailable.

Several factors support that instant payments can constitute a larger part of retail payments in physical stores and e-commerce in the future. New European regulation specifically for instant payments and access to central bank payment systems will come into force in April 2025. In addition technical barriers such as lack of access to the NFC chip in iPhones have been removed. Both will likely strengthen competition and innovation in the payment area.

After Easter this year, Denmark will become the first EU country with its own currency that have migrated the entire payment settlement to Target Services. This will contribute to increased harmonization of European payment infrastructure.

In this context, participation in the TIPS cross-currency project, a joint project between the ECB, the Riksbank and Danmarks Nationalbank, is being prepared, which will enable instant payments across countries and currencies; initially between Denmark, Sweden, and the euro countries. The project supports the strategic goals set in the G20 roadmap to create a faster, cheaper, more transparent, and accessible global payment system, while also supporting secure and efficient settlement of instant payments based on infrastructure owned by the Eurosystem.

More instant payments can increase resilience and strategic autonomy.

The TIPS cross-currency platform can open up new business opportunities for payment service providers and foster competition, innovation, and smoother payment flows within and outside Europe. Preliminary indications from payment service providers in Denmark have been predominantly positive. Going forward, broad engagement from the private sector across countries and currencies and user-friendly payment solutions will be crucial for the project's success.

Improving security and efficiency in payments requires a collective effort from private companies and authorities, including central banks. Only then, it will be possible to harvest the full potential of the abovementioned initiatives, but possibly also others.



MARIANNE DEMARCHI

Chief Executive EMEA – Swift

Shaping the future of finance in an ever-evolving payments ecosystem

Swift is a critical financial infrastructure, facilitating the flow of value equivalent to the world's GDP every three days. As the payments ecosystem and the world-at-large rapidly evolve, Swift is working to stem financial fragmentation and ensure value of any kind can continue to flow securely and seamlessly across geographies and technologies, while driving the industry forward towards the G20's roadmap for cross-border payments.

Adapting to an ever-changing payments environment

The payments industry is undergoing profound transformation and becoming increasingly complex because of technological advancements, higher consumer expectations and increasing fragmentation. Swift is embracing innovation and enhancing its infrastructure to support faster, more secure, and more transparent transactions, working to interoperate an ecosystem in which value can flow seamlessly across multiple networks and infrastructures across the globe, connecting 'digital islands' and supporting European and global trade. By fostering stronger international collaboration and prioritising interoperability, we can work together for a resilient and interconnected global economy that works for everyone.

New forms of value – innovating for the future

Interest in digital assets and currencies continues to grow. For those new forms of value to succeed on a global scale, it is critical that they can seamlessly co-exist with each other and with traditional forms of money.

More than 130 countries are currently exploring Central Bank Digital Currencies, and almost 70% of central banks expect to issue one within the next decade, while the tokenised asset market is projected to reach \$16 trillion by 2030. But the development of CBDCs is fragmented, with different central banks using various technologies and standards, risking the creation of siloed 'digital islands.'

Through its collaborative innovation, Swift has demonstrated that it can interoperate CBDCs, digital currencies and fiat currency: in 2024 we completed a second phase of CBDC sandbox testing involving 38 central and commercial banks, facilitating over 750 transactions across use cases like trade, securities, and foreign exchange. Now, in 2025, live trials of digital assets and currencies are starting on the Swift network. These will allow institutions to transact interchangeably across both existing and emerging asset and currency types, using existing Swift connectivity.

Swift will continue to expand its ability to interoperate new systems and technologies and orchestrate transactions across different forms of value.

Creating faster, smarter, and more secure transactions

In the past few years, the EU has aimed to further develop the European payments market by reaping the benefits from innovation and the opportunities that come with digitisation. By enhancing cross-border payment efficiency and security, and by interoperating cross-border and European systems, Swift supports the EU's vision of a more integrated and resilient financial ecosystem.

We are committed to enhancing the efficiency, security, and interoperability of cross-border payments through several key initiatives. First, by promoting improvements in the speed, transparency, and traceability of cross-border payments. Today, 90% of payments across Swift reach the beneficiary bank within an hour, but delays often occur between that point and settling in the end account. We're committed to collaborating with private and public sector stakeholders to drive improvements across the payment lifecycle, end to end. We're also working to increase usage of our suite of solutions that help address friction in cross-border transactions, to ultimately offer the best payment experience possible to end users. From upfront checks of beneficiary information to a centrally orchestrated solution that streamlines payment investigation processes, and solutions that use AI to enhance real time detection of fraud and other anomalies, Swift is working to reduce friction from international payments for the good of end customers. And, finally, by ensuring that our community can utilise the data-rich ISO 20022 standard that enhances the quality and granularity of payment information, facilitating better compliance, risk management, and user experience.

Swift's mission is to promote an inclusive and resilient financial ecosystem.

Swift has been adapting to change since its creating, embedding and interconnecting new technologies, currencies, and geographies. As the sector's evolution continues, we'll continue to ensure the global economy can function quickly and smoothly, and with the highest levels of security.



METTE GROLLEMAN

Senior Vice President, Government Engagement, Europe – Visa Europe

The EU payments ecosystem: Innovation, regulation and the role of global players

The global payments industry has undergone a fundamental transformation in recent decades, driven by technological innovation and shifting consumer expectations. Today, payments are faster, safer, and more accessible, enabling merchants to attract and retain customers while offering seamless transactions across multiple channels. For global players like Visa, the value of innovation lies in the ability to provide better security, prevent fraud and deliver the next-generation of payment services and technology.

To underscore the value of innovation in payments the Visa network is capable of handling up to 65,000 transactions a second, all of which have 27 different routing options, across digital and physical network infrastructure which could stretch around the world over 400 times to ensure payments work seamlessly for merchants and consumers in real time. To maintain robust network security, Visa has invested approximately €10 billion in cybersecurity over the past five years. These contributions to Europe's payments landscape are something we are rightly proud of.

Innovation also drives the development of new payments solutions. For instance, contactless payments and secure cryptography, are the result of investment and global expertise that payment networks contribute to the European payments landscape. For example, in the last decade alone, contactless and mobile payments have become commonplace – as has tapping your payment card to pay for a transit journey on public transport or paying for groceries. As Digital identity emerges as the next frontier in payments innovation, Visa is committed to support EU's ambition to develop the European Digital Identity Wallet and promote functionalities to drive adoption, such as payments. Innovation sometimes is less visible for the user, especially when it enhances security and resilience. Visa is enabling payment credentials to become cryptographic tokens, shielding sensitive payment data throughout the entire transaction process. In 2023, Visa helped prevent almost €40 billion worth of fraud attempts globally, nearly double the previous year's figure. Our commitment to innovate in security has kept fraud on Visa transactions at historic lows: less than 0.1% of transactions – among the lowest of all payment forms.

For Europe to keep up with the innovation momentum reshaping the globe, investments in cutting-edge technology and skilled workforce will be critical. Visa is proud that Poland will serve as Visa's fifth major strategic global Technology and Product Hub, and the first of its kind in Central and Eastern Europe to help bringing innovation to new frontiers. The Hub will accelerate product development and innovate at scale to bring value to consumers, clients, buyers and sellers around the world, while attracting high-skilled talent from across the region.

In Europe, a level playing field regulatory environment for payments has allowed competition to grow and new solutions, offered by new players, to emerge. The benefits of Europe's open regulatory approach has supported the payments ecosystem to introduce and deploy technological advances that benefit Europe's customers and enable merchants. To maintain and futureproof the EU's regulatory framework would depend on fostering an open approach, that supports choice, innovation and competition.

When customers have choices about how to pay, this inherently fosters positive incentives and firms have to prioritise and invest to earn and maintain customers' trust. For instance, when it comes to resilience, market-led competition can create higher standards for resilience than regulation alone could achieve.

Digital identity emerges as the next frontier in payments innovation.

In some markets in Europe, there is a strong political push to promote additional payment methods and reduce overreliance on certain or global networks. Whilst an important concern, developments must ensure there remains many options available to Europe's consumers and merchants to choose from. We believe that an open and inclusive payment landscape, where different technologies and solutions coexist and compete, brings significant benefits to the entire ecosystem. For instance, the availability of multiple solutions to choose from helps prevent a single point of failure and ensures that the best resilience practices are accessible to Europeans.

Europe has the ambition to remain the world leader in innovation, and the success will depend on investment in technology and regulatory framework that enables competition and choice. The coexistence of global payment solutions alongside regional alternatives will enhance market stability, while competition will drive innovation and improve consumer choice.



JÖRG KABLITZ

Vice-President, Managing Director Germany,
Austria & Switzerland – PayPal

Driving European competitiveness with digital payments

Europe's vibrant payments market is a key driver of the region's competitiveness, fueling innovation, competition and digital commerce. With a diverse range of fast, efficient, and secure payment solutions, Europeans can seamlessly transact – whether between individuals or (small) businesses, locally or across borders.

Europe successfully capitalized on technological innovation and the digital revolution to establish an enabling regulatory framework for digital payments. This has spurred investment, accelerated the introduction of innovative payment solutions, and created a level playing field where all payment service providers (PSPs) can compete on fair and open terms.

Consumer protection measures strengthened user trust in digital payments, driving widespread adoption of new and diverse payment products and services across the European Union (EU). At PayPal, we have witnessed the rise of online commerce and understand that without customer trust, there would be no digital payments and no digital commerce.

As the EU considers its policy priorities for the next five years, we see opportunities to strengthen a framework that fosters innovation, trust, and fair competition, while empowering consumers and businesses, especially small businesses. The EU Commission's focus on reducing administrative burdens and assessing legislative impact on small businesses and new entrants is a positive step.

To unlock the full potential of digital payments in the EU, the enabling regulatory framework should furthermore:

- **Ensure future-proof regulation and policy, fit for the digital age.** Regulations should avoid mandating (even indirectly) specific technologies. Regulatory frameworks should allow for innovation and focus on technological neutral, risk- and outcomes-based objectives, allowing multiple solutions to compete and to foster innovation. Revising the framework for Strong Customer Authentication (SCA) is crucial to enable the deployment of state-of-the-art solutions that embrace the technologies of our era for superior security and usability.
- **Apply the principle of “same activity, same risk, same regulatory outcome” at the center of policymaking.** Competition must be fair and open, and proportionate, giving everyone – new entrants and incumbents – a level playing field. As we continue to observe the rise in consumer adoption of digital wallets across the EU, the EU should ensure regulatory parity between all digital wallet providers to provide consumers meaningful choice and comparable user experiences.
- **Adapt the regulatory perimeter to embrace technological evolutions.** The EU should consider how the increasing

prominence of major tech platform providers in payments is impacting customer experiences and competition. Platforms that own both the mobile device and the operating system often provide competitive advantages to their proprietary payment service. Interoperability and parity of access (under FRAND terms) to device functionalities and data in the context of mobile payments, are critical, such that all PSPs including new market entrants can compete on equal footing.

- **Design policy to enable choice.** Transparency and education are key to helping customers understand both the benefits and risks of emerging technologies. As we see the growth of digital identity tools – whether government-issued or private – access should be fair and open to all, ensuring consumers have the freedom to choose where to store and use their digital identity. This approach allows businesses to offer secure and seamless experiences while safeguarding individual rights.

**Europe's vibrant payments market
is a key driver of the region's
competitiveness, fueling innovation,
competition and digital commerce.**

Digital payments are a crucial driver of European competitiveness, fueling economic growth and enhancing competition. By enabling seamless cross-border transactions, supporting innovation, and strengthening the digital economy, they position Europe, including its small businesses, at the forefront of global trade and commerce.

To fully harness the potential of digital payments, policymakers must continue to foster secure, interoperable, and consumer-friendly payment solutions. By embracing digital payments, Europe can maintain its leadership in the global economy, ensuring long-term prosperity and resilience in an increasingly digital world.

RETAIL PAYMENT INNOVATION



ULRICH BINDSEIL

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

Digital retail payment solutions and their accessibility for vulnerable users

The harmonisation of standards, the development of payment schemes and the provision of a pan-European settlement service have led to considerable progress in the integration and innovation of the European retail payments market. Nevertheless, there are still areas where improvement is necessary. These consider particularly the front-end solutions provided to the retail payment customers. For a number of crucial payment situations, there are only national or non-European payment solutions available, which hampers competition, resilience and European autonomy. Furthermore, the adoption of some new payment instruments has been slower than expected. And last but not least, amidst the overall progress brought by digitalisation and technological changes, the risks of excluding vulnerable individuals who,

for various reasons, may not be able to take advantage of innovative retail payment solutions, need to be addressed.

Against this background, the Eurosystem has launched its retail payments strategy and the digital euro project. These initiatives are complementary, aiming to achieve a higher level of efficiency, strategic autonomy and resilience in retail payments, as well as supporting digitalisation and innovation.

One of the most pressing priorities in the European retail payments market is the creation of digital payment solutions by European payment service providers with pan-European reach at the point of interaction (POI). Customers should be able to make payments at the physical point-of-sale or via e-commerce, including on their mobile, throughout the entire European Union just as efficiently and safely as in their home countries. The Eurosystem supports market-led initiatives to develop solutions if they fulfil five key objectives: pan-European reach and customer experience, convenience and low cost, safety and efficiency, European brand and governance, and global acceptance (in the long run).

Another key priority is accelerating the adoption of instant payments. So far, the potential for enhancing liquidity, increasing operation efficiencies and benefiting from solutions for time-sensitive payments has not been fully exploited yet. To support the full deployment of instant payments across Europe, it is not only necessary to ensure the availability of instant payments to all individuals and businesses across Europe, but also to offer attractive conditions for end users (e.g. availability of instant payments on all used electronic payment channels) and additional pan-European functionalities, such as the SEPA request to pay.

In view of the all-encompassing digitalisation process, it is important to ensure that all payment service users, including those with vulnerabilities, have access to safe, efficient and convenient means of payment. Vulnerabilities in payment situations appear in many different facets. Individuals may find challenging to pay digitally due to physical impairments such as eyesight, hearing, walking or general motor impairments, or due to low income, low financial or digital skills or limited access to digital

payment methods. Typically, elderly people are affected over proportionally by the vulnerabilities, which will gain in importance in an ageing society.

Promoting accessibility and usability of retail payments is part of the Eurosystem's retail payments strategy. First of all, devising policies that aim at improving the situation of people in a vulnerable situation requires a sound understanding of how and to what extent vulnerable groups are affected by increasing digitalisation when it comes to making payments. According to recent studies, accessibility to digital payments is a challenge to a much wider part of the population than previously understood. A stock-take exercise conducted in 2022 among EU national central banks found that vulnerable groups are especially prone to be victims of payment fraud, notably those using social engineering techniques. Another central bank study (De Nederlandsche Bank, 2023) found that a non-negligible part of the population has difficulties with using digital means of payments independently and need help with payments and banking services.

**Eurosystem retail
payments strategy
promotes accessibility
and usability of
payment solutions.**

The upcoming European Accessibility Act (EAA) supports accessibility to consumer banking services, including payments, for persons with disabilities. As a next step, it is important to ensure a harmonised implementation of the EAA accessibility requirements. For EU policymakers it is important to support harmonised implementation of accessibility requirements, as laid down in the EAA and related standards. For example, the Euro Retail Payments Board, a high-level strategic body chaired by the ECB, has been aiming to facilitate this process by organising a workshop for payment service providers on the upcoming requirements. The EAA will have to be implemented by June 2025. Moreover, the digital euro will be designed to foster digital financial inclusion.



ANA PUENTE PÉREZ

Deputy Director General
for Sustainable and Digital
Finance – Ministry of Economy,
Commerce and Business, Spain

Risks and opportunities for retail digital payments

Digitalization is acting as a key lever to accelerate changes in the financial sector in general, and in the payments market in particular.

New technologies are being developed, and new actors are entering the market competing with traditional players, fostering innovation, contributing to increase the quality of financial products and services offered to customers, improving efficiency, and lowering costs for institutions and clients. However, the digitalization of payments also entails certain risks that need to be carefully assessed and monitored to fully reap the benefits of innovation.

Using digital means of payments increases the possibilities of being victim of financial scams like *spoofing*, *phishing*, *smishing*, *vishing* or *pharming*. Anyone, regardless of the academic and education level, can become a victim. However, the elderly and other population groups with less digital skills are more prone to suffer this type of scams. Also, young people, more acquainted with digital means, are more exposed to this problem.

To mitigate this, it is of utmost importance to increase financial and digital literacy of the population to raise awareness of risks and the importance of protecting personal data and avoiding risk conducts.

From a regulatory perspective, fraud is being one of the main discussed topics in the negotiations on the payments services regulation. The responsibility to reduce these frauds should be shared among the different actors involved, including, the payments users, who should avoid reckless conducts; the financial institution providing the payments service; and telecommunication companies or digital platforms, through which the scams are carried out. Fostering cooperation among different sectors and trying to achieve a fair equilibrium in the responsibility regime is key to succeed in fighting against fraud.

I would like to touch on the risk of financial exclusion. An increasing digitalized financial sector can leave behind certain groups of the population (the elderly or disabled, people residing in small and rural areas and population groups with lower income) that have more difficulties to access to new technologies, giving rise to a “digital gap” with undesirable consequences.

In Spain we have promoted a self-regulatory approach to financial inclusion. The banking associations have in place a “Strategic Protocol to Strengthen the Social and Sustainable Commitment of the Banking Sector”, with a decalogue of specific measures to guarantee face to face and telephone attention to the elderly and disabled, improved access to ATMs, training adapted to the needs of this group and monitoring of the measures implemented. The protocol also includes the provision of minimum cash services depending on the size of the municipalities.

Interoperability is
an efficient way to
promote integration
and innovation in
retail payments.

Moving forward to making the most out of the advantages of digital payments, we need to highlight the possibility to order and settle digital payments instantly, that brings important benefits: (i) individually for the beneficiaries of the payments, who have earlier disposal

of the funds and can use them for new transactions or to obtain returns; (ii) but also at a macroeconomic level, to allow for a more efficient resource allocation contributing to accelerate growth. The EU instant payments regulation, adopted in March 2024, can act as catalyst for the adoption of these solutions throughout the EU.

Spain has become an important global player in this arena thanks to the collective efforts of the banking sector to develop Bizum. Now this instant payment solution is working on interoperability being a reality this year with other countries like Portugal and Italy, to develop a European approach.

The digital euro project seeks to introduce a new form of representation of the single currency in digital form, allowing payments to be made instantly between individuals, in shops and between businesses using money, like cash, but in digital form. This project can contribute to the Union's objectives of strategic financial autonomy by using a fully European infrastructure for the settlement of payments and by promoting the international role of the euro.

It is also a complex project which needs proper integration into the existing financial system. Bizum allow payments between individuals and in e-commerce and Wero allow payments between individuals. Both are purely European solutions that are enlarging their use cases and geographical scope, and which can contribute to the objective of strategic autonomy also pursued by the digital euro. The digital euro should therefore interoperate with efficient solutions that already exist to advance our common objectives, avoiding duplication and reusing existing infrastructure.



DORIS DIETZE

Head of Financial Market
Regulation Directorate – Federal
Ministry of Finance, Germany

How a coherent regulatory landscape drives innovation and competition in Europe

In recent years, technological advancements have paved the way for an array of new retail payment services and products catering to diverse user preferences: Mobile and contactless payments at the point of sale have surged, instant payment is becoming a widely-used SEPA standard, and digital wallets are gaining ground in Europe. Meanwhile, tokenized retail payments might be poised to play a larger role in the future and Central Bank Digital Currencies are being developed in different regions world-wide. As digital transformation continues to reshape the landscape, the retail payments market will continue to diversify. With digital payments becoming ever more integral to our daily lives ensuring efficient, innovative and resilient European payment systems is paramount – particularly in the face of evolving geopolitical dynamics.

At the same time, the regulatory landscape in Europe becomes increasingly complex. The European co-legislators have successfully established regulatory standards for innovation,

integrity, and resilience that apply to payment products and services. Regulatory efforts in the payments sector have been a key focus of the European legislative agenda in the last decade: About ten years ago, the Payment Service Directive II introduced new tools of fraud prevention (e.g. strong customer authentication) and fostered innovation by ensuring account information services and payment initiation services access to payment accounts under strict conditions. In 2023, European co-legislators passed the Instant Payments Regulation, which paves the way for instant SEPA credit transfers, and the Markets in Crypto Assets Regulation, which establishes rules for the issuance and use of e-money tokens – expected to play a significant role in the future retail payments market. While these regulations are still fresh off the press, negotiations are ongoing regarding the Third Payment Services Directive, the Payment Services Regulation, and the legislative proposals for a Digital Euro and for cash payments. Each of these legislative measures addresses specific aspects of the retail payments market. Additionally, the payments sector increasingly has to apply so called “cross-sectoral” legislation, e.g. GDPR and DORA. Combined, they form a cohesive EU regulatory landscape that aims to foster resilience, prevent fraud while driving further innovation and competition.

**A coherent regulatory
framework is essential
for cultivating a
versatile payment
landscape in Europe**

In this comprehensive regulatory landscape, it is essential to focus on clarifying and harmonizing the fundamental principles that must be met within the payment ecosystem, while also streamlining the interoperability of the specific regulatory frameworks. While the technical diversity of products and services may require specific adjustments and tailored considerations, harmonization should still be prioritized wherever possible to ensure consistency across the market. Striking this balance creates a level playing field that fosters healthy competition, encourages innovation, and enhances users’ trust, all of which are essential for the continued evolution of the retail payments ecosystem.

After years of legislative harmonisation, the European co-legislators must now focus on the coherence of the various regulatory frameworks to avoid duplication, inconsistencies, and unnecessary complexity, thereby reducing regulatory burden wherever feasible. Ensuring interoperability is essential not only between distinct regulatory frameworks that govern different areas of the payments landscape but also between sector-specific frameworks and broader, cross-sectorial regulations. Such an approach will provide the industry with the clarity it needs to innovate and grow.

A coherent and robust regulatory framework, grounded in clear, harmonized principles and well-coordinated legislation, is essential for cultivating a dynamic and versatile retail payments landscape in Europe. It will position the European Union as a competitive champion in the global market, not only attracting innovative and efficient payment service providers, but also fostering the development of payment solutions „made in Europe“.

A digital euro could contribute to a diversified European payment landscape. We engage constructively in setting the framework for a digital euro with strong privacy protection, cutting-edge technology, a well-balanced cooperation between private and central banks, and robust democratic legitimacy. Such an approach should be comprehensive, extending beyond a retail digital euro to include innovative solutions for the real economy and the financial sector. However, it goes without saying that a digital euro can complement cash, but does not replace it.



AGUSTIN REYNA

Director General –
The European Consumers'
Organisation (BEUC)

A resilient digital euro for stronger European payments and consumer benefits

In our increasingly digitalised society, the way we pay is evolving rapidly. Many of us used to carry wallets heavy with coins and banknotes, but now we more often pay by scanning our cards, phones or watches. Whether driven by convenience or by the growing difficulty of accessing and using cash, this shift creates a significant challenge – we are becoming dependent on a few non-European payment systems.

The European Central Bank (ECB) recently published a report showing that most EU countries rely on international card schemes, mainly US based such as Visa and Mastercard, for electronic payments.

In today's tense geopolitical situation and rapid technological change, we need a European monetary anchor in the digital sphere to ensure financial stability, trust and consumer protection.

The digital euro as European Central Bank money in the digital world

The digital euro, a Central Bank Digital Currency issued by the ECB, could be that alternative. Unlike private solutions,

it would pursue a general interest by replicating the key characteristics of cash while being a resilient, safe and convenient payment method for consumers.

Driving competition and innovation

The digital euro has the potential to introduce much-needed competition and innovation in the European payments landscape. By establishing a public infrastructure, it would provide a framework for payment service providers (PSPs) to develop innovative solutions and offer new value-added services such as enhanced digital wallets, instant cross-border transactions, and better financial management tools for consumers.

Merchants and consumers would have more payment alternatives, which would lower costs for merchants resulting in savings for consumers.

Inclusive by design

For the digital euro to succeed, it must be accessible to everyone regardless of their financial situation or digital skills. Because it is built for the public interest, it can include accessibility features that profit-driven private systems exclude.

Many people still face barriers to digital payments. Even in highly digitalised countries, a significant number of people struggle with online banking and mobile payments. For instance, BEUC's Norwegian member Forbrukerrådet reported in 2022 that 10-25% of consumers faced digital obstacles when paying for goods and services.

The digital euro introduces competition and innovation in the European payment landscape.

Across Europe, the disappearance of ATMs and bank branches is further limiting access to cash and in-person support. BEUC's Belgian member Testachats highlights that Belgium has lost half of its ATMs since 2017, while BEUC's Spanish member OCU indicated that 20% of municipalities in Spain no longer have an ATM.

For those excluded from current payment options, the digital euro would provide in the Eurozone the only way to make purchases in e-commerce or in stores where cash is no longer accepted.

Enhancing privacy in payments

Stronger privacy is another way the digital euro could benefit consumers. Payment data is highly sensitive as it reveals a lot about our personal and financial lives. When we use our payment cards, companies can track and monetise our purchase data.

Privacy in the digital euro can be enhanced by limiting the purposes for which data is used to legal obligations such as fraud prevention and anti-money laundering measures. For lower and offline transactions, it could work similar to cash – private and not tracked.

Resilient when things go wrong

In recent years, we have seen how important it is to have reliable payment systems. Whether due to natural disasters, power outages, or internet disruptions, if card networks go down, most people won't be able to pay for their essential needs.

The digital euro could be a backup payment method that works even when other systems fail. By working offline and under European control, it would protect us against technical, commercial, or geo-political disruptions.

Adding to our options without replacing them

The digital euro won't replace our current payment options but will give us more choices in a changing world. Cash, in particular, remains essential and accounts for 59% of point of sale payments in Europe.

As policymakers still need to take crucial decisions on the project, we need to ensure it brings real benefits for consumers. Rules on features like holding limits, basic free services, and where we can use it will determine the digital euro's success.

Only if the digital euro is trustworthy and attractive for consumers will it achieve its goals.

This is our opportunity to create a truly European payment option – one that strengthens financial sovereignty and works in the interest of all citizens.



SEBASTIEN ALBERT

Senior Vice President, Strategy & Business Excellence Europe – Mastercard Europe

Future proofing payments: Innovations shaping Europe's digital economy

The payments industry is in constant evolution and transformation. In Europe a 'digital by default' mindset has taken over: digital wallets continue to gain popularity, and consumers demand safe and convenient digitally-enabled solutions. Payment providers and traditional banking players are pushed to collaborate and innovate, and we are seeing a quick uptake of pioneering technologies in blockchain, artificial intelligence, tokenization and more.

With so much innovation, what are the key trends that impact how we pay in 2025 and what we may expect by 2030?

New risks require new solutions

Security and convenience are top priorities for consumers. With the growth of digital payments and their adoption, securing them will only continue to be critically important and complex. A critical aspect of maintaining trust in digital payment systems is the continuous evolution of fraud prevention measures, and the industry is adapting and innovating: advances in biometrics,

tokenization and AI-powered security are some of the solutions, which the industry is further developing to address security and fraud risk effectively. These technological advancements will facilitate frictionless and secure digital identities, streamlining authentication and payment processes for consumers and merchants.

A balanced approach, ensuring security without unduly hindering user experience, is paramount for widespread adoption and sustained trust.

Tokenization

Card tokenization plays a vital role in enhancing the security and efficiency of digital payments. By replacing sensitive card data with unique tokens, the risk of data breaches is substantially mitigated. This technology is particularly beneficial for e-commerce and mobile payments, where sensitive information is frequently transmitted. Tokenization is key to Mastercard's vision to eliminate manual card entry by 2030, but its potential beyond card payments is immense. For example, tokenization technology can enable consumers to share their shopping habits and preferences with merchants on digital platforms to access more relevant offers and discounts, all without revealing their personal data. And the tokenization of assets through blockchain technology can digitize and optimize any economic activity — from capital markets to trade finance to exchanging a land title or a carbon credit.

The payments industry is in constant evolution and transformation.

The adoption of standardized tokenization frameworks can further enhance interoperability and security across the European payments landscape, fostering a more robust and resilient digital economy.

Banking on blockchain

At Mastercard, we have long argued that if blockchain technology is to fully realize its potential, security, trust and ease of use must be at the center. With these in place, fintechs and financial institutions would increase their adoption of blockchain technologies and create scalable use cases that could impact millions of people.

The maturation of blockchain and digital assets in recent years has proved that the technology has transformative potential to enhance global finance and commerce

systems. Cryptocurrencies, stablecoins and tokenized assets have moved from concept to commercialization, particularly as it relates to their applicability to real-world assets.

Empowering Europe's digital economy

In Europe, the payments market is highly vibrant and competitive. Regulatory harmonization in Europe should continue to fuel this success, enabling the deployment of even more innovative solutions and the scaling up of European businesses across borders.

Partnerships between financial institutions, corporations, and governments are embedding technologies, driving efficiencies and unlocking value. The EU should continue to take a collaborative approach and develop clear rules prioritising strong consumer protections and security, whilst avoiding unnecessary complexity. This is essential to enabling secure and more efficient payment and commerce applications. This will enable European businesses and consumers to benefit from integrated and accessible tools that expand the benefits of the digital economy and ensure trust.

For our part, Mastercard remains deeply committed to fostering the growth and security of Europe's payments ecosystem. Recognizing the dynamic nature of the European market, we will continue to invest in cutting-edge technologies that drive innovation and enhance consumer trust. We will persist in championing initiatives that accelerate the adoption of digital payments, including instant payment solutions and open banking frameworks, empowering businesses and consumers alike. We also remain committed to collaborating with European regulators and industry partners to establish robust security standards and promote interoperability, ensuring a safe and efficient payment environment for all.



SAM HINTON-SMITH

Head of Public Policy
APAC & EMEA – Stripe

Advancing Europe's economy through payment innovation

Global commerce and payments are undergoing a significant transformation, shaped by rapid technological advancements, innovative new business models and evolving consumer preferences. We're seeing the emergence of business models that did not exist ten years ago – for example, multi-sided marketplaces, software-as-a-service platforms that support a wide range of small businesses across Europe, and subscription-based businesses. Emerging sectors, such as the creator economy, are reaching new heights with some estimating that the sector could reach half a trillion dollars by 2027. Similarly, there's a surge in cross-border commerce.

Not only are consumers paying a range of new businesses today — many of today's consumer journeys include a payments experience where there is no need to present a card or cash, improving safety, speed and convenience. Consumers are increasingly getting used to just tapping their device or using one-click checkout solutions to complete a purchase within seconds. These new payment journeys are facilitated by the financial technology of different payment services providers and a diversity of payment solutions to support them, such as subscription models or payouts. Their offerings often go beyond payments and include software and financial services,

such as billing and invoicing, fraud management, payment reconciliation, automated tax calculations and access to finance.

In Europe, a number of initiatives are bolstering payment innovation. Advancements in account-based payment schemes like iDEAL in the Netherlands and BLIK in Poland demonstrate that faster and frictionless payments benefit businesses and consumers. They reflect a broader movement toward the emergence of real-time payment systems that will significantly alter the retail payment landscape in the coming decade. In addition, businesses and consumers have benefitted from an ambitious payments policy framework. Notably, the ongoing updates to the Payment Services Directive 2 (PSD2) and the new EU Instant Payments Regulation (IPR) are critical in streamlining digital payments and making instant payments 'the new normal'. Future efforts should focus on innovative European payment solutions that minimise cross-border friction and enhance the single market. Such advancements are expected to accelerate economic growth and integration, enabling businesses to serve consumers more efficiently. This is urgent. We recently ran a survey of US and European founders, and strikingly, founders in Europe are twice as likely to see North America as an opportunity for growth than Europe itself. A more efficient single market, with the underpinning financial infrastructure, can change this trajectory.

Going forward, it is essential to focus on creating regulatory frameworks that support innovation.

As the payments landscape evolves, it is clear that technology will continue to play a pivotal role in transforming the financial ecosystem. Innovations in AI are essential for addressing new challenges posed to global commerce, such the need to combat fraud. Worldwide, 3.2% of total e-commerce revenue is lost to payment fraud. Fraudsters move fast and will find ever more innovative ways to circumvent rules. Therefore, payment providers deploy a variety of different tools designed for modern digital businesses to understand their customers and detect potential fraudulent activity. The ability to leverage AI for enhanced security measures will only become

more important as fraudsters leverage new technological developments for ever more sophisticated attacks.

Additionally, the rise of digital currencies, such as stablecoins and potential digital equivalents issued by central banks, offers significant opportunities to improve the usability of money, create efficiencies and thereby help economies grow and prosper. The speed, cost advantages and stability of stablecoins have increased significantly since the early days of cryptocurrencies which has led to tangible, real-world benefits of their use in global money movement. Today, businesses and consumers across the globe use stablecoins to manage their corporate treasury, send money across borders instantly and at low cost and store value. Unsurprisingly, stablecoin transaction volumes more than doubled at the end of 2024 compared to the year before.

The trajectory of payments will largely depend on the ability of industry players and regulators to harness technology in a way that mitigates risks while promoting economic opportunities. By embracing innovation and fostering sector-wide collaboration, the payment industry is set to build a more integrated, efficient, and trustworthy financial ecosystem that effectively meets the needs of businesses and consumers. This journey is crucial not only for continued advancements in payments but also for the overall prosperity of economies worldwide. Going forward, it is essential to focus on creating regulatory frameworks that support innovation. Doing so will ensure that the financial services landscape remains vibrant and inclusive while boosting the growth of Europe's single market.



LUDOVIC FRANCESCONI

Chief Member and
Strategy Officer - EPI
Interim Company SE

Wero: for a European answer to fragmentation and need for innovation in payments

Creating a unified European payment scheme has been a long-term goal for so many years. But beyond unification, regaining sovereignty is key, and that should be the goal we all pursue, whether we talk about European or local initiatives. With EPI (European Payments Initiative), we wanted to reaffirm this objective through shared resources that is part of Europe's core DNA but applied to payments.

Promoting a unified approach at European level

International payment providers have been dominant in the region for as long as we can tell, which creates some kind of dependency and does bear a threat to our customer's data integrity and protection. Especially given the past 10 years' evolution when it comes to data transmission frameworks. With Wero, the solution provided by EPI company and its members, we aim at answering current innovation needs of both consumers and merchants

while promoting a unified approach at European level.

Europe deserves and needs its solution to be strategically independent. That is key to ensure that Europeans get a say, a choice, an alternative that will match their payment cases needs as well as give reassurance about how their data will be used later. Having intelligence on what people pay for allows to know deeply about their consumption habits, their health, their family, and many other things. Through the European Payments Initiative and with the launch of Wero in 5 key countries in Western Europe, the ambition is to build a true European block that will also act as the key driver for the future of payments and commerce in general.

When looking at the current regional payment landscape, one question can come up: Why promote unification over interoperability between national solutions, as Wero has been introduced as a solution to go beyond fragmentation? The truth is that fragmentation is due to various factors encompassing local and national schemes with their payment rails to differentiated regulatory framework that requires quite the heavy lift to go above.

Interoperability requires common standards, rules, commercial conditions or user experience to be agreed on and implemented, while capitalizing on the current European framework and introducing a solution built to match all countries' requirements is not only easier but also faster, and it allows cross-border operations. This does make a difference for both consumers and professionals in their everyday lives and businesses. It allows people to send money easily to a close one based in another country while for local shops to potentially open to a European clientele.

While fragmentation can be solved, another great barrier does exist that is driving the future. Some payment innovations can prove difficult as maturity levels differ from one country to another.

Driving innovation through for the European region

Maturity levels across Europe are quite heterogeneous when it comes to payment, people have different use cases, preferred payment means, and a differentiated perception of the future of payment drivers. What should the payment of the future encapsulate?

With the diversification of payment means comes its multiplication, which can prove annoying and complex for

both consumers and professionals that need to invest in various payment schemes. This is proving costly as well, which feeds the eternal discussion about vendor-locking fees in the payment industry.

It is now all about featuring as much as possible payment and commercial use cases all-in-one, that can empower consumers to better manage their finance while having the possibility to adapt to their different payment case's needs. Wero has already defined a new standard by integrating P2P payments in its digital payment wallet, with instant payments as a basis for all payments. Consumer adoption is very satisfactory and very encouraging for the next launch phases (e/m commerce and point of sale) that will come in 2025 and 2026.

The benefits are numerous as it helps debunk some UX problems, with a superior centricity on easiness and transparency, especially compared to cards or open banking payment initiation. Another key advantage is user control, especially on expenses (instant debit, display of account balance), as well as detailed control of consents at the time of payment validation and over time.

The future of payment will be about sovereignty, control, and customization. Europe needs to focus on itself to find solutions that will empower its citizens to pursue their transformation in the digital era, to regain control and to fight for a greater autonomy.

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DIGITAL EURO



BURKHARD BALZ

Member of the Executive
Board – Deutsche Bundesbank

The digital €uro: Reshaping the future of Europe's financial landscape

Digitalisation is fundamentally changing the way we pay for goods and services in our everyday lives and how financial market transactions are settled. Central banks all over the world have been focussing their efforts on digital forms of currency for quite some time now, and understandably so. Central banks within the euro area are no exception here. In fact, the Eurosystem is now one of the currency areas that is furthest advanced with its preparations for the possible introduction of a digital central bank currency (CBDC) – the digital euro.

The Bundesbank has identified CBDC as its top priority and has consequently assumed a pivotal role in the work of the Eurosystem. As the largest central bank in the Eurosystem, the Bundesbank is determined to play an instrumental role in shaping the future of the European financial ecosystem – one which not only provides true value added for consumers, merchants and financial institutions alike, but which

also redefines the future of payments in Europe.

In December of last year, the European Central Bank (ECB) released its second progress report on the digital euro preparation phase, which outlines the many milestones that have already been reached in the preparation phase to date. The main achievements include 1) a comprehensive update to the digital euro scheme rulebook following a joint review with consumers, retailers and payment service providers, 2) the conclusion of the call for applications to select potential external providers and publication of an invitation to tender and 3) the launch of new research to incorporate users' digital euro design preferences. The Bundesbank engages in all the workstreams to support the Eurosystem in these undertakings.

Extensive engagement with internal and external stakeholders, including the general public, market stakeholders, and policymakers, also continued to be a key focus of the project. Communication with all relevant stakeholders and ensuring a maximum level of transparency throughout all phases of the project are essential in order to ensure the long-term success of the digital euro project. The Bundesbank also played a key role in this regard by stepping up its efforts in the area of stakeholder management and in its public relations work by engaging in a regular and intense dialogue with key market players and also with the general public in order to raise awareness for the digital euro and the motivations behind the project.

The Bundesbank has identified CBDC as its top priority.

In parallel, the ECB is working with experts from the Eurosystem national central banks, including the Bundesbank, to develop a methodology for setting digital euro holding limits with a view to striking a balance between user needs and expectations on the one hand and monetary policy and financial stability implications on the other.

The digital euro in its retail form for the day-to-day payments of European

citizens is, however, just one of three elements that the Bundesbank is currently working on in line with its long-term vision to help reshape the European digital financial landscape of the future. Wholesale CBDC for the settlement of financial market transactions between banks in central bank money is a second important business area in which the Bundesbank is currently hard at work. In addition to the retail variant, our focus is therefore now also on implementing a short-term wholesale solution to meet the immediate and growing needs of the market, whilst, at the same time, continuing to work on a long-term solution for wholesale CBDC.

Given the current geopolitical climate, the need for a united Europe has never been more pressing. This geopolitical shift provides both the Bundesbank and the Eurosystem with a unique opportunity to take on a leading role and set global standards in payments and work towards redefining a financial market ecosystem for the future of Europe. The Bundesbank's active involvement in the Eurosystem's endeavours only goes to highlight the collaborative effort required to address the challenges we currently face in European payments – such as reducing the high level of market fragmentation and the over-dependence on non-European providers – thereby strengthening the resilience, autonomy and efficiency of the European payments market.



MADIS MÜLLER

Governor – National Bank
of Estonia (Eesti Pank)

The Digital Euro: future-proofing payments in Europe

Europe faces mounting challenges ranging from geopolitics, cyber and hybrid threats to the ongoing war in Ukraine, underscoring the urgency of strengthening its financial infrastructure. A digital euro is key to ensuring that payments can be made seamlessly across the euro area both in times of stability and systemic disruption. Its legal framework must be approved swiftly so that “digital euro cash” can be established as a public service, allowing the ECB and the Eurosystem to proceed with its implementation.

A report by former Finnish President Sauli Niinistö on how to enhance Europe’s civilian and military resilience urged to embrace the boldest common denominators and embed “preparedness-by-design” into regulatory frameworks. So how would this principle apply to the digital euro? Estonia could provide a case study.

Being a digital frontrunner, Estonia already has highly rated banking wallets, card payments, and instant transfers. Surveys in 2023 and 2024 found that businesses and citizens rate the existing payment solutions highly, which makes it dubious what value the digital euro could add in normal times. The dominance of international card networks in Estonia and across Europe demonstrates their reliability and no truly pan-European alternative has emerged despite decades

of private-sector efforts. Global card schemes have bolstered resilience with offline transaction capabilities, but this measure remains hard to scale because of the credit risks. From 2025, Estonia’s crisis regulations requires vital service provider banks to allow offline card payments for essential purchases in an emergency, providing a crucial buffer for recovery in the event of severe disruptions.

Private-sector digital payment systems or banking IT infrastructure (including ATMs) failing for an extended period would cause a national crisis, and the public would inevitably turn to the government for help. Cash is for now the only fall-back, but it can be impractical in a digital society. Consumers rarely hold much spare cash and the authorities do not have a secure, scalable distribution network, making cash-based solutions costly and complex. Instead, the digital euro should be designed so it can sustain payments during a crisis, avoiding reversion to cash.

A robust digital euro framework is essential for national preparedness against payment system disruptions. Broad adoption, with predefined holding limits to protect financial stability, is key. Encouraging citizens to use a standalone digital euro wallet and hold “digital euro cash” remains a challenge, but such wallets offer greater resilience against cyberattacks that target the digital infrastructure of the banks and provide seamless flexibility when switching banks. The banks, in turn, must enable customer connectivity to the standalone digital

**The digital euro must
be designed so it can
sustain payments
in crisis, avoiding
reversion to cash.**

euro wallet, which would be offered free of charge. Given consumers’ reluctance to manage multiple wallets, the SEPA instant payments-based European Payment Initiative’s Wero wallet, rolling out in France, Germany, and Belgium, could serve as an alternative if made interoperable with the digital euro.

Offline transaction capabilities must also be integrated with digital euro wallets so that digital euro cash can continue to function during a service outage. Keeping transactions uninterrupted will need digital euros to be stored on smartphones or payment

cards. A more severe crisis like a hybrid attack that disrupts access to customer’s funds on their bank accounts might need governments to facilitate offline digital euro top-ups for social benefits or economic support. Mechanisms must similarly be developed to sustain business transactions.

Offline digital euro transactions would maintain the same privacy protections as cash, which is an innovative feature that current digital payments do not have. However, AML and CTF regulations will determine the acceptable offline limits that will need to be flexible in a crisis. Additionally, legal and infrastructure support is needed for Member States to deploy the digital euro as a national contingency measure. This temporary solution must respect user privacy and balance it with the need for emergency payments, including the ability to continue receiving payments beyond the standard holding limits if the waterfall account connected to the digital euro wallet is not available.

There is an ongoing shift towards alternative payment methods, including crypto assets based solutions. As the US seems to be relying increasingly on crypto assets based alternatives from the private sector, the digital euro has the potential to become the leading global central bank digital currency and to strengthen the euro’s international role as a global payment instrument.

Today’s political and legal debates will shape Europe’s financial resilience. The boldest common denominator is to fortify the euro area’s digital payment infrastructure and that must guide the strategic compromises to ensure stability and strength in the years ahead.



STELIOS GEORGAKIS

Acting Director General
Payments – Central
Bank of Cyprus

Digital euro: safeguarding the existing order of our financial system

The digital euro represents a digital version of cash issued directly by the European Central Bank and Euro-area national central banks, including the Central Bank of Cyprus. It is intended to complement physical cash, ensuring that citizens and businesses have access to a safe, universally accepted form of money in an increasingly digital world. While the digital euro promises several benefits, including increased payment efficiency, enhanced cross-border transactions, and greater financial inclusion, it also raises concerns about the potential disruption of the existing roles and functions of financial intermediaries.

Aside the consequences from the continued decline in the use of cash, and the digital transformation that has made payments ubiquitous in the public's routines, the established role of banks is being challenged mainly due to the entry of new players outside the realm of traditional banking. These include crypto-asset issuers and big techs that hold entrenched market power and have the capacity to inhibit competition and efficiency. If central banks were to overlook such potentially disruptive developments, we may likely witness

an oligopoly of private issuers. The preparations for launching a digital euro have at their core the maintenance of the healthy co-existence of central bank and private money: both must continue to be interchangeable and yet identifiable.

The Eurosystem recognises the importance financial intermediaries currently play in facilitating payments and transactions and for the allocation of credit to firms and households, as well as the role of bank deposits for the provision of liquidity to financial institutions. They will continue to do so with the introduction of the digital euro. In order to preserve this status quo, caps will be introduced for individual digital euro holdings, potentially without incentives regarding remuneration. The ECB is working closely with the financial sector to calibrate holding limits based on three key pillars: usability, monetary policy, and financial stability.

Communication with
all stakeholders is
key for smooth and
effective integration
of the digital euro.

By adopting these safeguards, the Eurosystem aims to strike a balance between fostering innovation and preserving the stability of the financial system. It is important to note that holding limits will not restrict payment capabilities. Consumers will still be able to execute digital euro transactions exceeding the holding limit through linking their digital euro wallets to a payment account with a financial intermediary, thereby eliminating the need to hold positive digital euro balances at all. On the other hand, while merchants would accept digital euro payments, maintaining digital euro balances would not be possible, thereby leaving intact the banking system's corporate deposit base.

Moreover, the digital euro is being designed as a payment instrument and not an investment means or a savings product. It's also important to consider that bank deposits can always migrate to providers of stablecoins or other digital assets. Thanks to the mitigation measures that are thoroughly investigated, the digital euro is not expected to be a significant source of concern for banks' funding. Besides, banks always have the option to increase remuneration rates to avoid losing deposits as a source of refinancing in the long-term.

The objective is to safeguard the existing order of our financial system. Supervised banks and non-banks would distribute the digital euro to their customers without changing existing customer relations. Intermediaries would have economic incentives to distribute the digital euro through a fair compensation model, the functioning of which will be legally enforced. The digital euro would open a new source of revenue for intermediaries to provide value-added services to their customers, such as recurring payments for bills or digital service subscriptions, or pay-per-use enabled via pre-authorisation.

The Central Bank of Cyprus reports with the local market in a number ways to raise awareness. Communication with all stakeholders is key, and it is done both through addressing the public at large with speeches, articles and interviews, but also directly with the intermediaries through focus sessions addressed to the National Payments Committee. Such initiatives foster transparency, cooperation, and a shared commitment to a smooth and effective integration of the digital euro. The Central Bank of Cyprus also encourages innovation partnerships; one of the largest Cypriot banks is actively participating in the ECB's innovation platform, conducting technical testing of innovative use cases. We intend to further intensify our exchange with intermediaries. We encourage our market to be informed by reliable sources, namely from the communication channels of the European Central Bank and the Central Bank of Cyprus and by a continued open dialogue.



JOACHIM SCHMALZL

Executive Member of the Board – Deutscher Sparkassen- und Giroverband (DSGV)

Securing Europe's Sovereignty in Payments Together with the Banking Industry

A Digital Euro can only be successful if it is embedded within a competitive European payment ecosystem. Geopolitical developments highlight the urgent need for Europe to establish an independent, resilient, and innovative payment infrastructure to safeguard its economic sovereignty in the long term. The continued reliance on payment solutions developed outside of Europe for individuals and businesses within the EU underscores the necessity of decisive action. The European banking sector has already demonstrated its ability to provide competitive payment solutions—now is the time to further develop and strengthen these solutions through a coordinated European strategy.

However, the Digital Euro is only part of the solution and, on its own, cannot address the challenge of European payment sovereignty. Due to its current regulatory and operational framework conditions, the project harbors considerable risks: High complexity and implementation costs, unclear market incentives and potential distortions in competition threaten existing payment

offerings, rather than complementing them. Furthermore, current plans do not foresee seamless integration with existing private-sector payment systems such as SEPA or initiatives built upon them, like Wero or Bizum. These risks create unnecessary duplications and additional costs.

The path to greater sovereignty does not lie solely in a centrally controlled digital currency, but rather in competitive, private-sector-driven European payment solutions. Banks and payment service providers already have the infrastructure, expertise, and market reach to deliver viable euro-area solutions within the next two years. Existing payment infrastructures can be strategically enhanced to establish European standards and close the gap with non-European market leaders.

Close cooperation between legislators, the ECB and the banking sector is essential to develop a pragmatic solution that strengthens European competitiveness while maintaining a clear balance between central bank money and private-sector payment solutions. Instead of establishing costly parallel structures, existing European payment solutions such as EPI/Wero and Bizum should be actively supported to create a strong European alternative to global offerings.

The objective must be to create a fully functional digital payments ecosystem that serves consumers, businesses, and banks alike. If desired by legislators, a digital euro could play a role as legal tender, but only if it is seamlessly integrated into existing systems and avoids competitive distortions—in other words, only if it is well designed.

Sovereignty lies not just in digital central currencies but also in private, competitive solutions.

A digital euro will only be successful if it is accepted by the citizens and economy of Europe. This presupposes that the legal framework for the introduction of the digital euro meets requirements under the rule of law, thus creating legal certainty and predictability. The design of the digital euro must remain within the mandate of the EU legislator and, at the same time, respect the basic right to entrepreneurial freedom of market players. It is crucial that the legal framework conditions

are clearly defined, particularly with regard to the application of national requirements (inter alia, property law) when transferring the digital euro and/or applying EU payment services legislation.

The increased focus of the Eurosystem on wholesale central bank digital currency (Wholesale-CBDC) is a positive development. Authorized financial institutions could achieve significant efficiency gains, for example, by reducing risks and settlement times in capital market transactions. The Eurosystem is pursuing a dual-track approach: developing a solution that provides a secure and efficient connection to existing TARGET services while simultaneously evaluating a long-term integrated solution. A successful implementation could strengthen European competitiveness sustainably. Now is the time to take the next step and work towards prompt implementation in cooperation with the private sector. The Savings Banks Finance Group therefore strongly advocates for the swift introduction of a Wholesale-CBDC.

A close alignment between policymakers, regulators, and the financial sector is crucial to ensure that Europe does not become dependent on payment systems developed outside its borders. Time is of the essence—now is the moment to actively support private-sector European solutions and work alongside legislators and the ECB to create a sustainable regulatory framework, thereby safeguarding Europe's long-term sovereignty in payments.



YVES BLAVET

Deputy Director of Group
Public Affairs – Société Générale

Digital Euro: What's in it for the consumer?

The strategic rationale behind a retail digital euro

The European Central Bank (ECB) advocates for a retail digital euro based on three main arguments: the risk of private digital currencies undermining central banks' ability to enforce monetary policy; the decline of cash, which could weaken the anchoring role of central bank money; and Europe's strategic independence, given that its card payments are largely dominated by a non-European duopoly.

Recent international developments highlight Europe's reliance on non-European payment technologies. In the past, foreign sanctions imposed on countries not embargoed by the EU led to European payment cards being rendered unusable in those regions. Could Europe itself, one day, be prevented, through technology, from using its own payment cards at home? The idea may seem far-fetched, but it is an increasingly relevant question.

These strategic arguments hold weight for the ECB, governments, policymakers, bankers, and economists. But will they influence the payment habits of European citizens?

Why do consumers change their payment habits?

Convenience, ease of use, added benefits (such as loyalty schemes and insurance),

and perceived security are key drivers of consumer payment choices. What about cost? While access to payment services often incurs fees (e.g., card subscriptions or ATM withdrawals), their day-to-day usage is typically free for consumers. Unless they are willing to cancel their existing payment methods—and thereby forgo associated benefits—cost alone is unlikely to be a decisive factor.

Even though the Covid crisis accelerated online and contactless payments, shifts in payment habits tend to be slow. For instance, while contactless payments may seem like a rather recent innovation, their introduction started some 15 years ago.

Consumers hold the key to success, not merchants

What would motivate consumers to use the digital euro?

"To pay in digital euros, you must subscribe to a digital wallet, purchase digital euros with 'ordinary euros', and then use them for payments—something you could have done just as easily with your preferred payment method. Got it? If you're still unsure, just do it for strategic reasons!"

This scenario does not sound particularly appealing to the average consumer. So, why would EU citizens adopt the digital euro? Convenience? Privacy? Unlikely.

One could argue that merchants will drive adoption by promoting the digital euro due to the lower transaction costs mandated by law. However, experience suggests otherwise. If merchants dictated payment trends, the most successful closed-loop international payment card—despite its hefty fees—would have disappeared long ago, along with the leading online payment wallet preferred by consumers hesitant to share their card details. Both systems charge merchants significant fees but remain popular with consumers, ensuring their continued acceptance.

Ultimately, only the consumer determines the success of a payment method—period.

Potential impact of the digital euro on financial intermediaries and merchants

One certainty is that mandatory distribution by banks and mandatory acceptance by merchants will require considerable investment on both sides. Taxpayers will also bear the costs of implementation by the ECB and all public services that will be required to accept the digital euro—schools, hospitals, post offices, sports facilities, and more.

The extent to which the digital euro reshapes the payment landscape will depend on adoption speed. While hundreds of experts are working on its technical aspects, few—if any—seem focused on marketing. Yet the fundamental question remains unanswered: what's in it for the consumer?

Could banks and PSPs drive adoption?

Could distributors build public trust and encourage digital euro adoption? Without clear consumer benefits beyond strategic considerations, convincing users will be a challenge.

Another critical question remains: what's in it for the distributors and acquirers? They must make substantial investments, yet the service must be free for consumers and cheaper for merchants than existing payment options. This means that the likely deficit will fall on the industry.

**Only the consumer
determines the success
of a payment method.**

If the ECB and other promoters of the digital euro want banks and PSPs to embrace it, two conditions must be met:

Distributors must have confidence that consumers will adopt the system—something that remains uncertain.

A sustainable business model must be in place, ensuring intermediaries have financial incentives to promote usage.

Conclusion: Towards a wholesale digital euro?

There remains scepticism about the retail digital euro. However, banks broadly support the introduction of a wholesale digital euro based on distributed ledger technology (DLT). Such a currency is urgently needed to develop sovereign European digital finance and reduce dependence on foreign currencies. This strategic challenge must be addressed to safeguard Europe's financial autonomy.



JOHANNES REHULKA

Managing Director & Secretary
General, Austrian Raiffeisen
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Raiffeisen Association

The success of the digital euro depends on public trust

In an increasingly digitalised society, the ECB does not consider it sufficient to continue to provide the EU's government-issued legal tender only in physical form. It identifies the possible large-scale substitution of cash by commercial bank money as a potential source of systemic risk that could undermine trust in the euro in the long term and sees dependence on mainly US providers for POS and e-commerce payments as a potential threat to Europe's strategic autonomy. The digital euro project is therefore mainly driven by macroeconomic and strategic geopolitical concerns. However, the digital euro will only achieve its objectives if it is widely accepted and used by the public. So far, neither the ECB nor the EU Commission has been able to provide a clear rationale as to why users would choose to switch to this new solution and abandon their current payment methods.

Besides, we also have strong doubts about the ability of the digital euro, as it is currently conceived, to foster Europe's strategic autonomy at all. The digital euro could replace dependence on US card schemes with dependence on mobile phone operating systems, which are also American.

But let's turn our attention back to the customer perspective. Even if the digital euro were to offer a compelling use case for citizens, a high user adoption rate will only be achieved if there is a high level of trust in the security, integrity and data protection. Multipliers will be required to reach non-digital natives and encourage them to try this new payment method. The ECB therefore needs the support and goodwill of Europe's retail banks. Banks can play an important role in bringing a new product to the market, especially universal banks that are strongly rooted and have many branches where non-digital natives can actually talk face-to-face with their client advisor.

However, to be able to support the digital euro and actively recommend its use to our customers and members, we first need to be convinced of the product ourselves. And here we stand at a crossroad where still many decisive questions remain unanswered. Apart from concerns about financial stability and costs, we need answers to the added value for our customers and the level of privacy, which is a very important issue for Austrian customers. These decisive questions have to be answered by the ECB before all stakeholders can build their final opinion.

**The digital euro will only
achieve its objectives
if it is widely accepted
and used by the public.**

It's up to the ECB and the legislator to ensure security and privacy of digital euro transactions and to design the digital euro in such a way that it can't pose a threat to financial stability. Banks frequently take a stand and make suggestions both in the political process and in ECB's consultations. For example, a lot of banks support the availability of an offline functionality from the first day of the digital euro's issue. Compared to the online version it would be more complement to cash characteristics and works without connection to the DESP. Therefore, an offline digital euro would be more resilient, since the centralisation of transactions on a single ledger held by a public institution can create a vulnerability to individual privacy as well as an opportunity for cyber-attacks.

What remains to be clarified, however, is whether the privacy provided by the offline function will be design-based or policy-based. Only in the former

case would privacy be irreversible and embedded in the system itself. In the latter case, privacy could always be modified or overruled retrospectively. In our view, only the first of these two options provides sufficient protection for users and can ensure public trust. The decision on whether anonymous payments will be possible with the digital euro and the level of privacy protection will be taken by the ECB and the legislator, i.e. politicians.

Regarding safety issues, it is imperative to differentiate between technical problems and fraud. Dispute resolution should be strictly limited to malfunctions directly related to the PSP-customer relationship and technical incidents as the digital euro will be a legal tender recorded on the ECB's balance sheet. Moreover, since the digital euro, unlike credit cards, can only be used within the euro area, and since every EU Member State has courts that provide adequate legal protection, there is no need for commercial dispute support or chargebacks. A different legal process depending on whether a payment is made in cash or in digital euros, which are both legal tender and central bank money, could undermine public trust not only in the euro but also in the rule of law.

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COMBINING DECARBONATION AND COMPETITIVENESS



DECLAN COSTELLO

Deputy Director-General, Coordination of Economic Policies of Member States, DG for Economic and Financial Affairs – European Commission

Accelerating Europe's decarbonisation and enhancing competitiveness

The European Commission has placed competitiveness at the heart of its economic agenda. Building on the Draghi report, the Commission presented in January the *Competitiveness Compass*, which is Europe's roadmap to become the place where future technologies, services and clean products are invented, manufactured and put on the market. The compass is structured around the three pillars: closing the innovation gap, a joint strategy for decarbonisation and competitiveness, and increasing security and reducing excessive dependencies

To boost competitiveness, research and innovation must be at the heart of our economic strategy. Achieving this will require better technological diffusion, addressing skill gaps, and enhancing productivity across all sectors. Reducing regulatory burdens and deepening the single market will provide important support for our small businesses, startups, and scale-ups, ensuring they can grow and succeed.

At the same time, decarbonisation and achieving the ambitious goals of the European Green Deal remain a central focus. Europe will stay the course on its ambitious target to become a decarbonised economy by 2050, with an agreed decrease in net greenhouse gas emissions of 55% by 2030, and by 90% in 2040. The Commission is committed to helping businesses navigate and thrive in this transition.

To secure the EU as an attractive location for manufacturing, including energy intensive industries, and boost the clean-tech sector, while maintaining its ambitious decarbonisation objectives, the Commission presented in February its Clean Industrial Deal initiative. It brings together climate, circularity and competitiveness under one overarching growth strategy, thereby offering European companies long-term predictability on our climate ambition.

A key element to help the EU industry navigating the current challenges and support competitiveness is to make energy more affordable. Some of the drivers of high energy prices in Europe are structural and linked to the reliance on fossil fuel imports. Reducing this dependency and producing a greater share of energy in Europe will be key. Europe must therefore accelerate the clean energy transition and promote electrification. Until then, short-term measures aiming at improving the design and integration of energy markets can help bring down prices.

Europe also need to create a stable and predictable market demand for clean tech products, for instance by introducing

sustainability, resilience and European preference criteria in EU public procurement for strategic sectors, with the aim of increasing the share of domestically produced key components of clean tech products. To tackle a lack of investment in support of decarbonisation, electrification and competitiveness, more financing support will be needed. The Clean Industrial Deal will leverage more than EUR 100 billion investments supporting the industrial transition.

Reducing dependencies and enhancing the EU's strategic autonomy is key to secure essential resources and materials needed for our economy to remain competitive on the global stage. Integrating circularity in our decarbonisation strategy will help ensure that scarce materials are used and reused efficiently. The EU also needs reliable global partners, to diversify supply chains and get access to global markets, while protecting the European industries against unfair global competition and overcapacities. Importantly, our workforce needs to be equipped with the necessary skills for the clean transition. A new Union of Skills will ensure a skilled workforce for strategic industries, promote quality jobs and support workers in transition.

Simplification will be a key requirement to unleash Europe's economic strength, and the Commission has recently put forward a first package of proposals to simplify EU rules and boost competitiveness, by focusing the sustainability reporting obligations on the largest companies which are more likely to have the biggest impacts on people and the environment, and make sure they do not burden smaller companies. If adopted and implemented, the proposals are conservatively estimated to bring total savings in annual administrative costs of around EUR 6.3 billion and to mobilise additional public and private investment capacity of EUR 50 billion to support policy priorities.

From the start of its mandate, the Commission has been clear that the renewal of Europe's competitive strength will be the focal point for the coming years. With the right policies and actions, the EU economy has everything it takes to foster the transition towards a climate-neutral future and remain competitive in a changing global environment.



SIRPA PIETIKÄINEN

MEP – Committee on Economic and Monetary Affairs, European Parliament

Europe needs an urgent paradigm change towards circularity

We need to start with two obvious facts when considering European and international emissions reduction targets. First, Europe is the most resource-dependent continent so tackling issues of circularity and resource-efficiency are both critical and urgent for us. Second, in a world of uncertainties one this we know for sure: climate change is happening - and it's happening fast.

Reflecting on these facts, some economic opportunities for businesses are instantly clear based on our European strengths. Europe's long history emphasising education and skills in science, technology and engineering can again play a pivotal role in developing innovative solutions for decarbonisation, circularity and climate change mitigation. When it comes to emerging new technologies, early upcomer businesses are able to fully reap the benefits for future growth. The obvious low hanging fruits of business opportunities are to be found from combining our technological skills with special strengths in areas such as construction, textiles, energy and clean technologies. But of course this needs the change of the regulatory environment to be less restrictive and more enabling.

Above all, our biggest possibilities lie in circular economy - as we need to produce the same level of output and wellbeing with one tenth of our resources and one tenth of our emissions. European business opportunities lie in not only making our products more sustainable and reusable but also in designing out waste and developing new business models promoting Sustainability as a Service.

So why aren't circularity and sustainability already at the heart of all of our economic policies?

We do have two macroeconomic challenges that must be solved: European investments are lagging behind and what money we have; too much of it is locked in fossil-based operations. 70 % of our assets are in unsustainable targets - not even neutral ones but in outright harmful or even dangerous industries and sectors.

Second, our incentives are currently working to speed up climate change and biodiversity loss - when we need to do exactly the opposite. With sustainable reporting requirements, companies are able to recognise where their assets are invested in and what are their impacts on the climate and environment. With clear and harmonised reporting, investors are able to recognise which investments are better and more sustainable.

What we need is a paradigm change. Because as long as our core paradigm remains the same, our methods and action remain the same. Take Copernicus or Galileo who entirely changed the way we looked at our position in the solar system, laying the foundation for a scientific revolution. Similarly, we need a paradigm change into circularity from our single-use consumer cultures.

The critical assets of change are the financial markets, investors and lenders - and hundreds of investors representing trillions in assets are calling out for preserving the level of ambition of the EU sustainable finance framework. Sustainable finance regulation helps investors and companies to manage risks and identify opportunities - leading funds and assets towards supporting the green transition.

Moreover, a majority of European businesses are aware of issues like urgently compromised planetary boundaries, worsening climate change and the increasing speed of global warming and biodiversity loss. Prominent businesses are already radically ahead of politics.

Europe is the most resource-dependent continent so tackling circularity is both critical and urgent.

Major challenges are more likely to be found in the political atmosphere, not in our macroeconomic conditions. With the Russian war in Ukraine and the changing economic situation, the emerging discourse is somehow that the Green Deal is a burden and this burden can be moved further into the future. But like you wouldn't schedule a cancer operation two years into the future just because you broke your arm, neither should you postpone climate action due to acute crises.

The biggest challenges from anti-regulation and deregulation are that they breed uncertainty in the long-term. Legislation has put seatbelts in our cars and taken DDT out of our dinner plates. The European Green Deal could still be a driver of investment in climate and sustainable technologies and businesses. It is up to all of us: investors and financial actors, companies and decision-makers to make sure it does.



INGER-JOHANNE RYGH

Director Governmental and Public Affairs EU – DNB Bank ASA

Pathways to decarbonisation: Reduced regulatory burden and more private investment

As the first quarter of 2025 ends, Europe finds itself in a geopolitical situation requiring an unprecedented rethink to secure European values, prosperity and safety. Improved competitiveness and growth will be at the core. Creating global sustainability standards and best practices, no longer seem feasible. The key questions now, is how to promote competitiveness without abandoning net-zero targets. Eyes must be on demonstrating to the electorate that long term growth and social welfare still relies on achieving net-zero. Two combined pathways seem necessary for a politically and economically viable decarbonisation.

First, reducing an overly detailed rulebook that many voters have come to see as a deterrent to European job creation. Simplification of the sustainability rulebook is a prerequisite to reduce costs, especially for SMEs. More resources will also be directed into research and innovation, instead of compliance. Simplification of the sustainability rulebook will thereby deliver on increasing European firms' competitiveness, demonstrating how decarbonisation can create new future proof jobs.

Simplification of the rulebook does not mean lessening the ambition. For many financial institutions an overly extensive rulebook has meant that it has been easier to finance what is already green, rather than contributing to real transition through staying with clients still engaged in grey or brown. Where the underlying business case is positive, a simplified and more principles-based rulebook with less detail, will facilitate financing of activities that over time will green the European economy whilst supporting resilience, security and economic prosperity. Transition plans, individually tailored to merge decarbonisation with viable business targets, will help staying the course. The first 2025 Omnibus proposal from the European Commission is a step in the right direction.

A fundamental challenge lies in finding general support from the electorate.

Second, improving the European capital market and releasing more private investment in low emitting technologies and infrastructure is necessary to make decarbonisation a success. Europe needs access to sufficient, stable and affordable energy. Investments in clean tech will help reduce energy demand and infrastructure investments in renewables and grid will improve supply. To avoid the loss of public support, policy makers must acknowledge the differences in starting points across Europe, requiring different pathways towards net zero. Capital will flow to the regions with the most favourable and predictable conditions. Public policies must therefore facilitate that these conditions are present across Europe.

Many decarbonisation projects will have too low return or too high risk to be investable without public support in the initial

stages. Private money must be incentivised to be invested side by side with public money. A strong mandate with the European Investment Bank to support private co-investment has a proven track-record. The EIB should increase its risk appetite for equity finance and leave premium rated projects to private finance, thereby increasing the total volume of investment. For projects maturing from venture capital to debt, Europe should step up risk mitigating efforts to improve access to debt instruments, including credit. Guaranteed project finance through the Invest EU umbrella is a tool which could be further explored. Programs to enable predictable revenue streams will facilitate investments, meaning that public procurement must be part of the toolkit.

A fundamental challenge lies in finding general support from the electorate.

The EU Clean Industrial Deal outlines several helpful tools which will be underpinned by incentives in the Saving and Investment Union. A significant change in investment levels will require large institutional investments alongside savings and retail investments. Consequently, structural reform increasing total trading volumes and liquidity must follow to prepare a long-lasting strengthening of European capital markets. The toolkit must cover the breadth of finance, considering tax incentives and regulatory improvements, including adaptations in current capital requirements preventing larger investments from insurers, pensions funds or guaranteed portfolios.

Europe has the capacity to deliver on decarbonisation and competitiveness combined. At this critical juncture, Europe should improve both its regulatory framework and increase investments to prove that decarbonisation can deliver on commercial viability, European job creation, competitiveness and growth.



ANNE-KARIEN VON FUMETTI

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EMEA – MUFG Bank (Europe) N.V.

Consensus-driven approach to achieve decarbonisation

Countries globally are facing the same challenges pursuing their carbon neutrality goals, despite different approaches in each region. Europe tends to focus on regulation and targets, the US on incentives and markets, and Japan on industry-government collaboration (consensus-driven). The world will require mutual respect for each other's approaches and willingness to apply lessons learned. Independently from the approach, the implementation of new carbon neutral technologies comes with a high cost burden and the ultimate question is how to overcome this barrier through international cooperation and policy incentives.

Blended finance can play an important role for the development of sustainable economies. First, it is a tool to de-risk Investments in Emerging Markets. Second, blended finance is a crucial tool in combating climate change. Third, blended finance is needed to support social impact and inclusive growth. Lastly, blended finance can help drive market transformation and innovation by demonstrating that sustainable and impact-driven investments can be profitable. However, there is the need to develop a mechanism for distribution and management of risks associated with decarbonisation projects.

Large global banks, such as MUFG, play a pivotal role in developing and financing blended finance projects. MUFG has pledged over ¥35 trillion (\$260 billion) in sustainable finance by 2030, including blended finance structures that support renewable energy, infrastructure, and social development projects. Through global alliances, MUFG works together with peer banks and make it a priority to foster strategic partnerships with Development Finance Institutions (DFIs) and multilateral development banks (MDBs), to co-finance projects, structure risk-sharing mechanisms, and design innovative blended finance solutions.

The private sector's support is essential for this transformation, which is why MUFG supports initiatives such as the World Bank's Private Sector Investment Lab. One of its main achievement was the creation of the World Bank Guarantee Platform, which functions as a one-stop for bringing together all of its guarantee products and experts. The Lab also ensures that blended finance transactions align with global sustainability goals. Unfortunately, challenges remain to mobilize private capital for development finance, since existing policy and regulations are often misaligned with actual risks and despite pledges from MDBs to invest \$120 billion annually in climate finance, private capital mobilization remains low. There are several factors that may be barriers to private capital commitment: lack of credible pipeline, increased geopolitical risk, information gaps and host country risks. However, the prudential treatment of blended finance transactions also plays an important role. As currently designed, regulatory frameworks fail to fully recognize the risk-reducing benefits

of MDB-backed investments and existing capital risk weights do not account for the lower default rates of MDBs/ DFIs co-lending structures.

While reopening existing prudential standards may be challenging, there are some options for the Basel Committee to consider to support the uptake of blended finance. Examples could include expanding the list of MDBs eligible for 0% capital risk weighting, recognizing MDBs/DFIs co-lending and guarantees as risk-reducing measures, but also improving project finance risk assessments to lower capital charges for sustainable infrastructure investments.

It is important to consider sustainable financing transactions from a whole-economy perspective and the contribution of a single financial institution to the holistic Sustainable Development Goals agenda. The prudential framework should acknowledge that financial institutions are able to appropriately assess the risks on their balance sheets, but also benefit from adjusting risk weights, if this supports the mitigating physical and transition risks in the economies as a whole. With respect to blended finance transactions, this could mean that minor adjustments will unlock significant private investment without compromising financial stability.

Blended finance is key to unlock private capital to achieve the sustainable development goals.

Blended finance is a powerful tool for unlocking private capital to achieve sustainable development. MUFG plays a key role in structuring and financing blended finance transactions. Investing in developing economies is often seen as risky due to political instability, currency fluctuations, and lack of financial infrastructure. Blended finance helps mitigate these risks and allow economies to grow in a sustainable fashion. It is those economies that will help the world achieve its climate ambitions.



FRANÇOIS WOHRER

Director of Investmet – Groupe Caisse des Dépôts

Mobilizing private and public capital for the energy transition

The energy transition represents a colossal challenge requiring massive investments, for which the *Banque des Territoires* is mobilized in France. For example, the *Banque des Territoires*, by investing approximately €400 million per year, has contributed to the financing of over 2,000 assets installed in France, representing more than 9.5 GW of installed renewable energy capacity. To meet this challenge, it is crucial to mobilize both private and public capital. These two sources of financing are complementary, especially from a long-term perspective: the role of public authorities is essential in defining a clear trajectory and providing visibility to investors. Public interventions help set objectives and provide financial support that triggers private investments, for example, through mechanisms such as price floors. This type of mechanism allows for risk-sharing between the public and private sectors, with each playing its role optimally, fostering better complementarity, particularly for sectors still considered immature or innovative.

Overcoming obstacles: risks and long-term visibility

The obstacles to the energy transition may seem numerous: technical risks are often highlighted, particularly in the energy sector, where technologies such as offshore wind, hydrogen, carbon capture, batteries, and even nuclear can spark multiple debates. While this approach should not be underestimated—and some technologies still need to be industrialized—it seems that in the long term, issues such as alignment with usage (a challenge for industry in France and Europe), energy efficiency, social acceptability, and energy prices are equally important challenges to overcome collectively for a successful energy and ecological transition.

Public regulations also play a crucial role: they set the framework within which investments can develop, which is why normative stability is often sought by institutional investors. Uncertainty is the enemy of investment, and decisions not taken today can lead to significant additional costs tomorrow.

The role of the financial sector in supporting decarbonization projects

The financial sector can play a more active role in supporting decarbonization projects, which can be capital-intensive, such as in offshore wind: the *Banque des Territoires* is for example a shareholder in the “fixed” offshore projects of *Noirmoutier and Tréport* with *Ocean Winds* (Engie and EDPR) and a “floating” project, *Leucate-Golfe du Lion*, with *Ocean Winds*, with an investment cost of €300 million. The financial sector can also support competent industrial players to offer turnkey solutions, both technical and financial, in a “third-party investor” format: this is what we are doing at *Banque des Territoires*, for example, with *Tikehau Capital*, a global alternative asset management group, and *Equans*, a leader in

the energy and services sector with the *EffiWatt* investment platform, endowed with €35 million and dedicated to third-party financing of energy efficiency operations for players in the tertiary and industrial sectors.

Risks and opportunities of free investments

The main risk in this area would be complacency... as the European Environment Agency regularly reminds us, climate change is already costing lives and money. Green investments are the foundation for European competitiveness and offer numerous opportunities, particularly the development of new technological sectors and major innovations: new companies and activities are emerging, with considerable market potential. Investors can position themselves based on their risk appetite, either by supporting the development of emerging technologies or by deploying more proven solutions.

Companies' ability to integrate the energy transition

The ability of companies to integrate the energy transition into their business models varies depending on their sector of activity and size. Sustainability in the short- and long-term is a priority, especially in internationalized models. Large companies often find it easier to integrate these changes in standards, and the question of simplifying and harmonizing environmental reporting is currently being addressed at the European level to allow for broader integration.

In conclusion, the energy transition requires a concerted mobilization of private and public capital, a stable regulatory framework, and active support from the financial sector. The challenges are numerous, but the opportunities are immense: it is crucial—we are talking about our collective future—to overcome the obstacles and seize these opportunities to ensure a successful and sustainable energy transition that fosters sovereignty.



JEAN-JACQUES BONNAUD

EUROFI

Soft planning for driving growth from EU decarbonisation

According to several important studies (Letta and Draghi reports notably), to which we can add the many implications of the crucial and enormous financial and industrial effort on defence, decarbonation risks suffering in rhythm and scope the next few years, as it may be sacrificed to shorter and vital constraints.

And yet, no country in the OECD and beyond seems to be simply meeting the converging targets of zero emissions by 2050 (2060 for China). We now know that all countries should accelerate their pace of reduction of greenhouse gas emissions (GHG), which should more than double for the European Union. Moreover, this acceleration effort should be carried out significantly in the next decade, since CO₂ will continue to accumulate in the atmosphere as long as total emissions remain positive, leading to an exacerbation of climate warming and thus jeopardizing the achievement of our net zero objective for 2050.

In theory, the solution could be a more sober economy, which was envisaged for the first time in the 6th Assessment Report of the “GIEC” for 2022. However, the result would be a reduction in the rate of growth, which would be incompatible with the needs of social development, the financing of security and defence, and the need to find important resources required by digital innovation and A.I. challenges. Another solution could be to let the economy grow as it is currently doing in Europe, where emissions are falling regularly but slowly. This is not compatible either with the above-mentioned need to accelerate decarbonisation, which requires additional investment, or with the need to address the additional emissions from carbon-intensive industries involved in defence objectives (steel, mechanical engineering, chemicals, mining, industry...), or with the additional costs of critical minerals. Related additional resources needed should be financed by an increase in growth combined with a reasonable level of competitiveness improvement. The way out of this impasse is probably to use decarbonisation decisively as a lever for improving the competitiveness and growth of the European economy. This is the only way to create enough value to generate or attract the resources needed for energy efficiency and transition. Indeed, recent studies show that the global market for providers of decarbonisation tools or solutions has grown (according to Bloomberg) from over \$200 billion in 2010 to \$2300 billion in 2023, and should continue to grow, potentially reaching over \$4000 billion by 2030. This is a fantastic opportunity that certain economies, such as China, have already successfully seized (and which was apparently at the heart of the US I.R.A. programme).

But seizing this opportunity requires investment, which may require careful definition of CBAM rules and, most importantly, long-term visibility and reasonable stability on the main driver of any future EU competitiveness, i.e. the

price of energy. This is not yet the case, in particular due to the carbon pricing mechanisms that may burden our relevant manufacturing industries, widening the already large gap between the cost of carbon in Europe and that of Chinese and American companies.

The implementation of such a “supply policy for the climate”, in conjunction with the other industrial policy requirements, implies an articulated and largely decentralised organisation at several levels, combining an adequate visibility on the medium term from the industrial companies and all the relevant stakeholders (consumers, states, regional and local entities), particularly in terms of electricity costs. This effort should include the definition of medium-term perspectives and the adaptation of education and training systems through an explicit European framework of perspectives discussed at European, national and local levels between public, private and trade union partners. It should also contain fair indications on the medium-term evolution of public finances, the European budget and the European instruments (such as the excellent P.I.I.E.C. and EFSI) created to boost investment and innovation (possibly with a European equivalent of the American Darpa and a coordination of public financial institutions).

The “Fit for 55” programme initiates such an articulation of climate and industrial policies, but the new geopolitical events should lead us to further integrate the Green Deal into national and local policies in a kind of concerted and decentralised “soft planning” for the next five to ten years.

Visibility and confidence in this framework would probably strengthen the euro, attract external investors and companies, and facilitate our trade relations with foreign public partners.

SIMPLIFYING THE EU SUSTAINABILITY AGENDA



**SYLVIE
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Too many rules, really?

According to the legend, the Austrian Emperor Leopold II is said to have told Mozart that his opera “Die Entführung aus dem Serail” contained “too many notes”. Are there really too many rules in the *European Green Deal*?

In democracies, legislations should be as simple and understandable as possible, this is a fair point. The competitiveness of our companies matters as well, so rules should be well calibrated. However, we should not elude ourselves. EU rules are very specific as they are negotiated by 27 governments with different political colours and a supranational Parliament. Furthermore, they are supposed to strengthen the EU single market, which gathers countries with very diverse economies. Evil is in the details. For example, not all “SMEs” have the same size: in some countries they are very small, while in others, they are quite large. Moving some thresholds means - consciously or not - fragmenting the single market along national lines.

The complexity of rules also has to do with their purpose, and in particular

with the magnitude of change they are supposed to trigger. For decades, at least since the Rio 1992 UN-Summit, greening has been delayed, in particular because it requires huge efforts and costly measures. Some people criticising these rules are not seeking simplification, they just do not accept to change. To postpone greening will not make us more competitive. On the contrary, it may increase mitigation and adaptation costs in the future, as acting ex-post to repair nature, if even feasible, is more expensive than preventing damages.

I see personally six reasons to be worried if the “Omnibus” discussion leads to over-simplification.

Firstly, science. Scientists tell us that climate change and biodiversity loss are accelerating, reaching levels that put life on earth in danger. The IPBES established recently that there is a “nexus” between biodiversity, water, food, health and climate change. Since the beginning of the industrial revolution, we have been producing and consuming on the false assumption that natural resources are unlimited. The problem we try to solve is man-made and systemic. It cannot be solved without reliable data (as required by the CSRD).

Secondly, business. Many value chains are already at risk due to rising temperatures, water scarcity, or climate events. A simple example is coffee or cacao, two products we all enjoy and whose prices are increasing dramatically. Companies - not NGOs and activists - are already expressing concerns for their own business models. That is why we need to be able to look at impacts and dependencies. One can get rid of “double materiality” as a kind of luxury, the problem will not disappear. It is like burying our heads in the sand.

Thirdly, finance. How could insurance companies and banks analyse risks and allocate capital if corporates do not provide reliable data? The ECB already stated that 75 % of the loans distributed in the euro area go to companies that are dependent or highly dependent on ecosystem services. By weakening the taxonomy (and its smart “do not harm” logic), we risk wasting money and increasing the costs of future transition and adaptation. Some climate-friendly measures have negative effects on nature, for example. We should not lose sight of the bigger picture.

Fourthly, incoherence. Proportionality is a good thing but, in any case, SMEs that are enshrined in large companies’ supply chains will still have to supply data for “scope 3” reason.

Fifthly (paradoxically), the concept of simplification itself. The first year you implement new rules, they always seem more complex and burdensome. Changing them now, after little time to adapt will create more uncertainty and complexity. Companies, financial institutions, lawyers, accounting firms already invested in implementing the Green Deal rules, or assuring that disclosure is properly done. Has anyone in the EU institutions and capitals made an impact study on the costs of “undoing”?

Sixthly, sovereignty. Keeping in mind the global level playing field is key. However, true leaders are not followers. When some regimes are putting science into question and banning words (such as diversity) should we approve? Europe should remember that centuries ago it invented universities and put rational thinking at the heart of its culture. It should follow its own path. The CBAM was meant to safeguard our competitiveness in a world that does not always share our preferences. And beyond technicalities, there is an ethical question. If tomorrow some competitors were to reintroduce slavery - which would certainly lower labor cost - should we “simplify” our social rules as well?



LĪGA KĻAVIŅA

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Can taxonomy incentivise private investment in the EU defence industry?

To give European companies a competitive edge, European Commission just recently has adopted a new package of proposals initiating legislative changes to existing rules on green reporting. Some refers to that as “deregulation omnibus” some argue that “simplification is not deregulation” asking for efficient and responsive regulatory environment for our citizens and businesses. Proposed changes come in very challenging geopolitical context with fragile transatlantic relations. Besides the challenge for Europe to remain dynamic, innovative and competitive, there is a growing need for public and private investments in the defence and security industry to adequately respond to security threats.

The link between ESG related framework and defence industry activities is not yet clearly defined as regulatory and technical standard covers exposure only to four categories of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons). It is not forbidden to invest in them, but most investors have an exclusionary approach as they have

defined their own specific exclusion policy or criteria with regards to defence industry.

European Council’s conclusions from March 6 underline the importance of mobilising private financing for the defence industry and call for action in this regard, including by signalling to private investors the importance of the defence industry for Europe at large. Channelling savings to markets within the EU is not in itself an easy task. Signalling the importance could be accompanied by EU measures that incentivise private investments in the EU defence industry.

It is safe to say that there can be no sustainability and development without security. Indeed, the defence and security industry are a key pillar of Europe’s strategic autonomy, peace, democratic values, the future of our nations and territorial integrity. This is where sustainable finance, the ESG framework and taxonomy can play a critical role in achieving the common good.

The environmental taxonomy does not mention the defence sector (nor as compatible or incompatible with sustainability goals), but in practice it faces a lot of stigmatisations. Without clear guidance at EU level, it is challenging for the industry and its funding sources (banks, investment funds) to navigate the ESG compliance space. While the ESG taxonomy has a strong environmental focus and is based on clear principles, the social aspect of it is still less studied and more open concept. Security clearly contributes to social objectives as it is one of basic needs.

Boosting access to financing would require a paradigm shift from focusing solely on the industry’s harmfulness to emphasising its strategic importance for the EU’s security and sustainable development.

**It is safe to say that there
can be no sustainability
and development
without security.**

Access to financing becomes even more difficult for small and medium-sized companies, while large companies most often suffer the consequences indirectly, caused by problems in their supply chain. SMEs operating in the defence sector face higher barriers to accessing finance. If we assume a large increase in demand, ensuring production capacity

becomes financially demanding in the whole supply chain.

The efforts could be targeted to create new and better conditions for raising capital at lower cost. This would provide higher returns on investment and higher valuation, while long-term public contracts would ensure the sustainability of investments and mitigate some of the long-term investment risks. Such investment, especially in R&D, would contribute to the EU’s competitiveness. The question of whether new labels or tools should be developed to help channel investment in the defence industry, or whether existing ones (ESG taxonomy and sustainable finance) should be adapted, remains open.

Ongoing efforts to better streamline reporting requirements and lighter reporting regime for SMEs could also benefit the defence industry and its supply chain, where SMEs play a crucial role. Industry specifics may require more tailored reporting and due diligence requirements, while maintaining an appropriate level of transparency and investor protection.

The interpretation and possible revision of “Do No Significant Harm” principle embedded in sustainable finance regulations is only one piece of the puzzle. A more horizontal approach and the development of a coherent and consistent policy on the future of defense financing in the EU is welcomed.

Not to forget about the retail demand side – simple and easy to understand investment products for the retail investors and a pleasant investor journey are key elements to promote retail participation in joint financing efforts for the common good of the EU.



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Europe's path to a net-zero future: The role of sustainability reporting

Europe must navigate a period of significant political and economic challenges to our competitiveness. Regulators in the world's largest capital market are turning their backs on transparency when it comes to sustainability-related information. Europe must find an adequate response to the changing environment by recalibrating the European approach towards sustainable finance through the lens of enhancing competitiveness without compromising our goals.

An important pillar of our competitiveness is our ability to deepen the Capital Markets Union to effectively mobilize private investment from within and outside Europe into innovative companies and technologies, and successfully lead the digital and green transition. A clear, proportionate and pragmatic sustainability reporting framework can play a key role in providing investors with the information needed to fully assess companies' impacts, physical risks and opportunities.

In this context, the European Commission has demonstrated leadership by listening to the diverse voices of member

states, stakeholders, and industry experts, culminating in the ambitious first omnibus package unveiled in February to simplify sustainability reporting and due diligence requirements.

In my view, there are three essential elements to ensure that our reporting framework remains fit for purpose in this rapidly changing environment: coherence with international standards, a clear focus on relevant, decision-useful data points, on larger companies beyond midcaps and SMEs, and the avoidance of duplicative reporting requirements. What matters now is that the package is finalised quickly so that European industry has certainty.

European companies need to attract European and international investors, while European investors also seek opportunities beyond the EU's borders. The effective functioning of global capital markets depends on the consistency and comparability of financial and non-financial data. This includes incorporating physical and climate risks and innovative opportunities in investment decisions. For this reason, European sustainability reporting must be further aligned with international standards to meet the expectations of global investors and provide a level playing field.

One of the most significant initiatives in this regard is the International Sustainability Standards Board (ISSB) which has emerged as the key global standard-setter for sustainability reporting. The ISSB's standards are becoming the foundational framework for corporate sustainability reporting worldwide. This shift benefits both investors and companies, simplifying reporting requirements and ensuring that sustainability data is globally relevant and comparable.

**Europe's approach
to sustainability
reporting must be
clear, proportionate
and pragmatic.**

While coherence with international standards is essential, it is equally important that the sustainability reporting framework remains focused on the most relevant and material data points. Investors need clear, concise, and actionable insights into the sustainability performance of companies, and businesses must not be overburdened with disproportionate reporting requirements.

To avoid information overload and ensure relevance, the reporting framework must be designed with clarity and precision. The EU's reporting framework should be flexible enough for companies to focus on material information, avoiding unnecessary complexity. And it should sensibly align across the different levels of rule-making, so that laws, standards and guidelines coherently fit together.

Another key principle for successful sustainability reporting is the avoidance of duplicative reporting requirements. On the global level we can achieve this by better aligning with international standards and on the European level we can achieve this by eliminating redundancies between different legal texts. Reducing duplication not only simplifies the reporting process but also reduces the administrative burden on companies.

A critical part of this effort is ensuring that the EU taxonomy, which sets out the criteria for determining whether an economic activity is environmentally sustainable, is not used as a separate reporting standard, but a classification tool and reference framework. By ensuring alignment between the EU taxonomy and the broader reporting framework, we can reduce the heavy administrative burden on companies and improve the quality of sustainability disclosures.

As we move forward, Europe's approach to sustainability reporting must be clear, proportionate and pragmatic. We need a framework that encourages transparency, drives investment and supports our transition to a competitive economy, while also minimizing unnecessary complexity and duplication.



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Omnibus – A regulators' perspective

In the financial market sector, the last few years have been primarily dedicated to the topics of sustainability and digitalisation. Numerous legal acts have been created in the area of sustainability, including the central legal act on taxonomy, but also the SFDR, CSDDD, Green Bond and CSRD. The complexity of this framework increased with each legal act, especially as these frameworks were often accompanied by delegated acts. It was particularly striking that the central piece of legislation - the CSRD - was negotiated at a very late stage. Yet it is precisely sustainability reporting with the necessary data points that makes sustainable finance possible in the first place.

First easing of the ESRS and threshold values

The negotiations on the CSRD were not exceptionally controversial, particularly because the CSRD was seen as a successor provision to the NFRD. It was only during the consultation on the ESRS that many stakeholders realised that a new accounting framework was being created here. As a result,

resistance to this reporting has grown, so that the number and scope of the European Sustainability Reporting Standards (ESRS) was reduced when they were issued by the European Commission, contrary to EFRAG's original plans. Furthermore, the European Commission hoped to reduce resistance to sustainability reporting through accompanying measures such as raising the threshold values, postponing the sector-specific ESRS and issuing interoperability guidance between EFRAG and ISSB.

Announcement of further simplification

Under pressure from several stakeholders, the Commission announced in November 2024 that there would be an omnibus legislative act to streamline the CSRD, CSDDD and taxonomy. This announcement has already fuelled the discussion without knowing the concrete content. At national level, such announcements are particularly difficult to address. The directive in force applies with no exceptions. The transposition deadline was and is still to be met by all member states; the obligation of companies therefore arises from national laws. From a legal perspective, the press release – although mostly welcome by many stakeholders – must therefore be ignored.

The rollercoaster ride of the CSRD does not strengthen trust in regulation.

Finally: Omnibus proposal

On 26 February 2025, the European Commission presented the omnibus package, which provides for a postponement ('Stop the Clock') and simplification ('Simplification') of the CSRD and CSDDD, among other things. This proposal has further increased legal uncertainty. Should companies continue to pursue sustainability reporting projects as provided for under the current legal situation? We must not forget that the omnibus is not a new piece of legislation that can be finalised in peace. There is an existing legal situation, whereby thousands of companies are left in uncertainty as to what the final scope of application will look like. In particular, companies that have previously reported in accordance with the NFRD cannot be sure whether they will ultimately still be within the scope of application.

The regulatory perspective

Regulation is not the result of negotiating stakeholders that is moulded into a law. Regulation itself must fulfil certain criteria. For example, laws must be in line with the EU Treaty or fundamental rights. The principle of legal certainty must also be adhered to. Legal certainty requires clarity, stability of legal norms, predictability of its implementation, so that the result of applying the norm will be foreseeable and the person can predict the outcome of her legal actions with the desired certainty. The key idea of legal certainty is predictability based on the legal provisions, that is achieved by the demands to the quality of legal acts. According to the legitimate expectation doctrine, those who act in good faith on the basis of law as it is, should not be frustrated in their legitimate expectations. However, new situations may justify legislative changes going frustrating legitimate expectations in exceptional cases.

Timing is another key element of regulation. The sequence of legal acts and the transitional phase, including the corresponding penalty provisions, is essential for legal certainty and confidence in the legal act itself and in its enforcement.

Conclusion

The discussion about which companies should provide which ESG data should have been at the very beginning of the sustainability debate. This data should then have been used to create the Sustainable Finance Universe. Similarly, the fact that sustainability reporting is no longer legally prescribed for most companies, but is to be implemented as a business standard, does not contribute to clarity and predictability.

Thousands of companies have placed their trust in the legislation and have already invested a lot of money. From a regulator's point of view, the greatest damage has already been done: the damage to trust in regulation.



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Why is the green transition such a hard nut to crack?

Scientists and academia, investors and businesses, NGOs and citizens all call out for more urgent action to address the worsening challenges of climate change and biodiversity loss. There are no economic or technical constraints in solving these challenges: we know exactly what the problem is, have the technical capacities and skills to solve them through energy efficiency, renewable energy and cleantech - and we even have the capital.

So why is the green transition such a hard problem to solve?

Clearly, one of the major issues lies in failed political support. Climate action, tackling biodiversity loss or promoting circular economy are seen deliberately by some political actors as an administrative burden - even as irrelevant or redundant - instead of the existential crises they are.

In part this is due to the origins of our modern decision-making. Our regulation was born in a world where knowledge of these challenges didn't exist and neither politicians nor businesses needed to take into account the externalities of their actions. What follows logically from this, is that our

incentives and rewards are not neutral but targeted incorrectly, slowing down the change. And unfortunately, we do not have time to wait for a hundred years for the cycle to turn naturally.

However, economic actors need legal certainty today for the future to make the necessary investments so we need to change the framework to support decarbonisation and sustainability. The European Green Deal is a good and necessary concept that takes into account resource efficiency, decarbonisation, competitiveness as well as a just and inclusive transition - but in practice, the package came with many challenges.

So how could we keep these objectives but make them better?

We need to believe what science says and instructs us to do. Our decision-making should be founded on science-based and harmonised indicators and our economic guidance in the form of the European Semester needs to include also measures beyond the GDP and the economy. The reporting requirements should also be the same for both public and private actors.

Life cycle assessments need to be also based in a robust and transparent analysis. Regulation can speed this process or it can instead support a type of pseudo-reporting and sustainability washing. For example, looking at the changes proposed by the European Commission in the Corporate Sustainability Due Diligence Directive, guiding sustainability analysis in large companies, the proposals include restricting the implementation scope only into tier 1 partners in the value chain.

**We need to set the bar
right: we need to raise
our level of ambition and
speed up the transition.**

It is evident that to understand sustainability, we need to understand and report the whole supply chain coherently and with a harmonised framework throughout the different ESG regulation. Take for example a clothes retail brand - their own operations include offices and stores with staff. The environmental and social footprint can be very minimal consisting of low energy usage and the staff's transport to work. If the brand buys their clothes from a wholesale operator, they equally

have offices, staff and a bit of logistics from the ports to the stores - again with quite a small impact.

What are missing with this way of measuring are the true effects on climate, environment and people. Without a true life cycle assessment from cradle to the grave, the impacts from growing the fibres into the garments to how quickly the clothes end up in landfills or as incinerated waste are easily missed.

It is important also to have the same way of measuring and same units for all operators, so all the data is also comparable. It should be like calculating ROI with the IFRS system: all businesses count it exactly the same with exactly the same data. Therefore, the results are always easy to compare between companies.

We fought hard to bring the true environment and social effects of large corporations visible with legislation during the last Parliamentary term. And we shouldn't lose sight of this. We get what we measure and if our focus is on doing the right things, we will get it. So when we pay attention to lowering carbon emissions, mitigating the effects or climate change or enriching biodiversity - that is what we will get.

The long-term perspective is that we should be carbon neutral by 2030 if we want to curb global warming and by 2040 our carbon sinks should be larger than our emissions. So we need to set the bar right: we need to raise our level of ambition and speed up the transition. Incremental adjustment is unable to reach the level of change that we need and on top of it all, we need room for flexibility in case science shows that we need to adjust or speed up something. If we fail in this, we won't have the time or money to try again. With stepping back, we are increasing the amount of reporting - also for SMEs - and we end up with unimpactful data for environment and people.



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Greening industry, securing Europe: A new blueprint for climate and competitiveness

Globally, the clean energy transition has gained momentum, propelled by robust government policies and a compelling business case for renewables. In the EU alone, newly installed wind and solar capacities reached record levels of 78 GW in 2024, bringing renewables generated electricity to 48% of total electricity generation. At the same time, the EU is facing increasing energy costs that are affecting citizens and industries with prices for a medium-sized industrial consumer in 2023 remaining 97% above their 2014-2020 average¹.

Yet, current geopolitical uncertainties and tensions have brought significant challenges for the energy sector – from short-term instability to policy uncertainty. Russia's war of aggression against Ukraine and escalating conflict in the Middle East have highlighted the vulnerability of energy markets, bringing energy security back on global and national agendas as an imperative not only for strategic independence, but also for economic competitiveness and a just transition. What does this mean for the EU's climate neutrality and resilience

objectives? Are energy security and affordability objectives at odds with the European Green Deal?

Clearly not. In fact, decarbonisation efforts can bolster energy security and economic competitiveness.

The EU Competitiveness Compass² and the Clean Industrial Deal³ put forward the necessary steps to turn decarbonisation into an engine of growth, ensuring economic competitiveness and a just transition while addressing the urgent climate crisis.

Together with the broader set of EU policies and objectives, this will help address three interconnected challenges: the climate crisis, competitiveness concerns and economic resilience. One of the key ingredients is the mobilisation and catalysing of finance at scale. The EU needs to increase its annual investments in energy, industry and transport systems by around EUR 480 billion compared to the previous decade. This requires targeted EU funding, private sector involvement and robust financial frameworks that encourage sustainable investments.

With the Clean Industrial Deal, the EU will focus on three pillars to support industry.

First, strengthening EU level funding. Based on the experiences of the Innovation Fund, the EU will propose an Industrial Decarbonisation Bank, which aims to provide EUR 100 billion in funding for industrial decarbonisation.

Second, leveraging private investment through EU funding instruments. The EU has taken steps in this direction through initiatives like the NextGenerationEU recovery plan. InvestEU will be revamped and several additional guarantee and lending systems will be developed with the EIB to derisk investments related to clean tech manufacturing and industrial decarbonisation.

Third, working on supporting instruments, including a new Clean Industrial Deal State aid Framework that enables quick approvals of State aid that supports EU industrial decarbonisation priorities, and new tax policy recommendations.

The Savings and Investment Union is expected to also enhance the EU's financial competitiveness. Investments from private entities, such as venture capitalists, private equity firms, and institutional investors, are critical for injecting the capital necessary to scale up green technologies, thereby driving competitiveness in the green tech industry.

In addition to more targeted use of EU funds and fit-for-purpose policies,

private capital mobilisation and catalysis requires long-term regulatory stability, public incentives for decarbonisation, and effective policy coordination. Developing sectoral transition plans and pathways can have a pivotal role in this respect: each industrial sector has distinct characteristics and challenges; hence, companies need tailored strategies for credibly transitioning to enhance their attractiveness to investors.

Finally, the proposals to simplify the EU sustainable finance framework are expected to boost competitiveness and unlock additional investment capacity, in particular for SMEs, while focussing our regulatory framework on the largest companies which are likely to have a bigger impact on the climate and the environment, ensuring transparency and encouraging investor confidence.

On the global stage, the EU's competitiveness for decarbonisation calls for strong international partnerships. The EU aims to work closely with international partners and financial institutions to support industrial transformation beyond Europe, ensuring that the benefits of the Clean Industrial Deal are realised on a global scale through Clean Trade and Investment Partnerships. By aligning financial resources and efforts across public, private, and international spheres, the European Commission seeks to pave the way for a sustainable industrial transition.

In conclusion, competitiveness and climate change objectives can be mutually reinforcing: through carefully crafted policies and incentives, the existential crisis of climate change can be addressed, while ensuring economic competitiveness and a just transition for all. Initiatives such as the Clean Industrial Deal take the EU Green Deal to the next level, operationalising it as the EU's growth strategy for future-proof and socially just competitiveness, while fostering mutually beneficial partnerships. With climate change a global challenge, a collective response is needed – blending ambition with pragmatism to forge a sustainable future for all.

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Balancing growth and sustainability: The EU Green Deal and the role of finance

The world is at a tipping point. In 2024, global temperatures exceeded the critical 1.5-degree threshold for the first time, marking the hottest year on record. Amid growing scientific consensus, escalating physical impacts, and heightened risk exposure, diminishing alignment threatens to slow global momentum — potentially disrupting coordinated efforts and long-term value pathways. What role and responsibility should the EU assume in addressing this challenge?

The purpose of the Green Deal is to “transform the EU into a modern, resource-efficient and competitive economy”. This purpose is intact – and perhaps as urgent as ever – in the wake of the increased focus on strengthening European competitiveness. However, the “how” should continually be reviewed, assessed and adapted. Balancing growth with sustainability is the only pragmatic and realistic strategy for achieving this comprehensive mission of the 21st century. This balance is now being reflected in the EU Green Industrial Deal.

Amid this changing landscape, what insights can we carry forward? Sustainability and economic competitiveness must reinforce – rather than contradict – each other. A clear and level playing field with reasonable regulations is important, yet it is the players on the field that can make real and long-lasting differences. And this is where the financial sector plays a crucial role.

Implemented and planned policies of the Green Deal have improved the outlook for EU emission levels. Yet, the pace of change is too slow. The past years have exposed vulnerabilities. We have seen record-breaking wildfires in Southern Europe, catastrophic floods in Germany and Spain, and an ongoing energy crisis fuelled by geopolitical instability. Europe’s energy import dependency exceeds 60 percent. And its dependence on fossil fuels, particularly gas, highlights the urgent need for accelerated investments in the energy transition. In this context, platforms such as the EU Commission’s initiative to establish the European Energy Efficiency Financing Coalition can play an important role.

In short, the energy transition is crucial for making the EU a net-zero economy by 2050.

The EU’s commitment to the Green Deal must be unwavering.

European efforts cannot be seen in isolation – global competition is intensifying. The U.S. Inflation Reduction Act (despite paused funding) has triggered a subsidy race for clean technology, threatening to draw green investments away from Europe. China continues to dominate solar panel, battery and EV production, raising concerns about European competitiveness and supply chain security.

The EU cannot afford to fall behind. Instead, we must act decisively – reducing regulatory bottlenecks, increasing financial incentives for green industries, and ensuring energy independence through diversified clean energy sources.

This is where the financial sector comes into play, as enabler of the transition. Banks, investors, and capital markets must scale up sustainable finance to eventually meet objectives. Capital deployment – putting money to work

– is the way of turning ambitions into reality. The EU needs an investment surge into climate resilience projects, sustainable infrastructure, and green innovation. The business case is clear and will become increasingly evident. Where money flows, change follows. The Green Deal should be seen as a catalyst in this larger context.

Going forward concrete financial mechanisms on carbon pricing and clear national strategies which explains how the member states will meet the goals in the Green Deal are of topical importance. Also, regulatory reporting requirements must be efficient with the aim to support the transition.

The EU’s commitment to the Green Deal must be unwavering. While political headwinds and economic pressures create challenges, the long-term cost of inaction is far greater. Natural disasters, energy insecurity, and stranded assets in carbon-intensive industries will far outweigh any short-term economic concerns. Europe must be steadfast in its position and lead by example, showing that climate leadership and economic strength go hand in hand.

The financial sector has a unique responsibility. It must move beyond incremental changes and actively drive the transition through bold capital allocation, innovative financial tools, and risk-sharing mechanisms. Policymakers, investors, and businesses – on European and national level – must align on one key message: achieving sustainable growth is non-negotiable.

We stand at a crossroads. Now is the time for acceleration, not hesitation.



LARA INÉS DE MESA GARATE

Global Head Responsible
Banking – Santander

A sustainability framework that supports growth and competitiveness in Europe

Europe's number one priority is, rightly, to improve its competitiveness and increase economic growth. Without higher growth, all the challenges the European Union faces – the need to transition to a green economy, supporting an ageing population, the need to spend more on defence – become that much harder. Banks are part of the solution as enablers – powering growth through finance. That's the case generally, but especially as regards the green transition.

The approach to the transition must be aligned with industrial policies and regulatory frameworks that support growth. The Clean Industrial Act and the recent adjustment of requirements for the automotive sector are good examples of policy approaches that do this. And the simplification underway of the sustainability regulatory framework, the so-called Omnibus package, is a welcome acknowledgement that we need to eliminate excessive requirements and complexities which place a great burden on companies – of all sizes.

We welcome the recent Omnibus proposal which addresses a number of

concerns – but more work is needed to achieve the competitiveness and simplification objectives. Three points that still require action to be taken:

1. The changes to the Corporate Sustainability Due Diligence Directive (CSDDD) provisions on transition plans still do not reflect the fact that any **transition plan** obligation cannot go beyond the underlying science, market practice and applicable regulations in every jurisdiction on which companies operate. Alignment with 1.5° depends on external factors such as the IEA STEPS (Stated Policies Scenario) and APS (Announced Policy Scenario). Any corporate, financial or non-financial, with presence in different jurisdictions needs legal flexibility, for example to carve out of the plan subsidiaries where the relevant local rules or market practices are evolving differently. We agree with EU member states who have called for an indefinite postponement of this directive until this fundamental point has been addressed.
2. **Reporting requirements** under the Corporate Sustainability Reporting Directive (CSRD) need to be streamlined. Both the CSRD and the European Sustainability Reporting Standards (ESRS) are too ambitious, imposing requirements that companies cannot fulfill today. Sustainability reporting requires time to mature. Instead of an all-encompassing and aspirational approach, reporting requirements should be targeted focusing on climate (E1), own workforce (S1) and business conduct (G1). This approach would reflect companies' abilities to address these key issues, where effective action can have a meaningful impact.
3. **Taxonomy and Green Asset Ratio.** The current taxonomy is too complex to be a useful tool, and the current proposal does not address the need for a fundamental simplification. While there is a good intention to reduce the number of KPIs by introducing materiality

thresholds, the process that banks will have to follow to assess whether they can apply the threshold or not is complex (from initial analysis of the proposal). We should be striving for pragmatic solutions that meaningfully remove the burden on companies: companies should be able to use the taxonomy on a voluntary basis if it helps them to portray their green activity.

The Omnibus proposal must go further, ensuring its intent is fit for growth and competitiveness.

Furthermore, the Green Asset Ratio does not provide meaningful information to the market, while it requires extensive explanation from the banks on what the metric means. Given the limited value, it should be removed. If it is not, an immediate suspension of the reporting requirement is needed (including upcoming GAR in Pillar 3 this summer) until the whole review process of the Taxonomy KPIs, reporting templates and DNSH criteria has been completed and changes adopted. It is inefficient to work, and report, a metric that is under review and subject to changes over the next years.

By taking a pragmatic approach, we have the opportunity to all work together to shift Europe's focus from regulation and reporting to supporting the transition, so that going green is truly a source of growth and competitiveness for Europe.

Furthermore, banks should not be required to collect data from companies that are not obliged to disclose data under CSRD. It is urgent that banks' requirements including on Pillar 3 and the EBA guidelines on ESG risk management are adjusted accordingly, as well as the supervisory expectations. Unless a holistic approach is adopted, the so-called "trickle down effect" on smaller companies will not be addressed.



MELISSA OCAMPO

Managing Director, Head of Sustainability Strategy EMEA – SMBC Bank International plc

A robust EU sustainability framework: Simplification without lowering ambition

The European Commission's ESG Omnibus proposal represents a significant step towards simplifying sustainability reporting and due diligence while reinforcing the EU's commitment to environmental and social responsibility. At SMBC, we welcome the effort to create a more efficient regulatory framework and believe further refinements can help ensure that ESG regulation remains both effective and practical, supporting economic growth and sustainability.

Since the establishment of our Frankfurt-based subsidiary SMBC EU AG in 2017, our growth and investment in the EU has increased significantly. Owing to this growth, we are enhancing our sustainability disclosures in financial year 2024. Our European and Head Office sustainability teams have been hard at work building our capacity in this regard to produce a meaningful and compliant disclosure, notwithstanding the challenges around regulatory uncertainty and compliance.

The timing of the Omnibus package and its proposed changes help to bring some clarity on the application of Corporate Sustainability Reporting Directive (CSRD) for banks such as ourselves. However, from the perspective of SMBC as both a Japanese and European bank, we identify distinct challenges that highlight the need for careful regulatory alignment:

Regulatory divergence: Differences between the sustainability frameworks in EU, Japan and other jurisdictions require financial institutions to navigate dual compliance regimes, leading to increased complexity and, in some cases, duplication. Greater global coordination and equivalence on ESG reporting could provide much-needed alignment.

Data reporting challenges: The number of ESG data points financial institutions must disclose continues to grow, increasing operational burdens. A more focused approach could enhance transparency while ensuring feasibility.

A well-coordinated regulatory framework can maximise the effectiveness of ESG initiatives.

Operational and cultural adaptation: Aligning sustainability approaches across different regulatory and corporate cultures is an ongoing process that requires flexibility and collaboration.

Promoting greater consistency across ESG regulations

A well-coordinated regulatory framework can maximise the effectiveness of ESG initiatives. To enhance alignment across regulations such as the CSRD, the Corporate Sustainability Due Diligence Directive (CS3D), and the EU Taxonomy Regulation, policymakers could consider:

Harmonising definitions and standards: Establishing a more consistent approach across different pieces of legislation would facilitate compliance and improve clarity for financial institutions and businesses alike.

Enhancing cross-regulatory coordination: More effective coordination between regulatory bodies in the EU and internationally could help to ensure that evolving ESG requirements remain coherent and practical. For example, there remains significant overlap between CRR3 and CSRD from both a prudential risk and reporting perspective.

Optimising ESG data disclosure requirements

Transparency is fundamental to sustainable finance, but ensuring that reporting obligations remain proportionate is equally important. Some areas where refinements could be considered include:

Refining scope 3 emissions reporting: While Scope 3 emissions disclosure is critical to achieving economy wide decarbonisation, a more targeted approach—prioritising high-impact sectors—could make compliance more manageable while maintaining the integrity of sustainability reporting.

Streamlining social and governance data requirements: Reporting on workforce diversity and gender pay gaps is essential, but highly detailed breakdowns by region and role may add complexity without necessarily enhancing transparency.

Simplifying the EU taxonomy framework

The EU Taxonomy plays a crucial role in guiding capital to sustainable economic activity, but its complexity presents challenges for businesses and financial institutions. Potential refinements include:

Shifting towards a principles-based DNSH approach: Rather than requiring rigid technical criteria, a more flexible, high-level framework could allow companies to demonstrate alignment with sustainability goals in a practical manner.

Prioritising high-impact sectors: Focusing DNSH requirements on industries with the greatest environmental risks could enhance efficiency while maintaining robust standards.

Clarifying technical screening criteria: Simplifying key thresholds and definitions would help ensure that the Taxonomy remains accessible and applicable across different sectors and regions.

The EU ESG Omnibus proposal is a welcome development in the evolution of sustainability regulation, offering an opportunity to refine the existing framework to better serve businesses, investors, and society. By fostering greater regulatory consistency, optimising data disclosure requirements, and simplifying key aspects of the EU Taxonomy, policymakers can create an environment that enables financial institutions to support both economic growth and sustainability more effectively.

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CSRD IMPLEMENTATION



KAREN DORTEA ABELSKOV

Deputy Director General –
Danish Financial Supervisory
Authority (Finanstilsynet)

From red tape to green impact: CSRD, Omnibus and the future of green reporting

Ambitious sustainability reporting can show investors how green a company is, and the Corporate Sustainability Reporting Directive (CSRD) plays a major role in this. But if we want the CSRD to make a real green impact, we need to have a close eye on how green reporting can be done without huge burdens for European businesses.

CSRD – a status update

The Danish Financial Supervisory Authority (DFSA) is responsible for the supervision of the CSRD for financial undertakings in Denmark. For the financial year 2024, 22 financial undertakings in Denmark are covered by the CSRD and are to submit their first annual report including sustainability reporting this year.

Leading up to supervising the first sustainability reports, the Danish authorities have put a large effort into guiding financial as well as non-financial undertakings on how to interpret the different requirements set out in the CSRD. A lot of effort has been put into developing step-by-step guidance on how to implement the CSRD. The Danish authorities have also formed a national Q&A-mechanism on sustainability with the aim to facilitate that undertakings, the auditors and the authorities can cooperate and utilize the work by the European Financial Reporting Advisory Group's (EFRAG) Q&A.

The DFSA is aware that the CSRD entails new and comprehensive reporting requirements. Market and supervisory practices are still evolving after the rules came into force and the DFSA, the auditors and the undertakings will continue the dialogue on how to meet the new requirements going forward. The DFSA's supervision of the new rules in 2025 will be an extension of this guidance effort and aim to strengthen companies' understanding and compliance with the rules, e.g. through the publication of observations that can contribute to increasing the cross-cutting knowledge and understanding of the rules. The overarching focus of DFSA's supervision will be in line with the sustainability ECEP for FY2024 with a view to be able to provide further guidance to the industry.

Simplifying sustainability reporting can drive real impact.

The focus on guidance has become even more apparent after the publishing of European Commission's proposal of an Omnibus Simplification Package that will simplify the undertakings' requirements for sustainability reporting.

Omnibus – a new road for a green and competitive EU

The business sector plays a crucial role towards reaching climate goals. This however requires companies to collaborate across industries and professions with transparency and ESG disclosures as important instruments to meet climate goals. Hence, the CSRD and

other sustainability legislations are much needed. However, we must not enforce reporting for the sake of reporting, risking a sole focus on compliance and not an actual green transition. The reporting obligations come with a significant price tag. According to Danish calculations, the implementation of the CSRD will cost the Danish business sector approx. EUR 800 million, with an annual cost of reporting of approx. EUR 670 million. This is far more than what was estimated on a European level when the CSRD was proposed.

Denmark welcomes the Omnibus. The proposal is ambitious and effective in creating proper simplification for businesses. The Danish Government is ready to ease the burdens even more than what is currently suggested. Simplifying sustainability reporting can enhance transparency and drive real impact. By reducing complex regulation and reporting, we promote alignment around the most important, standardized sustainability metrics, making it easier to compare progress across companies.

If Europe wants to succeed with the green transition, we must bring all tools into play. A strong focus on digitalization and automated sustainability reporting will support the aims while significantly easing the burdens on companies in the long run. This levels the playing field, allowing businesses genuinely committed to sustainability to distinguish themselves through credible and consistent data. Cutting administrative burdens and over-reporting not only incentivizes accountability but also rewards authentic efforts to transition into a more undertaking.

In conclusion, the initial thoughts from the CSRD are still extremely relevant and the first reading of the reports shows that the undertakings take this seriously and are already doing a lot on a variety of measures to take responsibility for the sustainable transition of society. However, the burdens and manifold reporting requirements can be eased to make the objective of sustainability reporting even more clear, meaningful and effective and thus leading the way for a quicker and more extensive transition.



SAM PRESTIDGE

ISSB Technical Strategy Lead –
International Financial
Reporting Standards
(IFRS) Foundation

The global baseline: connecting the European and International picture

The International Sustainability Standards Board (ISSB) works to deliver globally comparable sustainability-related disclosures to meet the information needs of investors. The ISSB and the European Union have complementary yet distinct objectives in relation to sustainability reporting with the European Union approach seeking to meet both investor and a broader range of stakeholder needs. Yet, at the core, both agree on the need for high-quality, globally-comparable disclosures. Additionally, companies, investors and market regulators continue to advocate for global alignment in sustainability-related disclosure standards.

We know that many companies will be required to, or will choose to, apply both the ISSB Standards and European Sustainability Reporting Standards (ESRS) (in compliance with the Corporate Sustainability Reporting Directive (CSRD)). To support this, the IFRS Foundation worked with the European Commission and EFRAG to deliver a high degree of alignment in climate-related disclosures and other areas such as the definition of financial

materiality in our respective standards. In May 2024, the IFRS Foundation and EFRAG jointly published an interoperability guide to help companies meet requirements when disclosing sustainability-related information under both sets of standards. The aim of this work has been to reduce complexity, fragmentation and duplication for companies applying both the ISSB Standards and ESRS.

Since our first two Standards—IFRS S1 and IFRS S2—were issued in June 2023, we have seen growing momentum in jurisdictional adoption. To date, more than 35 jurisdictions have taken steps to adopt or otherwise use the ISSB Standards. The ISSB is committed to supporting high-quality implementation, and this is the highest priority in our work plan through to 2026. The ISSB is achieving this through a wide range of activities, including the publication of educational material to support adoption. For example, we launched our roadmap development tool to support jurisdictions on their journey in adopting or otherwise using the ISSB Standards.

The ISSB is also looking ahead to what's next. Our current work plan expands our technical work into new research projects on Biodiversity, Ecosystems and Ecosystem Services and Human Capital, topics for which investors have asked for better information to inform their investment decisions. The ISSB is also enhancing its industry-based standards—SASB Standards—having identified an initial set of industries to prioritise in its work. The ISSB expects to consult on the enhancements in the first half of 2025. Through our expanded work plan we continue to engage other standard-setters, ensuring that interoperability considerations remain central to our work.

**How the ISSB's work
supports high-quality
sustainability disclosure
in Europe and beyond.**

The European Commission announced its Omnibus package of proposals to simplify requirements in the CSRD, ESRS and other relevant European Union legislation in February 2025. The ISSB stands ready to continue to work closely with our European counterparts to build further alignment where possible. Importantly, we note that the European Commission has stated its intention to continue to further enhance interoperability with international

standards through this process. Through our ongoing collaboration we will strive to maintain and enhance alignment between the revised ESRS and the ISSB's global baseline of sustainability-related disclosures.

The European Commission has proposed to reduce the number of companies within the scope of the CSRD. Many of the jurisdictions around the world who are moving forward with their journeys to adopt the ISSB Standards are phasing in the number of companies within the scope of mandatory reporting over time. Phasing-in requirements considering the public accountability and size of companies is aligned with the adoption pathways outlined in the IFRS Foundation's *Inaugural Jurisdictional Guide*.

The ISSB's work on interoperability also includes close collaboration with the Global Reporting Initiative (GRI). Last year we announced a deeper collaboration with the GRI in which we seek to provide a seamless, global and comprehensive sustainability reporting system for companies looking to meet the information needs of both investors and a broader range of stakeholders. Through this collaboration agreement we are both committed to jointly identify and align common disclosures that address information needs under the distinct scopes and purposes of our respective standards for both thematic and sector-based standard-setting.

Overall, our work on interoperability aims to reduce the level of cost and complexity for companies that need to or choose to meet the information needs of investors and a broader range of stakeholders internationally. Considering ongoing developments in the European Union, we look forward to collaborating and engaging with the European Commission and EFRAG, as well as other standard-setters such as the GRI, to maintain and enhance the high-level of alignment already achieved.



BIRGIT PUCK

Managing Director Securities
Supervision – Austrian
Financial Market Authority

Omnibus proposal: paving the way to reducing sustainability reporting burden

As of the end of January 2025, around 30% of EU member states had not yet transposed the CSRD into national law. Many issuers in those member states had nevertheless already adopted ESRS on a voluntary basis in their Sustainability Reporting for the 2024 financial year. This was driven by the complexity of reporting under ESRS that requires lengthy preparation. Most issuers began preparations for initial application as soon as ESRS were published, using all valuable supporting materials like Q&As and EFRAG guidelines. For practical reasons, many issuers did not suspend their work once it became apparent that they would not be obliged to report based on ESRS for the 2024 financial year. In many aspects, the Omnibus Proposal in February 2025 indicates a sharp change of direction compared to the previously adopted CSRD.

The intended reduction of ESRS Set 1 datapoints contributes strongly to burden reduction and is welcome in reducing the risk of information overload. The focus on essential information to achieve the goal of burden reduction fosters high-quality reporting. When preparing a revised ESRS Set 1, the focus should be on investors'

needs, measurable and comparable data. In this regard, plans to scrap future sector-specific standards should be considered when reviewing required datapoints. By providing meaningful information to Sustainability Report users, the one-size-fits-all approach of sector agnostic standards should be reconsidered critically, especially for financial undertakings. Financial undertakings play a specific role in fulfilling the Green Deal's vision. Concerning environmental standards, specific information requirements about customers of financial undertakings may prove more useful than information requirements about the financial undertaking itself. This also mirrors the concept used for disclosures under the Taxonomy Regulation. From a supervisory view, special emphasis on harmonization of quantitative data and on definition of terms between ESRS and the prudential supervision framework like CRD or EBA Pillar III Disclosure of ESG risks is necessary to achieve overall simplification. Finally, the information required should be limited to a useful and processible extent, covering only essential information needs, and not obscuring substantial information by information overload.

**Essential, measurable and
comparable datapoints
are key for a simplified
Sustainability Report**

Another significant point of the proposal is the envisaged limitation in the scope of undertakings under CSRD to large undertakings of over 1,000 employees. This goes far beyond a burden reduction: instead, it eliminates a burden for all undertakings dropping out of scope. Fewer undertakings being obliged to disclose sustainability information would however contradict the SFDR's endeavors to provide the financial market with necessary sustainability information. It would also affect those credit institutions required to provide more regulatory information about their counterparties under CRR/CRD. For undertakings within the CSRD's original scope with less than 1,000 employees, a risk of sunken costs arises from narrowing the scope at this late stage, as many have already reported on ESRS for the 2024 financial year (compulsory or voluntary) or already started preparing for initial ESRS application in the years ahead. From the users' perspective, it is essential

to obtain clarity about transitional provisions as soon as possible.

Shelving the planned extension from limited to reasonable assurance for Sustainability Report contradicts the original view expressed in the CSRD's recitals: Recital 60 states an objective to have similar levels of assurance for Financial Reporting and Sustainability Report. A lack of a reasonable assurance requirement for Sustainability Report, in contrast to the existing reasonable assurance requirement for Financial Reporting, would threaten the disclosed sustainability information's credibility, thus failing to meet the user's needs. Lowering the assurance further seems excessive in addition to the planned reduction in ESRS Set 1 datapoints. Any deviation from reasonable assurance for Sustainability Report is hazardous, as it opens the way for potential greenwashing.

While a substantial shortening for ESRS Set 1 seems reasonable, it remains a delicate balancing act. The consequences of all changes need careful consideration, whether in the interplay of the EU's Sustainability Framework – such as the SFDR or CRR/CRD, or the scope of undertakings. Its objective should be a thoughtful and robust reporting requirement applicable for the long-term that allows undertakings to build long-lasting structures based on legal certainty for Sustainability Report. Finally, scrapping reasonable assurance for Sustainability Report threatens the quality of disclosed information, and could lead to Sustainability Report that is less effective in driving change towards a green future.



ROZANNE DORARD LATIMIER

Director of CSR Policies,
Standards and Governance –
Crédit Agricole S.A.

CSRD regulation: what are the first lessons for Crédit Agricole?

Crédit Agricole is a committed player in terms of corporate social responsibility. With more than a hundred years of service, Crédit Agricole has always placed its actions at the heart of major societal transformations, in a universal and useful approach, expressed by its *raison d'être*: “Acting every day in the interest of its customers and society”. Being at the service of all, in all regions, to meet all customers’ wealth concerns, has made it possible to create the Bank model of global and sustainable relations.

Our Group Project has three intertwined dimensions that determine a unique relationship model: The Client Project defines our priorities to act in the interest of each of our clients. The Human Project organizes the increased role of the Group’s women and men. The Societal Project, presented in 2021, enriched by the climate strategy (2022 and 2023) expresses our ambition to act in the collective interest of society, around three main priorities: climate, social cohesion and the agricultural and agri-food transition.

Crédit Agricole understands and shares the usefulness of the CSRD’ requirements, to adopt shared standards and reporting methods on environmental issues. It helps to address environmental risks and opportunities and contributes to a constructive strategic dialogue at the highest level of governance. These issues, however, were already largely taken into account in our sector policies and our climate strategy published in June 2019 and updated in 2022 and 2023.

CSRD has placed sustainability at the heart of companies’ strategic challenges. In its philosophy, the directive takes a fresh look at the idea of measuring impact, expressed through the dual materiality matrix. The proposed methodology provides a harmonized reporting framework for companies, which is a real step forward.

Another contribution of this standard is that it aims to improve the quality of data. For a leading banking player, such as Crédit Agricole, this point is essential in the dialogue and financial support of its corporate clients. From the perspective of the investor that we are also, it is a vector of orientation of capital. Indeed, quality and a sufficient amount of data make it possible to better compare, trigger trends, and in so doing a market dynamic.

While it may be a little early to draw all the lessons from CSRD, it is already possible to say that it has proven to be complex to implement.

**Shared and useful
fundamentals in
supporting transitions
which has proven
complex to implement.**

Firstly, the timing of the implementation has been too tight or even rushed, which probably has not helped its acceptance. Secondly, operationalization has proven highly complex, thereby challenging its purpose. Indeed, the methodology suffers from insufficient insights that are sometimes difficult to apply to the financial sector. By way of illustration, the approach of questioning the materiality of nature: this approach remains highly theoretical for the financial sector. CSRD did not specify the method that should be used to objectively define the nature footprint, which was the case for the climate. It remains ambiguous about the very notion of the value chain to be taken into account. Therefore, we

considered that we could not conclude on this topic as we would run the risk of publishing incorrect information. Moreover, the exchanges we have had with the regulatory institutions have not allowed us to get away from the ambiguous nature of the texts.

Similarly, it is probably impossible for the financial sector to produce clear and understandable reporting when we do not have sector-specific standards.

The other lesson of the CSRD methodology is that it is too granular, which leads to an incredible number of data collection: more than 1400 data points, most of which are derived from estimates or extrapolations! From an investor perspective, again, there’s no need for such a large volume of data. What matters is not so much the verticality of the data (data points) but the horizontality of the data (companies concerned).

As a conclusion, standards cannot be an exercise in itself but should serve the purpose of the economic players on the ground, in their transformation towards a low-carbon and sustainable economy. We are also concerned about the use and understanding by stakeholders of the vast amount of data produced.

We also regret the multiplicity of standards which are particularly numerous for our sector of activity, especially on certain subjects that are identical or very close.

We therefore welcome the spirit of simplification of the “omnibus” approach, while maintaining the key principle of double materiality. We also welcome the guidelines on limited insurance, the relief proposed on the DNSH principle and the abolition of sector-specific ESRS, a major constraint, as many potential steps in the right direction.

However, there are still many issues to be clarified: the reduction of the scope (providing a gap between the data we will need and the data provided by businesses) and the calendar of the expected simplification.



THOMAS BÉHAR

Chief Financial and Extra
Financial Officer –
CNP Assurances

Disclosing financial and extra-financial information at the same level

This first year of publication of sustainability reports in compliance with the CSRD directive marks a significant milestone in the commitment to transparency and trustworthiness in terms of sustainability. These reports provide a comprehensive overview of the company's efforts in its sustainability agenda.

Usefulness and Comparability of Information

EFRAG, to which the European Commission has entrusted the mandate to develop sustainable development reporting, has made available 10 thematic standards which cover all sustainability subjects: environment in all its dimensions (climate, biodiversity, pollution, circular economy, water), social and governance, with the creation of understandable, reliable and comparable indicators, based on homogeneous data, allowing control by an independent external third party.

In its first report, published on 3rd March 2025, CNP Assurances disclose more than 800 data points on 9 standards, allowing a complete assessment of the group's impacts and commitments. This publication thus reflects the importance of sustainability issues for a responsible

insurer and investor of international dimension. It outlines detailed policies and targets for climate change mitigation, just transition, and social inclusion. For instance, CNP Assurances has set ambitious targets such as a 50% reduction in GHG emissions by 2030 on different scopes, or on professional equality to reach 45% women in its top management by 2025. These clear and measurable targets enhance the comparability of the information provided.

Double Materiality Approach

The double materiality approach makes a significant difference compared to the single materiality approach. The methodology we used in our report considered both financial performance and socio-environmental impacts, providing a more holistic view of our company's sustainability efforts. By evaluating impacts, risks, and opportunities across the value chain, double materiality approach ensures that both financial and non-financial factors are considered, leading to more comprehensive and transparent reporting.

As a committed investor with more than €400 billion in assets – a large part of which is invested in the real economy in Europe – double materiality is also a key element allowing to considerably enrich the knowledge of the business model of the companies to be financed or in which to invest.

Furthermore, this approach allows a certain flexibility because the information related to the different themes must be material to the company's activities to be published. CNP Assurances therefore welcomes CSRD retention in the proposals of the European Commission for the Omnibus 1 texts published on 26th February.

**Considering financial
performance and
socio-environmental
impacts, provides a
more holistic view.**

Complexities, Difficulties, and Costs

The exercise of preparing the sustainability report is complex and costly, primarily due to the challenges in interpreting new regulations and the lack of established practices for double materiality analysis. Our report highlights the uncertainties faced in defining criteria for relevant

sustainability information. For instance, the calculation of scope 3 emissions continues to pose evident methodological challenges and thus the standards should clearly treat it differently from scope 1 & 2.

In the revision of the texts introduced by Omnibus 1, several simplifications were proposed to remedy these challenges. What the preparation of our report has highlighted is the need for sector-specific guidance rather than additional standards, the elimination of duplicate contributions where data points must be populated multiple times in the final document, and the emergence of an auditing standard that more clearly delineates the scope of the limited assurance engagement entrusted to auditors.

Despite these challenges, the commitment to continuous improvement in reporting and communication practices is evident.

The Omnibus 1 proposal

As a responsible insurer and investor, CNP Assurances calls for preserving the spirit and ambition of the European Union's sustainable finance regulatory framework, which helps manage risks, identify opportunities and redirect capital towards sustainability issues.

We are particularly attentive to making the transition to a low-carbon economy a pillar of European competitiveness. For that, we share the objective of simplifying the European regulatory framework based on initial implementation feedback to develop a flexible regulatory environment that promotes innovation, growth and just transition.

Indeed, we recognize that these ambitious policies were implemented quickly, and often in parallel, which led to difficulties in implementation with too much unmanaged redundancies between regulations. We therefore support the Commission's targeted technical actions to ensure the framework's simplification, clarity, and coherence. Regarding the CSRD directive, CNP Assurances believes that while maintaining the text's high standards, there is potential for simplification and rationalization.

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SFDR REVIEW



CARLOS SAN BASILIO

Chair – Spanish Securities and
Exchange Commission (CNMV)

SFDR, a tempered shift towards simplification

Since March 2021, the European Union has been a pioneer, leading the way in the development of global sustainable finance, implementing the Sustainable Finance Disclosure Regulation (SFDR). The thesis of this regulation, a milestone in European financial regulation, was none other than promoting and encouraging sustainable investments as a starting point for the transformation of the existing economic models in Europe into more environmental, social and governing-friendly ones (ESG). The aim is to channel capital and investment flows towards more sustainable products that would allow a transition towards a greener and more resilient economy.

To this end, the key aspect where regulation needed to focus was transparency and trust in sustainability, as these two characteristics determine the behavior of financial markets. Three targets were pursued: informing investors so that they could make more informed decisions about the sustainability of their investments; encouraging financial market players

to integrate ESG criteria into their investment decision-making processes; and at the same time, mitigating the risk of deception or greenwashing through standardised and strict disclosure that would also facilitate the comparison of financial products based on their sustainable features.

The SFDR had a huge challenge ahead. Years later, we can see that the pursued objectives have been partially achieved. The regulation has been a key instrument in increasing transparency and allowing investors to access data on sustainability risks and the adverse impacts of their investments. However, it has also resulted in high complexity. Therefore there is a lack of clarity for retail investors and it has added an operational burden for financial market participants.

For instance, the concepts of 'sustainable investment' under the SFDR and 'taxonomy-aligned investment' under the Taxonomy Regulation have generated interpretation difficulties. This same effect has been seen with the use of the regulation as an implicit labeling system for the quality (in terms of the level of sustainable investments) of investment funds (articles 8 and 9) for marketing purposes. When selling a fund to investors, many relevant factors come into play, but the name stands out as a way to effectively and succinctly convey the investment's purpose. Using the nomenclature of article 8 or 9 funds, which refer to disclosure requirements, is not the most appropriate from a commercial and societal understanding standpoint, for investors and their preferences when adopting ESG criteria for investment. We could also mention that the lack of clear criteria for the evaluation and disclosure of the sustainability of products has led to an increase in operational and administrative costs and has had indirect effects on underlying companies, especially those not directly subject to SFDR, but that must provide relevant information to investors. This has been one of the objectives of recent ESMA's guidance.

The recommendations to the European Commission (EC) are not simple. If Europe wants to continue leading in sustainable finance, as desirable and necessary as it is, it should undertake a process of regulatory simplification. In the process of revising SFDR, the Commission will also have to take into

account the foreseeable changes that will be introduced in other legislative pieces such as CSRD, CSDDD and the taxonomy regulation, after the publication of the new Omnibus Directive.

**If the EU wants to
continue leading
sustainable finance,
we must move towards
simplification.**

This process should reduce the quantity and complexity of information through specific simplifications that do not imply a complete review of the regulation nor a renunciation of the principle of double materiality, but rather a lesser category of information for small and medium-sized companies with temporary deferrals of information. Additionally, the alignment of SFDR with the Taxonomy Regulation, CSRD, and other regulations is necessary to avoid inconsistencies. From the investor's perspective, it is necessary to address a product rating system based on clear and objective criteria that differentiate between sustainable and transitional products, as well as to advocate for sustainability indicators that evaluate environmental and social sustainability and even clarify the concept of sustainable investment to ensure uniform application.

The SFDR regulation has been a fundamental element in improving transparency in sustainable finance, but it still presents significant challenges in terms of applicability and clarity. It is necessary to simplify the framework that is already yielding positive results. Now is the time to perfect it, so that it strengthens investor protection, their preferences, and their knowledge, and also reduces the administrative burden on market participants, encouraging them to support greater growth in green finance with their efforts.



SACHA SADAN

Director of ESG – Financial
Conduct Authority (FCA)

Navigating the complexities of sustainable finance

Last time I was at Eurofi, we were in the early stages of the Sustainability Disclosure Requirements (SDR) implementation. The FCA introduced this package to help consumers navigate the sustainable investment market, reduce greenwashing, and build trust. Opportunities for international compatibility were sought at every stage of the policymaking process. The framework includes an anti-greenwashing rule, labels, naming and marketing rules, simple consumer-facing disclosures and more detailed ongoing disclosures, as well as distributor requirements. Only products with specific sustainability goals as part of the investment objectives can qualify for an investment label – and the naming and marketing requirements mean that firms can't call their products 'sustainable' or 'impact' unless they are using a label.

There has been good progress made by firms to comply with the new rules, including many applications for changes to fund disclosures in order to use a label. We are now aware of over 100 funds intending to use labels. Firms are also amending their fund names and disclosures to meet our naming and marketing rules.

Investment products are however just one piece of the puzzle. As we transition to a net zero economy, financial

markets will increasingly want better information on how companies plan to adapt their business models, their operations and their products and services. And investors are telling us clearly that transition plans will provide this information.

We are strong supporters of the work of the ISSB to develop guidance on transition plans drawing from the Transition Plan Taskforce (TPT) framework. As securities regulators move forward with their respective regulatory regimes, alignment will be critical for easing costs and burdens on multinational firms. That is why we are engaging with the International Transition Plan Network (ITPN), the TPT's successor, and have been pleased to see the level of interest from our peers, including EFRAG. We encourage other authorities to engage with the Network in the interest of greater cooperation. For transition plans to be successful, they need to be internationally interoperable, so we hope to see a convergence in regulatory expectations. This consistency would support a regulatory environment which helps investors make more informed investment decisions, based on comparable information, while fostering competition and growth through reduced compliance costs.

Meeting the UK's net zero target will require a significant increase in transition capital, and we recognise the challenges and complexities for firms in structuring this kind of finance. The FCA is committed to ensuring the UK is globally competitive for raising transition capital and we support the UK government-commissioned Transition Finance Market Review (TMFR) which found that credible transition plans will be a valuable source of information about corporate strategy for providers of transition finance, when making decisions about capital allocation.

The FCA enjoys a close relationship with our European counterparts on sustainable finance.

Looking ahead, we know there is more work to be done domestically and by working with our international regulatory counterparts. First, we should welcome the positive feedback we received on our anti-greenwashing efforts; this is an area we continue to focus on to enable a well-functioning market. Second, an estimated 60% of the world is expected to adopt the

ISSB standards, and this adoption should happen in the UK this year. We welcome the cooperation between the ISSB and EFRAG to deliver greater interoperability. Third, following the government's announcement to bring ESG ratings into our perimeter, we are working to develop a proportionate risk-based regime for ESG rating providers in line with IOSCO recommendations which focus on good governance, transparency, managing conflicts of interest and proper systems and controls. This follows our support for the launch of an industry-led Code of Conduct for ESG data and ratings providers in 2023. Hong Kong has leveraged this code in the development of their own, while Japan and Singapore have similar initiatives. It's great to see the EU publishing ESG ratings regulation, setting a strong example for international collaboration and alignment on sustainability standards. Fourth, we will continue our important work on SDR labelling, ensuring funds using these labels genuinely meet the criteria for sustainability. Fifth, we are committed to raising standards for transition plan disclosures. These disclosures provide companies with the opportunity to back up their climate targets with clear implementation plans, which may serve as a useful tool for managing reputational and legal risks.

As sustainability matures and initiatives evolve into regulations, we'll continue to encourage and actively support increased international coordination and compatibility. At the FCA and IOSCO, we remain committed to listening and working closely with our fellow regulators to advance these efforts.



DELPHINE DIRAT

Senior Manager, Government Relations and Regulatory Strategy – London Stock Exchange Group (LSEG)

SFDR: An opportunity to put the transition to Net Zero

Rethinking SFDR: The opportunity to align, simplify, and drive transition

The EU is a pioneer in sustainable finance, shaping the global agenda with key regulations such as the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy. SFDR has brought greater transparency to the market, pushing asset managers to disclose sustainability-related information and helping institutional and retail investors make more informed choices.

Today, a majority of investment funds in EU fall under SFDR's Article 8 or 9, meaning they either integrate ESG factors or have sustainable investment objectives. This demonstrates the financial sector's alignment with sustainability goals and the growing importance of ESG considerations in investment strategies. However, the implementation of the SFDR has proved challenging with uncertainty around definitions and terms and evolving interpretations that have created instability, funds' requalifications and confusion.

The forthcoming SFDR review is an opportunity to refine the framework, ensure its coherence with other

sustainable finance regulations, and make strong choices that affirm EU's vision for sustainable finance, striking a balance between competitiveness and regulation that provides clear guidance for market participants.

Ensuring alignment with corporate reporting to ensure high-quality data

One of the biggest challenges of SFDR is its misalignment with corporate reporting requirements. As a result, asset managers often struggle to access reliable data from companies, leading them to rely on estimated data of varying quality.

To enhance the credibility and usability of SFDR, it is essential to align reporting requirements with the Corporate Sustainability Reporting Directive (CSRD) and ensure that the data asset managers need is effectively reported by companies. This will improve data quality, reduce reliance on estimates, and provide a more consistent framework for investors.

Clear ESG fund categories that fit all investment strategies

For SFDR to be effective, its fund categories must be clear, robust, and adaptable to different investment strategies. The framework should recognise the diversity of ESG investment approaches, ensuring that passive management strategies, which represent a significant portion of the ESG market, are adequately considered.

A revised SFDR should provide well-defined categories that reflect different levels of sustainability ambition while ensuring that all types of asset managers can contribute to financing the transition.

The SFDR review is a chance to ensure better data quality and clearer ESG fund categories.

A robust fund category that supports the transition to net zero

One of the key shortcomings of the current SFDR framework is that it does not fully capture the complexity of transition finance. A revised framework should introduce a dedicated category for funds that invest in high-emitting companies with credible transition plans.

Encouraging the inclusion of transition plans as a core criterion of this fund category would help integrate companies

that are actively working toward decarbonisation. A strategic and robust transition plan should be a key eligibility criterion, ensuring that asset managers can support businesses that are genuinely committed to net-zero objectives while avoiding greenwashing risks.

Robust minimum criteria without overly restrictive rules

To enhance credibility and prevent greenwashing, SFDR must establish minimum criteria that are both robust and enforceable. However, these criteria should not be so rigid that they prevent asset managers from applying the most relevant KPIs for their investment strategies.

It is crucial to test the proposed criteria with market participants before finalizing them, ensuring that they are practical and feasible. This process should also reflect the structure of the market, which is primarily composed of institutional investors, who require consistent and reliable standards to make long-term investment decisions. By engaging with the industry early in the process, regulators can ensure that the criteria are ambitious yet workable, allowing SFDR to be effective without becoming overly prescriptive.

It is also essential to provide visibility to market participants so they can anticipate the requirements of future fund categories, ensuring a smooth transition from existing Article 8 and 9 funds.

Conclusion

The SFDR review is a chance to refine the EU sustainable finance framework, ensuring better data quality, clearer ESG fund categories, and stronger support for transition finance.

Europe now has the chance to lead by example, reinforcing its position as the global standard-setter for sustainable finance while ensuring that regulation empowers rather than hinders market players.



LAURENCE CARON-HABIB

Head of Public Affairs – BNP
Paribas Asset Management

SFDR Review must be a full part of the Commission's competitiveness compass

The adoption of the Sustainable Finance Disclosure Regulation (SFDR) was a major step in the move to a more sustainable economy with harmonised transparency requirements for all European ESG products. However, and despite several level 2 and 3 measures, there is a strong consensus that the current framework could be amended to further increase allocation of capital to a more sustainable economy.

The various reports published in 2024 on this review by the European Supervisory Authorities, ESMA and more recently by the Sustainable Finance Platform of the European Commission indicate that there is a general consensus on the introduction of new categories to replace the existing Article 8 & 9 classification and that existing reporting obligations should be substantially simplified. These proposals are going into the right direction provided that a number of crucial conditions are properly met.

First this review should be full part of the Competitiveness Compass of the European Commission. Primary objective should refer to the absolute necessity to ensure that EU financial

market participants benefit from a suitable framework that does not put them in a competitive disadvantage resulting from too complex, unclear and burdensome requirements, notably in terms of transparency obligations.

Second objective should be around the importance of end-clients being central in the whole European sustainable finance framework. These clients should have access to the right information on extra-financial matters when making their investment decisions. On one side, most of the information to be disclosed under the SFDR is of no use for them as too complex and detailed. On the other side, criteria at their disposal for their sustainable preferences are too technical as they refer to taxonomy, sustainable investments and consideration of Principal Adverse Impacts. This does not properly incentivize end-clients to select products with ESG/sustainable features.

In these conditions, the revision of the SFDR should be articulated around two main evolutions. First the introduction of new categories if designed to facilitate the identification of products that best suit the sustainable preferences of each client. And second the simplification of current reporting requirements with a focus on information that is of real use for end-investors.

Having three different categories seems to be the best approach for capturing most of the investors' money into ESG products. Main challenge is to reach the right balance between a categorization scheme that capture a sufficient number of investment products while requiring a minimum level of ambition in the ESG dimension of the product. For avoiding the adoption of niche categories, criteria retained for each category should take into account the reality of investments universes and types of products. Typically, limiting sustainable investments to assets with a minimum percentage of revenue/capex derived from taxonomy-aligned activities or similar approach would be too restrictive. Other methodologies to identify investments with a positive contribution should be permitted, while further harmonizing the sustainable investment definition. Otherwise the number of products offered in this category would be too limited.

For ensuring the required ambition, it is crucial to have clear, objective, scalable criteria and measurable indicators for each category. A too large third category would be counterproductive. It would result in a situation similar to the one observed today with the Article 8 classification that includes a too wide range of products. In addition, the criteria should be adapted to specific

cases, such as funds investing in private assets, funds of funds or funds replicating indices. Criteria should be decided by an ad hoc experts' committee to ensure this balance between ambition and reality.

**End-clients should be
central in the design of
the whole sustainable
finance framework.**

On simplification of transparency requirements, the number of mandatory indicators should be reduced and the current format of templates streamlined. Having a common set of a limited number of indicators for all products would provide the minimum information investors need in a harmonized way, for the sake of comparability between products. Additional information can be disclosed in a voluntary mode and according to the specificities of each product.

Last but not least, the SFDR review should be envisaged in full articulation with the Omnibus I evolutions. There should be full alignment between the indicators to be disclosed under the SFDR and those to be published by corporates, including on taxonomy reporting. Beyond the scope of indicators, the availability of data will also be a key topic for attention. It should be avoided that financial market participants are faced with a concerning lack of data and have no other alternative than further relying on external data providers. Transition periods with the new CSRD framework while SFDR has not been yet revised will be part of issues to be properly tackled.



JULIA SYMON

Head of Research and
Advocacy – Finance Watch

Foundations for simple, transparent and meaningful SFDR product categories

The Sustainable Finance Disclosure Regulation (SFDR) has played an important role in raising awareness and paving the way for the sustainable finance framework. However, the design of SFDR as a pure disclosure framework has quickly proven to have limits. As sustainable finance regulatory framework has expanded, concerns have emerged regarding legislative inconsistencies, flexibility left for defining key concepts and the misuse of product classifications as sustainability labels. Time has come to step back, reflect on the achievements and the limits of the SFDR and propose necessary legislative revisions.

As the Platform on Sustainable Finance (PSF) has published a long awaited report providing concrete recommendations to revise the SFDR, legislators should weigh their options in light of four competing objectives that the revision must achieve.

First, the revised framework should foster transparency to allow assessing the sustainability level of products. A consensus seems to appear on the need for a product categorisation scheme to reconcile the objective of financing sustainable activities with the support

of businesses in their transition. The lack of distinction between the two strategies is a major source of criticism of the current framework, which has led to confusion among investors. Development of two distinct product categories – a sustainability-focused and transition-focused category – is a fundamental step to promote transparency, prevent greenhushing and reduce greenwashing accusations.

Second, the revision of the SFDR should simplify the framework to make it easily understood and accessible for retail investors. In that context, greater transparency may compromise the objective of understandability. The current disclosures are perceived by retail investors as too complex and difficult to find. The new product categories and disclosures should therefore be more intuitive and focus on what retail investors may consider relevant.

Third, the legislators should ensure that the framework allows investors to express their sustainability preferences. In that respect, there may be more merit in creating a harmful product category, allowing investors to exclude “brown” investments from their portfolio, rather than introducing the do-not-significantly-harm (DNSH) category proposed by the PSF. A DNSH category will not enable an exhaustive distinction between harmful investments and neutral investments. While financial market participants may voluntarily categorise products under the “ESG collection” category, as proposed by the PSF, unclassified products will not necessarily be harmful. As a result, advisors could encourage retail clients to invest in unclassified products under the rationale that ESG considerations could be integrated, despite the fact that some of those product may also be harmful.

A revised SFDR should be understandable to retail investors and inclusive of impact investors.

Finally, an SFDR revision is an opportunity to accommodate for impact-driven investments. The integration of impact has been considered by the PSF, without recommending a separate category. There are several ways to integrate the notion of impact contribution, but the challenge to find a standardised definition of impact could restrict ambitions. The legislators should also bear in mind that such a niche category would mostly cover alternative investments inaccessible to retail

clients, leading to product availability limitations when considering client preferences. A separate impact product category would also create challenges in explaining it to retail investors, while a disclosure-based integration would simplify the categorisation scheme. In that context, introducing disclosures on impact contribution without introducing a separate category appears as the most adequate approach.

To conclude, striking a balance between transparency, simplicity, and investor preferences will be key to ensuring the effectiveness of the revised SFDR. However, the future Commission's proposal should also take into account the ongoing discussion on the first omnibus package that introduces new thresholds defining the scope of the CSRD and the Taxonomy Regulation. Making disclosure of the Taxonomy alignment largely voluntary, as currently proposed by the European Commission, will inevitably affect functioning of a new SFDR framework. Without access to Taxonomy disclosures, financial market participants will face uncertainties on how to treat eligible economic activities for companies that would opt out of disclosing their taxonomy alignment. As a result, sustainable funds could rely on the notion of sustainable investment which could, as per the PSF proposal, focus on activities that are not (yet) covered by the Taxonomy. Asset managers may therefore divert their investments away from economic activities covered by the Taxonomy, which are deemed to contribute the most to EU environmental objectives. Ultimately, such an approach could increase the concentration risk in sustainable products due to the reduction of their investment universe.

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Q&A

VITTORIO GRILLI

Chairman of Italy and of the Corporate & Investment Bank, EMEA – J.P. Morgan

The right moment to move forward with an ambitious Savings and Investments Union

Does the EU Competitiveness Compass document address the main areas where further progress is needed to achieve the Savings and Investments Union (SIU)?

The EU Competitiveness Compass, in addition to the Draghi report, put into stark terms the financing needs for the EU's objectives going forward: EUR 750-800 billion per year by 2030, roughly a 5% of EU GDP per year increase in the EU's total investment-to-GDP rate, similar to the 1960s and 1970s.

The Savings and Investments Union (SIU) Action Plan therefore comes at an important moment, and it will be crucial to identify the right initiatives to help bring us forward. Thankfully, some of the most vital reforms are mentioned: securitisation, post-trade, pensions, insolvency and taxation.

I have been participating in Eurofi and writing articles for this magazine for over 10 years. If you look back, you'll see that I have been calling for concerted efforts in these areas throughout that time. And there has been progress through the Capital Markets Union initiatives.

Of these initiatives, I would like to highlight the need for ambition around securitisation reform. While not a silver bullet, we do see it as playing a part in helping free up space in banks' balance sheets to provide more lending to the real economy.

Fragmentation within the EU Member States, such as differences in contract laws and insolvency laws create legal uncertainty, which makes it complex and difficult for the securitisation market to scale. Unfortunately, these are also the most politically charged issues to address. Therefore we would support more targeted changes in the short term.

One would be to diversify the investor base by looking at EU regulatory frameworks, particularly the prudential treatment under Solvency II which limits insurer investments in securitisations. However, the prudential treatment of banks alone will not revive the EU securitisation market and instead further the outsize role that bank investors already play in the European public securitisation market. This could risk further crowding out of non-bank investors in that market.

Alleviating due diligence and transparency requirements to a more principles-based approach would also help. Templated disclosure can be useful for vanilla products and help standardisation but is generally not adapted to complex transactions.

How to retain the surplus European savings (around 300 billion euros leave Europe every year) in order to finance more investment in Europe? How can the two objectives of increasing the long-term return on investments for citizens' retirement and financing the EU economy be reconciled?

At JPMorgan, we are committed to investing in Europe and its economy. Investments in European assets constitute a meaningful part of our Asset Management division's global investment portfolio, across asset classes.

It is also important to highlight that the funds from European savers alone are insufficient to fuel the ambitious recommendations made by Mario Draghi in his landmark report. Additionally, it would not be wise for European investors to concentrate all their investments in one region. International players have a crucial role in scaling up Europe's investment ecosystem by attracting and facilitating global capital. Our global presence allows us to channel significant

investment from the U.S., Asia, and Latin America into Europe, invigorating the region's economies. We are ideally positioned to mobilise both European and international capital to achieve the EU's strategic investment goals. For instance, when EU companies successfully scale within the Union, a substantial portion of venture capital investment comes from outside the EU, with the U.S. being a major contributor to European deep-tech startups.

Furthermore, we strongly believe that public policy initiatives affecting how EU citizens invest their savings should prioritise their long-term financial wellbeing. Investors should be empowered to make the best investment decisions taking into account their personal circumstances, risk appetite, and investment horizon. By connecting European savers with the global investment landscape, they can maximise their retirement savings and achieve the best possible returns.

The question, therefore, is whether there are opportunities to enhance the ease of foreign capital investment in Europe. Simplifying and harmonizing regulatory frameworks across Member States can make it significantly easier for foreign investors to navigate the EU market. Additionally, facilitating cross-border investments by reducing bureaucratic hurdles can further attract foreign capital. By implementing these measures, we can create a more welcoming and efficient investment environment, ultimately strengthening the EU's competitiveness on the global stage.

Does the SIU need a new approach compared to the CMU action plans? How can top-down and bottom-up action be combined in an effective way?

Having been a member of the European Commission's CMU High-level Forum, I know the intention of the CMU project was not for this to be an EU-level driven process. It was recognised that key changes would need to be driven at the national level.

It is therefore important that greater ownership of the CMU process has been committed to by EU finance ministers through the Eurogroup and at heads of state and government level. Official sector top-down and bottom up process therefore need to run in parallel. For example, if we want to achieve the ambitions of a new European savings product, it should be accompanied by national-level tax incentives.

However, bottom-up market developments are also important. Consider the potential role of technology. For example, DLT has the potential to expand access to capital markets, improve their efficiency, and promote innovation. Implemented at scale, DLT can make a significant beneficial contribution to the functioning and depth of capital markets, and the real economy.

The EU has until now been a global leader in the experimentation of DLT, but the current regulatory framework prevents the full deployment of DLT in the financial sector.

As the Draghi report says "The EU's competitiveness will increasingly depend on the digitalisation of all sectors and on building strengths in advanced technologies, which will drive investment, job and wealth creation." The EU should remove regulatory barriers to scaling DLT markets.

In addition, the development of a pan-European DLT based market infrastructure can help to address the fragmentation of European capital markets as outlined in the Draghi and other reports, help to drive the Savings and Investments Union agenda, and address the competitive gap vs other major capital markets. In the short-term, the EU should make entry into the DLT Pilot Regime more flexible, to incentive the participation of more firms.

What are the synergies between the Banking Union and the Savings and Investments Union? What would be the consequences of a lack of progress in the Banking Union on the implementation of the SIU?

A true Savings and Investments Union requires a Banking Union and an integrated and frictionless single market.

By their nature, banking and financial markets increase their resilience and quality through the strength and breadth of their network. A true Banking Union would in fact generate a wide array of benefits across the Union by reducing market fragmentation, developing strength, solvency and resiliency of banks. It would help generate a growth of trust and confidence in financial services where citizens would enjoy more competitive and effective banking structures, which would in turn increase the appeal of investors into the EU, as well as achieve the much needed additional financial integration in the Union.

Considering the amount of work that remains to be done in order to achieve the three, moving ahead simultaneously on all issues would be greatly beneficial to help grow the appeal of the EU's financial markets, as well as build trust and confidence in financial services from consumers across Member States. It would allow for the natural deepening of cross border integration across the Union. My hope is that we see some important progress into the Banking Union package during this political cycle.



Q&A

CORENTINE POILVET-CLEDIERE

Chief Executive Officer, LCH SA,
LSEG Country Head, France

Unity and ambition for a competitive Union: time for action

Are the actions listed in the EU Competitiveness Compass the main priorities for making progress on the SIU?

The EU is at a crossroads. In addition to the twin digital and green transitions, the renewed geopolitical tensions and need to boost European defense means that financial markets will have a pivotal role to play in the coming years. And not just as mere enablers of industry, but as a powerful sector for growth, employment, international attractiveness and value creation. Mature EU financial markets will not only attract foreign capital but also channel EU's citizens' savings into important EU-led projects.

The EU competitiveness Compass is undoubtedly one of the building blocks of the transformational change the EU needs to go through. And to make it a reality we need serious political commitment and decisive action from all involved stakeholders, including the private sector, to complete both the Banking and Capital Markets Unions.

What we have seen so far is promising. The simplification agenda will make it easier for business to operate in the EU. This is a much-needed step towards establishing a level-playing field with our international competitors and therefore boosting our competitiveness. Similarly, the objectives of lowering barriers to the Single Market and improve the coordination of policies at the EU level are also essential towards making the EU and its companies more attractive. The current fragmentation of rules – and their interpretations – makes it extremely costly and burdensome to provide cross-border services, imposing a financial ceiling above which very few companies can rise and thrive.

If we are serious about unlocking Europe's financing potential and retaining a prominent position in the global economy, we collectively need to take the necessary steps – and within an ambitious timeframe – to simplify the regulatory framework.

Does the SIU require a change in approach compared to CMU, given that many drivers of capital market development lie with the Member States (e.g. pensions, financial education, tax incentives...)?

I believe both the EU and national components are equally important. As such, we not only need to continue the work that has been carried out during this past decade at the EU level but also shift into higher gear at the national level to achieve true progress.

Updating and completing the EU regulatory framework remains critical to tackle inefficiencies and barriers to the distribution of capital, goods and services. 27 regimes and close to a hundred institutions, bodies, agencies and national authorities cannot be conducive to agile and efficient operations. Firms need one set of rules, enforced in a consistent and harmonised way across the entirety of the EU territory.

Difficult decisions will have to be taken in areas such as insolvency, governance, and tax, but without a unified vision it will be impossible to move forward as a coherent, strong and united entity that can compete with the global superpowers of our time. Again, political commitment is paramount for transformational changes to take place. And that is exactly what Europe needs right now. We must ensure that the dire warnings of Mr. Draghi, Mr. Letta and Mr. Noyer, among others, are not in vain.

Domestically, EU governments must also deliver by taking the necessary measures to boost the development of healthy and robust financial ecosystems. Reforms will have to be carried out so that retail investment flourishes and SMEs can find investment at all levels of their growth strategies. The times where our leaders had two different discourses for Brussels and their capitals must come to an end.

During the last decade the EU has been fixated in developing a Union of capital markets, and while some significant progress has been achieved, we believe true progress has been hindered by the lack of local transformational changes. The EU cannot create a Union of capital markets unless there are markets to be united in the first place.

How can further integration of market infrastructure and supervision, as proposed in the Letta and Draghi reports, support the SIU? What are the key steps to reduce fragmentation and boost the competitiveness of EU capital markets?

Consolidation is a loaded word, and it's important to understand what we truly mean by it so we can strive towards a common goal.

We should first focus on ensuring all financial market infrastructures (FMIs) operate under common standards. If our goal is enhancing the EU's competitiveness, then supervision is a fundamental building block. And the best way to proceed would be to have a sole, common supervisor.

The existing framework is complex, multi-layered and cumbersome for both CCPs and admittedly for supervisory authorities. In addition, it is often implemented differently across Member States, creating an unlevel playing field within the EU. Such environment leads to lengthy approval processes when launching new products and services or changes to risk models. As a result, we are operating with a competitive disadvantage compared to our international peers. Greater market integration can be achieved when market participants operate under a common legal and supervisory framework. Such level-playing field would also allow CCPs – and their clients – to no longer differentiate between Member States but see the EU as one single jurisdiction. There is nevertheless an important political barrier to reaching such state, so if needed we could focus first on a few, critical players (i.e., cross-border, systemically important FMIs) rather than the entire ecosystem.

The EU must also address gold-plating issues. It cannot present itself as one market, and that is a big problem for its attractiveness. A broader and systematic use of Regulations as opposed to Directives would also help towards developing a common set of rules.

Once you have reached such state you are likely to start seeing market consolidation among exchanges, CCPs and CSDs. We nevertheless caution against pushing this idea too far. While having close to a dozen CCPs in the equities space is not ideal, neither is having only one. Competitiveness will come by suppressing impediments to customers' choice rather than suppressing choice. It will also come from supporting successful CCPs to compete at EU and global scale. Mr. Draghi talks about fostering

European champions which can compete with Chinese or US superstar companies. We have such CCPs in the EU, but their capacity to compete is impeded by the complexity of the supervisory and regulatory framework rather than by the number of players in the ecosystem. Ultimately, what matters is truly providing choice to customers, and that can only be achieved through well designed open access rules.

How are new technologies such as DLT, tokenisation, AI, cloud etc... expected to change the financial services market in the coming years? Is their implementation a key objective of LSEG? What are the challenges to overcome?

New technologies such as DLT, tokenisation, AI, and Cloud computing are set to significantly transform financial services markets in the coming years. But the two areas we see as more transformative in the short-term are Cloud and AI.

The transition to Cloud is essential to keep pace with technological advancements and to harness its capabilities for maintaining resilience and competitiveness. Cloud computing offers efficient, secure, and scalable solutions vital for our operations, and regulatory frameworks like the Digital Operational Resilience Act (DORA) support this transition by emphasising operational resilience and third-party risk management. Embracing Cloud technology is therefore essential for managing operational risks, and whilst we are mindful of the geopolitical environment we operate in, we need to ensure sovereignty consideration does not mean we miss the transition to resilient and efficient access to technology to support our competitiveness.

The use of AI technologies will also revolutionise financial markets. Looking at LSEG specifically, we have three major advantages in this area: the depth, breadth and history of our data and analytics, an open ecosystem with true interoperability between LSEG, customer and other third-party data sets, and our in-house quant and engineering talent. Our approach is to apply AI conservatively, ensuring that the use case justifies the technology's application. Such AI use cases are generally applied to support compliance, operational efficiency, and data discoverability, rather than directly impacting the trading or clearing engines. We are far from a world where AI is used in core CCP functions, but we see it as potentially enhancing productivity and the discoverability of data within existing processes, typically by using Generative AI tools in customer service.

We should therefore collectively ensure safe access to Cloud and use of AI capabilities while maintaining necessary human oversight and balancing sovereignty with competitiveness.

BUILDING AN EFFECTIVE SIU: KEY DYNAMICS



HARALD WAIGLEIN

Director General for Economic Policy and Financial
Markets – Federal Ministry of Finance, Austria

The Savings and Investments Union – Mobilising capital to finance Europe's future

While progress has been made since the CMU initiative was launched ten years ago, EU capital markets remain fragmented. European citizens and businesses are not able to fully benefit from deep, competitive, efficient and reliable sources of funding and investment. The current geopolitical upheavals pose the risk of even more fragmentation, even within the EU, but they may also act as a catalyst to set bold measures to create a genuine SIU. Strong and stable open financial markets are a key factor to foster both economic growth and employment. Financial market policy can contribute to overarching political goals such as strengthening Europe's position in the World as a prospering stronghold of liberal democracy and security. To satisfy financing needs to invest in our future and that of coming generations we need both, a strong banking sector and strong capital markets.

Channelling funds from savings accounts into European businesses requires first and foremost trust in the European real economy and the financial sector. It is key that citizens have equal and fair access to financial services and to the capital markets. To this end, a fair regulatory environment, transparency and powerful, independent supervision are essential factors. Hence we should not sacrifice the goals of the RIS for the sake of simplistic simplification but ensure that citizens receive high quality, instead of high quantity, information and unbiased advice to acquire value for money products. On the other hand, a certain degree of restraint may be advisable when it comes to regulators designing entire products. The PEPP is, by definition, a long-term savings product with a European label. We should learn our lessons from its failure instead of running the risk of making the same mistakes twice by creating just another European savings product from scratch.

Financial literacy is also key to secure participation in the capital markets. Citizens need to understand capital markets, their potential in relation to investing for the future. Likewise, citizens should be able to identify risks and possible frauds and scams.

In order to fortify the bridge between the banking sector and capital markets and to increase lending capacities of banks, great expectations are set in the growth of securitisation in Europe. We should, however, be careful deriving overly optimistic expectations from drawing comparisons with other jurisdictions. In many EU member states mortgage loans are refinanced using alternative instruments, especially

covered bonds, which are proven high-quality instruments. Securitisation is also a relatively expensive refinancing tool. Nevertheless, carefully balanced regulatory amendments could support unlocking the potential of securitisation. Due diligence requirements should be revised by making them more principle based, proportionate and less complex. Transparency requirements should also be reviewed with a view to eliminating redundancies, aligning terminology and simplifying reporting. With regard to capital and liquidity requirements, we should, however, bear in mind that changes might have implications on financial stability. The ongoing discussion on establishing a European securitisation platform is particularly complex. While a platform could improve standardisation, reduce transaction costs and barriers to market entry, more intrusive measures such as guarantees come along with difficult fiscal and state aid questions.

**Current geopolitical upheavals
may act as a catalyst to set bold
measures to create a genuine SIU.**

An even more contentious issue is supervision. While it is true that supervision shapes markets, reducing the problem to the question of centralisation of capital markets supervision would be overly simplistic. Many problems originate from unclear rules and dilatory compromises at Level 1. Tackling this issue not only requires improving the quality of legislation right from the start of its process but also the willingness of the co-legislators to compromise and agree on clear-cut solutions. Where feasible, new mandates for the ESAs to publish technical standards could help reducing inconsistent application of rules. The ESAs should also make use of their vast array of tools to push harmonisation. On top of that, further market integration will justify more centralised supervision. Yet, an evolutionary process tailored to the different degrees of market integration and different types and size of market participants seems more appropriate to avoid unintended side effects of disruptive changes. Proximity between markets, market participants and supervisors as well as proportionality are elements that should not be neglected when assessing overall efficiency.



BERTRAND DUMONT

Director General of the Treasury – Ministry of the Economy,
Finance and Industrial and Digital Sovereignty, France

French authorities propositions towards EU capital markets growth and integration

The need to make Europe both more competitive and able to finance on its own the many challenges ahead has only been made more necessary by recent developments. We must implement concrete actions at the European level across three key areas that have been identified as crucial by high-level reports on the subject: enhancing the capacity of European banks to support SMEs' financing needs; alleviating the regulatory obstacles to the integration of Europe's capital markets and encouraging retail investors to direct their savings towards European equity investment.

To achieve these ambitious objectives swiftly, focusing on a first set of key transformative actions is necessary. The upcoming proposals from the European Commission should carry this ambition in a bold and decisive manner, by covering all of the following key actions.

First, relaunching the EU securitisation market will be key to increasing credit availability and diversifying risk. While maintaining the strong safeguards introduced after 2008, a full review of the prudential framework is needed – both for insurers and banks –, including adjustments to capital charges and liquidity requirements that unduly penalise investors—with room for targeted deviations from Basel where justified, in line with choices made by other major jurisdictions. Simplifying due diligence and disclosure requirements would also be essential to lower barriers to entry while ensuring investor protection. Building a common European securitisation platform could also bring benefits: improving transparency, reducing structuring costs, harmonising practices, fostering market integration and attracting a wider range of participants across the EU.

A more integrated European supervisory framework would also be essential to foster integration, competitiveness and simplification, while strengthening financial stability and supervisory credibility. Direct ESMA supervision of systemic and cross-border CCPs, CSDs, trading venues, major asset managers and pan-European crypto-asset service providers would support market integration and lower compliance costs, creating the first step towards single EU supervision. Where full centralisation is not immediately feasible, enhanced supervisory colleges mechanisms with a reinforced role granted to ESMA could be set up, facilitating a gradual shift towards integration.

This strategic priority was rightfully stressed in the European Commission's Competitiveness Compass, which calls for a much more unified approach of supervisory practices. Regarding the way forward which we should pursue, a public consultation could be a very interesting first step, but should lead to a Commission proposal, which would be useful to get by the end of the year.

We must also channel better the abundant European retail savings into equity funding for European companies. As tax parameters and distribution channels remain specific to each Member State, we support to design first a European label that would foster the development of long-term saving accounts in every interested Member State, both for existing or newly created frameworks. The criteria for this label could include a long-term horizon, the absence of capital guarantee, the benefit from a nationally-defined favorable tax treatment, a minimum investment amount in European assets. Such savings accounts could offer retail investors an attractive and trusted framework to engage in capital markets.

Focusing on a first set of key transformative actions is necessary.

We are already moving forward on this last pillar, thanks to the "Competitiveness Lab" approach proposed by Spain, offering all voluntary Member States a dedicated dialogue instance aimed at delivering concrete reforms in a coordinated manner. We are currently starting the work in this framework, with the aim to define the label's criteria and governance by this summer, for a concrete implementation before the end of the year.

Alongside these structural reforms, we must ensure newly-mobilised financing supports Europe's most innovative companies. This requires a European strategy to improve scale-up financing, particularly in Member States with smaller capital markets. Facilitating listings for growth-stage companies and strengthening a genuine European venture capital ecosystem is key — building on existing roadmaps like the European Tech Champions Initiative and its second phase, as well as drawing lessons from case studies such as the UK's work on private share trading platforms.



PABLO PORTUGAL

Senior Public Affairs Director – Euroclear S.A.

From today to tomorrow: Evolving Europe's financial market infrastructure

The sense of urgency regarding Europe's competitiveness and the development of the Savings and Investments Union (SIU) must now be turned into tangible action.

Addressing the fragmentation of the market infrastructures landscape is rightly an area of focus. When it comes to Central Securities Depositories (CSDs) and the post-trading sector, it is clear that improvements are needed to reduce complexity and enhance efficiencies and economies of scale.

At the same time, this objective needs to be balanced with the realities of the EU. Market participants have to navigate 27 legal and tax frameworks, varying market practices, products and distribution models, in addition to the national sovereignty policies of Member States. These divergences have made integration particularly challenging in the equity markets.

In the absence of full single market harmonisation, the focus should be on practical steps, implementable in the near term and building on the progress that has been made and effective solutions that exist today.

An optimal European market structure should be one that provides seamless connectivity across the single market while catering to the local ecosystems in Member States. Strong international connectivity is also important to support the EU's attractiveness as an investment destination.

EU authorities and market participants should focus on a set of conditions to advance this vision, including:

- **Fostering further sector integration** while maintaining healthy market competition. In the CSD sector, three pan-European groups account for 96% of EU CSD settlement activity. Facilitating further intra-group synergies would enable these operators to enhance efficiencies and economies of scale for the benefit of the wider market.
- **Optimising the interoperability and connectivity of settlement infrastructures** in line with market needs. Large pan-European CSDs have an important role to play in providing this connectivity as they already do in fixed income markets and collateral management.
- **Promoting further regulatory convergence and the harmonisation of market practices**, exploring actions at the EU and national levels to facilitate this process.

Building the infrastructures of tomorrow and a vibrant digital assets ecosystem

The possibilities offered by technology should be a key consideration in designing the markets of tomorrow.

Tokenization, digital assets and currencies represent a unique opportunity to address some of the structural inefficiencies of traditional assets and foster a more integrated European ecosystem. DTL could represent the next structural change to financial markets. For this promise to materialise, the broad market ecosystem needs to be able to unlock significant benefits and efficiency gains, while preserving financial stability and safety.

With market participants continuing to explore applications of this technology, the challenge today is the risk of an increasingly fragmented landscape with the multiplication of disparate DLT platforms.

An optimal market structure should provide seamless connectivity across the single market and strong access to global markets.

The promotion of standardisation and interoperability is therefore a priority task. Leading FMIs have been working to advance this, for example through the publication of the Digital Asset Securities Control Principles in 2024, a framework that seeks to provide industry-wide foundations to develop the ecosystem and build investor trust.

Public sector efforts and private sector initiatives must remain complementary to enable a strong digital assets ecosystem to develop. The recent announcement by the Governing Council of the European Central Bank (ECB) to expand its initiative to settle transactions recorded on DLT in central bank money is a significant step in this journey. A collaborative and coordinated approach will be essential as this and other workstreams are taken forward.

We are in an important phase of development for the European FMI sector, whether looking at the current traditional systems or the digital infrastructures of tomorrow. FMIs will need to collaborate with all stakeholders in supporting evolutions that drive innovation, safety and efficiency.



ROLAND CHAI

President European Market Services – Nasdaq

Boosting the EU economy: financial intermediation and citizen investment

Europe is entering a new geo-political paradigm in 2025 and the ability of the European Union (EU) to adapt and change its markets will be critical to the prosperity of the EU in the coming decades. In the Mario Draghi report 'The future of European competitiveness' last year, it was highlighted that Europe is lagging in competitiveness. Addressing this critical issue, the European Commission's President Ursula von der Leyen, introduced the Competitiveness Compass. The challenges have been well documented and now is the time to accelerate solutions. The EU's economic competitiveness hinges significantly on the ability of innovative startups and scaleups to access capital.

What can we do?

1. To tackle these challenges, building the EU's risk capital base is key, and it involves unlocking long-term risk capital from pension funds and retail investors. Boosting EU capital market investments requires incentivizing pension funds to invest in equity, encouraging retail participation through investment savings accounts with favorable and, crucially, simple tax treatment, simplifying market access, advancing digitalization, and enhancing financial literacy.
2. European corporates must have simple, and cost-efficient access to pools of risk capital. Streamlining legal and regulatory frameworks is critical. Supporting European companies necessitates harmonizing EU legislation by simplifying complex reporting obligations and aligning with private sector conditions. Over complex reporting regulations add to companies cost base and disincentivizing them to remain in Europe. As we have seen in the Nordic markets, showcasing the best European companies will in turn attract offshore investors, however the EU must make it easy and cost-effective for all investors to hold EU securities.
3. Simplifying and reducing costs for cross-border investments in the fragmented EU capital markets is essential. Promoting competition, innovation and liquidity on Exchanges and MTF platforms will address the fragmentation challenges posed by extensive bilateral over the counter (OTC) trading and the damage this does to Primary Exchanges.
4. Harmonizing EU post-trade platforms and links is key to reducing barriers, enhancing capital access, and lowering investment costs.

Retail investment is a cornerstone of success.

EU citizens stand to gain significantly from investing in capital markets, as they can achieve higher returns on their savings while contributing to job creation and growth. Retail investors should be encouraged to co-invest alongside public entities in projects aligned with EU priorities, such as driving innovation, green and digital transitions, and defense.

The engagement of EU citizens in capital markets is crucial in driving the economic growth and competitiveness of the Union. The Nordic and Baltic regions have long been celebrated for their innovative economies, largely due to fostering a culture that values and enables citizen investment in the markets and democratizes wealth creation. This approach has been integral to their thriving innovation ecosystems. Take Sweden, for instance. The country actively empowers and incentivizes its citizens to take charge of their financial futures by investing in equities. As a result, Swedish households hold an impressive average of 36% of their investments in equities, the highest percentage in Europe. This widespread stock market participation has not only bolstered individual wealth but also fueled a robust pipeline of initial public offerings (IPOs) on the Stockholm exchange, starting at an earlier stage in the growth journey than in many other countries, positioning Swedish companies among the most innovative globally. The stock markets can play a bigger role in bridging the scale-up gap.

Building the EU's risk capital base is key, it involves unlocking long-term risk capital.

Moreover, governments across the Nordic and Baltic regions have strategically leveraged their countries' assets to ensure long-term benefits for their citizens. A particularly noteworthy aspect of this model is the establishment of sovereign wealth funds and the modernization of pension systems. These initiatives have secured retirement benefits for citizens while ensuring that wealth creation remains largely within the populace. Simultaneously, they enable the deployment of capital across the private sector, driving sustained economic growth.

SIU NEXT STEPS



MARIE-ANNE BARBAT-LAYANI

Chair – Autorité des
Marchés Financiers (AMF)

Retail investment, supervision and securitization are key drivers for the SIU

In terms of financial services, the Savings and Investments Union (SIU) is the project of our generation. At the end of the last century, our predecessors built the single currency, which is now proving to be a valuable shield against financial shocks. Putting an end to the fragmentation of EU financial markets and finally allowing them to develop is now a necessity to give Europe the means of its strategic autonomy and political choices. It is our responsibility to move this project forward, and the AMF has a role to play.

The EU is in danger of being left behind, as numerous recent reports have shown. The project should thus be led with strong political ambition and boldness. Indeed, even if the CMU action plans have delivered some achievements, the EU stands at a critical juncture. Its competitiveness has eroded. More importantly, while

Europe needs more money to fund the twin digital and energy transitions, and an unprecedented effort to rebuild its defense, the extra amount of investment needed is 1000 billion euros a year. The EU must therefore urgently deepen its capital markets to finance its future growth and strategic autonomy.

While action is needed in several areas, three main priorities can be game changers to achieve tangible results.

First, actions should be taken to foster retail investment in EU economies. The investor will be the cornerstone of the SIU's success and must be put at the center. EU households hold abundant savings, largely kept in bank deposits, and often invest heavily outside of the EU. This is a missed opportunity and it should be a priority to better channel part of households' savings into long-term equity financing for EU companies with proper investor protection and incentives.

In this respect, EU-labeled, tax-favoured and cost-efficient investment products is a key option.

Simplifying the client regulatory journey could be of great help, without lowering the level of protection, with the backing of strong financial education programmes.

Since more investment is needed, more attention should also be dedicated to women's investment in financial markets, a clear investment gap to address.

Second, the integration of EU supervision remains a missing piece and the EU needs to take concrete and bold steps now.

In the wake of the Commission's ambition to 'make Europe simpler and faster', we must progress significantly towards EU supervision. The current fragmentation of supervision of asset management and capital markets is an obstacle to more seamless functioning of EU financial markets. More consistent implementation of the rules across countries is key to improve investor protection as well as financial stability. In addition, it is clear that the EU will not achieve simplification without tangible progress on EU-level supervision. Indeed, an essential reason for the complexity of the EU rulebook is the lack of convergence in supervisory

practices creating regulatory arbitrages and a demand for very precise, detailed and prescriptive rules to try and prevent this regulatory arbitrage.

As an immediate step, direct supervisory powers should be granted to ESMA over global cross-border crypto-assets services providers. In this newly regulated area, it makes sense to centralize expertise, while the risk of regulatory forum shopping is already well identified, and risks for investors are high. Other candidates for a direct supervision by ESMA include large pan-EU market infrastructures; as well as large asset management groups, whose specificities should be acknowledged in EU law with a consolidated supervisory approach (also from a financial stability perspective).

An SSM-like system could be put in place, with direct supervision for the largest financial entities, and delegated supervision to NCAs for the smaller ones, to ensure cost-efficiency, proportionality and capitalize on NCAs' knowledge of local markets.

Direct European product supervision is a more difficult subject, that would require a closer scrutiny and could be relevant and cost-effective for limited cases such as prospectuses.

In any case, the governance and funding model of ESMA must be reviewed, and its supervisory culture developed.

Finally, revising the EU Securitization Regulation should be a short-term priority. The securitization market remains underdeveloped in the EU. It can be a "quick win" while creating opportunities to develop the market on the basis of a new class of good quality assets, and a bridge between bank finance and market finance. Besides revising the prudential treatment of securitization, amending transparency and due diligence obligations to make them simpler and more proportionate would lift obstacles for investors to participate in this asset class. Reporting can be simplified and harmonized while serving the needs of investors and regulators. The jurisdictional scope of the Regulation, as well as the supervision of third-party certifiers and cross-border securitization transactions, also warrant some amendments.



GEORGE THEOCHARIDES

Chairman – Cyprus Securities and Exchange Commission

A unifying strategy for EU financial markets

We believe that the SIU Strategy has correctly identified the key constituent areas which are important for the development of a unified structure for financial markets and citizens can benefit from a harmonised marketplace where products and instruments can be evaluated in a common manner. With a view to the SIU strategy, it is fair to say that the Compass provides a comprehensive range of insight across a range of its constitutive elements. For example, it provides for measures to promote low-cost saving and investment products at EU level as well as provisions for private and occupational pension schemes. It also addresses measures which will effectively remove barriers which are a current impediment to market-driven consolidation of financial markets infrastructure.

An overarching provision is to promote the development of the EU's securitisation market, which the Commission is also more widely addressing through its planned measures to promote citizen share ownership.

At a technical level it has identified measures which will allow for much more unified approach to supervision. These measures have been considerably simplified since earlier drafts of the proposed measures, notably removing

elements of the more "ambitious" measures when compared against the previous drafts. The Competitive compass also addresses important elements for business, such as the reform and harmonisation of insolvency frameworks as well as proposing the removal of taxation barriers to cross-border investment.

In short, we believe that for the development of capital markets the SIU must use a blended approach combining a bottom-up approach to fostering consistent initiatives across member states while continuing to work on the legislative framework. It should take full account of the diversity of EU markets. The focus of the many important drivers for developing capital markets clearly do lie within the current remit of the member states, notably the provision for pensions legislation, the financial education of its citizens, and the way in which the taxation structure of the individual member state can foster and incentivise investment.

There is clearly a requirement for the measures proposed to foster consistent initiatives in these areas across the EU member states. Indeed, on pensions, financial education, tax incentives and insolvency, the Member States have the main responsibility, but this does not mean that the Commission cannot play a role therein. As the question points out, indeed playing a coordinating role so that Member State best practices (for instance on pension schemes such as Sweden's ISK) are identified and fostered as EU wide solutions. This also means the Commission must take a more active role in the way future legislation is made to prevent gold-plating at Member State level, which can in itself create barriers.

It should take full account of the diversity of EU markets.

Additionally, the Commission also has a role to play in updating, completing and notably simplifying the EU's legislative framework measures such as securitisation review or the review of the SFDR, which immediately spring to mind, where simpler and nimbler legislation is clearly required. We would also highlight the overarching requirement to develop a more robust framework to reduce financial illiteracy.

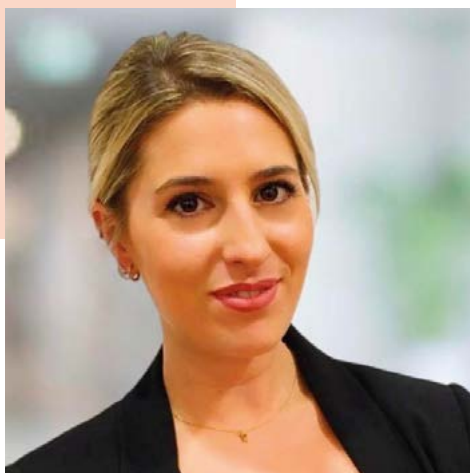
Recent research shows that this is a member state-wide issue and when considering the Commissions' measures to widen access to citizen investment it

must ensure not to put the cart before the horse when considering the risks posed by widening access and promotion of financial products to new cohorts of investors, and notably the young.

Careful consideration needs to be given about the impact of these reforms. The legislation aims to support investors that are currently excluded from capital markets because of the high fees charged on some services and products and the lack of information available to them to make informed choices. But just because people can invest more easily doesn't always mean they should.

The retail investment strategy and other projects rightly identify the need to encourage Member States to support their citizens' financial literacy, but the risk of opening up the market to inexperienced retail investors. The pace of technological change and growing sophistication of online investment scams can leave legislators playing a continuous game of catch-up.

This is clearly a good example of where the bottom-up approach can provide protection alongside the legislative frameworks and both approaches should go hand-in-hand. So, we wouldn't say its only about enabling a bottom-up approach, but that a mix of both bottom-up and top-down is needed. Compared to the previous legislature, that will indeed mean a step back from the COM, this does not mean its role is fully reduced to mere coordination.



PILAR MARTÍNEZ

Head Public Affairs EU and Latin America – SIX Group

Smarter regulation for an efficient SIU: FMIs to unlock European capital markets

As the new European Commission speeds up, policymakers are developing their priorities for a strong Savings and Investments Union (SIU). The new political cycle presents a renewed momentum to address fragmentation and enhance the competitiveness of the EU by building the new SIU. Financial Market Infrastructures (FMIs) have been at the core of regulation throughout the last years with the intention to increase transparency, improve operational resilience and enhance market integrity. Therefore, the central role that FMIs must play in the SIU debate should be unquestionable, ensuring policies reflect the realities of the industry.

As policymakers and market participants evaluate the next steps, the debate often moves away from the real question: the need for effective and smarter regulation rather than just regulation. One of the primary challenges facing the SIU is not necessarily the absence of regulation, but the inconsistencies and lack of a common approach throughout the EU in its design and application resulting in regulatory fragmentation. Rules in the EU should be guided by a principle-based and technology-neutral approach: an

overly prescriptive framework poses the risk of creating unnecessary complexity for national governments, slowing down the implementation process and imposing excessive burdens on market participants. If the EU wants to foster a more competitive framework, the regulation process should be more agile, ensuring a harmonized and efficient application across Member States and avoiding overregulation and tedious approval processes. This would enhance European competition by allowing the EU to keep up with other jurisdictions including the US, UK or Asia whose regulatory processes are faster, smarter and less complex.

Beyond questions on regulation, the EU must also focus on proactive market development strategies to boost a well-functioning SIU. Coordinated initiatives to enhance financial literacy, retail participation and innovation should be complementary to existing regulatory measures. A successful SIU lays on three fundamental elements: improving access to capital for all companies – particularly SMEs – creating a more efficient and investment-friendly tax framework, and ensuring regulatory certainty across Member States.

In this sense, encouraging cross-border investments and improving access to capital for SMEs should be a core priority among Member States. It is essential for SMEs and national unicorns to have the certainty that they can access the necessary capital to become champions in the future. This would not only attract foreign capital, thus increasing the liquidity of capital markets, but would also enhance competitiveness by allowing companies to be more innovative and disruptive in their sector. In this regard, FMIs also should be able to play a more pivotal role in the development of policies. If the EU wants to shift from a model of overreliance on banks towards a strong capital markets model, policymakers should tune in with FMIs as they do with the banking industry. A harmonised approach to taxation – including promoting tax incentives and reducing the burdens associated to processes – is also fundamental for attracting investors and mobilising capital in the Union. Therefore, introducing simple savings products for investors should be top in the agenda. By offering a tax-efficient and user-friendly framework, the successful Swedish model of ISK accounts could be a good starting point. Lastly, no real improvement in the markets can be done if there is no time to assess what has changed: it is paramount to establish a well-structured regulatory lifecycle to ensure that both market participants and regulators have the opportunity to implement and assess the real impact

of legislation. The current regulatory framework often falls short in this regard. EU policymakers frequently initiate reviews before Member States have fully transposed and developed the law. This leaves little time for the industry to evaluate the practical effects of new regulations on market dynamics, leading to uncertainty and potential gaps for an EU harmonisation.

Improve access to capital, create an efficient tax framework, and ensure regulatory certainty.

As natural channels for investment, FMIs should be a central piece of the debate to shape the policies in the EU. However, this is not just a matter of increasing industry engagement. A successful SIU definitely lies with policymakers – both at EU and national level – and although the industry is active in the debate, industry-led proposals need the political willingness of Member States to be meaningful. Neither increasing regulation nor further coordinated market development will have tangible impact if Member States do not walk in the same direction. In order to achieve real progress, national governments must actively commit to the objectives of the SIU and take joint actions to address challenges. Otherwise, the political momentum of implementing a well-functioning SIU cannot be overshadowed by shiftlessness in removing existing barriers.



KIPP KRANBUHL

Managing Director, Global
Head of Regulatory
Strategy and Policy – Citi

Completing the Savings and Investments Union: A competitive imperative for Europe

Completing the Savings and Investments Union (SIU) is crucial to ensuring that Europe remains an attractive investment destination. Mobilizing long-term savings and removing regulatory barriers, the SIU is essential for facilitating much-needed large-scale financing in strategic areas such as the green transition, digital transformation, and defense, including the recently announced ReArm Europe loan program. Citi welcomes the recently published Competitiveness Compass, setting out the Commission's plan to strengthen EU competitiveness over the next five years, based on the recommendations from Enrico Letta and Mario Draghi. Draghi's report emphasizes the urgent need for deeper capital markets and streamlined, simplified regulations to support European businesses.

European companies continue to struggle to keep pace with global competitors due to fragmented capital markets and infrastructure, and the volume and prescriptiveness of regulation. The scale of the challenge is evident: between 2018 and 2022, equity

issuance in the EU amounted to just 27% of the US level, and venture capital investment in the EU represented just 5% of global investment, compared to 52% in the US and 40% in China. To address this challenge, Europe must create an environment that allows European businesses to attract capital, innovate, and compete effectively on the global stage. To enable it to do so there are several impediments that must be addressed.

To bridge the gap and create a true SIU, Europe must optimize the capital markets landscape, addressing fragmented market infrastructure and the approach to financial services regulation. The current approach to regulation and supervision seeks to minimize risk in the system at all costs. While we welcome robust regulation and risk management, risk avoidance has costs for businesses, citizens, and the European economy. Capital markets present a key transition mechanism to finance the changes that will drive growth and productivity in Europe. The regulatory treatment of activities such as leveraged finance and securitization, however, limits the contribution that financial sector firms can make to Europe's growth.

Open access to European capital markets without undue regulatory or legal barriers will attract institutional investment into the EU and support the creation of deep and liquid markets, which will incentivize long-term retail investors to seek opportunities in Europe.

Regulatory complexity must be reduced to ensure that European businesses can access capital more efficiently. The EU has taken a significant step in this direction with its Omnibus Package, which aims to reduce the complexity of sustainability reporting requirements. Such reforms should only mark the beginning of the process. As a facilitator of cross border capital flows and investment, the volume and prescriptiveness of regulation in Europe is a material factor in how institutional and retail investors perceive the investment potential of the EU and European corporates.

The EU should focus on regulatory simplification across the financial sector as a whole to improve competitiveness and attract business. The EU suffers from excessive rulemaking, particularly in banking regulation. The Banking Package, for example, mandates a convoluted matrix of over 150 Delegated Acts, with many important decisions deferred from Level 1 to Level 2, leading to regulatory uncertainty and a significant burden for businesses. This overreliance on secondary measures should be reversed; a guiding principle for simplification

should be that Level 2 regulation does not exceed the Level 1 mandate and follows the focus on harmonization and simplification.

Additionally, the EU should capitalize on opportunities for further harmonization at both the EU and international level, such as the move to T+1 to enhance cross-border capital flows by reducing fragmentation and increasing market efficiency. Aligning settlement cycles across the EU, in sync with the UK and Switzerland, would reduce counterparty credit and liquidity risks for financial services firms, not just making the EU market more efficient, but also freeing up capital that can be redeployed to address the structural challenges set out in the Letta and Draghi reports.

Completing the SIU is crucial to ensuring that Europe remains an attractive investment destination.

Lastly the SIU would benefit from a more effective regulatory approach to the segmentation of clients for investment business. Allowing firms to consider the various ways that clients can demonstrate their sophistication and professionalism as investors would enable those investors to benefit from the full range of products and services appropriate for them, unleashing greater investment and bolstering the growth and competitiveness of Europe as a market for high net-worth investors.

Taken together, these proposals can make a significant contribution to the transformation that is needed to achieve Draghi's objective of "reigniting productivity growth and sustaining economic opportunity" in Europe.



RAINER HAUSER

Head of Group Investment
Management – Erste
Group Bank AG

Savings and investments union: Time for bold steps

If we are serious about increasing our global competitiveness and addressing the numerous challenges, we will also need to find the right financing solutions. A strong European capital market that channels savings and investments in to our economy will be the most important cornerstone in this endeavor.

Unfortunately, the CMU has never fully taken off. The EU capital market remains fragmented, and the share of EU companies in global market capitalization keeps declining.

Figures (2023) also show that EUR 11627 bn are held in deposits and cash by EU households, accounting for 31% of total household financial assets. In comparison, in the US, households hold a similar sum of EUR 12180 bn, but this only accounts for 12% their financial assets.

The SIU is a new opportunity. It needs to be more than just a new name for the same project with limited ambitions and willingness. The SIU must build on the current, renewed political momentum and also make substantial progress on difficult and controversial topics. The focus must be on bold steps rather than minor levers.

To render the SIU successful, both new regulations and more coordinated

market development are needed. Swift harmonization across the EU, minimizing national discretion and room for diverging interpretations, and prioritizing the interests of the EU as a whole, including all its citizens and companies, must define the agenda.

In areas where harmonization is not feasible, regionally coordinated approaches could be an intermediate step to drive the SIU forward. However, in the longer run, we need to overcome this situation. Building a fully developed SIU will only be possible if we develop uniform policies for the entire EU.

A first and effective game changer to tackle is taxation, but unanimity requirements pose a major obstacle. Member States should thus reach an agreement on a common vision regarding taxation and a pathway leading to harmonization, particularly regarding capital gains, dividends, and interest receipts.

To increase retail investor participation in the capital market, more incentives are needed. We should create a framework for a special, markets-focused bank account that grants tax exemptions on longer-term investments to make it an attractive savings alternative.

A second key topic are pensions. Due to demographic trends, current pay-go pension systems are increasingly becoming unsustainable. It is essential to draw up long-term plans and transform these systems into capital-based systems, which could form the basis of a gradual, full-scale, unified EU pension system in the future.

The potential of the SIU is huge – let's make use of it!

Another project for the SIU to modernize and Europeanize pensions is to revise the PEPP, which has great potential to pool pension savings productively for the EU economy. The PEPP needs to be simplified and made more attractive for both citizens and corporates considering offering it.

Diversifying corporate funding sources is also crucial. European companies heavily rely on bank lending, and we need to offer them ways to prepare and structure for further growth via tapping the capital market.

First, we should set up a program to prepare the owners of selected SMEs

for market finance, using international best practices as inspiration. Second, we need to increase transparency and access to venture capital and private equity investment vehicles. Greater market depth and liquidity reduce funding costs and encourage investment in innovation and expansion.

Finally, EU decision-makers need to think about the right way to proceed with the Retail Investment Strategy. The objectives are clear and fully shared among all stakeholders: encourage participation in EU capital markets, empower retail investors, enhance their trust and confidence, and boost Europe's capital markets. These aspects are now all the more important, as the current bull market tends to drive new retail investors into short term-oriented trading, rather than long-term oriented investing, with some market participants even amplify this trend. If we do not want to risk losing these investors once the market sentiment turns, a sound regulatory ruleset supported by much more financial literacy is necessary.

However, the current framework appears complex and burdensome for both retail investors and financial institutions. This direction needs correction through the trilogues, or the Commission withdrawing the current proposal – in the spirit of simplifications and cutting red tape – and presenting another one within the new SIU framework.

The potential of the SIU is huge, as was the potential of the CMU. It's on us to make the SIU more successful than its predecessor, without losing time.

We thank the partner institutions
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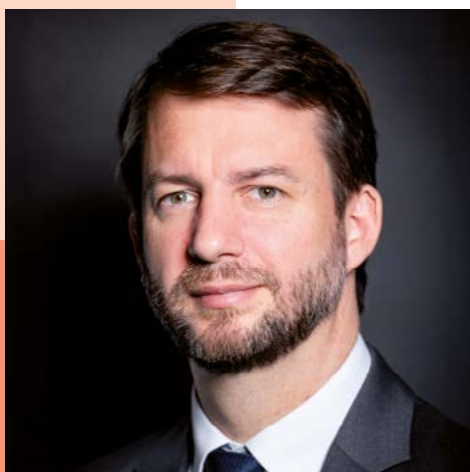
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FRAGMENTATION IN EU CAPITAL MARKETS



CHRISTOPHE BORIES

Assistant Secretary for Financial Regulation – Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France

Building an integrated framework for Europe's capital markets

Reducing fragmentation in European capital markets is a core prerequisite to complete a true Savings and Investments Union. Addressing the structural capital market fragmentation between Member States and removing the related barriers is critical to make sure that progress made on other drivers (like increasing retail investment, reviving securitisation) will deliver their full potential.

The first and perhaps most obvious barrier is the lack of unified, simplified access to capital market financing. Unlike the US, which benefits from a single market with a single rulebook and post-markets infrastructures (Central Securities Depository), Europe's 27 national markets remain largely disconnected. While preserving local access points is essential to support

smaller issuers, our markets need to go even further in harmonising listing rules – a lot has already been done with the listing act – and fostered interoperability between infrastructures, to ensure capital can circulate efficiently across borders.

The second main hindrance we face due to fragmentation is a loss of competitiveness for European financial players, who operate within fragmented regulatory environments and may face duplicative or inconsistent requirements across jurisdictions, translating into higher compliance costs, and operational barriers to scaling activities across the Single Market, notably for fund distribution activities. Fragmentation makes it harder for European financial institutions to reach a critical size and create sufficient synergies, resulting in a weaker competitive position of and a structural disadvantage compared to competitors operating in larger and more unified markets.

Third, reducing fragmentation can help preserve financial stability. This scattered oversight restrains the development of a consistent and coordinated approach to risk management across the EU's capital markets. Unlike the banking sector, where the Single Supervisory Mechanism ensures harmonised prudential supervision and a common understanding of systemic risks, capital markets remain under the fragmented authority of national supervisors, limiting the EU's ability to anticipate and manage cross-border risks and undermining the resilience of the European financial system as a whole.

In order to overcome these barriers and unlock the full funding potential of a truly integrated European capital market, priority should be given to addressing fragmentation in areas with the highest systemic importance and the most significant cross-border activity, where regulatory and operational barriers come with the highest costs.

Our most actionable deliverable remains the integration of supervision, which must be placed at the top of the SIU agenda. A first step would be to bring the most systemically important and cross-border market infrastructures under direct ESMA supervision – CCPs, CSDs and market infrastructures exceeding defined activity thresholds. A similar logic applies to Crypto-Asset Service Providers, whose pan-European

operations generate regulatory arbitrage risks under fragmented national oversight. Beyond infrastructures, we need greater integration for all European players, with potential direct supervision for pan-European asset managers, and at least enhanced collegial mechanisms led by ESMA for others. It is only through such breakthrough, associated with a gradual ESMA governance reform, that we will make progress towards a truly unified and competitive capital market.

In a second stage, reducing the structural fragmentation of Europe's post-market environment will be critical, as the coexistence of 28 national CSDs results in higher transaction and custody costs for investors, with the average cost of settlement in Europe being two to four times higher than in the US, directly undermining the competitiveness of European markets. To break this deadlock, Europe must gradually refocus Target-2 Securities (T2S), which was meant to facilitate cross-border settlement, on its original integration objective and explore its potential extension to CSD functions, which will be critical to reducing the friction and costs that continue to weigh on cross-border investment flows.

Our most actionable deliverable remains the integration of supervision.

Those reforms, designed to directly curb fragmentation, will require a stronger convergence in legal frameworks. Harmonising insolvency law will allow improving creditor recovery prospects through clearer, single rules on creditor ranking, which will be instrumental in reviving securitisation by providing investors with more predictable treatment in the event of company defaults. At the same time, aligning securities law across member states will be crucial to reducing the high operational costs in both market and post-market environments. Addressing those procedural inconsistencies will help driving up capital flows, enhancing investment capacity, and reinforcing general trust in European markets, supporting the broader ambition of a fully-fledged Savings and Investments Union.



JULIAN REISCHLE

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CMU: building on a solid foundation to enable new technologies in post-trading

In the public debate about fragmentation in the European post-trading market, the figure of 25 different central securities depositories (CSDs) in the European Union often features prominently. This number, though highly suggestive, overlooks the fact that two pan-European company groups hold well over 80% of all assets under custody and are responsible for almost 90% of all CSD settlement activity. All in all, national CSDs and two international CSDs provide efficient services to investors in the EU and beyond.

The fragmentation that we still see in EU capital markets is mainly due to differences in national legislation with regard to securities, tax and insolvency law. While harmonisation here is still lagging behind, various measures have been initiated in recent decades to remove technical hurdles to cross-border European securities settlement. In particular, the TARGET2-Securities settlement platform operated by the Eurosystem since 2015 has helped a great deal in this regard. The launch of

the Eurosystem Collateral Management System (ECMS) in June this year will also advance market standardisation and integration. Supervisory colleges for the supervision of large cross-border corporate groups, including CSDs, are also a useful step.

It is conceivable that the long custody chains that currently exist between issuers and investors, which can include local and global custodian banks and central securities depositories in particular, could be significantly shortened in technical terms through tokenisation. In addition, smart contracts could be used to carry out capital services (such as dividend distributions) more efficiently. By using distributed ledger technology (DLT), both investors and issuers could use a common data repository (single source of truth), which should significantly reduce the need for reconciliation in general and the error rate that occurs during reconciliation. The use of DLT makes atomic settlement possible in principle, i.e. the immediate and simultaneous (final) settlement of both parts of a fully digital securities transaction using a smart contract.

That being said, to foster the CMU, the immediate focus should be on how existing private and public financial infrastructures can be leveraged to facilitate innovative new technologies in the EU post-trading market. In the longer-term, the build-up of a new financial infrastructure could be advisable. Consequently, the Eurosystem is clustering its work on the use of new technologies for the issuance, trading and settlement of financial instruments, the promotion of tokenisation and the concept of a European single ledger into two different tracks: a short-term track and a long-term track.

**Leverage existing
financial infrastructures
to facilitate innovation
in EU post-trading.**

In 2024, the Eurosystem explored various ways of settling tokenised securities in central bank money. Over a period of six months, it tested three interoperability solutions that combine DLT with the Eurosystem's conventional payment transactions. More than 60 financial institutions were involved in these experiments and trials in real central bank money. Going forward, the Eurosystem has decided to quickly develop a short-term solution which is interoperable

with existing infrastructures, and in parallel, to look into a more long-term integrated solution.

The EU DLT Pilot Regime introduced in 2023 is another crucial building block for enabling novel technologies in trading and post-trading to grow. The Pilot Regime provides a regulatory sandbox for trading and settlement of transactions in tokenised assets that qualify as financial instruments. What is needed, however, is to discuss realistic ways to transform this sandbox regime into a permanent one that is going to enable market participants in the EU to fully realise the benefits of tokenisation.

Digitalisation thus offers new opportunities to strengthen the efficiency of the European financial markets – including the post-trading system – and to overcome national financial market boundaries. The potential here is far from exhausted. To foster the development and adoption of promising new technologies in securities markets, such as tokenisation, it is crucial that policymakers, regulators, central banks, and the financial industry cooperate closely. The harmonisation of different national securities, tax and insolvency laws is the necessary but lengthy and laborious work that will reduce fragmentation in EU post-trading significantly in the long term. In the meantime, we should focus on leveraging existing financial infrastructures to facilitate innovative technologies in EU post-trading.



STEPHEN BERGER

Managing Director, Global
Head of Government &
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Secrets to the SIU's success: Unification, consolidation, and integration

The Savings and Investments Union represents a generational opportunity to unlock the true and full potential of EU capital markets. Its success is dependent on addressing fragmentation through (i) unifying the transparency framework, (ii) consolidating post-trade infrastructure, and (iii) integrating the trading venue landscape. These initiatives will deepen and strengthen capital markets, make the EU a more attractive investment destination for both domestic and international investors, and enhance and optimize the allocation of capital to the real economy.

Unifying the transparency framework

A unified and harmonized framework for pre- and post-trade transparency is a critical first step towards addressing fragmentation in EU capital markets. Fortunately, the EU has already embarked on this journey, with consolidated tapes expected to be authorized by ESMA in 2025 for bonds and in 2026 for equities. These tapes – together with necessary reforms to the deferral framework to increase the quality and timeliness of post-trade data, particularly in the bond and derivatives markets – will for the

first time provide a truly unified and holistic view of trading activity in the EU. First-hand market experience and a wide body of in-depth empirical research illustrate that such improvements in transparency enhance market quality, deepen liquidity, improve outcomes for investors, increase competition and make markets more resilient.

Consolidating post-trade infrastructure

Further consolidation and rationalization of post-trade infrastructure will enhance market efficiency through economies of scale, operational simplicity, and lower overhead costs. As the Draghi Report observed, *“in Europe there are more than 20 CCPs and CSDs for equities alone, and different platforms use the services of different CCPs or CSDs. As a result, cross-border transactions are more complex and costlier than domestic transactions, hindering multimarket trading”*. Of course, as the Letta Report also importantly notes, this must be done in a manner that ensures *“fair and open access for all actors, proper governance and sufficient incentives for innovation.”* Consolidation does not mean there is a one-size fits all solution – rather, the post-trade landscape should be optimized for each asset class. In the US, for example, there is a single CCP for each of equities and options, two new CCP entrants primed to bring greater choice and competition to the US Treasuries market, and two CCPs serving the interest rate swap market.

Success depends on addressing fragmentation in trading, clearing, settlement and transparency.

Integrating the trading venue landscape

Integrating the trading venue landscape is a third critical step toward addressing fragmentation. Markets participants welcome choice and competition among trading venues, so the presence of multiple exchanges and MTFs in and of itself is not a negative. However, as ESMA correctly observed *“...despite the acquisition of national stock exchanges by EU wide groups in recent years, this has not led to a unification of the operated stock exchanges. Exchanges continue to operate at the national level and without a cross-border order book, leading to a continued fragmentation of liquidity.”*

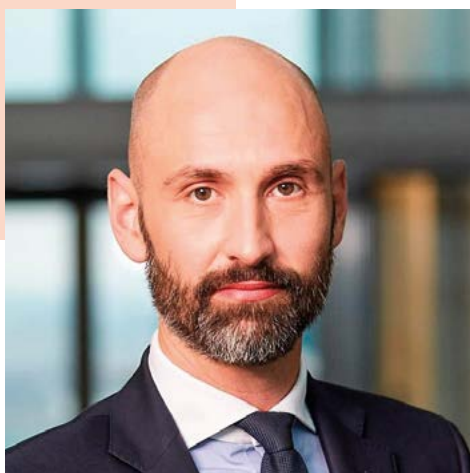
Indeed, EU exchanges do not compete with each other, neither for primary

listings (where the only real competition is between a national exchange and non-EU exchanges) nor for secondary trading (where the only real competition is between a national exchange and pan-European MTFs and SIs). This fragments liquidity, deprives the EU markets of the benefits of choice and competition, impairs market resiliency during exchange outages, and forestalls any true consolidation or rationalization among exchanges.

By contrast, in the US, while there are over 15 equity exchanges and 30 alternative trading systems, (i) there are two primary listing exchanges that compete vigorously with each other for listings, and (ii) irrespective of the listing exchange, shares can and do trade on any and all of the different exchanges and ATSs. This arrangement represents true choice and competition among trading venues and enhances market resiliency, as the high degree of substitutability means that an outage at any one venue does not impact overall trading.

Coordinating with the UK

Continued alignment and coordination between the EU and UK markets remains essential. We welcome the EU's new “competitiveness” mandate, but it is not zero sum game – the EU and UK markets can and should bolster each other. Market participants' ability to efficiently navigate European markets increases their willingness to commit capital to the region as a whole. The recent announcements that the EU and UK will both shorten their settlement cycles to T+1 in October 2027 is a positive step in this regard. The upcoming tender process for CTPs in the bond market provides another opportunity. Notwithstanding variations in the transparency framework between the EU and UK, the same CTP could effectively consolidate and distribute data across both markets.



NIELS BRAB

Chief of Staff/Head of
Group Corporate and
Regulatory Strategy –
Deutsche Börse Group

Together we can be strong: Reducing fragmentation to unleash the SIU potential

By transforming the Capital Markets Union into a Savings and Investments Union (SIU), the EU is currently preparing major changes to boost growth, competitiveness and attractiveness. Against the background of profound changes in geopolitical realities, enormous challenges around economic growth and huge financing needs, time has come to fundamentally reshape the EU's policy-approach and strategy.

Reducing the high level of fragmentation across the EU's capital markets remains a key ingredient to fully unleash the potential of the single market. In that context it is a welcome development to observe an increasing recognition around the need to support market-driven consolidation and a broader reflection as to how existing single market barriers can be tackled.

Part of the exercise also concerns the EU's M&A rules, where the intended review of the existing framework can make a significant positive contribution in order to allow for more scale and to support the development of

EU champions by boosting global competitiveness. This does not only include a reflection around the definition of the most relevant market at product and geographical level. But it should also come with additional work around efficiency defenses and a true level playing field with other key jurisdictions.

However, the EU should simultaneously continue to address various single market barriers to ensure that cross-border business realities are being enhanced with an improved competitive operating landscape for products and services that remains conducive to growth. First steps have been taken, such as the FASTER initiative streamlining processes of withholding taxes. But we need to go much further.

Especially the EU's post-trade environment would benefit from a reduction of existing national legal barriers impeding the provision of effective cross-border services. An optional and voluntary 28th regime would support, ideally combining elements of securities, insolvency and corporate law – starting for example in the field of digital emission of securities. Other crucial levers include a review of settlement internalization realities and a general leveraging of the ECB's Target2Securities.

Yet, we should also remain ambitious on the trading landscape where the MiFID framework has contributed to fragmentation realities, diverting liquidity from lit regulated markets to dark-trading and off-exchange venues, thereby not only reducing transparency and negatively impacting price formation – but also coming with profound implications for the ecosystem around primary markets and the EU's

The EU has a solid ground to build on and a history of delivering key reforms in challenging times.

attractiveness as a business location.

With over 500 trading and execution venues across all asset classes and more than 200 in equities alone, the EU's trading market structure is the most fragmented among developed countries. The proliferation of alternative execution venues, predominantly SIs and dark pools but including persistent OTC practices, paired with overly complex waiver, transparency and

deferral regimes, require a profound policy reflection on how the EU's future market structure can truly support the political objectives of deeper liquidity pools, growth, global competitiveness and a strategic autonomy.

Finally, we should not forget that a successful SIU will not only depend on an enhanced reality concerning the fragmentation topic, but also on the EU's general ability to deepen liquidity pools by mobilizing and transforming private savings into productive investments. Currently, over €33 trillion of European savings are held in currency and deposits across the EU – a huge untapped resource for the SIU.

All EU citizens should have the opportunity to invest via an EU savings and investments account that is paired with fiscal incentives. In addition, the EU's pension funds and institutional investors should increase their equity and risk capital investments, where it is a positive signal that key frameworks, such as Solvency II or IORP, are being looked at. And: We need to continue the journey on the famous PEPP to guarantee a meaningful transformation towards a capital markets oriented set-up (e.g. "EU 401k").

A visionary approach is essential – but pragmatism is needed in light of global dynamics. Therefore, we should learn from successful case studies in Member States and build on them when designing the future of the EU. Sweden, for example, has developed a strong retail investment culture through financial literacy programs, government tax incentivized and well-developed savings and investment vehicles – leading to outstanding results.

Examples like these underpin why we should be bullish: The EU has a solid ground to build on and a history of delivering key reforms in challenging times. Let's cut the noise and get it done!



FRANCESCO CECCATO

Chief Executive Officer –
Barclays Europe

We can build it, but will they come?

It has been ten years since the announcement of the CMU project and yet progress has been underwhelming.

Commentators tend to bemoan the continuing fragmentation of the EU capital markets, but our view is that this should not necessarily be the primary concern. We can develop a consolidated market, but we would still be missing the capital, which is, de facto, what feeds the market.

Some fear that the European Union will be bereft of high-growth companies where they choose the United States as a listing location and ultimately export themselves there. This fear is overly simplistic: investors are drawn to growth stories and seek to benefit from them. What is critical is that they have the ability to invest local savings into successful companies.

The EU has already proven how this can work. Sweden alone is estimated to have contributed far more to the overall growth of EU capital markets in the last decade than would be expected given its small EU GDP share. Sweden and other EU countries have also unleashed a huge amount of investment potential by mobilising retirement savings. However, these countries tend to be the exception and not the rule. Challenging current retirement provisions and

levels of retirement savings may lead to uncomfortable conversations, but the benefits in terms of increased investment capacity and more secure retirements mean they are worth taking on.

Each country has different needs, but all require a single-minded focus on harnessing private savings as a capital base for European industry and its need to innovate.

In Spain, an experimental proposal for capital markets-oriented improvements under the “EU Competitiveness Lab” programme has garnered support from several other EU countries. The initiative would see these EU countries implement new innovative projects in a controlled fashion, fostering European competitiveness while opening up the door for the Commission to extend projects to the rest of the EU, if tested successfully. An example of this is Youth Savings and Investment accounts, to bring young Europeans closer to the capital markets.

It is only by testing new things that we will get new results. The political courage to join such attempts is what is truly required at this juncture, and to accept that a certain amount of “testing and learning” is far more valuable than grand pronouncements.

This political direction needs to be firmly implanted in every level of EU policy making. The need for simpler regulation via the Omnibuses proposed by the Commission must be prioritised by the co-legislators, to ensure that they are in effect quickly and are supported by simplified level 2 rules, guidance and on into supervisory practices in national competent authorities. Courage is needed here too: too much protesting that “simplification doesn’t mean deregulation” entails the risk that elements which have proved to be of no value simply survive in a watered down version, rather than being eliminated.

**We can develop a
consolidated market but
what we really need to
work on is the capital
to feed the market.**

If we effectively address these issues, it may follow that fragmentation reduces, but that itself does not need to be the primary aim. Calling on individual and institutional investors to invest more in European capital markets will only be effective if they can do so with ease and

at competitive cost. There will be little appetite to invest in European markets if investors believe that material time and cost will be spent on interacting with an inefficient system.

While the EU has recently taken positive steps towards the introduction of a consolidated tape for bonds and equities, which will soon further enhance price transparency across EU markets, a complex and costly post-trade landscape remains in place that embeds major costs and inefficiencies. It may be that we, as players in the market, are most aware of these costs and inefficiencies – but it is the end investor that ultimately pays them by the resulting lower returns.

‘Top-down’ efforts at the EU level to harmonise regulation and integrate the post-trade environment can help address these legal barriers. Technological advancement and the move to T+1 provides further opportunity to reimagine how post-trade works in the EU.

However, for our capital markets to flourish, it is really the ‘bottom-up’ reforms at member state level that will have the biggest impact. Investment is a choice, and many of the levers determining whether that choice is made remain at a national level – pension system design, taxation, education systems. Targeted changes in these areas, perhaps pursued jointly with fellow countries and subsequently endorsed by the European Commission, have the potential to encourage greater equity ownership by EU populations and stimulate the development of promising companies and industries. The Draghi entreaty to “do something” needs to start here: instead of waiting for Europe to provide the answer, taking action at the Member State level to do more to channel savings into investment must become a core pursuit of our region’s governments.



NICK DUTTON

Chief Regulatory Officer –
Cboe Europe

Reducing barriers by building integrated, efficient, and competitive markets

European markets have made great strides in recent decades to increase competition and lower costs for investors. MiFID/R brought competition to equities trading and clearing, and EMIR further developed open access and interoperability for CCPs. These efforts have lowered costs, materially improved netting, and reduced cross-border barriers. Today, a market participant can access all of Europe by connecting to a single pan-European equities exchange or clearinghouse in a way that was inconceivable 20 years ago. As we explore ways to integrate our markets further, we must not let concerns around fragmentation reverse decades of progress to lower barriers and integrate our markets. The pan-European competitive model will deliver even more benefits for Europe if we fully embrace it by removing those barriers that remain.

How do we remove barriers? **By embracing competition, innovation, and user choice.** This fundamental principle is essential to advancing integration and efficiency. Uncompetitive vertical silos are barriers to integration and choice, perpetuating fragmentation of liquidity and capital. Competition, innovation, and customer choice drive integration

and efficiency by reducing suboptimal, high-cost services. We must avoid policies disguised as ‘fragmentation reduction’ that maintain uncompetitive silos, reduce choice, and sever Pan-European networks. To build an SIU that improves outcomes, we must prioritise supporting an ecosystem that fosters competition through openness and interoperability.

How can policymakers support financial market infrastructures to drive integration and efficiency? **By supporting exchange innovation, expanding interoperability in equities clearing, and removing barriers to open access for clearing of equity options.** Embracing exchange innovation is vital as it ensures individual exchanges succeed only as a result of improving markets and solving clients’ problems rather than as a result of national bias or inertia. With respect to equities clearing, interoperability has driven substantial operational and capital efficiencies through risk-netting and settlement compression. We must extend interoperability in equities clearing to all European cash equities markets, including by mandating large exchanges adopt full interoperability.

Fundamentally, interoperability means a market participant can choose to connect to a single clearinghouse, providing optimal choice and efficiency at the same time. This is the destination we should pursue across markets, but we will not get there through forced consolidation or constrained choice. We will get there through multiple exchanges, clearinghouses and other providers innovating, investing and competing vigorously to solve problems for clients and investors while supporting fully interoperable links that enable market participants to truly choose the provider that solves their needs.

**The SIU will succeed
if we empower
investors, support
innovation and expand
interoperable links.**

MiFIR’s open access requirements have driven competition and integration in equities clearing, and similar efforts should be made for equity options. While the current cash equities interoperability model may not be the solution for equity options clearing in the same way as it was for equities, we must be open to commercial solutions in clearing that can drive further integration. Policymakers can support

this effort by supporting mechanisms that achieve open access in equity options clearing.

How can we grow the pie? **By funding our companies and delivering for retail investors.** Ensuring public markets are attractive to new and innovative companies is vital to ensure those companies can easily access capital in their early-stage growth periods. Listings and prospectus rules are an important area of focus, but we must build and support our companies at every stage. The startup and scale-up strategy will be critical, but the pre-IPO strategy will not succeed if we don’t also have robust, dynamic and deeply liquid public markets. In order to support the growth of public markets we must foster a culture that supports and encourages retail investors.

Turning savers into investors will yield substantial dividends, including greater funding for companies, increased liquidity, and higher valuations. Near-term, the Retail Investment Strategy must be consistent with the overall objective to attract retail. Longer term, a pan-European investment account with preferential tax treatment will certainly incentivise contributions, but tax incentives alone are not sufficient. A successful SIU means billions of euros in additional risk capital invested in the market. We must ensure investors have access to available tools to manage this risk. SIU accounts must allow for transparent exchange-traded options and futures to enable equity portfolio risks to be appropriately managed.

We must also consider whether additional market structure changes are necessary to support the future growth of retail. In the US, almost all retail equities trading occurs off-exchange – an unhealthy dynamic caused by a lack of a level playing field between exchanges and off-exchange platforms, which weakens price formation. To benefit investors, this should be avoided in the EU, and it may be necessary to encourage retail orders to be traded on exchange.

SECURITISATION IN EUROPE



ALEXANDRA JOUR- SCHROEDER

Deputy Director-General, DG
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Union - European Commission

Enhancing the EU Securitisation Framework, paving the way for growth

With future investment needs projected to grow, achieving an optimal allocation of capital is ever-more urgent to enhance the EU's productivity, competitiveness and resilience. A sound and successful EU securitisation market has an important role to play in funding EU strategic priorities and stimulating innovation. Securitisation also allows banks to transfer risk outside of the banking system, thus fostering greater risk diversification within the financial system. However, it is an underexploited tool in Europe. Relaunching this market is consistently identified as a key action by industry, Member States, in the Draghi Report and Competitiveness Compass.

The 2008 financial crisis exposed the risks of complex, opaque securitisation

instruments, and the current Framework was introduced in response: to tackle these risks, increase financial stability and rebuild investor trust. We have achieved these objectives. Nowadays, the framework governing EU securitisations has made the market safer, more transparent, and less stigmatised. The credit performance of European securitisations is comparable to those of similarly-rated European corporate or global sovereign bonds. Default rates of EU securitisations are significantly lower than those of US securitisations, and very few senior tranches have suffered loss.

We recently concluded a targeted market consultation, in which we sought stakeholders' views and experience on the functioning and future of the Securitisation Framework. We received detailed feedback from 133 responses, and these are informing our reflections on the way forward. Overall, the consensus is that the current Framework is too complex and generates high regulatory costs. In particular, market participants report unnecessary burden, onerous due diligence and disclosure requirements, and punitive capital treatment.

**Potential targeted
legislative changes
will focus on the main
barriers to securitisation
issuance and investment.**

Overall, the consultation has revealed strong demand for more securitisation activity from EU market participants, but also the need for more simplification and proportionality. There is a real opportunity to further deepen EU capital markets and to enable capital market investors to indirectly finance the EU economy. In the absence of EU action, issuance and investment barriers will continue to inhibit the development of a vibrant EU securitisation market.

So, we are listening, and we are working towards solutions. The purpose of the review is to better enable financial institutions across the Union to increase their use of high-quality securitisation by making the Framework less burdensome, more principles-based, more proportional and more

risk-sensitive, while continuing to safeguard financial stability. Potential targeted legislative changes will focus on the main barriers to securitisation issuance and investment, such as certain transparency, due diligence, and prudential requirements for banks and insurance companies.

However, a revitalised EU securitisation market cannot be achieved by regulation alone. We are counting on industry to work proactively towards a more vibrant and dynamic European securitisation ecosystem. For example, there are plenty of ideas concerning a possible future European or national-level securitisation platform(s). Any such initiative requires careful reflection and collaboration between industry and regulators. We are counting on private sector buy-in going forward as we look to explore new and innovative methods towards strengthening our securitisation market. The review of the EU securitisation framework will be an important step in deepening EU capital markets, freeing up additional lending to EU households and businesses, and building our Savings and Investments Union.



CHRISTIAN NOYER

Honorary Governor,
Banque de France

Revitalizing securitization is a strategic necessity for the EU

The European Council, the Eurogroup, and the ECB have all acknowledged the urgency of relaunching the securitization market. The upcoming European Commission mandate represents a unique opportunity to implement the necessary regulatory adjustments in 2025.

The EU securitization market remains significantly underdeveloped compared to jurisdictions such as the United States and the United Kingdom, where it has rebounded strongly post-crisis. At its peak in 2008, the European securitization market stood at EUR 2 trillion; by the end of 2023, it had shrunk to EUR 1.2 trillion, while the US market grew from USD 11.3 trillion to USD 13.7 trillion over the same period.

This stagnation should not be taken for granted. It stems directly from a persistent excess in prudential charges and disproportionate compliance requirements that were imposed due to the stigma attached to the securitization market post-2008. These disproportionate requirements continue to hinder the market's growth, preventing it from unlocking its full potential in helping to finance Europe's investment priorities, including the green and digital transitions.

Prudential constraints—translating into capital requirements for banks and insurers—remain the biggest obstacle to market development, and need to be more proportionate and better aligned with the true underlying risk of the securitized assets. For instance, an AA-rated non-STS securitization currently faces a capital charge 11 times higher than a senior STS product with the same rating under Solvency II. These undue requirements put European institutions at a competitive disadvantage and have to be adjusted to enhance investor participation and liquidity.

Regarding banks, the p-factor, which drives the level of overcapitalization on securitized assets, relative to their underlying portfolio, remains inadequately high in Europe, thus penalizing originators: in this respect, it is suggested halving the p-factor in the standard model and lowering the minimum of 0.1 for internal models. The current framework also imposes risk-weight floors on senior tranches that are inconsistent with empirical default rates: they need to be recalibrated to make them more sensitive to the true underlying risk drivers. This should come with a revision of the eligibility of securitized assets in liquidity buffers, given that the current framework underestimates the liquidity of both STS and non-STS securitizations. A pragmatic recalibration, coupled with more sensible haircut levels and a more granular treatment of non-AAA tranches, would foster greater market activity.

Revitalizing securitization is not just a technical fix—it is a strategic necessity for the EU.

Excessive reporting obligations are also significant hinderances to market participation. Up to 50% of the fields required under ESMA's disclosure templates provide no material benefit to investors or supervisors. The EU must streamline these requirements by adopting a principles-based approach, ensuring that reporting obligations focus on material risks rather than unnecessary details.

Those regulatory and prudential adjustments should be conducted while protecting the strong post-2008 safeguards—the ban on re-securitization, the mandatory risk retention, and the supervision of credit rating agencies by ESMA—which must remain intact to ensure market integrity.

However, these safeguards justify scrapping the regulatory penalizations that came in the immediate aftermath of the great financial crisis, as Japan has already done. The EU must recognize that it can support securitization growth while maintaining financial stability.

Aside from this regulatory groundwork, another fundamental step towards revitalising European securitization is the creation of a European securitization platform. Inspired by the functioning of other examples, in the US, Japan and Canada, and inside the EU Italy or Germany, such a platform could play a role in standardising issuance processes, enhancing transparency, and significantly reducing costs for issuers and investors. The platform could also be instrumental in scaling up SME loan securitization, which faces difficulties given their lack of standardization and the restrictive eligibility criteria in STS. Moreover, this platform could help enhancing green securitization, which remains a niche market in Europe despite its potential.

Crucially, this platform could benefit from a public guarantee on senior low-risk tranches, which would increase investor confidence and help mobilizing private capital.

Revitalizing securitization is not just a technical fix—it is a strategic necessity for the EU. Without urgent reform, European businesses will continue to face financing constraints while global competitors leverage well-functioning capital markets. The assertive market response to the Commission's consultation last December leads the way to an ambitious legislative proposal this semester, notably including recalibrations in capital requirements for both banks and insurers. The time for action is now.



PETRA HIELKEMA

Chairperson – European
Insurance and Occupational
Pensions Authority (EIOPA)

Securitisation – Those who forget the past are doomed to repeat it

Initiatives to further develop capital markets in the EU are high on the agenda. A single market for capital would increase investments and savings across borders, benefiting consumers, companies, and investors irrespective of their location. Integrated capital markets across EU Member States would unlock capital by diversifying funding sources beyond traditional banking.

As part of this initiatives, renewed interest has emerged in securitisation as a means to stimulate capital flows, enhance private risk-sharing across the financial system, and release funding for the real economy. In October, the European Commission initiated a review of the regulatory framework for securitisations to revive the securitisation market. Insurers are often seen as key actors who could increase their investment in this asset class.

While some argue that lower capital charges might incentivise insurers – one of Europe's largest institutional investors – to invest more in securitisation products, EIOPA believes this is not the full story. And this is also the position of the Joint Committee of the European

Supervisory Authorities, which analysed capital requirements and their impact on insurers' investment behaviour. The findings show that the current capital requirements align with the risks of securitisation investment and capital requirements are indeed not the primary obstacle holding back investments.

A key issue is that securitisation products often do not align well with insurers' long-term liabilities. Life insurers, for instance, require assets that provide predictable long-term cash flows. However, securitised products are often structured in ways that make them less suitable, creating a mismatch that complicates asset-liability management.

Furthermore, insurers often perceive securitisation as less attractive compared to other asset classes due to its risk-return profile. Its complexity further serves as deterrent. Unlike simpler fixed-income products, securitisation requires specialised expertise, increasing management costs and perceived risks – especially for insurers lacking in-house expertise.

Finally, any change to the regulatory framework to reduce the capital charge for investment in securitisation would affect only some insurers, namely those using the standard formula to calculate their capital requirements. Since large insurers – who are the most significant players in the market – use internal models, changes to the standard formula are unlikely to have an impact on their investment behaviour.

The debate is shifting from capital requirements to the requirements of the Securitisation Regulation. Here, it is essential that we keep the lessons of the Great Financial Crisis (GFC) in mind and maintain strict standards on transparency, due diligence and risk retention, though adjustments to make them more proportionate could be explored.

**The review of the
securitisation framework
should also adopt a
prudential perspective.**

EIOPA has reservations about unfunded credit protection by insurers for synthetic securitisation, i.e. where banks obtain unfunded guarantees from insurers, while keeping the credit portfolios on their balance sheet. Compared to funded protection, unfunded protection increases the counterparty default risk, may increase the systemic risk and

could be detrimental to policyholder protection. Monoline insurers extended their business to unfunded guarantees for securitisation in the years before the GFC. When the value of the securitisation deteriorated, monoline insurers incurred heavy losses. This eventually resulted in the failure of most monoline insurers, which significantly aggravated the crisis.

Another lesson from the GFC is that the misalignment of interests between the originator and the investor in securitisations needs to be avoided because it may result in poor risk management of the credit portfolios. Therefore, originators should retain a portion of the risk that ensures an appropriate alignment of interest between originator and investor. Investors should be able to assess whether the 5% risk retention ensures a proper alignment of interests and where that is not the case, agree on higher risk retention that would ensure that alignment of interests.

Finally, it is important to understand that a full comparison with the US securitisation market is not possible. While the US market is large, it is important to recognise that approximately 80% of the securitisations are bought by state-funded platforms like Freddie Mac and Fannie Mae. Moreover, the aim of this securitisation market is to stimulate home ownership, not a capital markets union via the banking channel.



KILVAR KESSLER

Chairman of the Management Board – Estonian Financial Supervision Authority (Finantsinspektsioon)

Risk sensitive duties lower the cost of securitisation

Securitisation enables owner of certain assets to refinance these assets by converting them into securities and selling the latter. It is a good tool for diversifying funding, freeing up lenders to allocate new loans to the economy. Securitisation leads to a wider distribution of risk across the economy.

The first securitisations were made in the US in the 1970s, and Europeans followed in the late 80s. Securitisation came onto the radar in Estonia, with its newly established market economy and private financial system, at the beginning of this century. Fast forwarding to the current day in the European Union shows we have pretty comprehensive, detailed and harmonised regulation of securitisation, a securitisation market that lags its peers, and a goal of gearing up capital markets to boost European economic activity.

The EU Securitisation Regulation (SECR) of 2019 was designed to promote a transparent, efficient, and resilient securitisation market. Some other EU legal acts stipulated prudential requirements for securitisation, and together these legal provisions reflected not only the overall risk appetite and risk allocation of that time, but also the experience of the financial crisis and

the wish that such a crisis should never happen again. This created some undue constraints on securitisations.

A party planning to optimise their asset-liability structure might also consider securitisation of their assets. They could analyse whether doing so would lead to higher returns, increased liquidity or any other desired outcome. The prudential treatment of the assets before and after the event would play a crucial role and any potential investor would carry out a similar analysis. The Baltic credit portfolio leans on real estate lending and some banks use internal models, but the current prudential requirements somewhat disincentivise securitisation, at least for certain types of asset classes, originators, and investors.

One-off and recurring transaction costs are also relevant. The smaller the asset pool and the expected returns, the more of a burden the transaction costs are. As the Baltic banks and other possible parties to securitisation are on the smaller side, I would like to discuss some transaction issues, specifically due diligence and transparency, in more detail.

The SECR sets forth quite detailed and rigid requirements for due diligence and internal risk management. The reasoning for regulation stated that it was merely codifying the existing due diligence rules from a number of other EU legal acts.

Risk sensitive diligence and disclosure rules maintain confidence in securitisation and lower the cost.

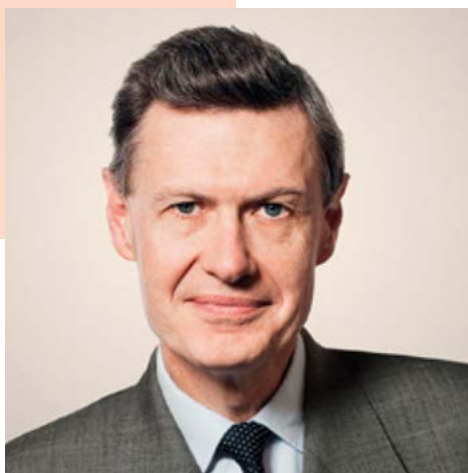
In principle, more information leads to “more correct” pricing. Correct internal risk management would support the activities of a financial intermediary. This applies across the securities markets and the whole financial sector, not only in securitisation. A majority of other financial instruments, including ones that are complex and risky by nature, are not subject to granular due diligence rules under public law. Professional financial intermediaries would determine the scope and depth of the due diligence they should be doing to assess risk so that it is proportionate to the level and nature of the risk, including when they participate in the secondary market. By the same token, those intermediaries should have more leeway in organising their internal

risk management. A number of issues that led to the financial crisis, such as supervision of rating agencies, are largely addressed by the rules.

The SECR sets transparency requirements for potential investors. This allows the investors to understand, assess and compare securitisation transactions so they do not have to rely solely on third parties like credit rating agencies.

The transparency requirements in regulation should continue to make a difference between private and public securitisation. Public securitisation is when the EU securities and crypto-asset regulations require a prospectus or white paper to be registered with the authorities. The disclosure rules would apply with any necessary tweaks to reflect the peculiarities of securitisation. All other securitisation would be considered private and would be subject to a broad disclosure requirement and prohibition of misleading practices, as opposed to technical requirements. Professional financial intermediaries would make sure that they agree to provide and receive the information needed to fulfill the duty of care required of them. The authorities would have the right to access any information needed for their supervisory or other similar activities.

Due diligence and transparency requirements consequently need to be rephrased as more general and principle-based fiduciary duties, as this would lower transaction costs and make securitisation a more realistic option while maintaining investor confidence, and keep any breach of duties actionable.



PHILIPPE BORDENAVE

Senior Executive Advisor
to General Management
and the Chair of the
Board – BNP Paribas

Securitisation is necessary to the financing of the rebound of the EU economy

Relaunching the EU securitisation market is a major and urgent priority. For many years now, we have been calling for an ambitious review of the Securitisation regulatory framework. It is time at last for European policymakers to reconsider their perception of securitisation in a pragmatic and unbiased way and look towards the future instead of remaining in the past.

Europe is facing a historical transformation of its economy on defence, digital and sustainability grounds. To respond to the huge financing needs required by these challenges, reforms of the EU securitisation framework are inevitable. Otherwise, given the ever-increasing capital constraints imposed on EU banks, the EU economy will become always more dependent on foreign banks and NBFIs, which is not desirable.

As recently reported by the financial press, US data center securitizations have totalled \$24.3 bn since 2018, while the EU has yet to see its first such transaction; while US solar panel

securitisations have raised \$27 bn since 2018, the EU saw its first transaction in 2024 for €230 million. Securitisation will not be the silver bullet but will be a powerful tool to play a part in filling the additional €800 bn financing needs, if the incoming reform is bold enough to unlock current barriers for both issuers and investors.

The amount of EU placed issuance decreased from EUR 450 bn per year before the Great Financial Crisis to around €150 billion; as pointed out by Christian Noyer, a sheer return to past levels represent a potential of €300 bn per year in additional private financing. A candid review of historical loss rates for EU originated securitisations, which have always been extremely low even in the wake of the GFC, shows that this would not be at the expense of financial stability.

The unfolding of regulatory changes, including prudential adjustments, would be progressive and give time to monitor market and financial stability evolution. Indeed, EU financial supervisors have the means to exercise a thorough scrutiny on these transactions. Encouraging highly supervised risk-sharing between professional market participants should also contribute to support EU financial stability and resilience.

Half-hearted measures won't do the job.

Securitisation is often criticised as being essentially a way for banks to boost their own profitability. This is a misconception! EU corporates and households today heavily rely on bank financing. Even with stronger capital markets, the role of banks in the provision of financing will remain central. Securitisation enables banks to leverage their origination capacity by freeing up space in their balance sheets along the way, thus regenerating available capital necessary to make new loans. This is a key feature of Securitisation, that fundamentally differentiates it from Covered Bonds which are just another funding option and do not enhance the lending capacity of banks.

The priority is to address the current prudential treatment of securitisation for banks that make many potential transactions uneconomical. A limited number of risk recalibration measures regarding capital non-neutrality factors, such as decreasing the p-factor values and introducing risk-sensitive risk

weight floors, must be adopted. This does not mean forgoing the robust safeguards that prevent unsound risk taking (e.g. ban on re-securitisation, retention obligation, transparency and due diligence requirements, sound credit granting criteria). In addition, to allow banks to better contribute to the liquidity and dynamism of the market, it is important that the treatment of securitised assets in the LCR is upgraded.

Here, we wish to stress two important aspects in the current debate:

Focusing improvements on STS securitisations alone would not have a sufficient impact on the market and would set aside entire asset pools (new originators, trade receivables, green energy projects...). Besides, non-prudentially regulated investors do not differentiate fundamentally between STS and non-STS and can be indifferently attracted by both.

Similarly, subjecting the benefit of improvements to subsets of criteria or preconditions would inevitably restrict their effectiveness, failing to reach a critical mass to create the desirable dynamic. More complexity in the framework would be counterproductive and the "simplification" approach should prevail.

EU insurers also need to be convinced to start reinvesting in securitisation. The current regime has ultimately caused them to forsake their interest and expertise in this asset class; the EU life sector currently holds only 0.33% of investment assets in securitisations vs. 17% for U.S. life insurers, despite similar industry sizes. Solvency II should be amended as it sets punitive capital charges on securitisation, even on those assets with investment-grade ratings.

The benefit of securitisation to the Savings and Investments Union and the EU's strategic priorities is unquestionable. That is why the action must be decisive: half-hearted measures won't do the job.



ANNABEL SCHAAFSMA

Director Global Structured
Finance – Moody's Ratings

Relaunching Europe's securitisation market

Policymakers' proposals to revitalize the European securitisation market have taken on fresh momentum reflecting the EU's growing ambitions to enhance defense capacity, decarbonize and digitalise the economy.

The Draghi report estimates a minimum annual increase of public and private investment of 4.4%-4.7% of EU GDP is required to meet these needs.

An enhanced securitisation market - which also stands at the heart of some of the deep currents reshaping global markets, including the rise of private credit - could be key to financing the lion's share of this investment.

In the US we see more direct lenders tapping into the structured finance market to securitise a small but growing share of transactions, leaning increasingly on asset-based finance to address growing capital demands.

Such transactions currently account for some 10-15% of financing needs for a large variety of assets, including fibre-optic networks, data centres and intellectual property royalties.

However, European securitization volumes remain a fraction of the total US market, despite reaching a 10-year

high at the end of 2024, with further growth predicted in 2025.

The European Commission is currently considering reforms to the EU's securitisation framework, aimed at unlocking growth by supporting European businesses and helping lenders diversify their funding sources and enhance asset-liability management.

While we expect the proposed reforms will improve market liquidity and broaden the pool of investors, we find maintaining gains in the quality and consistency of data will also be an important factor in sustaining growth.

Data quality is key

The strong performance of the European securitization markets in the last decade has been bolstered by long-term trends, including the evolution of macroprudential rules, tighter underwriting practices, and - most importantly - improvements in data standardization. The quality and quantity of loan-level data that has become available is allowing more accurate insights into the assets underpinning these securitisations.

Since 2008, there has also been a shift toward a more rigorous validation and verification of transaction parties' data. This includes the information disclosed by loan originators and by sponsors when executing transactions, which allows the market to better evaluate the originator's underwriting standards and the effectiveness of the representations and warranties included in the documentation.

**To succeed, Europe's
securitisation market
must adapt to market
demands and advance
transparency.**

Additionally, greater use of third-party reviews has provided more clarity on the integrity of transaction-related loan-level data. For example, the 2017 simple, transparent and standardized securitisation regime required the use of an independent party to check the quality of provisional portfolio data and their compliance with eligibility criteria.

Across the markets, transaction structures have been modified to include mitigants to minimize financial disruptions. These developments include the use of backup servicers, backup facilita-

tors, and estimation language provisions that ensure notes are paid even during a servicing transfer.

Overall, we see European securitisation transactions are now notably better able to withstand economic turmoil as demonstrated by the stability of our ratings even under more unfavorable circumstances such as the pandemic or recent interest rate hikes.

What's next?

We continue to regularly review our methodologies to ensure that they reflect market dynamics, new products, and current underwriting practices. This year, for example, Moody's published a specific methodology to rate data centre asset-backed securitisations as we expect global data centre capacity to double by 2030, requiring substantial capital investment and access to multiple debt capital markets.

If Europe's securitization market is to fulfil its potential, industry and regulators will need to remain agile enough to adapt to evolving market demands while advancing transparency and standards to mitigate risk.



JOHN GOLDEN

Global Head of Insurance
Regulation – Apollo
Global Management

A compelling symbiosis: Unlocking securitisation investment for European insurers

Investment-grade securitisation is critical to the investment strategies of Apollo and Athene, offering incremental return without incremental credit risk and acting as an important source of diversification vs. traditional public market assets.

Insurers like Athene capture safe, incremental yield by providing customized, long-term financing via securitisation structures. Because insurers' liabilities are long-dated and predictable, they can provide long-dated financing without exposure to "runs" that entities with daily liquidity obligations face. Capturing incremental yield without taking on additional credit risk through private and structured assets has allowed US insurers to provide annuity customers with an incremental 74 basis points of excess yield vs. comparable savings products over the last five years. We estimate that this has created \$46 billion+ in incremental value for US policyholders over the same period, providing critical funds to help to close the US "retirement gap." Investment in these assets also finances critical long-

term investment initiatives in the US. Importantly, securitised products are not inherently riskier than traditional public bonds. Years of data (pre- and post-Global Financial Crisis) show that investment-grade securitised products experience lower impairment rates than comparably rated corporate bonds.

Securitised products also reduce risk by diversifying Athene's portfolio across the full breadth of the US real economy. This same diversification is not possible to achieve solely through investment in traditional public bonds and equities: ~87% of US companies with \$100 million+ revenue are private; ~30% of the value of the S&P 500 is provided by just seven companies. Athene's ABS portfolio is 93%+ investment grade and spans the full spectrum of collateral types, including solar, fiberoptic, datacenters, equipment leasing, music royalties, utilities, shipping containers, communications, oil pipelines, and many more.

The US benefits from vibrant securitisation markets that effectively pair the diverse needs of borrowers with long-dated capital from an array of lenders, including insurers. Insurer investment in securitisations, facilitated by the US Risk-Based Capital solvency regime, offers a compelling economic symbiosis – policyholders benefit from the yield and diversification offered by securitisations, and long-dated, match-funded capital is made available to finance the needs of the real economy.

In Europe, by contrast, Solvency II Standard Formula capital charges for securitisations constrain Europe's ability to reap these same benefits. Holdings data tells the tale: European life insurers currently hold only 0.33% of investment assets in securitised products, compared with ~17% for US life insurers.

Securitisation offers a bridge to stable, long-dated financing, yet restrictive regulations are inhibiting insurer credit provision.

The impact of Solvency II's calibration is perhaps best demonstrated by a comparison of capital requirements for similar assets held in different forms. Consider a hypothetical portfolio of residential mortgages. Under Solvency II, this portfolio would carry a ~3% charge. If these same mortgages were held in a residential mortgage-backed

security (RMBS), however, even the *highest-rated tranches* of those mortgages could carry a 5% capital charge. Notably, this 5% charge applies only to STS securitisations. If the securitisations are not STS-eligible, the capital increases to 62.5%, making them prohibitively expensive for an insurer to hold.

A comparison of asset returns and Solvency II capital requirements for fixed income assets indicates that investment-grade securitisations are heavily penalized on a relative basis vs. other asset classes (e.g., corporate bonds). Such a result implies that Solvency II's calibration is inconsistent across fixed income assets.

Solvency II thus effectively blocks insurers from investing in securitised products, which in turn hinders both insurer diversification and capital formation in the broader European economy. Internal models, which can partially mitigate substantial capital charges on securitised products, are only available to a small group of large European insurers given the substantial implementation cost. Because insurers are such large senior lenders, their retreat from securitised products has knock-on effects for financial markets: less demand for securitisation means banks and other originators have fewer avenues to transfer risk and raise new funding for loans. In practical terms, this means fewer securitisation issues come to market, and those that do price less efficiently, ultimately constraining the flow of credit.

Traditional public markets no longer suffice to finance today's real economy. Securitisation offers a bridge to stable, long-dated financing, yet restrictive regulations are inhibiting insurer credit provision. A recalibration of Solvency II to ensure fair, risk-aligned treatment across asset classes could help unleash €1 trillion+ in incremental financing in Europe.



EDWIN WILCHES

Managing Director, Co-Head
of Securitized Products –
PGIM Fixed Income

Reviving European securitisation – Time for take-off

The Savings and Investments Union (SIU) is much like a pilot's cockpit. There are many buttons, dials and knobs that need to be calibrated carefully for the plane to take off or, in the SIUs' case, to develop deeper, more liquid capital markets to finance the European economy. Securitisation is one instrument - if calibrated correctly - could unlock huge opportunity and help EU capital markets accelerate.

At PGIM we welcome policymakers' focus on the securitisation markets. We manage over €130B of securitised assets for European and non-European clients. This along with our role as a top 10 issuer of Collateralised Loan Obligations (CLOs) in Europe and the US gives us a unique insight into the impact of regulations across markets.

Europe's securitisation market has shrunk to 17% of the size of the U.S. market (from 85% pre-GFC). This is unfortunate given that securitisation – also known as asset-based finance (ABF) – could be playing a much bigger role in meeting the funding needs of critical sectors like housing, corporates, SMEs and renewables. ABF provides important opportunities for pension funds, insurance companies and even retail investors to diversify

investment risk while earning stable, advantageous returns.

Inertia in European ABS is largely driven by an over-regulated market. Regulation was crafted with good intentions but has resulted in unintended consequences. Europe's rules do not differ greatly from those of other jurisdictions, but the EU has applied regulation – in the form of the EU Securitisation Regulation (EUSR) – with a heavier, more prescriptive footprint. This is good news. It means solutions are feasible, assuming we have the political will. It presents an opportunity for policymakers to bring market-enabling reform as outlined in Mario Draghi's report, 'The Future of European Competitiveness'; a win for the SIU.

How do we fix the EUSR regime? Like the SIU, this regime has its very own dashboard full of instruments that must be tuned to the right frequencies:

Simplify Due Diligence Requirements – The EUSR's heavy and prescriptive due diligence obligations add unnecessary operational burden for investors, particularly smaller institutions. Isolating securitisation as a "special" asset class with its own extra layer of due diligence requirements makes Europe unique among peers but not in a good way. Policymakers should consider introducing a principles-based investor due diligence framework which would allow the end-investor to judge whether a given securitisation meets their needs. Or better yet, as in most other jurisdictions, remove investor due diligence entirely, taking comfort that securitisation issuers are well-regulated and that today's stringent underwriting is robust.

**Europe's securitisation
market has shrunk
to 17% of the size of
the U.S. market (from
85% pre-GFC).**

Simplify Reporting Standards – Granular EUSR reporting requirements create excessive issuance hurdles without adding meaningful value for investors. As an example, issuer compliance costs can surpass €10,000–€31,000 per deal annually for CLOs. Reducing the hundreds of data fields which market participants must report will incentivise more issuance and investment while greatly reducing costs and frictions.

Recalibrate Insurance Capital Requirements – Current Solvency II

capital charges for securitised products are disproportionately high compared to their risk profiles. This deters insurance investment. Insurance capital requirements in Europe are higher, sometimes astronomically higher, than in jurisdictions with more developed markets; this severely dampens demand. Capital requirements should be risk-sensitive and based on evidence.

Facilitate greater UCITS Investment – The 10% issuer limit under the UCITS framework restricts European asset managers from investing in securitisations. Furthermore, EU regulators treat securitisation investments with extreme caution in the context of UCITS supervision, only allowing limited investment in some securitisations. Supervisors should take comfort in the nearly two decades of sound performance of securitisation, especially in the most senior, investment grade tranches (i.e. AAA and AA rated).

Expand EU Investors' Access to Global Markets – The EUSR restricts investors to securitised assets that adhere to EU standards, leaving them locked out of 75% of the global securitisation market. This puts European investors and financial products at a significant disadvantage to investors and products in other global financial centres.

Individually, these changes may have limited impact on the growth of the EU securitisation market, but together, they have the potential to be transformative. If we approach this work with equal amounts of thought and political ambition, these changes will deliver big outcomes for borrowers and investors. Now is the time for bold reforms to unlock Europe's securitisation potential and ensure its place at the forefront of global capital markets. SIU, it's time for take-off.



CECILE NAGEL

Global Head of Corporate Trust - BNY

Catalysing Europe's Future: Securitisation in the Savings and Investments Union

Europe's aspirations for leadership in areas such as artificial intelligence, quantum computing, and clean energy require massive investments. The Draghi report¹ on EU competitiveness identified the need for an additional €750 to 800 billion annually, over 4.5% of EU GDP in 2023.

However, many European nations have limited fiscal headroom for public investment. Capacity in Europe is further reduced without capital markets to supplement and backstop bank lending. Finally, the higher debt-to-equity ratio of European companies compared to their US counterparts creates additional funding limitations.

A strategic shift towards capital market financing is therefore essential. A thriving securitisation market would help accelerate Europe's ambitions.

From Gap to Catalyst: The Role of Securitisation

Banks have historically dominated European finance, accounting for 70% of business debt in the EU according to the April 2024 report on EU capital markets by Christian Noyer². By contrast, U.S. capital market expansion continues to

reduce the dependency on banks and their balance sheets to fund business debt. This reliance imposes limitations on the large-scale investments needed for technological innovation and the green transition.

In Europe bank lending capacities are squeezed by increased capital requirements and stricter balance sheet rules. Moreover, EU banks cannot rely on securitisation to the same extent as their U.S. counterparts, in part due to higher prudential penalties, capital charges and regulatory costs.

Securitisation offers a solution by packaging loan portfolios into marketable securities, accomplishing four objectives:

- Transferring risk away from banks to investors
- Freeing up balance sheet resources to meet Basel III capital requirements
- Mobilising private capital more productively whilst providing more diverse investment opportunities for investors in the EU
- Creating a more resilient financial ecosystem by reducing risk concentration

The Legislative and Regulatory Framework for Securitisation

While the benefits of securitisation are clear, Europe's ability to leverage it remains constrained by regulatory and legal fragmentation across the EU. Unlocking securitisation's full potential as a catalyst for European competitiveness requires targeted policy reforms.

The time is ripe as the project to build a Savings and Investments Union (SIU) is launched.

The SIU aims to address structural fragmentation and underdevelopment in capital markets while mobilising European savings for long-term investments. Two landmark 2024 reports, the Noyer report, and the Single Market report by Enrico Letta³, have provided its foundational blueprints.

Within the contours of a future SIU, EU legislators and regulators should prioritise three policy considerations to unlock the potential of securitisation as a catalyst for development:

1. **Normalisation of the regulatory framework for securitisation so that there is greater alignment with the framework for other financial instruments.** The

current regulatory framework for securitisation is complex. The requirements for both issuers and investors differ greatly from those for other financial instruments, without full justification. These differences create a barrier to entry to the securitisation market. Normalisation and simplification will encourage new entrants to the market by lowering market obstacles and enhancing attractiveness.

2. **Creating a pan-European insolvency framework that will function as a "28th Regime."** Major differences in national insolvency laws handicap the development of pan-European securitisation issuances and of pan-European securitisation markets. Development of an "opt-in" pan-European approach for insolvencies will create possibilities for pan-European securitisation issuances by increasing certainty for investors.
3. **Supporting standardisation of issuance practices and processes across Europe, including potentially through a pan-European platform.** A lack of standardisation in issuance practices and processes increases costs and risks and handicaps the development of European securitisation markets. The creation of a pan-European issuance platform, ideally with the support of entities from the European public and private sectors, would help deliver standardisation and scale to the European securitisation market.

By addressing these policy needs, the EU can create a more favourable environment for securitisation, attracting private capital and driving economic growth. Bold and decisive action is essential. A revitalised securitisation market will not only finance Europe's next industrial wave but also position the EU as a more competitive financial centre amid shifting global capital flows.

1. https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en
2. <https://www.tresor.economie.gouv.fr/Articles/2024/04/25/developing-european-capital-markets-to-finance-the-future>
3. <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>



ALEXANDER BATCHVAROV

Managing Director and Head of
International Structured Finance
Research – Bank of America

Restore the EU securitisation market to help transition the EU economy

Securitisation is a versatile funding and capital management technique for banks. A bank relies on its assets to raise the financing; the bank can transfer the risk of an asset pool by selling it (true-sale securitisation) or by buying protection against that pool (synthetic securitisation). By executing a full-capital-structure true-sale securitisation, the bank both raises financing against the securitised assets and transfers the risks of the asset pool to those who provide the financing (i.e. the investors in the different tranches of the cash securitisation) or to the protection providers for the second-loss or the second-and-first loss risk in a synthetic securitisation.

Hence, securitisation is a bridge between the banks and the capital markets, between bank-originated assets and investors seeking specific risk profiles of such assets (securitisation tranches). For banks, securitisation offers multiple funding opportunities and widens their investor base both domestically and globally, and expands banks' risk management capabilities:

long-term capital raising and tactical output floor management. For investors, securitisation offers investment opportunities of varying risk profile in terms of credit and maturity risk, and to sectors which investors cannot access themselves directly, including consumer and home loans, SME loans, equipment leases, solar, and data centers.

Securitisation brings funding to banks and creates safe domestic investment opportunities for EU savers and relevant-risk investment opportunities for EU qualified investors. Given bank financing domination and large volume of fragmented savings in the EU, it is difficult to foresee a technique other than securitisation to promote fast advancement of the Savings and Investments Union (SIU) of the EU.

Obviously, a well-functioning market for investments and risk requires active participation of both issuers and investors. The EU securitisation regulation (EUSR) creates barriers to entry for both, expressed in a very high, and higher than for other market instruments, cost of doing business. EUSR imposes the most stringent disclosure and due diligence requirements to securitisations regardless of their investment risk profile and investor skills when compared with best market practices in the world. EUSR prescribes more due diligence for an investment in a AAA-rated prime one-year auto ABS note than for an investment in a ten-year distressed loan portfolio. The high regulatory capital requirements, especially under Solvency II, effectively eliminate most European insurers from the EU securitisation market, in contrast with their role in other parts of the world. The complexity of STS prevents smaller EU banks from benefitting from its 2019 introduction.

**Securitisation is a key
tool to rapidly advance
the SIU in the EU.**

According to the European Commission's 'Factual summary of the targeted consultation on the functioning of the EU securitisation framework', a majority of respondents (>50%) believe that the EUSR has not reduced or eliminated unduly high operational costs for securitisation issuers and investors, has not reduced operational costs even for standardised securitisation products (STS), has not tackled regulatory inconsistencies or removed regulatory disadvantages for STS products, and has not improved the financing of the EU economy.

That summary paper noted that the SME sector has only limited access to securitisation due to regulatory complexity, high cost and lack of data quality. EU banks rarely execute SME cash securitisations, but are active in synthetic securitisation. This suggests that data quality is not necessarily a problem for SME securitisation; the problems lie in the regulatory complexity, high cost of securitisation issuance, limitations to the use of STS for SME portfolios and by smaller banks. Similar barriers exist for green securitisation, along with the limited origination of green assets.

Securitisation can certainly support SME funding in the EU, as it did pre-GFC. It can support climate-related transition both in the financing of new green assets and in transitioning banks' balance sheets to green assets. Securitisation can certainly help with the funding of aspects of the digital transition in Europe. All that along with boosting overall funding for the EU economy to the tune of several hundred billion euros per annum, at least. However, it is unrealistic to expect securitisation to contribute to the realisation of EU economic growth and policy priorities if the operational efficiency of the EU securitisation market, level playing field across capital market instruments, risk proportionality in due diligence and disclosure, and adequate risk calibration are not restored soon.

In the absence of a silver bullet, the markets are waiting for a comprehensive legislative proposal to bring risk-sensitivity, comparability and proportionality to EU securitisation framework for due diligence and disclosure requirements, capital and liquidity calibration.

Expand STS credit protection to the non-life insurance sector¹

Ian Bell - Prime

Collateralised Securities

Michael Bennett - Arch

Insurance (EU) dac

Georges Duponcheele -

Munich RE

Tamar Joulia-Paris -

International Association of

Credit Portfolio Managers

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Triple benefits of using insurance SRT

Significant Risk Transfer (SRT) securitisation, executed principally in a synthetic format, enables banks to free-up capital on their balance sheet by transferring risk to non-bank financial entities, and enabling a key economic optimisation tool: capital velocity.² Including insurance as an eligible form of risk transfer in simple, transparent, and standardised (STS) SRT securitisations will enable banks to access the reinsurance market and **increase lending capacity to the real economy**, supporting key European initiatives, such as housing, SMEs, green technology, digitalisation and defence.

The role of (re)insurance companies as investors in traditional securitisations, on the 'asset side' of their balance sheet, is well known. Less well understood is the large capacity of many non-life (re)insurers on the 'liability side' of their balance sheet: underwriting credit risk with insurance policies is a natural extension to their expertise in their core insurance business. It **reduces systemic risk for both banks and (re)insurers**. Banks diversify the counterparties able to share credit risk with well-capitalised and highly regulated entities. (Re)insurers diversify their risks, as bank-originated credit risks have low correlation with traditional insurance risks such as natural catastrophe, property, casualty, and life risks.

Moreover, **insurance-based credit risk transfer enhances market resilience**. (Re)insurers can expand capacity where current collateralised SRT participants are limited, especially for long-term

risks like residential mortgages and EU non-Euro assets. This capacity remains stable during financial market volatility, offering banks reliable partnerships throughout credit cycles.

The business model of insurance differs from that of investors in collateralised instruments

The insurance business model is predicated on accumulating a diversified portfolio of uncorrelated risks and proactively managing portfolio concentration by syndicating the risk to other reinsurers and investors (e.g. 'cat bonds'). It does not contemplate the collateralisation of insurance policies. In securitisation regulatory terminology, they are "unfunded".

Investors in collateralised (i.e. "funded") risk transfer consist mostly of financial investors such as funds, whose business model differs from the ones of (re)insurers. Both serve complementary roles and provide important capacity to the economy.

US insurance CRT track-record with Housing

In the US, after the Great Financial Crisis (GFC) the Federal Housing Finance Agency (FHFA), responsible for overseeing Fannie Mae and Freddie Mac (the "GSEs"), developed a world-leading program of Credit Risk Transfer (CRT) to protect taxpayers. Since their inception in 2013, these CRT programs include both insurance programs and 'funded' ones for capital markets investors. This complementarity is a key strength of the programs, as shown during COVID, when the participation of regulated (re)insurers broadly increased as the willingness of funded investors to participate decreased. As a result, the GSEs increased their use of insurance from 25% to roughly 40% of their CRT trades.

The robustness of a market increases with the number of participants. Over the last decade, for the GSEs' CRT programs, the number of (re)insurers has steadily increased and reached more than 60 (compared to slightly more than a dozen in the European SRT market). By end 2023, those 60+ (re)insurers protected about \$60 bn of CRT risk referencing \$1.5 trillion of US residential mortgages owned by the GSEs.

The EU securitisation reform is an opportunity that should not be missed

In the EU, the extension of the STS label to synthetic securitisation in 2021 boosted the issuance of SRT transactions, thus helping European banks to increase their capital velocity.

This boost arose primarily because the retained risk weight applied in the Capital Requirements Regulation (CRR) to the risk retained by banks (the senior tranche) was reduced from 15% to 10%, making more transactions economically viable. By the end of 2023, about €300 bn of loans originated by EU banks were protected by close to 8% (€24 bn) of SRT transactions. The share of STS compliant transactions increased year after year.

Opening the STS market to non-life insurers will support EU competitiveness and financial stability.

However, one criterion added in 2021 to the synthetic STS label was that the protection should either be funded or provided by counterparties which don't attract any capital requirements in the CRR (sovereign entities and multilateral development banks). As a result, banks cannot benefit from the STS label when transacting with (re)insurers, although they may also value the financial strength, the business relationship, expertise and long-term view of (re)insurers as protection providers.

(Re)insurers started providing SRT protection to European banks in 2018 when funded and unfunded securitisations were on a regulatory par. By end 2024, the outstanding insured tranches amounted to €6 bn, on a variety of asset classes. But because of the 2021 market fragmentation, they are now focussed on the smaller market of non-STS SRT securitisations, which are also less capital efficient for banks.

A strong support in the responses to the EU consultation to allow insurance STS

The Commission included in its October 2024 securitisation consultation several questions on whether unfunded credit protection should be eligible for the STS label (Question 7.4), what safeguards should be put in place with regards to counterparty rating and multiline business model (Question 7.5), and whether there will be an impact on EU financial stability (Question 7.6). Question 7.4 was a simple vote with three possibilities: "Yes", "No", or "No opinion". Out of the 73 responses filed on this question, 48 (66%) voted "Yes", 19 (26%) "No opinion", and 6 (8%) "No".

Among industry respondents that voted “Yes” were the two European STS verification agents (PCS, TSI), the European, Austrian, Dutch, French, German, Italian, Polish and Portuguese Banking Associations or Federations, the German Insurance Association, the leading European or International business associations (Paris Europlace, IACPM, AFME, AIMA/ACC), eight EU banks, three insurance companies, and many other institutions or associations, some of which answered anonymously. Particularly important are the responses from Austria, Italy, Poland, and Portugal, countries whose banks have difficulties in reaching the STS label due to the 2021 funding requirement.

This overwhelming support from the industry suggests that the Commission should definitely include this targeted change in its securitisation package. To provide additional safeguards, the STS label may include specific eligibility criteria, such as, minimum credit rating, and supervision of the (re)insurance company at consolidated level, avoiding build-up of risk concentrations.

Conclusion

The inclusion of insurance policies written by multiline non-life insurance companies as eligible for simple, transparent, and standardised (STS) status would enhance financial stability, improve market efficiency, and support economic growth and competitiveness in Europe through three key mechanisms: increased lending capacity, reduced systemic risk, and improved market resilience.

Achieving these benefits will require removing the collateralisation (funded) obligation in the STS framework for insurance protection, a provision which is not compatible with the business model of the non-life insurance sector. This targeted change must be included in the 2025 contemplated securitisation reform.

1. *The co-authors accept full responsibility for any errors or omissions. The views expressed are those of the authors and not necessarily those of their companies and institutions, or of those with whom the authors have had discussions, or of their companies. All authors can be contacted via LinkedIn.*
2. *Duponcheele, Georges, Marc Fayémi, Fernando Gonzalez, William Perraudin and Alessandro Tappi (2024) “Securitisation reform to boost European competitiveness”, Eurofi Policy Note, Eurofi Regulatory Update, September.*

ASSET MANAGEMENT AND THE SIU



SÉBASTIEN
RASPILLER

Secretary General – Autorité
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Time to support European asset management groups

Simplification is the concept *in vogue*, and it is necessary so. I would dare to say, nevertheless, that for asset management, implementation seems also quite appropriate. In April last year, the revised UCITS and AIFM directives entered into force and we are now working on their transposition to be finalised by April 2026. At the same time, we, together with the European Securities Markets Authority (ESMA) and other national competent authorities are finalising the Regulatory Technical Standards (RTS) and Guidelines mandated by the co-legislators in the directives.

Although the directive reviews were targeted, they introduced important changes for asset managers such as, among others, the obligation to adopt at least two liquidity management tools, a harmonised framework for loan originating funds or a revised AIFMD report and a completely new UCITS report. In parallel, we had the review of the ELTIF Regulation, to

make this vehicle more attractive to retail investors, while financing the development of the European real economies. The ELTIF RTS was just finalised during summer of 2024.

UCITS and ELTIFs are the privileged investment vehicles to support the Savings and Investments Union. The ELTIF market is already increasing and we will, hopefully, see more funds adopting this European label as asset managers rethink their strategies. We believe ELTIFs are sufficient to cater for venture capital managers. In any case, we would not favour the introduction of further regulatory exceptions that could be seen as circumvention of the full AIFM directive.

So what is it left to do? I am of the view that we need to give time to the financial ecosystem to embed the revised rules and develop the consequent products and necessary systems to support the operationalisation of such rules.

Having done the bulk of the work in the last few years, there are, however, certain areas that could be improved, such as the introduction of the notion of “Group” and the consolidated supervision approach for large groups of asset management. With the aim of supporting the competitiveness of European groups, we could simplify the requirements of Management Companies and Alternative Investment Fund Managers in terms of substance and systems and controls. This could be done by adopting a consolidated approach of all the entities within a Group that has an investment management license, instead of supervising in silo each individual entity within the Group.

In addition, work could be done towards the harmonisation of national interpretations of what assets are eligible within a UCITS portfolio. All work that supports supervisory convergence, in particular the eligibility of certain assets in UCITS portfolios, will facilitate cross border distribution while also reducing regulatory arbitrage, which would facilitate National Competent Authorities’ authorisation processes.

Another area in the customer journey that is worth simplifying relates to investors’ sustainability preferences. We have evidence that, in general, investors do not understand the three questions that advisers have to

ask them in relation to Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR) and principal adverse impacts. We have to develop easier questions to understand to ensure that investors have adequate information in regards to sustainable investment products. We have to start though by reviewing SFDR and introducing clear and no misleading product categories. These categories should be linked to marketing rules, product names and the sustainable preference questions to be asked to investors.

**The notion of “Group”
and the consolidated
supervision approach
for large groups of
asset management.**

We understand that the balance between making simple categories that investors can understand and reducing the risk of greenwashing with clear minimum criteria for each category, is a difficult one to strike. Nevertheless, we have to try to work with the current tools that we have and not let the perfect be the enemy of the good. Otherwise, we will not make any progress at all to channel investments towards greener products and to finance the environmental transition.

Lastly, in terms of consolidation, we are seeing some large projects that will give us some first-hand evidence on this aspect. We will have to wait a few years to be able to list the benefits and the more negative side of consolidation. Nonetheless, we will always support regulations that will support the creation of European champions in the asset management space.



CARLO COMPORTI

Commissioner – Commissione
Nazionale per le Società
e la Borsa (CONSOB)

Asset management and the Savings and Investments Union

The asset management sector is a key enabler for the Savings and Investments Union (SIU) ambition to channel savings to productive and strategic investments, offering additional financing options to businesses and contributing to wealth creation.

To date, investment funds were considered as appropriate vehicles not just to finance companies but also to channel resources in favour of start-ups and fast-growing innovative companies, as well as of infrastructures, thus requiring a longer investment time-horizon. The EU harmonisation discipline developed through setting up of different sets of rules on all such sub-categories (EuVECA, EuSEF, ELTIF).

In light of renewed interest in this financing type of vehicle, question arises on whether there are outstanding aspects that could be further boosted, by way of integrating the current asset management framework, to allow a more effective contribution to the SIU.

Over the past few years the EU asset management legal framework has been already affected by targeted initiatives, driven by the need to: (i) extend the use of the designations 'EuVECA' and

'EuSEF' to sub-threshold managers, (ii) incentivise the collection of savings and investment on a cross-border basis (Cross-Border Distribution of Funds package); (iii) allow retail investors to more easily entail in long-term investment projects, although keeping adequate safeguards, by easing their access and exit from ELTIF type of funds; (iv) create a harmonised regime for funds providing loans, recognising their critical role for funding EU small and medium-sized enterprises; (v) prompt an extensive recourse to liquidity management tools by asset managers, as a way to mitigate and manage risks linked to the maturity transformation (to avoid potential problems with redemptions – and their potential to diminish market confidence – in extreme circumstances which were actually experienced in some recent episodes).

Even if the impact of these reviews is not yet clear due to the short period of time elapsed from their implementation, it remains that the size of EU funds is still small, especially when compared to non-EU funds. Also, financial vehicles (such as EUVECAs), that are inherently dedicated to finance the economy, have not reached the expected success, since they represent only a limited experience in the EU context.

**Asset management is a
key enabler for the SIUs
ambition to channel
savings to investments.**

Obstacles preventing EU investment funds from emerging and scaling up are still existent; accordingly there is still room for improvement in the asset management legal framework, substantially identifiable in the lack of real and effective level playing field, in connection with a fragmented regulatory approach (addressed either to the management companies or to different sub-categories of UCITs and AIFs) which was often seen as creating inconsistencies and overlaps and, more than this, an overload in terms of reporting requirements.

Both the demand and the supply side need being educated to a better conduct. In that respect, while retail investors are to be targeted by considerable private-public efforts of financial education, management companies should become aware that investment funds are not seen as a viable alternative to other direct investment due to high cost and questionable value for money.

Beyond rationalisation of the asset management's legal framework and corrective measures to address the shortcomings just highlighted, further interventions could also be considered: (i) public funding programmes aimed at mobilising institutional investments into start-ups and scale-ups (e.g., European Tech Champions Initiative - ETCl); (ii) the removal of barriers, within the prudential discipline, preventing institutional investors (e.g. insurance companies and pension funds) from investing in EU funds; (iii) the taxation tool to direct retail investors towards investment funds, but in a consistent and fully harmonised way. This could be done by the definition of a European wrapper, featured with easiness of access, taxation reliefs and an investment policy constrained to investment in European assets, while still pursuing suitable forms of diversification.

Finally, the review of the eligible assets (second level) directive should not be missed as a chance, in combination with a targeted review of the UCITs directive, to clearly differentiate between a sub-category of UCITs less complex and costly - to go under a possible unified label, to be worked out at central level, for immediate reference by retail investors - and other more complex UCITs for which, although preserving their basic difference with respect to alternative investment funds, some riskier assets to invest in are admitted (e.g. with an opening also to new regulated digital products).



PALOMA MARÍN BONA

Vice Chair – Spanish
Securities and Exchange
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Collective Investment Schemes (CISs) to revitalize the capital markets ecosystem

Collective Investment Schemes (CISs) can play a key role to revitalize the capital markets ecosystem. This article explores how CISs can serve as a cornerstone to empower retail investors by enabling them to access capital markets and more sophisticated investment opportunities. These products present significant advantages and, when leveraged effectively, they can be pivotal to the success of the Saving and Investment Union (SIU).

One of the primary benefits of CISs is that they offer retail investors access to a **broad range of investment opportunities** that would typically be out of reach. Unlike traditional savings instruments, such as deposits or short-term bills, CISs enable individual investors to diversify their portfolios and access more complex and potentially higher-return assets. This is crucial for those retail investors who wish to increase their returns on savings assuming a degree of risk profile of their portfolios.

Retail investors often lack the expertise and resources to invest

in corporate bonds, equities, or derivatives. With CISs, the latter may benefit from **professional fund management** provided by experienced portfolio managers. CISs can also offer appropriate liquidity through redemption opportunities, depending on the type and the underlying assets of the fund. Investors can also benefit from a diversified investment strategy, with a more balanced and resilient portfolio.

Additionally, CISs are among the most **regulated and supervised** financial products available. They are governed by strict rules that ensure they are operated fairly and transparently, and investors are well informed about the risks involved. Recent amendments to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive aim to enhance the regulatory framework governing UCITS funds within the European Union.

Nevertheless, in order for CISs to make the most significant contribution to the SIU, **several conditions must be met to ensure** their effectiveness and last overtime.

One of the primary ways to increase the impact of CISs is by ensuring they are **marketed appropriately to retail investors**. While there have been no major issues in promoting CISs to retail investors thus far, it is essential for them to be marketed in such a manner that highlights their risks (not only benefits) and aligns with investors' needs. It is crucial for investors to make well informed decisions.

Collective Investment Schemes can serve as a cornerstone to empower retail investors.

Financial education is also crucial in helping investors to understand how CISs can fit into their overall investment strategies. Financial education can encourage participation in capital markets by providing individuals the knowledge and confidence they need. Understanding key concepts empowers investors to make informed decisions. In addition, properly executed marketing campaigns and tailored information can ensure that retail investors fully understand the potential benefits and risks of CISs.

The costs associated to investing in CISs must be **fair and aligned with the value the investor receives**. Transparent cost structures are essential to building long-

term investor confidence. Investors should have a clear understanding of the fees, including management fees, entry and exit charges and any performance-related costs, ensuring there are no hidden surprises.

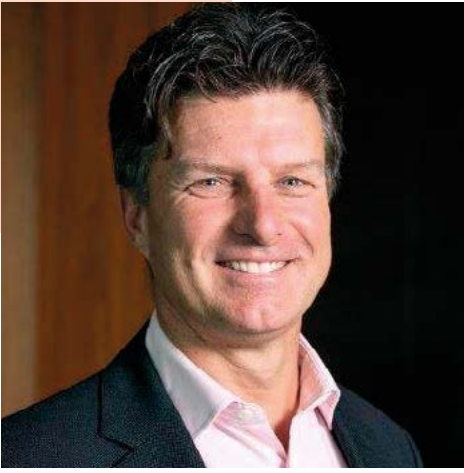
There has been an increasing effort in Europe to align the cost structures of CIS with the more competitive and cost-effective models of other jurisdictions. This includes regulatory initiatives to enhance transparency and reduce unnecessary burdens. Despite these efforts, the gap in cost structures remains hence more steps should be taken to make European funds more competitive.

The design of CISs products is also critical to ensure they meet retail investors' needs, particularly **liquidity of the assets** within the fund must align with the frequency of redemption rights granted to investors.

Finally, **taxation** should also be considered a key element to foster retail investors' participation in the capital markets. The possibility of establishing a favourable taxation (tax incentives) at EU level to certain financial products could be explored. Tax benefits should be designed in such a way that there is competition between products, not making it possible for promoters to appropriate part of the incentives.

The potential of Asset Management through CISs offers a promising route for retail investors to access more diverse, potentially higher-return products, although of greater risk.

With their professional management, diversification benefits, liquidity when applicable, and strong regulatory framework, CISs can play a pivotal role in shaping the future of the SIU. However, to maximise their impact, it is essential to ensure fair costs, transparency, and appropriate product design, along with the continued promotion and education of retail investors. By addressing these areas, CISs will contribute significantly to fostering an investment ecosystem in Europe.



PATRICK THOMSON

Chief Executive Officer, EMEA –
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Unlocking the full potential of Europe's economy through asset management

As European policymakers, market participants and investors alike contend with a rapidly evolving economic landscape, the role of the asset management industry is taking on ever greater importance. With the EU seeking to forge a new path forward with the Savings and Investments Union (SIU), which seeks to address some of the challenges facing the region, including changing demographics, asset managers play a crucial part in mobilising private capital to enhance the competitiveness of European capital markets, drive economic growth and help deliver better long-term investor outcomes. We have a unique opportunity to help unlock the economy's full potential for European companies and investors, and we must act now.

The backdrop of ongoing geopolitical tensions, persistent market volatility, and the rising cost of living underscores the need for strong political leadership. With ambitious, thoughtful, and well-designed policymaking, EU citizens and companies can be set on a prosperous path. The SIU aims to improve the financial well-being of EU citizens by making the capital markets more attractive. As of today, many Europeans, despite their commendable savings

habits, miss out on the higher returns on offer through long-term capital market investments. This results into a level of deposits held by Europeans far too high, representing significant untapped potential. By reallocating some of this capital, household wealth can be enhanced and contribute to a more robust economic landscape.

Central to this vision, and any policy initiatives introduced under the SIU, is to ensure the interests of EU investors and citizens are promoted, serving as the SIU's north star. A key element of this will include empowering citizens to take an active role in their financial futures. This requires strong financial literacy and a culture that embraces calculated risk. Improving financial education and providing high-quality financial advice are key to shifting from saving to investing, maximising financial potential, and supporting economic growth.

As citizens become more engaged investors, they need access to products and strategies that help to realise their objectives and align with their risk appetite. For example, allowing access to active asset managers can potentially offer better results, helping to shift the focus away from merely the cost of investment products to long-term risk-adjusted returns. We must also embrace innovation. The asset management industry is at the forefront in this regard, with innovative products such as active ETFs offering significant opportunities, helping investors benefit from effective financial solutions. This should not come at the expense of transparency or investor protection, and ensuring an appropriate balance in this regard will be an important challenge for policymakers.

Asset management is key for SIU's success, boosting EU growth and empowering citizen as investors.

An additional, yet crucial, determinant of success will be the regulatory framework. We welcome the European Commission's efforts toward regulatory simplification and its renewed focus on competitiveness. Measures to facilitate the scaling up of asset management activities, such as harmonising regulations and reducing market fragmentation, would further enhance the SIU's success. However, in doing so, we would also caution against resource

intensive initiatives that fail to target the real causes of market fragmentation. For example, a sufficiently strong case has not been made to justify the overhaul of the EU's supervisory architecture and it is not clear how this would result into an increased investor participation. Similarly, alterations to fund rules or the introduction of another investment vehicle may add complexity, and inadvertently undermine the success of existing products, including UCITS.

Policymakers should prioritise creating an environment that encourages growth and innovation in the asset management sector. Efficient capital flow is vital for a unified single market. The asset management industry currently faces challenges from uncoordinated regulation and gold-plating, leading to market fragmentation. Overcoming these barriers is essential for scaling investment funds and increasing retail investor participation. Openness and the combination of global expertise with the EU's highly-regarded approach to investor protection have been crucial for capital market growth. As we address the many challenges ahead of us, and develop Europe's capital markets, we must highlight the strengths of the European economy and foster an environment that attracts both international and domestic investment. By showcasing the EU's economic strengths and opportunities, we can position the region as a premier destination for global investment.

To conclude, asset management will be a cornerstone in the future success of the SIU. A conducive and well-calibrated policy framework, with the interests of European investors and companies at its centre, can help fully unlock its potential, creating a more inclusive and prosperous financial ecosystem.



WALT BURKLEY

Chief Legal Counsel –
Capital Group

Enabling asset managers to create sustainable growth for investors and companies

The EU is currently dealing with critical challenges in terms of its real economy and citizens' prosperity. In this regard, there is an urgent call embedded in Mario Draghi's and Enrico Letta's reports for prioritising the Savings and Investments Union (SIU), i.e., a truly single market for financial services to mobilise Europeans' savings towards investments for growth and increase Europe's attractiveness among global investors.

As EU's flagship project, the SIU is called to continue the unfinished business of the Capital Markets Union, bridge several important gaps – in capital markets, pensions, investments and financial literacy – and find the best landing zone towards financing growth, innovation and the digital and sustainable transitions. This is already a big ask with much at stake that requires critical partners among financial and market participants.

Asset managers have a decisive role to play offering investment solutions that link investors' needs to the financing needs of companies and governments. They enable investors across Europe to access capital markets, optimise returns and diversify financial risks in the short-, medium- and long-term.

To do so they channel investments into debt securities, listed shares and private equity, and in that way allocate capital back to the real economy. In addition, a significant part of their role is encouraging sound capital allocation and corporate governance practices, helping companies navigate challenges and create long-term and sustainable value for share- and bondholders. In this capacity they become enablers of innovation and growth.

Empowering asset managers in this critical role needs to be embedded across the main SIU policies via:

- ensuring a wide range of appropriate investment solutions, targeting diversification and longer-term investment needs,
- enabling asset managers to exercise their in-depth expertise when assessing investment opportunities both for investors and investee companies
- safeguarding an open architecture that facilitates investments in European companies.

In terms of appropriate investment solutions, the global success of the UCITS brand is the best testimony of how an EU investment framework enables cross-border distribution and benefits investors building on economies of scale. Our focus should now be on expanding the range of investment solutions and facilitating the investor journey to capital markets.

**Investment solutions
that link investors'
needs to the financing
needs of companies
and governments.**

UCITS' success is built on liquid investment strategies, but there are still significant hurdles when it comes to strategies offering exposures also to private assets. Meanwhile, investors are looking today to further diversify risks and optimise returns via private assets, and the EU economy would benefit from additional investments in private markets, as companies generally remain private longer than in the past. It is important to enable cross border distribution for retail investments strategies that can offer greater access to private markets while preserving enhanced liquidity and a design appropriate for retail investors. This will further empower investors in their journey into capital markets via a wider

set of vehicles, more representative of their divergent investment needs, objectives and investment horizons.

When it comes to Europe's key priority of financing transition and allowing companies to meet their objectives, active managers can play an important role in identifying and supporting transitioning companies. This requires a framework able to support investments in nascent technology and reflect the long investment cycles of the industries that need to transition. Having the right data is a key tool in their assessment of transitioners, while it remains important that the data are focused on what is material from an investor perspective, avoiding overprescribing reporting for investee companies. To this direction, the ISSB standards designed to meet investor needs can be a helpful tool to streamline disclosure and reduce the reporting burden on all companies.

In their role as investors in companies, asset managers need to be empowered to assess investment opportunities with long-term value for their clients. This means being able to tap into best-class expertise beyond operational restrictions in terms of the expertise's location. Finally, it calls for continuous open architecture of the EU single market in terms of attracting capital for EU companies from global market participants, in particular the ones that act with a fiduciary duty and focus on creating sustainable value for their investors.



MATTHEW TAGLIANI

Head of Product and Sales
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Asset managers play a central role in supporting citizens' financial security

The Savings and Investments Union (SIU) agenda has rightly been identified by the European Commission as a key driver of the EU's competitiveness¹.

As set out in the Draghi report², in order to deliver on its already-agreed digital and climate transition objectives, the EU faces a yawning investment gap of up to €800bn per year until 2030. That is equivalent to a 5% increase in investment spending, relative to GDP, across Europe at a time when many Member States' fiscal positions are coming under increasing pressure.

It is critical, therefore, that EU policymakers are successful in encouraging greater private financing in the region and mobilising the bloc's outsized savings towards investments. According to Eurostat³, the rate at which households in the euro area are saving has increased by over 2% in the last two and a half years to 15.3% (for comparison the rate in the US is 4.6%⁴), while the investment rate has fallen from a high of 10.3% to a low of 9.1% in the same period.

Despite previous efforts to foster a more vibrant investment culture through the EU's Capital Markets Union agenda, more remains to be done. The European

Commission's intention to bring forward proposals incentivising greater retail participation in capital markets, both through general investment accounts as well as retirement savings plans, is therefore welcome.

In particular, I am hopeful that the European Commission can deliver on establishing a truly pan-EU framework for the roll-out and uptake of investment accounts at Member State level. To ensure the greatest chance of success and to achieve the scale required to respond to the EU's investment needs, in my view the framework will need to be as harmonised as possible, focusing on:

Ease of access, for example through the use of a streamlined suitability assessment;

Broad range of investment opportunities, across asset class, geography, investment vehicle etc.; and

Efficient tax administration, acknowledging that tax treatment or incentives may vary across Member States.

In addition to this, it is becoming increasingly clear that, with an ageing population, public pension expenditure expected to rise in the vast majority of Member States in the next 20 years⁵, and fiscal pressures showing no signs of abating⁶, further action is needed to support citizens in planning for life beyond work.

It is therefore welcome that the European Commission, in its Competitiveness Compass for the EU, outlines its intention to develop "the potential of private and occupational pensions to help EU citizens plan for their retirement".

In this regard, the European Commission would be advised to revisit and further develop its work on auto-enrolment⁷ and, as far as possible, encourage Member States to implement such mechanisms where they do not currently exist. This should be accompanied by proposals relating to the adoption of default or lifecycle strategies in both accumulation and decumulation phases of retirement planning, with a focus on ensuring financial security in the long-term.

Pursuing the adoption of policy measures supporting long-term savings and investments in this way would also provide an opportunity to increase allocations, as appropriate, to private market assets, such as real estate and private credit, given the longer time horizons of such investors. Not only would this enhance savers' portfolio diversification and potential investment returns, it would respond to the Draghi report's call for more

"productive investment" in the real economy.

In each of these areas, the asset management sector has a central role to play, alongside distribution partners, in delivering suitable investment opportunities – whether via individual funds such as UCITS, ETFs, or ELTIFS, or model portfolios and solutions offerings – that respond to the long-term needs of investors while also delivering value for money.

**It is clear that further
action is needed to
support citizens in
planning for retirement.**

In this regard, I look forward to engaging constructively with policymakers and industry partners to ensure that the SIU agenda is a success and that, through the measures discussed in this article, EU citizens' ability to create wealth and ensure their long-term financial security is enhanced.

1. European Commission, *Communication on a Competitiveness Compass for the EU*, January 2025
2. Mario Draghi, *The Future of EU Competitiveness*, September 2024
3. Eurostat, *Non-Financial Sector Accounts (Q2 2022–Q3 2024)*, January 2025
4. Federal Reserve Economic Data (FRED), *Personal Saving Rate*, January 2025
5. European Commission, *2024 Ageing Report: Economic & Budgetary Projections for the EU Member States (2022–2070)*, April 2024
6. European Central Bank, *Longer-term challenges for fiscal policy in the euro area*, June 2024
7. European Commission, *Best practices and performance of auto-enrolment mechanisms for pension savings*, November 2021

INCREASING RETAIL INVESTMENT



CARMINE DI NOIA

Director of Financial
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Development (OECD)

Financial markets should not be a casino for the uninformed

Retail investment is growing rapidly, driven by easier access to financial markets through user-friendly digital trading platforms and a new generation of young investors. At the same time, retail investment practices are evolving, with investors increasingly self-directed and influenced by social media. Many are also turning towards high-risk products like crypto assets. As a result, financial consumers face new risks, including online frauds and scams. Without proper financial literacy, investing can resemble gambling, leading to avoidable losses.

Limited financial literacy can hinder safe and informed participation in financial markets. Alongside a robust financial consumer protection framework, financial literacy should be central to EU efforts to strengthening retail

investor participation in capital markets and ensure that it ultimately leads to greater financial well-being and a more inclusive financial democracy. Financial literacy is essential to help consumers make informed decisions, assess and manage risks, diversify their portfolios, and invest for the long term.

Yet many individuals lack the financial literacy to navigate today's fast-changing financial landscape safely. The *OECD/INFE 2023 International Survey of Adult Financial Literacy* highlighted that many adults struggle with basic financial concepts like compound interest and investment diversification. The 2022 Programme for International Student Assessment (PISA) also showed that the future generation of investors has limited awareness and knowledge about investing. On average across OECD countries and economies, fewer than one in three 15-year-olds reported that they had learned about diversification (18%), dividends (24%), compound interest (25%) or return on investment (27%) and still know what these terms mean. Results also showed that socio-economically disadvantaged students are overrepresented among low performers in financial literacy, calling for policy action to prevent inequalities from increasing as these students reach adulthood.

**By enabling confident and
safe investing, financial
literacy is a matter of
financial democracy.**

The OECD was one of the first international institutions to prioritize financial education, notably by creating the OECD International Network for Financial Education (OECD/INFE) in 2008. Adopted in 2020, the OECD's *Recommendation on Financial Literacy* sets a global standard, urging governments to adopt national strategies that engage public authorities and relevant stakeholders in the development of coordinated financial education programmes, including those targeting vulnerable populations. Today, a growing number of countries and economies have national financial literacy strategies. The OECD has worked closely with EU Member States

such as Austria, Germany, Greece, Ireland and Poland to support the development and implementation of evidence-based national strategies, including initiatives to improve financial literacy on investing.

The OECD has also developed country-specific strategies aimed at improving the financial literacy of retail investors. For example, the *Financial Literacy Strategy for New Retail Investors in France*, developed with the Autorité des marchés financiers (AMF) and SG REFORM, responds to the post-COVID surge in new investors, many of whom lack experience. The strategy integrates behavioural insights and digital financial education tools to engage investors where they are most active, ensuring they have the knowledge to make informed investment decisions.

Another key initiative is the development of *Financial Competence Frameworks*, which serve as essential tools for guiding financial education initiatives, including those targeting retail investors. In 2019 the OECD and IOSCO developed a core competence framework on financial literacy for investors, defining key financial knowledge and behaviours to help policymakers and financial institutions improve investor literacy. More recently, the OECD and the European Union jointly developed two financial competence frameworks - one for adults and one for children and youth - outlining essential financial competences for safe investing.

At the OECD, we remain committed to advancing financial literacy for retail investors, across the EU and beyond. We will continue supporting the development and implementation of national financial literacy strategies, thanks in part to support from the European Commission's SG REFORM. We will also continue collecting data through international exercises such as the PISA 2029 assessment and the upcoming OECD/INFE international survey of adult financial literacy, as well as through country and regional level studies. Finally, through the OECD/INFE network, we will monitor emerging trends and best practices to support the development, delivery and evaluation of financial literacy programmes, ensuring that retail investors are equipped with the knowledge and skills necessary to navigate financial markets safely and effectively.



STÉPHANIE YON-COURTIN

MEP, Committee on Economic
and Monetary Affairs –
European Parliament

Empowering European Retail Investors: A Blueprint for a Strong Strategy

With a new mandate, a new Commission, and a renewed compass guiding us forward, delivering on our work with the Retail Investment Strategy is imperative. In the face of emerging challenges, the call for a more competitive and autonomous Europe has never been louder. Within financial services, a key driver of this agenda is the development of a true Savings and Investments Union. It is within this evolving economic and geopolitical landscape that the Retail Investment Strategy (RIS) must be finalized. To break it down, the essence of the RIS can be captured by its core elements.

Three key pillars are the driver of this initiative:

First, **Retail**—How do we effectively engage retail investors and encourage broader participation in financial markets?

Stepping back, one core issue is the urgent need to shift from a savings culture to a true savings and investment culture. Right now, an enormous amount of money is sitting unused

in European savings accounts—funds that could instead be working to secure better pensions for citizens, fuel the real economy, and build a stronger financial future. But there's a major obstacle: financial literacy. Many Europeans simply don't feel equipped to make informed investment decisions, and that must change.

The Retail Investment Strategy must be fine-tuned to strike the right balance. It should not only empower citizens through public initiatives and the integration of digital tools but also ensure that investment products are designed with the consumer in mind—minimizing unnecessary costs while maximizing accessibility. Value for money requirements and stronger financial literacy measures will be key to unlocking these opportunities. Citizens must have both physical and online access to high-quality financial advice and a diverse range of investment options at fair and transparent prices.

Second, **Investment**—How do we channel more investment into European companies to foster growth and innovation?

If Europe's financing gap stands at a minimum of 800 billion euros per year, relying solely on public funding is simply not an option. Capital markets must step up to bridge the gap and provide businesses with the financing they need to grow and innovate. At the same time, ensuring greater corporate responsibility through the value for money framework will help build trust in financial markets. The goal is not to disrupt the entire system but to acknowledge its imperfections and work toward meaningful improvements.

**We are expected
to deliver, and the
time to act is now.**

This is why strengthening the accountability of all companies through value for money measures is essential. This approach examines the entire value chain—from the creation of financial products to their distribution—ensuring that sector-specific legislation does not create loopholes that allow unjustified fees to be charged along the way. Giving national supervisors stronger tools to intervene will also make a real impact.

Finally, unlocking additional investments can be done by revisiting client categorization rules, reducing unnecessary bureaucratic burdens, and

expanding investment opportunities for experienced investors.

Combined with a stronger focus on financial literacy, these measures can help shift the perception that investing is risky for financial security—when, it can be a key tool for long-term financial stability and growth.

Third, **Strategy**—How to achieve these goals in the final stages of negotiations?

The key lies in creating a true Savings and Investments Union—our ultimate objective. To increase citizen engagement and unlock financing for businesses, we must simplify the process.

For the Retail Investment Strategy, this means simplifying the positions of co-legislators on critical issues, particularly when it comes to applying the value for money principle across the entire value chain. Equally crucial is streamlining reporting to reduce unnecessary duplication.

But let's be clear—simplification does not mean deregulation or scaling back ambition. If done correctly, it will bring significant benefits to both consumers and businesses.

For citizens, an improved and simpler framework will bring greater clarity, enable them to better leverage digital tools, improve financial literacy, and gradually restore trust in finance. For businesses, it will foster innovation, enhance competitiveness, and expand their funding opportunities. Achieving a balanced and practical approach to the value for money requirements is essential for an effective and trustworthy framework.

The Retail Investment Strategy must go beyond being just another policy—it must drive real change. We are expected to deliver, and the time to act is now. The Retail Investment Strategy can define Europe's future—let's rise to the challenge and make it count for both retail investors and companies.



FAUSTO PARENTE

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

RIS value for money benchmarks & simplification – boosting consumer outcomes

EIOPA supports the European Commission's Retail Investment Strategy (RIS) proposal, particularly the Value for Money (VfM) framework. If properly calibrated, RIS can bring significant benefits by mobilising consumers' capital into investment products offering VfM, improving consumers' financial health and deepening European capital markets.

EIOPA's 2024 Eurobarometer survey highlights key barriers discouraging EU consumers from purchasing insurance-based investment products (IBIPs): high costs (17%), lack of understanding (15%) and poor performance (10%). Low cost (37%), good returns (34%) and ease of communication with providers (29%) are seen as most important in perceiving VfM. EIOPA's Cost and Past Performance (C&PP) Report shows that while costs have not risen despite inflation, the reductions seen in the investment funds have yet to materialize in IBIPs markets.

In this context, EU VfM supervisory benchmarks contribute to objective product pricing, ensuring costs and charges are justified and proportionate

to performance, benefits, and product features such as guarantees and biometric risk coverage. Benchmarks help National Competent Authorities (NCAs) prevent products lacking VfM from being marketed to consumers, supporting a more data-driven, risk-based and independent supervisory assessment, which a self-regulatory approach could not achieve. EIOPA's work shows benchmarks are achievable - products from many markets are similar and concentrated in a small number of clusters, enabling the creation of sub-clusters and considering additional specificities.

RIS negotiations are occurring alongside discussions on simplification, burden reduction and the development of the Savings and Investments Union. Simplified, sustainable regulation or business models can enhance consumers' financial health. While RIS is essentially product-agnostic, retail investor participation could also increase with the development of a simpler savings product with a pan-EU label and reduced documentation/distribution requirements to help bridge the widening savings gap.

When simplifying, a pragmatic, evidence-based perspective is essential, prioritizing collective EU interests over national priorities. The rationale behind product-sensitive benchmarks applicable to all markets where products are commercialized, is that EU consumers pay similar prices for products with similar returns/services, facilitating the development of the single market – a “one stop shop” for firms rather than multiple parallel regimes. EIOPA's C&PP Report shows that cross-border business benefits consumers only in some corridors, while in others, cross-border products are costlier than domestic ones.

How Value for Money benchmarks and simplification can boost consumer outcomes.

EIOPA sees potential for simplifying RIS. A dual system with peer grouping and benchmarks, plus a supporting database, would be duplicative and increase the burden for supervisors, manufacturers and distributors. They would need to stay updated on developments around each tool, whose interplay is unclear, potentially causing to supervisory challenges if they lead to diverging VfM evaluations. Moreover, providing access to sensitive, commercial data not

publicly available, would be costly and add little value, given the existing IT infrastructure already.

EU supervisory benchmarks help reduce burden for firms, especially for smaller ones lacking resources for detailed peer-grouping. EIOPA would develop these benchmarks, in collaboration with NCAs, allowing firms to use them as a simple tool to assess consumer risk.

Simplification requires pragmatic, evidence-led steps while ensuring good outcomes. EIOPA's recent mystery shopping exercise revealed a need and clear opportunities to simplify the customer investment journey. Advised sales, which involve a suitability assessment, can involve a lengthy, cumbersome onboarding process for the distributor to gather data about the customer's situation before making a personalised recommendation. Our findings show that longer processes do not necessarily improve consumer outcomes, which are often driven by other factors such as product availability.

Bringing a stronger focus in the regulatory framework on achieving good consumer outcomes, rather than on rigid, procedural requirements could be a step forward. Also, introducing more proportionality – considering the distributor's service, the specific distributed product customer type and the necessary personal data – could also bring benefits. Simplification in this area could be particularly benefit SMEs struggling to meet all the requirements.

In conclusion, this is a crucial opportunity to make simplification meaningful in RIS and boost retail investor participation. However, based on our experience with the limitations of NCAs in ensuring sufficient 'pre-emptive' corrective action and compensation for consumers, the regulatory framework will only be effective if properly implemented. Strong European supervisory convergence, as well as robust ex post enforcement powers, are equally important.



INÊS DRUMOND

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Commission (CMVM)

RIS negotiation: a game changer in a new context?

A vibrant, integrated and deep capital market plays a crucial role in enhancing the EU economy's competitiveness and resilience. I assume this is widely accepted. A well-functioning capital market, like any other market, needs both sellers and buyers: both sides of the market (supply and demand) need to be enhanced. The supply of financial instruments depends on firms' willingness to finance themselves through the capital markets. I assume this to be a given, for the moment, and I focus instead on the demand side: how to attract investors and encourage them to invest a higher fraction of their savings in more productive and strategic activities.

The level of investors' trust on markets is key in this context. Trust, in turn, depends on several factors such as i) the effectiveness of supervision; ii) financial literacy and iii) the value-for-money of the financial instruments offered.

RIS aimed to increase investors' trust in the capital markets by ensuring they are treated fairly and better protected. But is the RIS the right response to the challenge?

The task is complex, and the impact of some proposals can only be grasped after the adoption of Level 2 measures.

However, the sum of the improvements proposed with some burdensome innovative rules may not be the route for decisive change. Thus, it is not entirely surprising that the proposal has been the subject of much debate and counterproposals. However, these hardly pass the test of simplicity and fit-to-purpose.

Concerning inducements, although the Council's approach did not substantially challenge the current regime, it would contribute to higher complexity by i) introducing overarching principles to be respected when paying or receiving inducements and ii) conducting a best client interest test to pay or accept inducements. The EP's position is simpler, dropping the ban on incentives for execution-only services and abolishing the designed-to-enhance criterion that would allow inducements in specific cases. However, stricter rules on the provision of investment advice are proposed. Given the different perspectives and mixed outcomes in countries that banned inducements, and in the absence of strong evidence of positive impact for investors, the proposed ban was not acceptable. However, it is also unclear whether the proposed principles and test will improve the service or if the EP rules on investment advice won't deviate focus from more important elements like cost-efficiency.

**Changes in rules may
be needed, but key
improvements may
depend more on a new
will than on new rules.**

The Council's value-for-money proposal also raises some concerns. The possibility to choose between peer-groups and EU benchmarks for the purpose of product comparison brings complexity. The EP's simpler peer-group approach raises doubts about the real advantage of introducing a mandatory product comparison with industry developed peer-groups. Although CMVM strongly endorses a value-for-money assessment, a product comparison with pre-established, mandatory peer-group/benchmarks may not be the right approach as it would lead to higher supervisory costs, may risk stifling innovation, may lead to unintended distortions in the financial market and be insensitive to different market conditions and to investors' needs and risk profiles.

The break in negotiations allowed for further consideration and, in light of the new context, a greater clarity and focus on the "take 2" of the RIS negotiation is to be expected.

In CMVM's view, making clear and comparable information available to investors will empower them to make decisions that better suit their needs. Introducing ways that make easier for retail investors to compare different (but comparable) products, notably in terms of costs and expected returns, is always a plus. But there are other unexplored areas at the EU level that might bring about the desired change. In particular, the development of the 2nd and 3rd pillars of the pension systems, crucial to complement the redistributive schemes in a vulnerable ageing EU, has also the advantage of allowing potential investors to become more familiar with the capital markets while enhancing markets' liquidity and scale. Financial literacy at this level is also key. However, independently of the effort that is still needed to integrate financial education in school curricula, the promotion of the 2nd and 3rd pillars will also incentivize more people to improve their knowledge and attitude towards capital markets, thus building a greater investment culture in Europe.

That said, can we attract more investors (i.e., spur the market's demand side) if the offering is unappealing in terms of financial returns compared to other alternatives? I do not think so. We need innovative and ambitious firms willing to compete with the best, for whom the capital market will be a strong option. These companies are the ones that will truly attract EU citizens to the capital markets. To foster this business environment, the SIU, including the RIS, need to be integrated into a holistic plan to promote productivity and competitiveness in Europe.



COSIMO PACCIANI

Head of Unit, Group
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Back to basics: a bottom-up savings market

In a 1917 book, *'Postal Savings'*, Prof. W. Kammerer (Princeton University Press), investigated how the US working-class population, including European immigrants, was strongly attracted by postal deposits/savings. Among many reasons listed, the following ones stand out: the *"democratic atmosphere which pervades most offices"* and *"all the immigrants from main countries have postal saving banks at home"*, so they were familiar with the products and their relative safety (Europe was at war at that moment in time). These lessons mirror the principles underpinning the Commission's *Retail Investment Strategy (RIS)*: ease of access to financial products, transparency and accuracy of information, clarity on risk profiling of customers, protection of data and investments and, crucially, an adaptive investment culture.

The accent on 'Savings' firstly introduced by the Letta Report, also key to the *Capital Markets Union (CMU)* – renamed *Savings and Investments Union* – aligns with the geopolitical context. The role of finance has once more become the main building block in the upcoming upgrade of infrastructures and on keeping the ongoing efforts on different kinds of adaptation (e.g. climate change and reskilling).

Harnessing European savings by the public and private channels implies an alignment to society changes. Savings collection in our fast changing times needs to adapt, just as our responses to climate change, to new trends and the pervasive invasion of innovation in our lives, which is both a risk and an opportunity.

Some elements:

Development of a bottom-up approach:

The statement of the Eurogroup in March 2024 fostered the idea that retail investors are nowadays in the driving seat. Their investment choices and preferences are more skewed on a prolonged interval between annuity returns and fast profit seeking. Financing bodies should try and connect with these classes of investors by offering a greater diversity of products and by addressing the link between public/private financing needs and risk-time profiles of retail clients. The 'democratic'/'no frills' approach highlighted in 1917 is similar to the current disintermediation drive, though investors' activism at retail level is becoming higher (a recent piece by the Wall Street Journal defined this the end of *'the Set&Forget investors'*).

A completed SIU could be seen in terms of a new virtual space where to reconnect retail investors.

Impact of demographic and socio-economic transitions:

There is a drift of demand for savings products across demographic clusters: annuity-life products preferences among older generations are counterpointed by resilient demand for more cash-like products by the younger generations. There is also increasing demand for easier paths to redemption and revaluation of investments. Besides, policies will have to consider the impact of social media advisory and finance gaming platforms among younger generations. Last but not least, we may see the beginning of new products where wealth management, health insurance or care and welfare could be brought together, offering not only income but different layers of protection to an ageing European population, a kind of *"wealthfare"* offering.

Financial education and digital innovation:

It is increasingly difficult to separate financial education and digital awareness, as most of the

financial products today are managed through websites and digital platforms. Telephone advisory is becoming more and more managed via AI. Technology will allow the development of intuitive applications, where it will be important, in some form of gamification approach, to provide snippets of financial education and micro-training to customers, along the lines of language apps. Having said that, it remains important to define communication channels for every client to human-based advisory in order to provide more tailored support. Once again, innovation will boost productivity and reduce costs, but we should not ignore the key fact that the main engine of growth remains the trust of customers towards financial institutions.

Data usage and customer feedback loops:

Access to clients' data is a key feeding component of algorithms, now widely used by the financial industry. The way in which feedback data is collected varies from industry to industry, with the financial one already gathering information to improve systems. However, we may want to find solutions that will allow clients-citizens to be part of this data collection, building platforms that will allow for transparency on how data is used and offering some form of dynamic consensus and benchmarking on clusters of individuals' decisions as additional service. We might even want to build some public consortium of data analysis on collective trends, a kind of public alert system.

Somehow, the advent of a completed European SIU could be seen in terms of the 1917 analysis of *Postal Savings*: a virtual office, where clients will be offered a 'democratic', user-friendly and safe access to European saving products.



MARTIN PARKES

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Transforming retail investment: The role of financial planning advice

Well-functioning capital markets rely on a broad and diverse investor base of institutional and retail investors. Increasing retail participation in EU markets has the potential to create a virtuous circle which not only deepens capital markets but also drives sustained economic growth. However, the primary motivation for encouraging EU citizens to invest their savings should focus on enhancing their long-term financial well-being.

BlackRock's 2024 "People and Money Survey"¹ shows that only 34% of Europeans currently invest, lagging other developed markets. Among those not investing in capital markets, a significant number cite a lack of knowledge and understanding as major barriers, with 12% unsure about where to begin. These findings suggest that complexity and accessibility remain some of the main barriers to investing.

The overarching goal of regulatory reform should be to make investing more relatable and accessible to a wider range of people, particularly those who may feel excluded or overwhelmed by the breadth of traditional investment options or by the complexity of opening an investment account. Whether in the Retail Investment Strategy or the broader Savings and Investments Union project,

measures aimed at making medium and long-term investment accounts accessible and attractive across the EU, particularly by encouraging regular savings, boosting financial literacy through financial health checks, simplifying the onboarding processes for investment products and promoting accessible financial planning advice could go a long way to meet investor concerns.

In particular, we see a gap in the market for financial planning advice to help more retail investors navigate the current investment landscape. While many investors identify the need for advice, they often view existing advisory services as too expensive, burdensome to access or not tailored to their specific needs. Advisors are increasingly looking for new ways of providing advice which is better connected to the goals of mainstream retail investors, drawing on experience in non-EU markets, where we observe significant innovation and use of technology to develop intuitive advisory solutions for investors.

In this context, the RIS offers a unique opportunity to introduce such a simplified advice framework within MiFID II and ensure that all advisers can offer it, regardless of business model. These adjustments will allow advisory services to be more relatable and affordable to access and scalable to provide, addressing existing financial and psychological barriers.

Financial planning advice has the potential to play a key role in encouraging greater retail participation.

Simplified advice can use the existing MiFID target market regime for both product manufacturers and distributors as many of the suitability elements inherent in advice are already embedded in the product design and distribution processes. This allows the rollout of a simplified advice regime over a range of non-complex financial products designed to be suitable for mass-market retail investors while continuing to ensure high levels of investor protection.

In parallel, we recommend reviewing the MiFID definition of advice to provide clarity on when information becomes an implicit recommendation and when a recommendation can tip over into a personal recommendation, and hence advice, to reduce legal uncertainty and encourage market

participants to offer more support and information to investors.

Ultimately, we believe financial planning advice has the potential to play a key role in encouraging greater retail participation. Through accessible, personalized, and cost-effective solutions, financial planning advice, supported by digital tools, can empower retail investors to take control of their financial futures without sacrificing existing standards of investor protection. To achieve this vision, collaboration among policymakers and financial institutions to achieve the goal of motivating EU citizens to invest more to secure their futures.

1. BlackRock "People & Money" Survey. October 2024. Available here: <https://www.blackrock.com/uk/literature/brochure/people-and-money-infographic-emea.pdf>



TAMAZ GEORGADZE

Chief Executive Officer –
Raisin GmbH

Unlocking the potential of retail investing in Europe

Retail investing is a crucial pillar of economic development and financial well-being. More engagement from households in investing would yield multiple benefits, including closing the pension gap, achieving better returns, and ensuring more efficient capital allocation in the real economy. Additionally, it would mitigate excessive intergenerational capital transfers, leading to improved societal outcomes. Given the immense pool of household capital in Europe, which amounted to more than EUR 32 trillion in 2023, even a marginal improvement—such as a one percent higher return on total capital—could create hundreds of billions in value annually. However, achieving these gains requires a pragmatic, goal-oriented approach that takes fostering cross-border investing, the lack of financial literacy, missing flexibility and tax neutrality into account.

Cash returns and retail investing

The current perception of retail investing as securities is too narrow. In Europe, more than one third (34.1%) of household assets are held in cash and deposits, which is unsurprising given the predominant role of banks in corporate financing compared to the U.S. This structural reality is unlikely to change rapidly, especially considering demographic

trends toward increased longevity and a general risk-averse mindset among consumers. Consequently, a more comprehensive perspective on retail investing must include optimizing returns on cash savings.

At Raisin, we are addressing this issue by focusing on returns on cash savings and inefficient local deposit behaviors. With central bank reference rates expected to remain positive for the next decade, there is significant potential for improvement. Currently, less than two percent of German savings are invested across borders (quite often European banks offer better returns on cash than local incumbent providers), highlighting the need for better consumer awareness of investment choices, proactive periodic assessments of idle cash, and increased access to competitive third-party deposit solutions through platforms.

Prioritizing goal orientation over formalism

Historical initiatives aimed at encouraging retail investing have often failed to meaningfully influence consumer behaviour. Overly formalistic requirements—such as obligations of wet signatures and excessive consent procedures—have added administrative burdens without delivering tangible benefits for customers and providers alike. A shift toward a goal-oriented approach is needed.

A graded assessment framework that evaluates investments along key dimensions, such as cost, transparency, diversification, liquidity, and expected performance, would be more effective. Instead of one-time assessments at the initiation stage, investors should have continuous access to such evaluations, allowing them to make informed decisions throughout their investment journey.

Enhancing financial education

While financial education is widely acknowledged as important, it needs to be practical, concise, and ongoing. The bulk of free capital is held by older citizens, who often operate under common misperceptions that cannot be effectively addressed through school-based financial literacy programs. The lack of financial knowledge led to almost 90% of adults in Germany saving actively, but only 18% holding investment products, according to an OECD study. Online tools providing personalized insights can help tackle issues such as European's unrealistically short estimates for their own life expectancy, view of investments in isolation rather than as part of a holistic

portfolio and overestimating their own actual liquidity needs.

Cross-border barriers in retail investing: Tax neutrality and more flexibility

Tax incentives play a pivotal role in shaping investment behaviour, and current frameworks in many European countries discourage retail investing. Some nations lack private pension plans, while others impose strict capital guarantees that conflict with the dynamics of capital markets. If member countries add national tax benefits to the pan-European pension product while avoiding mistakes like costly capital guarantees, they could drive broader retail participation in capital markets.

Despite the promise of the EU's single market, cross-border retail investing remains fraught with inefficiencies. Limited consumer options in smaller markets hinder competition and choice. There is an urgent need for policies that incentivize financial service providers to offer investment products to a wider audience, including citizens of smaller countries. Additionally, issues such as double taxation agreements and tax withholding complexities must be addressed to unlock the full potential of a truly integrated European capital market.

The EU needs pragmatic reforms to foster retail investing

In a difficult political time, Europe has the opportunity to significantly enhance household investment outcomes by adopting a pragmatic, goal-driven approach. By broadening the view of retail investing, streamlining implementation, strengthening financial education, ensuring tax neutrality, and addressing cross-border disadvantages, we can secure better financial futures for millions of Europeans.



ALEKSANDRA MACZYNSKA

Managing Director –
Better Finance

Retail Investment Strategy – Will it make a difference?

The Retail Investment Strategy (RIS) was launched in May 2023. It emerged from the realization that many EU consumers, pension savers, individual investors and insurance policyholders alike, keep substantial savings in cash and bank deposits instead of investing them and improving their financial health and wealth. The political debate on enhancing trustworthiness and improving access to independent investment advice has now unfortunately closed. Moreover, the current political discourse on boosting retail investments centers on a forthcoming Communication on the “Savings and Investments Union,” effectively relegating RIS. However, from an individual investor’s perspective, several policy options mentioned both in the European Parliament’s and Council’s positions can still improve the status quo in the coming years, provided that the co-legislators keep EU savers’ best interests at heart during the trilogues beginning on 18 March.

A central question remains: Will the RIS proposal, considering the positions adopted by the co-legislators, encourage greater retail participation in capital markets and unlock the full potential of European capital markets? I believe it will, on the condition that the final legislative package is consumer-centric and the

co-legislators reach a compromise that has as its main goal facilitating retail investments in cost-efficient good quality products. BETTER FINANCE’s recent paper on the Parliament’s and Council’s positions on RIS may serve as a guidance through this process¹. For instance, a ban on inducements for non-advised sales was a key demand from the retail investor community, yet it was removed from the EP position without a replacement. In contrast, the Council provides an inducements “test” and overarching principles that would be beneficial for individual investors. But there are several other elements that are worth working on.

An important area requiring simplification – that in turn could truly empower investors – would be the no-nonsense disclosures and re-instating the financial performance information in the PRIIPs Key Information Document (KID). In BETTER FINANCE’s view, the current future performance scenarios are misleading. Instead, individual investors would benefit from clear disclosure of past performance of the product alongside that of a benchmark. Therefore, we recommend that legislators remove references to “scenarios” in the PRIIPs Regulation.

The Value for Money (VfM) assessment process is critical. Quantification is necessary to compare costs and benefits of products with similar characteristics. The Council’s version includes requirement to “identify and quantify” all costs: For manufacturers, maintained and extended to “the other benefits of the product” (e.g. insurance risk cover) and for distributors maintained for any distribution costs not already taken into consideration by manufacturers. We support the requirement to identify costs and charges and performance and assess whether the former are justified in view of the latter (“VfM assessment process”).

**Consumer-centric
RIS compromise
may improve retail
investments, boosting
returns and trust.**

Likewise, the identification of VfM, where costs and charges are weighed against performance, must be both transparent and quantifiable. For benchmarking, the Council’s version rightly mandates the use of data published by ESAs, with methodologies defined in delegated acts, and permits national benchmarks only as

exceptions. This ensures a harmonised, EU-wide approach and prevents underperforming providers from adding unnecessary national specificities to their products to eschew European-level comparisons, undermining the Savings and Investments Union.

Furthermore, the “best interest of the client” test is a good example where both the Council and the EP could work out a compromise improving the current situation of individual investors. Ideally, in the final version we would see a mix of solutions including appropriate range of products from the EP’s version and recommendation of most cost-efficient product (a combination of the Council’s version with the EP’s addition on the need to justify recommending a higher-cost product).

From the perspective of an individual investor, a consumer-centric compromise reached during the upcoming trilogues could significantly improve conditions for retail investments. By endorsing clearer rules on inducements, insisting on straightforward financial performance disclosures, defining “cost-efficient” products, and providing a VfM framework with relevant assessments and benchmarking, co-legislators have an opportunity to empower individuals to make better-informed investment decisions and encourage them to put their savings to work in the real economy.

1. “Improving Retail Investment in the EU”
<https://betterfinance.eu/publication/improving-retail-investment-eu-trilogues/>

LONG TERM RETAIL INVESTMENT PRODUCTS



JOS HEUVELMAN

Member of the Executive Board – Dutch Authority for the Financial Markets (AFM)

Long-term products must be simple and cost-efficient to fill the investment gap

The urgency that is currently felt across Europe is an opportunity for member states to make serious work of stimulating citizens to improve their prosperity by investing for the long term. They can do this by organising second pillar, occupational pension systems, or by creating simple, cost efficient and diversified long-term investment products, or a combination. This will increase future prosperity of European citizens and provide our economy with the necessary capital funding.

Member States can take different routes depending on their preferred economic model and other national characteristics. Whichever option they choose, however, low costs, high trust, and a long-term nature will be key features. The European Commission and European institutions can support Member States.

For those who have been following the Retail Investment Strategy closely

over the past four years, the problem diagnosis and recommended solutions in the Draghi, Letta and Noyer reports frankly feel like a déjà-vu. Political will to fix major deficiencies in the European retail landscape has been insufficient in the face of national interests. Hopefully, the new discussions on the Savings and Investments Union can ensure that products are of high quality and advisors work in the interest of their clients.

Collective pensions decrease costs for investors

The Dutch experience with large, mandatory occupational pension funds has shown how a collective approach can bring down costs, improving outcomes for consumers, and invest more directly in young and dynamic companies and small and medium enterprises. The large amount of assets owned by pension funds gives them a better bargaining position vis-à-vis asset managers. Moreover, the large number of participants leads to relatively low fixed costs. Although costs vary per fund, the large Dutch pension funds have total annual costs of about 50 basis points, which includes investment management, transaction fees and pension administration. This is much more attractive than the 2.1% average annual costs that non-ETF UCITS funds charge to investors (Source: ESMA Cost and Performance of EU Retail Investment Products 2024).

Products must be simple and offer value for money

The above route may not be desirable or feasible for each Member State. Instead, long-term products can fill the investment deficit if they are cost efficient, diversified and relatively simple. A label for simple products can help (potential) investors make sense of the sometimes overwhelming supply of different kinds of products and funds available on the market. Products that qualify for this label must primarily be in the client's interest through cost efficiency, adequate diversification and a relatively simple nature. Investing in EU assets can be a secondary goal, but not at the expense of necessary diversification and long-term returns.

Consumer behaviour and the demand-side

There is no lack of products available to European investors, ranging from personal pension products to investment funds and investment-based insurance

products. Developing more types of products may offer little additional benefit. Rather, insights from consumer behaviour should be applied to entice potential investors. A recurring financial fitness check, which happens every five years or at major life events, can help raise awareness of the necessity to invest, for yourself or for your children.

Even with recurring check-ups, however, the average citizens will postpone difficult decisions, sometimes until they are too late. Auto-enrolment is a far-reaching but effective policy option to diminish the risks associated with suboptimal consumer behaviour. **When it comes to long-term investing, either through a pension plan or a long-term product, small steps will yield big results.** Even small percentages, e.g., in terms of gross wages, will make a big impact.

PEPP review

A lot has been said about the one percent cost cap of the basic PEPP. With sufficient scale, offering a PEPP below this cap should certainly be possible. The problem is the start-up phase, where firms need to make expenses and scale has not been achieved yet, making PEPP unprofitable. Because of the importance of low costs, however, I would argue against letting go of the cost cap. It remains to be seen whether costs will really go down in later phases of the product, once scale has been achieved. This hypothetical decrease may come too late to be of use for early investors. Instead, the PEPP could be made simpler and less burdensome to offer.

When it comes to long-term investing, small steps will yield big results.

The Commission has committed to propose (legislative) initiatives the coming years that address these issues. The ambition looks promising. Member States, supervisors and other European institutions will have to match that ambition to ensure that capital markets fulfil their promise for future prosperity.



NATASHA CAZENAVE

Executive Director –
European Securities and
Markets Authority (ESMA)

Empowering citizens on their investment journey

Europeans are good savers. They tend to favor bank deposits and low-risk, liquid products to safeguard and grow their savings¹. Since inflation typically outpaces low (or no) yields on such instruments, savers are often faced with a net-loss. The 2025 ESMA Cost and Performance Report² demonstrated that a current account with EUR 10 000 in 2014 would only be worth around EUR 7 900 after 10 years. This not only undermines the potential wealth generation of European households it also reduces the pool of capital that could fund growth in the real economy. The ECB estimated that EUR 350 billion could flow annually into long-term market-based investments, if households were to better diversify their assets³.

However, the opposite extreme is also observed as the new generation of investors increasingly eyes high-risk crypto-assets. Against this background, questions sometimes arise whether some of the investor protection requirements led to unintended complexity that deters investors or, on the contrary, whether factors unrelated to regulation, such as social media, may have contributed to retail investors' hesitation or otherwise lead them towards risky choices.

The momentum on the Savings and Investments Union (SIU) sparked renewed discussions on ways to build an investment culture and stimulate participation in capital markets amongst EU citizens. The experience of retail investors wishing to invest their savings, or the investor journey, plays an important role here. It spans from the initial engagement with an investment firm through to post-sale interactions. Adapting the tools and conditions surrounding this journey and making them conducive to a smooth entry and continuous engagement in markets are indispensable steps towards more retail participation and the SIU.

Investors need to get a good deal on their investment.

When it comes to the conditions, complexity of products offered, concerns over high fees, or past experiences of low returns are all on the radar. Potential improvements to the investor journey, may be found by taking a second look at firm practices and regulatory requirements. Digitalisation⁴, for example, can facilitate access for some types of investors and streamline the provided information. Further simplification efforts could already be pursued in the context negotiations of the Retail Investment Strategy. However, it will be important to ensure that changes to the existing rules do not compromise on the essential safeguards protecting investors, when they decide to invest for their future.

To empower investors, many stakeholders highlighted the importance of having in place the right incentives and products. Tax-incentivized investment accounts at national level and a new EU-wide label for "simple" investment products emerged among the most debated policy options. The former, already available in several EU Member States, can provide an efficient way to encourage retail investors to invest in financial markets and promote financial education. The latter could help investors easily identify products with certain features such as simplicity and low costs. Such a product could benefit from a streamlined distribution process thus making for a simpler investor journey as well. Given the potential fiscal implications of the public incentives that could be attached to these options, the choice is ultimately for Member States to make. ESMA is supportive of equipping investors with tools that will simplify their journey. In any scenario, it will be important to

ensure the chosen approach supports diversified asset allocation i.e. a variety of financial instruments could be accessible under the account or qualify for the label.

Investors will only remain engaged, if they can reap the benefits from participating in the markets. The effort here must be twofold.

First, investors need to get a good deal on their investment. Transparency helps investors assess the past performance and costs of products. One of the ESMA's Common Supervisory Actions revealed, however, that the layout, level of detail, terminology and costs percentages often differ from firm to firm and thus make it hard to compare this information. Going forward, investors could therefore benefit from a free and independent comparison tool for investment products. It would provide additional support in navigating through offers on the market. Second, investors need to be able to interpret the information, assess the investment options, and understand they enter the market for the long run. Without intensifying financial education, no tools or products can guarantee their financial success.

1. AFME, CMU KPIs, November 2024
2. ESMA, *Costs and Performance of EU Retail Investment Products 2024*, January 2025
3. ECB, *Follow the money: channeling savings into investment and innovation in Europe*, November 2024
4. ESMA, *Discussion paper on MiFID II investor protection topics linked to digitalisation*, December 2023



JÉRÔME REBOUL

Head of the Regulatory Policy
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Fostering retail investment through a two- sided approach ?

As part of the newly called Savings and Investments Union, the need to promote long-term investments by European households, both in order to optimize their allocation of savings and as a complement to the development of deep European capital markets, particularly in equity, has been raised.

There are many options to achieve these goals. For instance, the May 2024 position paper of the European Securities Markets Regulator (ESMA) on *'Building more effective and attractive capital markets in the EU'* proposed the introduction of a voluntary European label to distinguish certain financial products as 'basic', based on cost and complexity criteria. The EU Council in April 2024, the European Central Bank in November 2024, and the Commission in January 2025 have on their side advocated for a simple, cross-border savings and investment product at the EU level. In their reports, Christian Noyer and Enrico Letta have also emphasized the need for long-term investment products to finance the European economy, rather than simple products.

Although theoretically appealing, the concept of a product tailored for retail investors raises many questions. Designing such products would necessarily be complex. For example, the very first idea of what 'basic' entails would be problematic – should it bear a certain level of risk and to which extent? Should it mean simple to understand?

Above all, a basic product would not necessarily have the right properties in terms of supporting longer term investments by European households. It also seems problematic to introduce a bias in distribution regulation in favour of a given product, on the basis of *ex ante* properties and without considering the needs of investors.

The reason for these difficulties is that different objectives are implicitly or explicitly pursued in the course of that discussion. Facilitating long-term investments by households implies both : on the supply side, making sure that attractive products are available, some of which will not be simple or basic; and on the demand side, making sure that access to these products is easy and cheap.

**If the investor journey
is properly streamlined,
there is no specific need
for a basic product.**

It seems therefore much better to use two different instruments. On the one hand, the development of pan-European long-term investment "schemes" or "frameworks" should be explored. Such pan-European investment schemes or frameworks could have a greater impact than an additional classification of basic products. Any new scheme/framework should be product-neutral while having the appropriate features to allow for European long-term financing. Such a scheme or framework could therefore alleviate the complexity of having to define a specific product, but still be oriented towards the main objective of the Savings and Investments Union.

In the same time, in order to remove undue impediments to investing, the focus on the regulatory side should be on streamlining the investor journey. The focus should be on assessing to which extent the investor journey could be simplified in order to facilitate products' distribution. The underlying objective would still be to promote long-term investments in order to turn European households' savings into a competitiveness asset for the

European economy, but it would be achieved by facilitating the investor experience. This is also in line with the European Commission's objectives of simplification and burden reduction. Several reflexions could be conducted on this matter, such as reconsidering whether product governance is absolutely necessary for all products, and/or assessing the degree of complexity for investors of the appropriateness and suitability tests. Therefore, simplifying advisory processes would appear as a relevant and meaningful initiative.

Finally, as part of this debate, the Retail Investment Strategy should not be overlooked. Indeed, its ultimate objective is to enable European retail investors to make investment decisions that are aligned with their needs and to encourage more retail participation in capital markets, while ensuring that investors are treated fairly and duly protected. As such, the Retail Investment Strategy package contains a series of concrete proposals that can make a positive contribution towards the Savings and Investments Union and the co-legislators should try to strike a consensus on this initiative.

In summary, if the investor journey is properly streamlined, there is no specific need for a basic product, as all the simplifications of advice associated with any basic product will already be embedded in the work on investor journey.



MICHAEL J. MCGRATH

Assistant Secretary, Financial Services Division – Department of Finance, Ireland

Citizens will be central to the success of the Savings and Investments Union

Increasing retail investor participation in the EU is essential to fostering a more dynamic and inclusive Savings and Investments Union (SIU). Retail participation in capital markets is significantly lower in the EU than elsewhere. Household savings are concentrated in low-yield bank deposits within the EU and there is significant untapped potential to channel these funds into investment products that can offer better long-term returns. There is a need for individuals to build savings and investments, including pensions, for life events and for a proportion of those savings and investments to be used to support real economic activity. The need is even greater given recent trends including longer average life expectancy, less secure retirement funding and the changing nature of work – more jobs through an individual's working life, more self-employment and more work across multiple countries.

The recent period of high inflation, which saw the value of money held on deposit gradually diminish, highlights the value of diversifying savings. By

investing savings in a range of financial instruments, including investment funds, it may be possible to generate a high-enough return to counterbalance the impact of inflation. While such investments offer the opportunity to grow savings and generate wealth, they also entail different degrees of risk and may be more or less appropriate depending on an individual's capacity for risk, their investment horizon and financial goals.

The low retail participation in EU capital markets can be attributed to a combination of structural, regulatory factors and cultural factors including a higher risk-aversion of Europeans, thus favouring bank deposits which are perceived safer option even if they offer low returns. Other factors contributing significantly to low retail investors' participation in capital markets are investors' perception of value for money and understanding of risk and return. As a result, many investors can not envisage clear benefits in shifting their savings from traditional bank savings to other products. Product complexity, fees and charges, lack of understanding of cost and performance also lower retail investors' appetite. Furthermore, many investors struggle to understand risk-reward relation, often myopically associating investing solely with the risk of losing money rather than the opportunity to earn higher returns over time. A lack of sufficient financial literacy, skills and knowledge to navigate through various investment choices also pose a hurdle for retail investor in making more informed choices.

SIU should centre on pragmatic delivery and agility to unlock greater retail participation.

There are no quick fixes to improving retail participation in EU capital markets, this is a complex endeavour that requires long term and sustained efforts at national and EU level. Encouraging broader retail participation requires structural reforms to shift the deep-rooted preference for low-risk saving and a limited understanding of investment products. Experience with PEPP and IORPs also highlights important lessons for shaping the future of retail investment initiatives. A key lesson is that no single reform can unlock retail participation, rather a holistic set of measures at national and EU level is required to increase retail investor participation. Key to this debate will be issues of value for money for investors,

which can impact on both the demand and supply factors that drive investment decisions. With that in mind, there are a suite of SIU measures that Ireland can support, specifically in the retail space, such as simplified access to financial products, increased competition among distribution channels, the development of a pan-European long-term savings and investment label and fixing shortcomings in existing frameworks. Bottom-up measures are also crucial, with the sharing of national experiences and best practices among Member States key in this regard.

As highlighted earlier, the financial culture which has traditionally favoured savings over investment has been firmly entrenched in many parts of the EU for decades – Irish households have followed the same preference, opting for deposits, pensions and insurance products over direct participation in capital markets. In Ireland, we have recently conducted a review into the sector (Funds Sector 2030) which has provided us with a number of key recommendations to improve the investor landscape and thus increase participation in capital markets. These measures will complement work at EU level on SIU.

The next step for the SIU should centre on pragmatic delivery and agility to unlock greater retail participation. The primary goal of our work should be to understand and improve the outcomes for investors. This in turn should lead to increasing retail investor participation which is a core component to fostering a more dynamic and inclusive market.



KAREN DORTEA ABELSKOV

Deputy Director General –
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Authority (Finanstilsynet)

Unlocking retail investments: Setting the right framework for long-term growth

Facilitating long-term investments is a cornerstone of the Capital Markets Union (CMU) and the Savings and Investments Union (SIU). Well-functioning and efficient markets are key to bridging the gap between investments and capital. Long-term investments should be financed by long-term and risk-tolerant capital to provide stability and absorb market fluctuations. This is lacking today in many markets in the EU.

The pitfalls of product-level regulation

Fostering long-term retail investment is essential, but difficult. There are no shortcuts or quick fixes. Our experience as a supervisor points to the fact that attempts to create specific investment products through regulation often has had limited success. An example is the European Long-Term Investment Fund (ELTIF) regulation, which has had limited uptake in many Member States so far, including in Denmark. A key takeaway is that instead of designing specific products, we should set the boundaries and let the actual

market participants fill out the details and suit the products to the investors' preferences and needs. The regulatory boundaries should then ensure a high level of investor protection when distributing products to retail investors.

Similarly, the Pan-European Personal Pension Product (PEPP) is intended to connect long-term savers with long-term investments. Despite its good intentions, the product has seen very limited demand – there are currently only eight PEPPs sold in the EU – due to cost structures, tax treatment discrepancies, and a lack of alignment with national pension frameworks.

These examples highlight the shortcomings of pursuing a product-centric regulatory approach.

Beyond designing specific products: a framework-based approach

Rather than designing specific products, regulators should focus on setting the right framework conditions for long-term retail investments. This includes ensuring low costs, transparency, and strong investor protection. Therefore,

**Strong regulatory
frameworks, not rigid
product design, drive
long-term investments.**

a successful regulatory framework should focus on the following notions:

- establishing uniform and transparent rules across investment markets, prioritizing low costs and clear and simple disclosures.
- basing the framework on structural reforms that make European businesses even more competitive.
- creating favorable conditions for pension savings, that enables European individuals to invest in long-term instruments.
- maintaining a well-functioning supervisory environment that protects investors while avoiding excessive regulatory burdens. These elements combined can accommodate regional differences in investor culture and products.

We should also focus on creating a more efficient regulatory landscape that does not overwhelm European businesses with complexity. Regulatory

simplification is crucial to fostering competitive capital markets that attract retail investors while keeping focus on the essential parts of the regulation.

How autoenrollment pensions build national and regional capital markets

Experiences show that autoenrollment pension schemes play a crucial role in building long-term capital within a country. By ensuring widespread participation in pension savings, these schemes generate a stable pool of capital that benefits both national and European capital markets. Since pension funds often exhibit a degree of home bias—investing a significant portion of their assets domestically or regionally e.g. EU—this mechanism can help strengthen national capital markets, providing businesses with a reliable source of long-term funding. In turn, this contributes to economic stability and growth.

The Draghi report highlights that the combined share of the Netherlands, Denmark and Sweden in EU pension assets amounts to 62 pct. of the EU total. These Member States also have well-developed capital markets which is linked to their access to long-term investment capital. A measured level of home bias, facilitated by robust pension schemes, can thus serve as a stabilizing force for local markets while also integrating into the broader European capital landscape.

Long story short...

Regulators should prioritise measures which bring real benefits to citizens and businesses. Instead of focusing on bureaucratic ideas and steps, focus should be on fostering framework conditions for natural market driven development of attractive, long-term retail investment options. By ensuring transparency, reducing complexity, and creating an environment conducive to investment, the EU can unlock the full potential of retail savings for economic growth and financial stability.



THANOS MOULOVASILIS

Group Head of Life Business
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Insurance Group

Empowering retail investors and increasing financial resilience

Mobilizing capital and investment for Europe is a pressing priority. However, persistent barriers, such as remaining distrust in financial markets and financial illiteracy, prevent European citizens and companies from truly benefiting from the internal market. The fragmentation of Europe's capital market reduces competitiveness and productivity while holding back the green, digital, and security transition.

At Zurich Insurance, we believe that the Savings and Investments Union (SIU) can play a crucial role in promoting a culture of savings and investments, increasing the financial resilience of citizens and supporting the growth of European companies. The Competitiveness Compass that the Commission recently adopted sets the direction of travel to regain growth and correctly identifies the SIU as a key enabler of that growth.

To be successful, the SIU must be aligned with the principle of regulatory simplification and designed to enable rather than direct market development.

A key foundation for success of the SIU will be the completion of the

EU Retail Investment Strategy (RIS) which aims to empower citizens to start investing and make investment decisions that are aligned with their needs and preferences, ensuring that they are treated fairly. Zurich Insurance strongly supports these objectives, and we are hopeful that the momentum of current SIU discussions will lead to a streamlined RIS that provides effective tools for the protection of European investors, while keeping administrative cost to a minimum. That includes simple but efficient rules for inducements and a gradual approach towards benchmarking, starting with national benchmarks, as supervisory tool only.

We believe our sector is well placed to help make the SIU a European success story: insurers offer a wide range of products that combine investment with insurance protection. Insurance-based investment products (IBIPs) represent the largest portion of retail investment in Europe (70% according to EIOPA estimates), thus having a crucial role in deepening capital markets and advancing integration. This is even more important as Europe also needs to address widening pensions gaps.

Considering both the last phase of deliberations on the RIS strategy and the SIU Communication, it is clear that innovative approaches are required with respect to (digital) customer disclosure, the supervisory framework, and tax incentives.

To foster retail investment, it is important to improve customer disclosure ('better, not more'): Zurich supports a 'digital-by-default' approach, allowing for innovation in disclosure with use of evolving digital techniques, the removal of duplicative disclosure requirements, and more transparency to prospective customers on cost structures.

**The SIU can play a
crucial role in promoting
a culture of savings
and investments,
increasing the financial
resilience of citizens and
supporting the growth
of European companies.**

A more agile and modern regulatory and supervisory framework should be embraced. In addition to the regulatory approach of the RIS, we believe it is essential to also take policy measures to enable European citizens to become investors.

To establish a true retail investment culture, reforms of national taxation - ideally in a coordinated way - will be essential, in particular when it comes to long-term retail investment products. Successful domestic experiences from several Member states show that this may be the most promising policy avenue. Taxation being the remit of Member states, it is crucial that they closely cooperate and share best practice in designing their respective long-term retail investment schemes. For this reason, the Noyer report advocates for EU-wide monitoring to encourage national reforms while building on common principles to develop long-term savings products with similar features.

Successful national experience in implementing tax packages and employee benefits as well as appropriate capital requirements for long-term savings and pensions provide the templates to fuel long-term retail investment in the EU. Next to providing accessible investment opportunities and promoting initiatives such as pension tracking systems and auto-enrolment, this should yield higher returns for EU citizens in comparison to the status quo. At the same time, the European economy and society will benefit from channeling funds into the EU's most strategic sectors.

Still, regulatory and policy initiatives fostering retail investment on their own may not suffice in shifting the balance towards widespread retail investment. For European citizens to truly engage in this arena, they must be given the tools to appreciate the nuances and opportunities of financial markets. This is where both financial advice and education play a pivotal role, starting at an early age.

By improving disclosure, refining the regulatory and supervisory framework for greater agility and balance, and by leveraging tax incentives, the EU can enhance the attractiveness and effectiveness of its capital markets while empowering citizens to take sound decisions about their financial future.



SIMON JANIN

Head of Governance and
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From savings to returns: Boosting retail investment in the EU

Europe needs huge financing, not only for its digital and environmental transitions, but also to boost the competitiveness of its economy, finance the pensions for its aging population and ensure its strategic autonomy. Mario Draghi's report highlighted that the European Union (EU) should invest up to €800 billion annually to remain competitive on the global stage¹. Over the past decade, the EU's level of productive investment has lagged behind that of the United States by 1.5 to 2 percentage points of GDP annually. This disparity underscores the ongoing investment gap.

In terms of savings, as of recent data, EU households hold almost €11.5 trillion in cash and deposits². This conservative approach to savings means capital is not being channeled into higher-yielding market-based investments, which could stimulate economic growth and innovation whilst delivering higher return for investors. Due to a lack of financial literacy, risk culture and awareness of the need for them to invest to avoid capital erosion and finance their retirement, European retail investors dearth the essential knowledge to understand and assess investment products and opportunities. As a result, many tend to go for safer lower-yielding assets. Also, national pension systems

in some EU countries reduce incentives for individuals to invest in long-term private pension products.

In this context, it is imperative to foster retail investors participation in capital markets as well as ensuring that more savings are invested in the EU economy. Policy makers have the opportunity to take structuring decisions to deliver on this issue leaning on the new EU Political mandate and the fast changing geopolitical context.

Therefore, some very concrete actions should be taken.

First, drawing interest on incentives for long-term investment is paramount in order to develop EU's competitiveness. Helping retail investors get higher returns implies addressing the overly liquid nature of their savings. The ELTIF Regulation reviewed in the last mandate was already a good step. However, further efforts have to be deployed to promote investments with a long-term horizon. And notably to ensure that European citizens understand the need to shift from saving to investing. Financial literacy, awareness campaigns and concrete tools such as pensions dashboards need to be made available throughout Europe.

A range of incentives need also to be developed. Investment products should be easily accessible, for instance via auto-enrollment at the workplace, an opportunity for retail investors to have their first acquaintance with financial markets and learn by doing. In this respect, tax incentives play a key role in investments decision and should be calibrated to foster investments.

Measures which deter EU citizens to become investors should be urgently reviewed.

In addition, measures which deter EU citizens to become investors should be urgently reviewed. In this respect, the ongoing discussions on the Retail Investment Strategy (RIS) are key. Complexity should be avoided, and additional tests and processes as proposed should be removed.

Second, Amundi as an asset manager plays a crucial part in channeling savings into the financing of the real economy. Our role is to offer investment solutions to all categories of investors to meet different purposes in terms of investment horizons, liquidity,

diversification. Our experience is that the EU framework and products is composed of high-quality flagships such as UCITS, AIFs and ELTIFs which are already sufficient to deliver on the needs of investors and the EU economy.

Then, ensuring that a significant portion of savings is channeled towards EU productive investments will happen by making investments in Europe more attractive, notably through appropriate incentives. That's why Amundi stands for the development an 'Invest EU' label signaling long-term investments predominantly invested in the EU via products or wrappers supported by ambitious tax incentives (see Noyer report proposal). This focus on investing in the EU should make larger pools of liquidity available to the economy at large to finance the specific challenges mentioned above.

Conversely, promoting simple and low-cost investment products would be counterproductive, as it would go against the objective to address the diversity of needs of European investors and could lead to uniformise offers through a race to the bottom. Similarly, the very cost-centric approach of the Value for Money provisions in the current RIS proposal puts at risk the development and availability for retail investors of products investing in the EU economy with a long-term perspective. Indeed, such products tend to be more expensive to manufacture (e.g. research, data, management costs) and then should not be benchmarked with funds which can be produced at a low cost by nature.

1. *The future of European competitiveness, September 2024*
2. *ECB figures, 2024*



CHRISTIAN STAUB

Head of EMEA & Global
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Fidelity International

EU Savings and investment: Balanced regulation and smart incentives

The European Union stands at a financial crossroads. Despite abundant savings, there is a significant shortfall in investments in market-based instruments that could generate substantial long-term returns for individuals and bolster the levels of productive capital in the EU. This discrepancy can be attributed to a blend of cultural risk aversion, financial literacy issues, overzealous investor protection regulations, and a lack of ease of access to investment products. Addressing these issues requires a nuanced approach that balances investor protection with the need to foster a robust investment culture. The result would support positive outcomes for EU citizens and the EU economy.

One of the primary factors contributing to the reluctance of EU citizens to invest is the cultural attitude towards risk, which impacts both regulators and potential customers. While the intention behind stringent regulations is to safeguard investors, the outcome has often been counterproductive. Complex disclosures and excessive risk warnings,

as mandated by regulations like PRIIPs and MiFID, have inadvertently heightened risk aversion among potential investors. These measures, designed to inform, often overwhelm and deter individuals, steering them towards the perceived safety of savings accounts.

Moreover, the regulatory framework has made it cumbersome for investors to navigate their investment journeys. Simplifying the purchasing process and reducing the complexity of information provided can significantly change the EU's investment culture. Ensuring easy access to investment products and quality information, while avoiding information overload, is crucial. The opportunity cost of not investing must be clearly communicated, emphasising the long-term benefits over the short-term security of savings.

Financial literacy also plays a pivotal role. Many individuals lack the necessary knowledge to make informed investment decisions, which exacerbates their risk-averse nature. The EU's strategy to improve financial literacy should be complemented by initiatives aimed specifically at investor education. Ongoing initiatives, such as the Retail Investment Strategy (RIS), have the potential to contribute significantly to this effort by providing a framework that balances the need for investor protection with the facilitation of investment activities.

EU's investment landscape requires a delicate balance between protection and encouraging investment.

Contrary to the belief that a lack of investment products is the issue, the EU already boasts a plethora of high-quality investment options. UCITS is a prime example of a successful, world-leading investment product. The real challenge lies not in the simplicity of products, which is already there, but in the accessibility and attractiveness of these products to retail investors. The industry also needs to take some responsibility for attractiveness through better communication and engagement, which would be easier if there weren't such levels of prescription and constraints from retail regulation.

To foster a more investment-friendly environment, several measures can be implemented. First, tax incentives for

long-term savings products can play a crucial role. Drawing on successful examples like Sweden's ISK savings plans, member states can introduce Investment Savings Accounts that offer savers access to a broad range of investment options, including UCITS, ELTIFs, and both listed and non-listed securities. These ISAs should be structured under national tax rules, with incentives aligned to encourage long-term investment in EU assets.

A second critical factor is the relaxation of the advice rule. A "suitability light" regime for all types of investment advice, as proposed by the RIS, can facilitate access to professional guidance, making the investment process less daunting for retail investors. Simplifying the advisory framework and promoting digital solutions can further streamline the investor journey, making it more user-friendly and less intimidating. Highlighting the constructive aspects of the RIS, such as this suitability light assessment, ensures the industry remains constructive in these discussions.

A third consideration is the role of nudges and the use of auto-enrolment mechanisms in shifting the behaviour of EU citizens from saving to investing. Auto-enrolment in pension schemes and investment plans can significantly increase participation rates.

Ultimately, the EU's investment landscape requires a delicate balance between protecting investors and encouraging investment. Overly stringent regulations have created an environment of risk aversion, while the abundance of high-quality investment products remains underutilised. By simplifying the regulatory framework, enhancing financial literacy, providing tax incentives, relaxing advice rules, and employing behavioural nudges like auto-enrolment, the EU can transform its savings culture into a dynamic investment culture. Such measures would not only benefit individual citizens but also contribute to the EU's economic health, growth and stability.



CHRISTIAN NOYER

Honorary Governor,
Banque de France

A European savings label could be a game changer

Between now and 2030, Europe will need to invest close to €1000 billion each year just to meet its environmental targets (€700 billion for decarbonization, net-zero, biodiversity, circular economy) and digital transition endeavors (representing additional €125 billion per year). On top of that, the outbreak of war on Europe's doorstep also necessitates substantial investment in the European Defense Industrial and Technological Base. Those main priorities underline the urgent need to mobilize domestic investment to achieve common strategic goals.

This situation is all the more frustrating given that European households hold abundant savings—€35 trillion—yet a significant share is placed in foreign assets, and nearly one-third (31%) of financial savings remain in bank deposits. Almost half (47%) of these financial savings are allocated to liquid and guaranteed products such as bank deposits and life insurance. While this dynamic is concerning, Europe has all the necessary tools to reverse the trend but it must act now.

Saving allocation largely depends on product characteristics, making the development of long-term savings accounts in Europe essential. The Pan-European Personal Pension Product

(PEPP), though based on relevant objectives, resulted in a compromise whose complexity and constraints severely limit its chances of success. This is why the expert group I had the honour to lead advocated for a different approach relying on an intergovernmental dynamic: rather than attempting to create a one-size-fits-all European savings product, it would be more effective and efficient to establish a European label which Member States would apply to existing or new domestic savings accounts, provided they comply with key principles: a long-term investment horizon, no permanent capital guarantee, an attractive tax regime, and a predominant allocation in European assets.

Encouraging long-term savings accounts would also strengthen Europe's investor base, leading to deeper, more integrated, and more profitable capital markets. This is a major factor behind the competitiveness and profitability of U.S. financial institutions, beyond differences in macroeconomic conditions, banking business models or regulatory frameworks. At the same time, it presents a significant opportunity for European savers to achieve higher returns—an increasingly critical issue as Europe's aging population makes long-term savings more necessary than ever.

A European savings label, based on strong incentives and clear principles, could be a game changer.

For the European label to promote a new class of savings accounts, several fundamental principles should guide its implementation. First, the label must apply exclusively to products with a long-term investment horizon. Restricting liquidity is a necessary condition for fostering long-term investment, particularly in equities, which naturally carry higher risk but are crucial for innovation, competitiveness, and economic growth. This requirement is feasible given that European savers already have access to long-term products such as retirement savings, employee savings schemes, and brokerage accounts. The challenge now is to expand the reach of such products.

Second, products/accounts carrying the European label should not offer a permanent capital guarantee. Guaranteeing full capital preservation indefinitely constrains financial

intermediaries' ability to invest in high-risk assets, particularly equities—especially when the product is liquid and savers can withdraw funds at any time.

Third, tax incentive will be a decisive factor in the success of a European savings label. Experience shows that the tax regime largely determines a product's attractiveness. It is therefore crucial that labeled accounts benefit from preferential tax treatment, making them appealing to a broad base of savers while generating the capital needed for long-term investments. While fiscal constraints in some Member States are well known, this should not be an obstacle. Implementing a favorable tax regime for these products could, in fact, prove to be highly profitable for public finances, whether through tax deductions or credits on contributions, tax exemptions on capital gains, or inheritance tax benefits.

A logical counterpart to these tax advantages should be a strong European bias in asset allocation. Given that the objective is to channel European household savings toward EU investment needs, it is reasonable to set a minimum threshold for investment in European assets. More broadly, tax incentives should be linked to saving products that finance opportunities for all EU businesses, including those more innovative, with higher risk and higher returns.

Europe has the savings, the financial infrastructure, and the investment needs. What is lacking is decisive action. Establishing a European savings label, grounded in strong incentives and clear principles, could prove to be a game-changer.



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T+1 SETTLEMENT



VERENA ROSS

Chair – European Securities and Markets Authority (ESMA)

T+1 settlement – Let's talk about how

Five months ago, in November 2024, ESMA published its report on shortening the settlement cycle in the EU. In the report we concluded that there would be substantial benefits for EU capital markets in moving to T+1, notably in terms of risk reduction, margin savings and reduction of costs stemming from misalignment with other major jurisdictions. We therefore recommended that the settlement cycle should be shortened to T+1 and that the optimal date for this would be 11 October 2027. The publication of this report concluded a long process of consultation and fact gathering with an extensive engagement with stakeholders across the EU as well as internationally.

Around the same time, ESMA together with DG FISMA of the Commission and the ECB Directorate-General for Market Infrastructure and Payments published a joint statement indicating the establishment of a governance structure to prepare any move to T+1. Developments have since been fast and it has been great to see the industry committing to this major project. The Chair of the EU T+1 Industry Committee, Giovanni Sabatini, was appointed in

December and an overall governance structure was agreed in January. I am pleased to chair the work of the T+1 Coordination Committee which strives to facilitate coordination between the industry side of the governance and public authorities so that everyone pulls in the same direction in managing the switch to T+1.

In February, the Commission presented the legislative proposal amending CSDR, which has helped to provide additional certainty. The proposal is closely aligned with ESMA's recommendations, notably as regards the date for the T+1 move. The Level 1 negotiations are envisaged to conclude quickly since there appears to be consensus that shortening the settlement cycle will be a necessary step to enhance market efficiency, ensure Europe's competitiveness, and align with international developments. At the same time, there is awareness that the main challenges will not be legislative but technical and operational as market participants will need to cooperate on how to practically manage complex processes within a narrower time window.

As part of this more technical and operational work, ESMA has released a public consultation on potential amendments in Level 2, which considers some of the changes needed to pave the way towards T+1. We look forward to any input until 14 April and aim to submit a draft proposal to the EC by October this year.

Looking back, the discussion on this topic has seemed to move in three steps over the past few years. First from whether shortening the settlement cycle would be a good idea ('if'). In light of international and technological developments, awareness started to grow this would be a necessary shift for the competitiveness of European capital markets. Over time, the question therefore changed into being about the appropriate timing of such a move ('when'). While one should be careful in anticipating the conclusions of the legislators, we now appear to be at a stage where consensus would seem broadly established regarding the foreseen transition date and the discussion has shifted to the 'how'. In answering this question, the T+1 governance will be key as public and private actors will work closely together on how the move should practically be organised. This is essential

as, even if there is broad agreement that the shift will be necessary, it is clear the process in getting there will not be easy.

The industry is currently working on identifying technical challenges and possible ways to solve or overcome these – with the aim to formulate related recommendations by mid-2025. Once solutions have been agreed, it will be necessary to implement and test these before going live. Making the move in Europe will be more challenging than in many other jurisdictions considering for example the multiple currencies, local legal and market practice specificities and the vast range of actors involved across the EU. At the same time, we can benefit from lessons learnt from other jurisdictions that have already changed to a shorter settlement cycle. In this regard, it is extremely encouraging that the UK and Switzerland have expressed willingness to make the shift to T+1 also in 2027 and in close coordination with the EU. We are committed to remain in close contact with our counterparts regarding our respective preparations.

**The T+1 governance
will be key as public
and private actors will
work closely together.**

The preparatory work to make T+1 a success is largely in the hands of market participants but it will require close cooperation with public authorities. In this process, ESMA is committed to continue to play a supportive role in finding solutions. We are convinced that the transformative work to improve efficiency and resilience will trigger more effective trading and post-trading processes, and thereby contributing to market integration and more attractive and competitive EU capital markets – all this in line with the objectives of the Savings and Investments Union.



DR. VASSILIKI LAZARAKOU

Chair of the Management
Board – Hellenic Capital
Market Commission

Europe's Transition to T+1 Settlement: Enhancing Efficiency, Liquidity, and Market Competitiveness

Currently the European financial industry across the entire transaction chain and regulators are joining forces to support the transition to a T+1 settlement cycle in the European Union by 11 October 2027 with the aim to align with global markets. The Joint Statement by ESMA, the Commission and the ECB on shortening the standard securities settlement cycle in the EU, published in October 2024, underscores the urgency for the EU to transition to a T+1 settlement cycle in a coordinated manner.

Synchronizing the EU's settlement practices with major markets like the U.S., will put an end to costs linked to the current misalignment of settlement cycles by streamlining processes. In addition to this, the alignment will remove the risks and administrative costs concerning the management of different key dates for corporate events related to securities listed simultaneously in the US and in the EU (so-called dual-listed securities) bringing important benefits to EU investors and issuers.

A shorter settlement cycle will minimize counterparty and market risks, reducing exposure to potential volatility between trade execution and settlement. This, in turn, will lower collateral (margin) requirements for centrally cleared transactions. According to estimates of the European Securities and Markets Authority, the shift to a shorter cycle could shrink open positions in cleared securities by approximately €30 billion for equity-related products and €25 billion for bonds. This will lead to significant reductions in initial margin requirements unlocking liquidity for clearing participants.

While collateral savings and cost reduction stemming from realignment with the global capital markets will bring short-term benefits, the key medium- to long-term impact will be the higher degree of automation across the entire settlement chain and the sustained competitiveness of EU capital markets. Upgrading trade processing systems, automation tools, and straight-through processing (STP) capabilities will ensure that transactions are executed, matched, and settled efficiently within the shorter timeframe of T+1. A higher level of automation will support the transition to T+1, helping to reduce the likelihood of errors, as well as their identification and resolution when these errors occur, leading to reduced settlement fails, market stability and efficiency. If sufficient investments into automation of processes are not undertaken by all stakeholders, there is a risk that settlement efficiency and productivity could deteriorate when shifting to T+1. Thus, investing in automation is a top priority.

**As T+1 becomes the
global norm, delaying
the transition could
create a widening
gap between the EU
and major markets.**

The main focus of EU's Savings and Investments Union (SIU) is to strengthen the prosperity and competitiveness of the EU. As T+1 becomes the global norm, delaying the transition could create a widening gap between the EU and major markets, ultimately harming the competitiveness of the EU financial system. A more efficient post-trade landscape aligns with the Commission's goal of facilitating capital flows across the EU, benefiting consumers, investors, and businesses alike. Ensuring swift, reliable, and cost-effective settlement is

crucial to the SIU's success, preventing EU capital markets from falling behind and losing trading activity to more efficient financial centers.

For all the reasons outlined above, the transition to T+1 settlement in Europe is a strategic necessity the success of which depends on cross-border collaboration. European market participants and regulators work collaboratively to overcome substantial challenges stemming from structural complexities, market fragmentation, and the need for substantial technological and operational upgrades. The EU has a highly complex financial infrastructure, with more than 300 trading venues, 14 CCPs, and 26 CSDs. The presence of 11 currencies as well as the coexistence of different settlement processes, especially between T2S and non-T2S CSDs, add to this complexity. Additionally, foreign exchange (FX) constraints pose a significant hurdle, as EU transactions often require FX settlement, which traditionally takes longer than one day—unlike the U.S., where settlements occur in a single currency. Lastly, and importantly, market readiness remains a concern, with many financial institutions, particularly smaller players, needing technology and process upgrades which will inevitably require substantial investments to adapt to the faster cycle. Therefore, joining forces to support the transition to a T+1 settlement cycle and coordination of efforts is of utmost importance in order to ensure the timely transition which in turn supports the competitiveness of the EU market.



BARBARA ANTONIDES

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

Unlocking efficiency: The critical shift to T+1 in the EU

About ten years ago, the EU implemented the Central Securities Depositories Regulation (CSDR), transitioning to a T+2 settlement cycle. This achievement was notable, given the 28 national supervisory frameworks that existed at the time. However, time does not stand still. With technological advancements, many jurisdictions have already shortened their settlement cycles. Moving to a T+1 settlement cycle is a significant step toward a more efficient post-trade landscape. With approximately thirty months left until the target date of October 11, 2027, it is time to prepare.

All aboard?

Recent migrations to T+1 in the US, Canada, India, and Mexico demonstrate that technological migration is feasible. However, success hinges not only on the technical capacity of Central Securities Depositories (CSDs) but also on the readiness of all parties in the settlement chain, including trading platforms and Central Counterparties (CCPs) and all the relevant investment firms. The diverse stakeholders in the

EU, including various trading platforms, CCPs, and CSDs, necessitate strong coordination. The EU governance structure is designed to facilitate this cooperation and identify areas where additional preparatory work is essential. The 10-plus work streams identified demonstrate the width and depth of the envisaged migration towards T+1. The organizational chart of the EU governance structure already indicates that many stakeholders are involved in the process.

National coordination groups, like the Dutch Advisory Committee for the Securities Industry (DACSI), reviewing and contributing from a national perspective on the impact of the envisaged T+1 migration, can further enhance outreach to smaller stakeholders, ensuring their involvement in the transition. Some other member-states are considering setting up similar national coordination to involve stakeholders at national level. Furthermore, European public consultation, such as from ESMA, is essential. This allows all market participants to be involved in the process and to be aware of the (proposed) change(s) to come.

Compressing time

The ESMA report assessing the transition to T+1 from November 2024 outlines anticipated advantages, such as reduced risks and margin savings (reducing time reduces risks hence expectations are that this impacts the margins). The prospect of freeing up capital to reinvest in capital markets aligns with the EU's objectives regarding the Savings & Investments Union.

Aligning with global standards makes the transition to T+1 not only necessary but inevitable.

Under the current T+2 cycle, there are 24 hours available for settlement. Transitioning to T+1, particularly for cross-border transactions which involve several time zones, will compress this window significantly. Technology can help in such situation. Realizing a T+1 settlement is probably not the endgame of technological innovation. However, as Mr Giovanni Sabatini, Chair of the EU Industry Committee in the governance structure mentioned before, rightly indicated in a seminar at Banque de France (January 28th, 2025), the focus now should be on realizing T+1.

The stage is set

The selection of October 11, 2027, as the transition date is pivotal. The UK and Switzerland have also committed to this timeline, underscoring the interconnectedness of these markets with the EU. It is essential to coordinate efforts while working towards this date to maximize the benefits of a simultaneous migration.

Adapting business models

The European Commission's proposal for an amended CSDR clarifies the timing and scope of the shift to T+1, marking an important step. However, it is crucial to recognize that the legal amendment represents only a fraction of the work. The remaining 98% involves operational adjustments within the back offices of market participants. Ongoing standardization, increased automation, and minimizing manual interventions are vital. CSDR imposes measures to reduce settlement fails and endorse straight-through processing (STP) in order to promote settlement efficiency.

Automation does not come for free, and the impact and the effects are not the same for all stakeholders. The impact of migrating to T+1 will vary across participants, influenced by factors such as a firm's size, market segment, financial instruments, international exposure, and IT maturity.

Wrap-up

The AFM strongly supports the migration to T+1. The benefits—enhanced safety and efficiency—outweigh the required investments for adaptation. Acknowledging the diverse landscape in Europe, it is crucial to identify national peculiarities in advance and develop a harmonized EU approach. Ultimately, aligning with global standards makes the transition to T+1 not only necessary but inevitable. The AFM is committed to facilitating this migration through its role in ESMA and as a national regulator, ensuring a smooth transition by October 2027.



GIOVANNI SABATINI

Chair – EU T+1 Industry
Committee

Reducing settlement cycle to T+1 in EU: Challenges and opportunities

The reduction of the settlement cycle for securities transactions can help reduce counterparty credit risks, improve market efficiency, and address issues arising from the current lack of alignment between the settlement cycles of Europe and other major global markets, which creates costs and inefficiencies. The transition to T+1 should catalyse firms' investment in automation and standardisation, leading to lower settlement costs in the medium term and more efficient markets.

The US and other markets have already moved to T+1, the UK has identified a plan to move to T+1, and Switzerland will follow. The Commission has put forward its proposal to amend the CSDR to provide the legal basis for the move to T+1, and ESMA has published a consultation document on amendments to its RTS on settlement efficiency.

The date of 11 October 2027 has been identified as the transition day by the UK accelerated settlement task force (AST), by the Swiss Securities Post-Trade Council and by ESMA as well to achieve a coordinated move to a shorter settlement cycle.

Other markets such as the US have shown that T+1 is achievable. But we

have to acknowledge that the structure of European markets is vastly more complex than the US. These complexities exist in the legal, fiscal and regulatory frameworks, and the significantly larger number of regulatory and supervisory bodies, and market infrastructures.

Concretely, this means that the governance structure must be extremely robust to centrally coordinate the project in a way which ensures that all stakeholders' views are appropriately represented, but that we are still able to work efficiently and achieve our shared objectives.

The key elements of the new governance model include an Industry Committee, integrated by senior leaders and representatives from market players; several technical workstreams, operating under the Industry Committee, focusing on the technological and behavioural adaptations needed in the areas concerned by the transition to T+1; and Coordination Committee, chaired by ESMA and integrated by the EC, the ECB, and the chair of the Industry Committee.

Full transparency will be ensured throughout the implementation project. All core recommendations will be subject to feedback from the broadest possible group of stakeholders with EU trade associations playing a key role in representing their respective sectors.

Successful reduction of settlement cycle requires concerted efforts from private and public sectors.

In a T+1 environment there will be less time to complete the operational processes that must take place between execution and settlement. Instead of a full business day to ensure that trade details are agreed, instructions have flowed through the custody chain and been placed at the CSD, and that the securities and cash are positioned in the right place, there may now be just a couple of hours after the close of business on trade date. Related processes such as securities lending and FX bookings will also be significantly impacted.

These operational challenges will affect all market participants, but the impact will be particularly pronounced for those from other regions, for whom time zone differences will limit the possibility of same-day matching processes and vastly reducing the time available to

communicate and resolve any breaks or exceptions.

Successful adoption of a T+1 settlement cycle would require concerted industry efforts to improve operational processes, with participants recommended to adopt automated solutions at each step of the transaction lifecycle.

Given the time constraints, the Industry Committee has agreed on basic guiding principles:

- **Narrow scope:** focus only on what is critical to allow for a smooth reduction of the settlement cycle. This is an implementation project. The objective of the Committee and its technical workstreams is to identify critical challenges and recommend necessary changes for the successful migration to T+1 under existing market arrangements in the EEA.
- **Flexible approach:** to accommodate for multiple market infrastructures, national specificities, different dimensions/complexity of involved entities.
- **Not reinventing the wheel:** The work should leverage the Oct 2024 industry report as its primary basis, as well as the UK recommendations, the US "playbook" and upcoming Swiss report where relevant.
- **Harmonise whenever possible the general framework across EU, UK and CH:** not only the legislative framework but also market rules and practices, misalignments create costs, inefficiencies and potential for arbitrage.
- **Private/Public project:** Industry and Public Authorities should listen to each other and work together. This time, the industry is not lobbying to reduce "regulatory burden" nor Public Authorities are delivering new regulatory constraints: we share the same goal: remove legislative, regulatory, operational and technical obstacles to a smooth transition to T+1 on 11 October 2027. It is a collective and cooperative effort.



HAROUN BOUCHETA

Head of Public Affairs &
Chief of Staff, Securities
Services – BNP Paribas

T+1: the EU in the starting blocks!

While the EU often suffers the comparison with the US for the fragmented nature of its market(s), it nonetheless has the ability to come together and build a strong consensus in order to achieve common goals when necessary. This is the case for T+1. Once the authorities have signaled a strong political will to shorten the settlement cycle, considering it an important milestone for strengthening the Savings and Investments Union, the industry started to work on the conditions to make it happen.

To pursue this objective, the project has been enlarged to the UK and Switzerland and there is a common objective to transition to T+1 on 11 October 2027 in order to tackle misalignments issues amongst major markets. Through the usual legislative process, the EU is working on carving the date and key principles in the stone. The European Commission, ESMA and the ECB together with the EU financial industry and national authorities are setting the governance to identify all the necessary requirements and for building a sound execution plan.

While the date seems relatively far away, setting a project this size requires some sequential developments and deter-

minations by market infrastructures as well as the collaboration of a wide variety of players with sometimes potential diverging views on how to make this transition happen. Some decisions will need to be taken rapidly to achieve a successful transition and accordingly, we need the right tools to manage this situation.

The US example has brought us some very interesting lessons: a strong need for driving the change and bringing the industry together, an important need for automation and some very interesting feedback from some firms still implementing their plan after the transition happened with some additional costs. This particular aspect should draw our attention on the competitiveness of EU players.

One way of addressing competitiveness is to consider targeted exemptions such as the one for securities financial transactions (SFTs) to exclude these instruments from the scope of CSDR as they have no standard settlement cycle. To avoid harming overall market efficiency, SFTs require flexibility in terms of settlement for market participants to meet dynamic funding and inventory management needs as well as ensuring a smooth functioning of the market and maintaining a high level of liquidity.

Moreover, in order to successfully transition to T+1, Europe at large, and the EU in particular should adopt the right strategy by:

- keeping in mind the competitiveness aspect for EU players with respect to a project of this magnitude by not overloading firms with other parallel projects or additional compliance costs.
- considering all relevant national specificities in the analysis in order to strengthen the commitment of each EU market and player. This implies to identify these specificities notably with the help of national trade associations and then to decide through the EU governance how to adapt the most important ones so that they are in line with the pan-European T+1 requirements.
- attributing the legal tools to relevant authorities so that they can adequately manage in a flexible manner any event that could prevent a swift transition to T+1. With respect to the settlement discipline regime, this means considering meaningful adaptations like the one allowing for a rapid suspension of penalties should this prove necessary.

The EU governance working on the T+1 project has the objective to draft

some preliminary conclusions by end of June 2025. This calendar, proving to be quite challenging, is also driven by the ECB which has requested to be made aware of the main changes decided at industry level by June in order to be able to adapt T2S.

T+1 is surely not the end of the road, and the financial industry will still be facing substantial changes in the future related to the need for additional standardization and reducing risks through the custody chain in order to bring added value to investors, whether retail or institutional clients.

**In order to be successful,
the EU should keep in
mind the competitiveness
aspect for EU players.**

In this context, being in the starting blocks to transition to T+1 thanks to the EU governance should be seen as a unique opportunity to further develop the EU ecosystem so that this project contributes to the long-term growth of EU capital markets ultimately favoring competitiveness, sustainable growth and investments.

To achieve this long-term goal, there is no choice but to reduce inefficiencies and excessive structural costs by (1) harmonizing operational processes across all financial market infrastructures (FMIs), particularly CSDs, (2) enhancing competition among FMIs by improving cost comparability and allowing true freedom in choosing issuance locations and (3) standardizing regulatory frameworks related to shareholder rights, tax procedures, insolvency laws, and settlement finality levels.



VALENTINO WOTTON

Managing Director and General Manager, NSCC, DTC & DTCC Institutional Trade Processing – The Depository Trust & Clearing Corporation (DTCC)

Automating the Way to T+1 in the UK, EU, and Switzerland

As financial markets begin preparing to move to T+1 settlement cycles across Europe, the need for the automation of post-trade processes has never been more critical. With a target implementation date of 11 October 2027, firms in the UK, the EU, Switzerland, and Liechtenstein are turning their attention to planning.

Recent recommendations from the UK Accelerated Settlement Taskforce (UK AST), the Financial Markets Standards Board (FMSB), the European Securities and Markets Authority (ESMA), and the Swiss Securities Post-Trade Council (SwissSPTC) have laid the groundwork for the move. Each of these organizations has emphasized a commitment to automation, enhancing operational efficiency and reducing risk within post-trade processes.

One of the most significant recommendations from the UK AST's implementation plan is the completion of allocation and confirmation processes electronically on trade date. By completing these processes on trade date, firms can increase the time available to address errors, thereby reducing the

risk of settlement fails. Automation is a key enabler of same-day confirmation, as was demonstrated in the US' move to T+1 in 2024. Our internal analysis, based on European transactions matched on ITP's CTM platform, demonstrates that market participants using automated trade matching solutions already achieve an average of 92.4% same-day matching, with the UK and four prominent EU markets hitting an average of 95% or more. These metrics highlight that same-day matching is achievable by leveraging automated solutions available today.

Another critical issue relates to standard settlement instructions (SSIs). Inaccurate or incomplete SSIs are arguably among the leading causes of settlement failures, and with a shorter settlement cycle providing less time to address these issues, it is essential for the industry to transition away from manual SSI sharing behaviours. To resolve this issue, the FMSB has issued a Standard for Sharing of SSIs, emphasising the importance of sharing SSIs in a standardised format and using electronic solutions, and the UK AST and Bank of England asked market participants to adopt the FMSB Standard. Using electronic databases of golden source SSIs can provide transparency, increase automation, and significantly reduce trade failure. It should also help alleviate some of the challenges identified with respect to foreign exchange settlement and securities financing transactions under a T+1 environment.

A successful move to T+1 in Europe will require coordination across private and public sectors.

ESMA's recent recommendations align with these objectives, advocating for harmonisation, standardization and modernisation across the EU. The EU has added complexity due to different tax and legal/securities systems across the 27 countries and a high number of stakeholders, including financial market fragmentation with around 30 CSDs. Prioritising investment in automated straight-through processing is essential due to the high number of intermediaries and messages involved in the settlement process. A synchronised approach across EU member-states ensures that all participants are adhering to similar operational standards, thereby mitigating the risk of fragmentation and supporting a well-functioning and cohesive post-trade environment.

The SwissSPTC has echoed these sentiments, emphasising the need for collaborative efforts among financial institutions to achieve industry-wide automation and standardisation. Their commitment to best practices aligns closely with the recommendations made by the UK AST, ESMA, and FMSB, creating a roadmap for cross-border efficiency in trade settlement processes.

Ultimately, a successful move to T+1 in Europe will require coordination across private and public sectors. In an increasingly interconnected marketplace, discrepancies in settlement cycles can impact end investors. Automation will play a pivotal role in enabling harmonisation and the achievement of T+1 across jurisdictions and time zones. By leveraging automated post-trade solutions, market participants can streamline their operations, ensuring that transactions move to settlement quickly and correctly, regardless of geographical boundaries.

With the implementation date now a little over 2.5 years away, it is imperative that firms embrace the recommendations of the UK AST, FMSB, ESMA, and SwissSPTC and begin their preparations for the transition now. Regulatory and supervisory support will be needed to provide the certainty that market participants require to commit budget and resources to the development and implementation of the necessary solutions and automation that is critical to the success of the transition.

At DTCC, we are actively engaged in T+1 efforts alongside our global peers. We will continue to share insights gained from our experiences during the move to T+1 North America last May and support global markets on their journeys towards shortened settlement cycles.



MARC BAYLE DE JESSÉ

Chief Executive Officer –
CLS Bank International

The T+1 journey is far from over

In May 2024, the US and Canadian securities markets successfully moved to a T+1 settlement cycle. This significant change in market infrastructure has highlighted the need to harmonize settlement cycles globally and has resulted in plans to implement T+1 initiatives in Europe, the UK, Switzerland and Lichtenstein in October 2027.

The shift to T+1 in the American securities space impacts the wider foreign exchange (FX) ecosystem because approximately 20% of securities and 17% of equities are held outside the US.¹ Due to time zone differences, European and Asian investors and asset managers have much less time to mobilize currency to fund a US or Canadian securities trade if it settles on a T+1 basis. As a result, it was feared that requiring these securities trades to settle the following day could force investors to execute and settle an FX trade on a same-day (T+0) basis to secure the necessary funding. In other words, there was concern that a shift to T+1 for securities settlement could push FX to T+0, at least for some parts of the FX market.

CLS analyzed its transaction data to assess the potential impact of the shorter settlement cycle on CLS Settlement and engaged extensively with the industry before the May 2024 transition. Based on this analysis², it was expected that

only around 1% of CLS Settlement's average daily settlement value of approximately USD7 trillion could potentially be impacted by the transition, representing business that may be linked to non-US investment funds trading in US securities. However, CLS's post-transition analysis found no negative impact of the T+1 transition on CLS's business. In fact, CLS Settlement average daily settlement values (ADV) actually increased, from USD7.0 trillion to USD7.6 trillion. The data indicates that both buy and sell sides adjusted their arrangements ahead of the move where needed.

Looking ahead to Europe's move to T+1, there is less concern regarding its impact on FX settlement. Custodians' cut-off times in EU and UK time zones better align with CLS's timeline, which largely overlaps with the business day in the EU and UK (with CLS funding and settlement taking place between 07:00 CET and 12:00 CET). CLS has estimated that the percentage of CLS Settlement ADV that could potentially be impacted by the move should not exceed 0.4% in the EU and 0.1% in the UK.

CLS will support the FX industry during Europe's T+1 transition through ongoing collaboration with its settlement members and other public and private sector entities in the broader FX ecosystem. Currently, CLS is co-leading the EU's T+1 Working Group FX workstream, an initiative set up by the European Securities and Markets Authority, the European Commission, and the European Central Bank to support the transition to T+1 in the European Union.

**Collaboration between
public and private
sectors is key for FX
market stability during
Europe's T+1 transition.**

Beyond T+1, it is not clear whether T+0 should be the next logical step. While same-day settlement is currently still a niche market in FX, the market is already beginning to consider the implications of shorter settlement cycles. For example, CLS research in partnership with FNA³ indicated that conducting multiple daily settlement cycles in CLS Settlement could allow a substantial amount of the same-day market (estimated at around USD500 billion) to benefit from FX settlement risk mitigation, liquidity optimization and operational efficiencies.

With partnerships across the public and private sectors, CLS Settlement will continue to provide the stability, risk mitigation and efficiency necessary for the smooth functioning of the FX market and the wider financial ecosystem.

1. Department of US Treasury, "Foreign Portfolio Holding of US Securities," 30 June 2023
2. <https://www.cls-group.com/insights/the-fx-ecosystem/fx-ecosystem-06-part-2-plus-the-fx-ecosystem-and-cls-what-difference-has-a-day-made-so-far-shapingfx-series/>
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EU CLEARING COMPETITIVENESS AND RESILIENCE



KLAUS LÖBER

Chair, Central Counterparties Supervisory Committee – European Securities and Markets Authority (ESMA)

Strengthening the EU Clearing Ecosystem

The recent entry into force of the third revision of the European Market Infrastructure Regulation (EMIR 3) on December 24, 2024, marks a pivotal moment for the EU clearing ecosystem. This regulation aims to bolster the resilience, competitiveness, and attractiveness of the EU's financial markets.

The European Securities and Markets Authority (ESMA) is at the forefront of this initiative, which focuses on three key areas: (i) enhancing the supervisory framework for EU Central Counterparties (CCPs), (ii) making the EU clearing ecosystem more competitive and resilient, and (iii) addressing the risks associated with third-country clearing dependencies.

Enhancing the supervisory framework for EU CCPs

CCPs are crucial for the stability of financial markets, serving thousands of financial and non-financial counterpart-

ties across the EU. EMIR 3 aims to create a harmonized supervisory approach to ensure market integrity and competitive fairness. While it doesn't achieve fully integrated supervision, EMIR 3 significantly increases supervisory convergence and consistency across the EU.

ESMA will co-chair all 14 EU CCPs supervisory colleges and will be able to issue new opinions on National Competent Authorities' (NCA) annual reviews and EMIR compliance assessments. A new "comply or explain" mechanism will also enhance accountability and transparency from NCAs towards ESMA's Board of Supervisors. These measures are designed to foster a common supervisory culture, aligning risk prioritization and supervisory outcomes across EU NCAs and CCPs.

Making the EU clearing ecosystem more competitive and resilient

EMIR 3 not only aims to reinforce market resilience but also to enhance the attractiveness of the EU clearing ecosystem. In order to achieve these objectives, the new framework pursues two complementary approaches:

Reducing Obstacles to Competitiveness: CCPs supervisory processes have been significantly streamlined to accelerate the time to market for new products and models changes. ESMA is currently consulting on draft Regulatory Technical Standards (RTS) to harmonize practices across the EU and reduce unnecessary delays. Additionally, ESMA will create a centralised data platform ("central database") for CCPs applications and reporting, fostering efficiency and transparency.

Strengthening Resilience: ESMA will refine the existing regulatory framework for CCPs, to ensure robust requirements for margin transparency, collateral policies, and prudential requirements. EMIR 3 also establishes a stronger crisis management framework, including multi-year stress-testing plans, global fire drills and enhanced operational resilience measures, and introduces a system-wide monitoring system, the Joint Monitoring Mechanism (JMM), to assess market dependencies, access to clearing, and systemic risks.

These initiatives will ensure that EU CCPs remain robust in the face of crisis, while maintaining a competitive edge in global markets, in order to attract new

business and strengthen the clearing capacity of the European Union.

Addressing Third-Country Clearing Risks

Despite progresses since the EMIR 2.2 review, challenges remain, particularly in the interest rates derivatives markets, where EU clearing participants still rely heavily on offshore CCPs. The new active account requirement (AAR) mandates that the most active EU clearing participants hold an operational and representative account at EU CCPs for key derivatives contracts.

Rolling out EMIR 3, ESMA aims to create a resilient, competitive EU financial infrastructure.

ESMA has taken a significant step in implementing this requirement with the publication in November 2024 of a Consultation Paper on the AAR conditions and is on track to deliver the draft RTS to the European Commission by June 2025. ESMA will then monitor the implementation of the AAR, in coordination with the Joint Monitoring Mechanism.

Looking forward

The next three years present an opportunity to strengthen the foundations of the EU clearing ecosystem amidst a challenging global backdrop. By successfully rolling out EMIR 3 and building on the advancements made under EMIR 2.2, ESMA aims to create a resilient, competitive EU financial infrastructure aligned with the objectives of the Savings and Investments Union (SIU).

The success of EMIR 3 implementation will depend on the active engagement of policymakers, regulators, and industry participants. Through these collective efforts, the EU can create a clearing landscape that not only meets today's financial challenges but is well-equipped for the future, ensuring financial stability and strategic autonomy in global markets.



FRÉDÉRIC HERVO

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EMIR 3, a step to strengthen clearing competitiveness and stability

Central Counterparties (CCPs) used to be considered as just a component of the plumbing of the financial system. In the aftermath of the Lehman Brothers' default, G20 leaders agreed in September 2009 to extend the scope of CCP clearing in order to improve the stability of capital markets. As a result of this new international policy, CCPs appeared accordingly in the spotlight and their key role in risk mitigation was ascertained.

The increased recourse to CCPs had to go hand in hand with a progressively enhanced regulatory framework. It first took the form of common international standards (the PFMI), which were later transposed in EU law with the entry into force of the EMIR regulation. As part of this important work, the requirement to centrally clear certain classes of OTC derivatives was tied to the implementation of prudential requirements for CCPs commensurate to their increased role.

However, another prominent issue emerged. The overreliance of the EU ecosystem on third country CCPs for the clearing of some classes of derivatives eventually came to the

fore with Brexit, leading to further regulatory developments. The EU's response came in two stages. EMIR 2.2 (2020) provided a first step with the recognition of systemic third country Tier 2 CCPs and their direct supervision by ESMA. This was not sufficient to adequately address all financial stability concerns stemming from this situation, especially in a crisis situation where the resolution of a third country CCP may result in some adverse consequences for the EU stakeholders, with potential consequences for the financial stability. In addition, it appeared that relocation of clearing in the EU would require some time to avoid a cliff effect. In force since December 2024, EMIR 3.0 goes one step further by introducing the obligation for EU financial and non-financial counterparties to hold an active account within an EU CCP, with the goal of triggering a rebalancing of exposures between third countries and the EU. ESMA will assess the effectiveness of the measure 18 months after its implementation, potentially paving the way for EU regulators to introduce stronger requirements if deemed necessary.

**The development of
a strong European
framework, which
strikes the right balance
between regulation
and innovation, while
strengthening the
competitiveness.**

EMIR 3.0 also tackles the new challenges brought on by the changing European clearing landscape, as EU CCPs increasingly seek to extend their clearing services to new financial products and client profiles. To improve EU CCPs' time to market, EMIR 3.0 notably simplifies the regulatory approval procedures for risk-model changes and product extensions, thus shortening the regulatory approval process and enabling EU CCPs to better adapt to market changes through innovation and the optimization of their clearing processes, while maintaining high prudential standards. Allowing for faster adjustments by CCPs, particularly with regards their risk models, is indeed not only crucial for financial stability but also bears the potential to significantly improve European market integration and efficiency.

Finally, EMIR 3.0 also enhances the cooperation between ESMA and

national competent authorities with the co-chairmanship of supervisory colleges and the coordination role of ESMA in a crisis situation. These new measures should also help to further harmonize supervisory approaches within the EU.

The development of a strong European framework, which strikes the right balance between regulation and innovation, while strengthening the competitiveness of the European clearing ecosystem, remains a top priority. Indeed, many challenges still lie ahead, whether it be the accelerated development of crypto-asset markets, which raises numerous challenges in the clearing space, in particular in terms of market, legal and operational risks, or the emergence of new technologies such as cloud computing and AI, which both have the potential to significantly reshape post-trading activities. At the same time, regulators and supervisors must continue to maintain a strong focus on the EU cyber resilience strategy, of which DORA is a significant milestone.

Given the number and complexity of these emerging challenges, it is ever an overarching priority to remain focused on further strengthening the European framework, in view of laying the ground work for the European Savings and Investments Union. Our collective ability of ensuring the proper reduction of the EU's current reliance on third country CCPs while continuing to move towards a more unified supervision of CCPs will be key to the continued vibrancy of the EU's clearing landscape, itself a cornerstone of the competitiveness of the overall European financial system.



GIUSEPPE GRANDE

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Clearing services and the path to the Savings and Investments Union

The new EMIR 3 regulation introduces important changes aimed at improving the competitiveness of the EU clearing ecosystem without compromising its ability to manage systemic risks. Central counterparties (CCPs) can now benefit from streamlined regulatory approval procedures for changes that do not significantly alter their risk profile. The enhancement of transparency measures, and in particular of margin simulators, will enable market participants to better anticipate margin calls. This, combined with an expected reduction in margin requirements due to the move to a t+1 settlement cycle, is anticipated to reduce liquidity pressures. Besides, by increasing the predictability of margin calls through more sophisticated margin simulation tools, EMIR 3 promotes investment in technology. Finally, greater harmonization of supervisory practices among Member States is expected, particularly as a result of the enhanced role of ESMA and its co-chairpersonship of CCP colleges.

In this respect, although important, the EMIR 3 reforms fall short of fully centralizing supervisory authority within ESMA. A catalyst for moving

the existing supervisory framework in the direction of greater centralization of supervisory powers could be progress in the consolidation of market infrastructures. One example of a market-led trend towards consolidation and its implications for supervision is the recent expansion of the services provided by the Italian CCP in several markets. Indeed, the enhanced role played by the CCP on a cross-border basis has led to greater cooperation between the competent national authorities and ESMA, as well as to the enlargement of the supervisory college.

Therefore, the first way in which public authorities can make the supervisory framework for clearing services conducive to the realization of the Savings and Investments Union (SIU) is to ensure a level playing field that fosters a healthy evolution of the market structure. This can be achieved by effectively using existing instruments. In the EU, ESMA is already involved in supervisory colleges, adopts opinions on major supervisory decisions, validates significant changes to CCPs' risk management frameworks, and its role has become even more relevant under EMIR 3. The lack of a single supervisory mechanism for CCPs cannot be an excuse for not pursuing homogeneity and efficiency in supervisory practices as of now.

**A single supervisor for
CCPs is not a pre-requisite
for homogeneous
supervisory practices.**

While supervisory cooperation already works well, for CCPs with considerable cross-border activity it may become less efficient than supervision at EU level. Moreover, infrastructures that have pan-EU systemic potential, such as CCPs, are natural candidates for supervision at the European level. A fully centralized supervisory model for CCPs should be seen as an end point in the evolution of the SIU, rather than a starting point. To get there, we can rely on the ECB Governing Council's recent guidance that the European supervisory authorities should directly supervise the most systemic cross-border capital markets operators, in cooperation with their respective national supervisory authorities. This is not to say that supervised entities should be allowed to choose their supervisor, as this would not only be inconsistent with the key criterion that supervisory responsibility

should go hand in hand with fiscal responsibility, but could also fragment supervisory action.

Looking ahead, the question arises as to what more can be done in central clearing to support the objectives of the SIU. Two key areas deserve attention: client clearing and interoperability. Expanding client clearing capabilities within the EU is essential to ensure that all market participants, including smaller firms, can access clearing services. In this respect, the new transparency requirements introduced by EMIR 3 are important. Technological innovation could also play a role. Assessing the pros and cons of new access models will remain essential.

Another significant development to consider is greater interoperability among CCPs. EMIR 3 clarified that the regulatory framework for interoperability arrangements applies to all types of financial and non-financial instruments, including derivatives. Interoperability in derivatives markets, together with improved competitiveness of EU CCPs, could lead to an expansion of the supply of clearing services. At the same time, the resulting increased complexity in CCP risk management should be carefully addressed.

Overall, the current supervisory framework for CCPs is already capable of ensuring a balanced playing field and fuelling a virtuous cycle between market-led integration and increased supervisory cooperation. The development of client clearing and greater interoperability of CCPs could help fuel innovation and move towards a more integrated and efficient clearing ecosystem across Europe, ultimately also safeguarding financial stability.



NIELS BRAB

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Towards growth and competitiveness: The EU's clearing strategy beyond EMIR 3

EMIR 3 was at the core of the EU's Clearing Strategy to meet the political objectives of increased resilience, autonomy, efficiency, and attractiveness of central clearing. However, in light of the seismic shifts around the geopolitical landscape and macro-economic realities, it has become even more important to foster the competitiveness of the EU's clearing ecosystem which must be considered an integral pillar of the Savings and Investments Union as well as the simplification agenda.

There are three dimensions that should be prioritized to this end: An effective yet proportional implementation of EMIR 3, further work on the global competitiveness of the EU clearing ecosystem, and targeted incentives in sectoral legislation for greater access and use of centrally cleared markets.

Importantly, EMIR 3 aims to reduce the overreliance on third-country infrastructures for systemically relevant clearing services and to boost the demand and supply side of clearing in the EU. After the legislation entered into force in December 2024, all eyes

are now on ESMA's technical details for the application, which will be integral to deliver the political objectives.

The most prominent example concerns the active account regime, where the market is eagerly awaiting the next steps around ESMA's RTS, paving the way for a smooth and effective application this June. The ultimate outcome will also be central to the questions around the upcoming review of the regime's effectiveness and any potential next steps to satisfy legislators' objectives.

Another key element concerns the need to improve current time-to-market realities: The technical design of the new approval procedures for CCP services and risk model changes will significantly impact the competitiveness of the EU's clearing ecosystem. Yet, while Level 1 brought the EU closer to other leading jurisdictions, questions continue to overshadow the current Level 2 work which may mean that the new procedures for less relevant and BAU changes do not deliver the intended results in practice.

Further work to boost the competitiveness of the EU clearing ecosystem is also desirable in other areas where swift progress is needed to stay ahead of the curve. Central bank access for EU CCPs without a banking license is the most prominent example where a meaningful advancement is of critical importance. While the Eurosystem finally aims at a harmonization of the access rules, it remains to be seen if the new regime will deliver an effective approach to guarantee access to key credit facilities in relevant emergency situations, in line with EMIR liquidity provisions.

It has become even more important to foster the competitiveness of the EU's clearing ecosystem.

Moreover, we should remain ambitious when it comes to providing further flexibility to level the playing field around areas that are central to the competitiveness and attractiveness of clearing in the EU. While it is a welcome step that new policy recommendations for CCP margin transparency and responsiveness were recently issued on global level, it is key to realize that EU CCPs and market participants are subject to significantly stricter standards that require further attention. Core examples include the famous anti-procyclicality measures or the fully-fledged CCP recovery and resolution

regime, which other jurisdictions simply did not implement.

Addressing the current unlevel playing field vis-à-vis non-EU CCPs or non-centrally cleared markets by ensuring more globally aligned approaches will also be essential when it comes to segregation, resolution, porting, or bilateral margin and haircut requirements.

Last but not least, the EU should continue its global thought-leadership to reap the full benefits of central clearing in growth segments such as SFT, FX or the digital sphere. Targeted incentives like removing entry barriers for NBFIs in funds and insurance legislation, addressing punitive capital treatments of banks using CCP services and offering them to clients, promoting innovative solutions like cross-product netting, fostering voluntary clearing by the public sector, and leveraging the benefits of CCPs in a decentralized environment would further boost the efficiency and depth of the EU's clearing ecosystem.

Overarchingly, these elements can make a significant difference when it comes to boosting global competitiveness and growth capacities as a critical backbone of the EU's position as a global financial center in a new geopolitical and macro-economic environment. In a number of these dimensions the EU should now focus on effective, targeted and swift amendments to the current legislative frameworks – “the world will not wait for us.”



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EMIR 3: Streamline – simplify – unify

In its quest to improve the EU supervisory framework and make EU clearing services more attractive and robust, EMIR 3 was ahead of the 'simplification revolution' launched by European Commission President Ursula von Der Leyen on 8 November 2024. At least in its ambition. This is one of the key conundrums of the EU single market integration: how to ensure simple, efficient regulation and supervision and, at the same time, ensure a strong EU level-playing field?

A regulatory dilemma

The tension between those two objectives is very apparent in EMIR 3 but also in the development of secondary legislation:

- A strong EU level-playing field means involving ESMA in as many issues as possible, including via the newly established 'accelerated procedure'.
- Simplification and faster time-to-market means EU processes should be applied only to the most prominent issues, to avoid multiple filings and compliance burden.

EMIR 3 attempts to address this conundrum by introducing several

improvements to existing processes including through an increased role for ESMA and a more prescriptive timeframe. However, there is a question as to whether this can address both the simplification and level playing field needed to increase CCPs' competitiveness.

Adapting with the market

A fundamental impediment to EU CCPs' competitiveness is their long time-to-market compared to other jurisdictions. This is due in part to the complex and lengthy processes EU CCPs must follow before introducing substantial changes to risk models or launching new products. By the time a CCP launches a new product, market demand might have changed. By the time it changes its risk parameters, risks might have escalated beyond the initially planned response.

CCPs are risk managers and constantly need to adapt to market changes and evolution of risks.

Unjustified delays when it comes to innovation and improvement is neither safe nor competitive: true competitiveness means being able to predict and respond to market changes in an agile and efficient way.

We need a framework that streamlines existing supervisory processes whilst addressing level-playing field issues and believe the way forward is a centralised supervision of EU CCPs.

**We need supervision that
corresponds to the scale
of the supervised entities
and markets they serve.**

Scalable supervision

The attractiveness and competitiveness of the EU clearing ecosystem can only be achieved if it is able to scale. We need supervision that corresponds to the scale of the supervised entities and markets they serve. EU single supervision would ensure a unified interpretation of the EU framework, a competitive time-to-market, and a structure that EU or non-EU customers and investors can understand. This would also upskill EU CCP supervision with authorities gaining experience from supervising several CCPs rather than their national one(s) only. It would also translate into a better overview of market flows and emerging risks.

Boosting competitiveness

Greater market competitiveness is also supported by increased liquidity through market-based initiatives. We see two further initiatives that could be considered in the coming months as we look for innovative solutions enabling market participants to benefit from greater efficiencies.

First, policymakers should adapt regulation to foster innovative developments. For example, ensuring regulation allows the take-up of membership models designed to support buy-side access to clearing (Sponsored models) thus extending the benefits of direct CCP membership to the broader investor community. Due to the lack of recognition within existing regulatory frameworks, firms are often reluctant to adopt such initiatives. Revisions these barriers to entry would not only support EU CCPs' competitiveness, but enable wider access to resilient liquidity pools, promote further integration in the market, and enhance financial stability particularly in times of market stress.

Second, there is a recurrent question as to the number of equities CCPs in the EU and the reason for the lack of consolidation in this space. We believe the current regulatory framework can be improved to enhance competition, starting with addressing the limitations of existing open access requirements. This would go a long way in rationalising the number of vertically integrated CCPs, which create fragmentation and affect the EU equity market's competitiveness.

Regulation is the backbone of an efficient capital market. To build on EMIR 3's ambitions, we must take the principles of streamlining, unifying and simplifying CCP supervision to ensure a competitive EU clearing market.



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The international dimension: clearing US government bonds and repos

There is a growing trend towards clearing government bonds and repurchase agreements, which can enhance dealers' capacity and financial resilience and will thus be beneficial for both markets and regulators.

The world economy has experienced a long decade of heightened market volatility, including the flash crash of 2014, the 2019 repo market crisis, the Covid-19 'dash for cash,' and the UK Liability Driven Investment crisis in 2022. These events have highlighted vulnerabilities in, among others, the government bond markets and also stressed their importance for financial stability.

In response, policymakers have been exploring policy tools and reforms to increase sovereign bond markets resilience and capacity during market stress, with clearing gaining increased traction. Indeed, central clearing brings many benefits, including increased balance sheet efficiencies and reduced counterparty credit risk, supporting higher resiliency and capacity during periods of stress.

In the US, the Securities and Exchange Commission (SEC) introduced new rules to expand central clearing of certain eligible cash and repo transactions in the US Treasury markets, as part of a broader set of US Treasury markets reforms. The rules are scheduled to take effect in December 2026 for cash transactions and June 2027 for repo transactions.

On the heels of the US rule changes, discussions on the value of central clearing have been gathering steam at the international level.

In 2022, the Financial Stability Board (FSB) recommended that jurisdictions explore ways to increase the availability and use of central clearing for government bond cash and especially repo transactions. In 2025, the FSB intends to analyze the functioning of repo markets. In the UK, the Bank of England's System Wide Exploratory Scenario concluded, inter alia, that central clearing for gilt repo could improve the resilience of government bond markets. In the EU, the ESRB recently called to incentivize repo clearing by mandating margin requirements in bilateral clearing and by removing existing obstacles to voluntary central clearing. And the European rules on clearing, through the latest EMIR 3.0 legislative text and upcoming UK EMIR deliberations, may eventually involve discussion on repo clearing.

There is therefore a clear trend towards increased central clearing of government bond markets across the globe, and in particular in the repo markets, as part of broader efforts to enhance the resilience of these markets.

**There is a clear,
international trend
towards central
clearing of government
bonds and repos.**

While these initiatives may differ in scope, incentives and modalities across jurisdictions, their implementation could have a transformational impact on market structures.

Indeed, more firms will need to centrally clear transactions in an indirect way. For instance, US Treasury clearing activity processed through DTCC's Fixed Income Clearing Corporation (FICC) is expected to rise by \$4 trillion daily following implementation of the rule, driven in part by an anticipated significant increase in indirect repo clearing. Of

note, the current FICC clearing activity for government securities is now averaging over \$9 trillion daily.

To help ensure a successful implementation of such expanded clearing across the globe, ensuring appropriate access for market participants is critical. This is why in the US, FICC worked closely with firms and trade associations to provide a wide range of flexible access models, including a range of indirect access models, to meet different participants' business and regulatory needs. There has also been significant progress in supporting the 'done away' model as well as cross-margining arrangements that provide efficiencies to market participants.

In addition, as more firms prepare for reforms, enhanced risk management tools, such as the public calculators offered by FICC, can provide even more margin transparency around the potential impact of the rules on firms, allowing organizations to increase predictability and liquidity management in line with recommendations from regulators.

Persistent growth in US Treasuries clearing volumes demonstrates the value of central clearing, as market participants proactively onboard in preparation for the forthcoming implementation of the SEC's clearing mandate. Importantly, the US clearing rules will affect market participants in Europe and across the globe, as the final rule has a broad scope not bound by the geographical location of the counterparties. And while the SEC recently introduced a one-year delay in the compliance deadlines, advanced preparation by the market participants remains critical to ensure the smooth implementation of this significant market reform.

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NBFI MACROPRUDENTIAL CHALLENGES



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A system-wide approach to macroprudential policy

In today's interconnected financial landscape, the financial activities that banks and non-banks perform are intricately linked, with each relying on the other for effective functioning. As market structures become increasingly integrated, the role of non-bank financial intermediaries, such as asset managers and investment firms, naturally expands into activities traditionally performed by banks. Conversely, several European banks have a strong focus on asset management as part of their business operations. This diversifies the financial landscape by providing alternative channels for financing and risk management, thus supporting the EU's broader economic objectives.

As financial sectors in the EU and across the globe become more integrated, two potential outcomes emerge. On the one hand, integrated markets can allocate risks to areas where they can be managed more effectively or absorbed more readily if they materialise. This could enhance the overall resilience of the financial system. On the other hand, integration can also become a channel of contagion, amplifying and propagating financial shocks across various entities and markets, and threatening overall financial stability. The challenge for policymakers and regulators is to maximise the benefits of effective risk allocation while mitigating the potential for widespread contagion and risk amplification.

There are two possible approaches to achieving effective risk allocation without inadvertently creating channels for contagion. One option is to ring-fence certain entities and activities, thereby closing contagion channels. The alternative is adopting a system-wide approach to regulation, emphasising comprehensive oversight and coordination across all financial actors, including both banks and non-banks.

Ring-fencing was a primary strategy for regulators in response to the global financial crisis. The United States introduced the Volcker Rule, prohibiting banks from engaging in proprietary trading and from owning interests in hedge and private equity funds. Likewise, the United Kingdom implemented ring-fencing regulations, requiring large banks to separate retail banking operations from riskier investment activities. These measures aimed to insulate essential banking activities from potential contagion from other activities. Similar regulations within the EU, as recommended by the Liikanen Report, were not implemented.

An alternative approach to ring-fencing is the system-wide approach to financial regulation, which prioritises comprehensive oversight across the entire financial ecosystem, targeting both entities and their specific activities. A key aspect of this approach is its consideration of the vulnerabilities and risks tied to the business model of each type of entity. For example, while long-term lending exposes banks to liquidity risk, this is less the case for life insurers, which tend to have longer-term liabilities. Consequently, the regulatory framework for banks imposes stricter controls on liquidity risk compared to that for insurers. At the same time, the system-wide approach also considers situations where vulnerabilities and associated risks are independent of the business models of the entities undertaking the activity. For example, if a credit boom drives up property prices and creates household over-indebtedness, macroprudential measures such as restrictions on loan-to-value ratios would need to apply consistently, regardless of whether loans originate from banks or insurers.

The system-wide approach debunks the myth that regulators are trying to impose banking regulation onto non-banks.

The system-wide approach debunks the myth that regulators are trying to impose banking regulation onto non-banks. By combining the traditional perspective of looking at different types of entities with a focus on the activities that banks and non-banks engage in, this approach provides a unified framework based on both micro- and macroprudential regulation. A system-wide macroprudential approach demands consistent regulation of all entities engaging in similar economic activities, proportionate to their actual or potential contributions to systemic risk. This ensures regulatory costs are distributed fairly, discouraging the shift of activities and risks into less regulated or more opaque areas of the financial system.



KENTARO TAMURA

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Toward understanding the financial stability implication of NBFIs

The growing presence of Nonbank Financial Intermediaries (NBFIs) in the global financial market and the recurrent stress events involving their activities have remained one of the top policy interests for financial authorities over the past several years. The challenge lies in effectively mitigating systemic risks, while preserving the benefits of fueling economic growth through the provision of risk capital. Given the diverse and often opaque nature of NBFI business models, understanding their inherent risks poses supervisory challenges. The market volatility event of last August was a sharp reminder of the need for a comprehensive understanding on the behavior of market participants, including NBFIs, to ensure financial stability.

Effective oversight of these opaque risks requires a proactive, reverse-engineering type of thinking that starts with envisioning an optimal prudential approach. To that end, in an ideal world, supervisors perhaps want to have the following toolkits: (1) a comprehensive understanding of potential contagion channels across asset classes and jurisdictions, (2) a real-time monitoring of these identified channels, particularly concerning hedge fund positions, and (3) enhanced international cooperation to prepare for potential shocks. How far is the current state of play from the ideal?

Firstly, regarding analyses on contagion channels, the FSB and the Basel Committee have made efforts to identify and understand the linkages of banks with NBFIs through leverage and liquidity provision. Nevertheless, our understanding remains far from ideal. For example, potential contagion channels are not fully understood especially for the rapidly growing schemes, such as private credit funds and synthetic risk transfer. In this regard, the Bank of England's recent System Wide Exploratory Scenario exercise, with its game-theoretic approach and engagement with wider market participants, is a well-conceived initiative, which provides us with insights into how NBFIs interact with other market participants. While significant hurdles exist in applying such an approach to capture cross-border channels, the exercise also highlights that enhancing analytical capabilities and international cooperation with the industry is a key to success.

Secondly, concerning real-time monitoring, the gap with the ideal is significant. A major obstacle is data limitations, particularly for private funds. The current available data suffers from significant time lags of several months and necessitates reliance on indirect indicators, such as profit/loss sensitivity to market fluctuations. This reliance on delayed and indirect information poses a considerable challenge to comprehensive and timely risk assessment of their behavior. There are no quick solutions to these data challenges. What we can do is to steadily and diligently address the necessary tasks step by step toward the goal together with financial authorities and private sectors. It is crucial to begin by organizing existing

data and accurately assessing the current state of data access. From there, identify the key data required for effective monitoring, identify specific data collection challenges, and work systematically to address them.

Finally, while the heterogeneous nature of NBFIs' presence and business models across jurisdictions requires a tailored approach, improving global coordination through international cooperation is crucial for enhancing our preparedness for future shocks. For instance, in Japan, where NBFIs account for a relatively small market share of 30%, insurance companies, broker-dealers, and mutual funds are key players. In such a market structure, close monitoring of the liquidity management of such players is essential. In an event of stress, the potential liquidity provision via banks to the market may be one possible prudential response. However, given the influence of globally active investment funds and other NBFIs, cross-jurisdictional coordination is indispensable. For instance, given the increasing presence of global investment funds in the real estate market in Japan, their portfolio rebalancing activities could lead to significant market price corrections triggered by overseas developments.

Effective assessment requires NBFI data and international cooperation.

As NBFIs continue to expand their footprint, financial authorities in major jurisdictions need to enhance international cooperation more than ever before. Again, collaboration with industries is a key to success. The Bank of Japan will commit to contributing to the development of an ideal prudential policy through research and active engagement in international discussions.



LEE FOULGER

Director, Financial Stability Strategy
and Risk – Bank of England

Enhancing financial stability through system-side exercises

The Bank of England's system-wide exploratory scenario (SWES) exercise, published late last year, is the first of its kind globally. It marks a key step forward in enriching our understanding of the resilience of the UK financial system. The system-wide approach also holds important lessons for improving risk surveillance for non-bank risks.

The focus was on core UK sterling markets – crucial for financial stability and the channelling of finance to households and businesses. Importantly it was not a test of individual institutions – we wanted to do something with the industry, not to them. More than 50 banks, central counterparties (CCPs), insurers, and all types of funds and pension schemes involved in core UK sterling markets participated in the SWES. This enabled us to test – not just assume – these participants' behaviours in stress, and the drivers behind those behaviours. We designed the scenario to play out daily over two weeks, and the SWES itself to run over two rounds. This allowed us to see two sides of trades and add up the market flows.

In the scenario, sharp increases in risk-free rates and credit spreads, combined with falling asset prices cause significant losses for many SWES participants. Amongst the wealth of findings from the exercise, four financial stability conclusions stood out.

First, financial participants' collective actions amplified the initial shock. The SWES demonstrated market participants' actions may be prudent individually, but collectively can produce procyclical outcomes. We saw that non-banks often quickly seek to rebuild buffers, including headroom over regulatory requirements, leading them to act in ways that can drain liquidity and cause the initial shock to cascade to other parts of the system.

Second, actions taken by UK authorities and market participants have improved gilt market resilience. Following the SWES shock, reported gilt sales were broadly balanced by purchases, suggesting that gilt market resilience has increased since the LDI episode in late 2022.

Third, repo market resilience is central to supporting core UK markets. The SWES demonstrated the centrality of the gilt repo market in helping to absorb the impact of the shock, but that its capacity in stress is limited. Many firms in the SWES rely on repo to manage liquidity or monetise assets. But banks were at times unwilling to provide additional repo financing or roll maturing repo, despite their capacity to do so. The Bank of England recently launched a contingent non-bank institution repo facility (CNRF), which is a discretionary backstop open to eligible pension funds, insurers and LDI funds to support gilt market functioning in the event a stress poses risks to financial stability.

And fourth, the sterling corporate bond market comes under severe pressure. Corporate bonds are sold in a correlated and relatively price insensitive way in the SWES. The speed of selling in the sterling corporate bond market exceeds purchasing capacity. This dynamic in the sterling corporate bond market could impair its effectiveness as a source of liquidity for financial institutions and, if it were to persist, financing for the real economy. UK authorities are planning to take actions to better understand and mitigate some of these risks.

More broadly, the SWES revealed mismatches in expectations between firms that would not have been visible via sector-specific exercises, or would have only become visible to regulators and firms during an actual stress event. Looking at these insights, the SWES exercise proves itself a valuable surveillance tool for the Bank of England and firms alike in understanding and mitigating systemic risks ex ante.

Applying a system wide lens is a new and effective way to identify non-bank risks.

For other authorities that may wish to conduct similar exercises as part of their surveillance of the financial system, I would encourage them to consider three design features: (i) take into account complex firm behaviours, by actively engaging firms; (ii) be collaborative – participants have a lot of expertise to offer; and (iii) capture dynamic interactions, via the number of rounds or other features, and through feedback to participants about situations where their expectations may not be met.

We believe there would be benefits of conducting similar exercises internationally to enhance data quality and surveillance capacity. The Bank of England is already working with international partners, and we would be happy to share further insights with anyone that is interested.



FRANÇOIS HAAS

Deputy Director General, Financial Stability & Deputy Secretary General – Autorité de Contrôle Prudentiel et de Résolution (ACPR)

Taking a macroprudential approach to the NBFI sector: progress and challenges

Since the global financial crisis, a major evolution in the financial system worldwide has been the growing importance of non-bank financial intermediation (NBFI). Nowadays, it represents 49.1% of total global financial assets, according to the Financial Stability Board. The NBFI ecosystem is heterogeneous and includes a diverse set of financial activities and entities, (e.g. investment funds, family offices, pension funds, insurance companies, and other non-bank entities).

Like all forms of financial intermediation, these entities can carry financial vulnerabilities, which can contribute to a build-up of systemic risk. To better address the risks surrounding the NBFI sector (e.g. liquidity mismatches and excessive use of leverage), taking a macroprudential approach, which comprises tools and methods to prevent and address system risk, is essential. However, given the wide range of entities and activities that the NBFI sector covers, replicating the approach taken for the banking sector is not a valid option. Moreover, a macroprudential perspective on NBFI needs to embrace both an entity- and activity-based approach.

Some NBFI entities are already regulated, for instance insurance companies and a variety of investment funds. Investment funds' current regulatory framework, however, concentrates on investor protection and market integrity. To build resilience ex ante, these microprudential frameworks need to be complemented to include the potential impact that non-banks have on the broader financial system and the overall economy.

Lastly, addressing the NBFI sector vulnerabilities would not only make it more resilient, but also limit risks facing the banking sector, due to their increasing interconnectedness.

Given its deeply rooted interest in financial stability, the Eurosystem contributed a common response to the targeted consultation on macroprudential policies for NBFI conducted last year by the European Commission.

First, the Eurosystem response argues in favour of a swift implementation of the international reforms for regulating NBFI that have recently been agreed (i.e. FSB recommendations regarding money market funds and open-ended funds resilience).

Furthermore, the Eurosystem proposes the introduction of an explicit macroprudential tool to mitigate the risks that can arise from structural liquidity mismatch in Open-Ended Funds (OEFs) ex ante.

In addition, a vast majority of respondents to the Commission consultation – including the Eurosystem, but also the industry – shares the view that European system-wide stress testing

would be useful. Indeed, such tests seek to explore the response of a diverse set of market participants to adverse shocks and the potential implications of such collective responses for the functioning of core markets. Therefore, they allow for a better understanding of the propagation of shocks.

They can also help to identify remaining data gaps: data are a critical enabler for assessing potential vulnerabilities in the NBFI sector. While various authorities across Europe are collecting data, existing mechanisms for accessing and sharing data are insufficient.

Finally, an effective governance framework is an important building block for strengthening the macroprudential perspective in the regulation of NBFI. This can be achieved, in Europe, by enhancing the mechanisms for coordination between authorities. Adopting similar macroprudential policy measures across jurisdictions where needed, via reciprocity, should be a key element of this. An additional mechanism would be to grant the responsible authority, the European Securities and Markets Authority in the Eurosystem proposal, ("top up") powers to request the implementation of macroprudential measures – in collaboration with national authorities and after consulting with the ESRB – if there is a need to do so.

To address the risks surrounding the NBFI sector taking a macroprudential approach is essential

In this context, the Banque de France and the Autorité de contrôle prudentiel et de résolution (ACPR) are actively involved in initiatives to develop a macroprudential approach to NBFI. In particular, together with the AMF, we are launching a pilot, bottom-up system-wide exercise to assess how market participants react to adverse shocks and how their collective actions might affect system-wide risk. We also strongly advocate for prompt progress in sharing existing data, a prerequisite to better apprehend and closely monitor the developments in this sector. Lastly, since NBFI stakeholders are an important source of financing, we argue that strengthening the sector's resilience is complementary to the progress of the Savings and Investments Union, and we must be careful not to oppose these two agendas.



DENNIS GEPP

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Federated Hermes (UK) LLP

How money market funds and NBFIs shape the economy

Non-Bank Financial Institutions (NBFIs) have become increasingly important in the global financial system. They encompass a wide range of financial entities, including insurance companies, pension funds, hedge funds and money market funds (MMFs). Unlike banks, NBFIs do not engage in banking activities such as accepting deposits or providing loans. Instead, they offer specialised financial services that complement the banking sector. MMFs are investment funds that invest in short-term, high-quality debt securities. They provide an efficient means for institutional and retail investors to access short-term funding markets and low-cost short-term financing to the public and private sector.

MMFs are a type of mutual fund that invests in short-term, high-quality debt instruments such as Treasury bills, commercial paper and certificates of deposit. They operate by pooling funds from multiple investors to purchase a diversified portfolio of short-term securities, thereby spreading risk and providing liquidity. Shareholders share pro rata in the income earned on the pool of assets.

MMFs aim to provide investors with a safe place to invest easily accessible, cash-equivalent assets at a market-based yield. MMFs began in the United States in the 1970s as an interest yielding alternative to bank deposits. In Europe, MMFs have grown significantly over the past few decades, becoming a crucial component of the financial system. Today, EU MMF assets total in excess of € 1.1 trillion, with over half invested in low volatility net asset value (LVNAV) MMFs and the remainder in variable net asset value (VNAV) and Constant Net Asset Value, Public Debt MMFs. European MMFs are issued mainly in euro, sterling, and US dollars.

LVNAV MMFs have become a fundamental vehicle for cash management for an array of investors, such as corporates, local authorities, insurance and pension funds, higher education, charities and local governments. They are a valued product (representing more than half of EU MMF assets) that has served investors, issuers, and markets incredibly well since their inception.

MMFs play a vital role in providing liquidity to the financial system. By investing in short-term debt instruments, MMFs offer issuers, such as corporations and governments, a reliable source of short-term funding. This liquidity is essential for the smooth functioning of financial markets and the broader economy.

MMFs also contribute to the development of capital markets by enhancing market efficiency and stability. By providing a liquid and low-risk investment option, MMFs attract a broad range of institutional and retail investors. This increased participation helps deepen capital markets and improve liquidity, which is particularly important during periods of market volatility or stress.

The regulatory environment for MMFs in Europe has evolved significantly in recent years. Following the global financial crisis of 2008/9, the EU adopted a dedicated regulatory regime for MMFs that enhanced the safety and resilience of MMFs and provided immediate and observable benefits during the turbulent markets of March 2020, caused by the COVID-19 Liquidity Crisis. Although the short-term funding markets experienced significant challenges then, MMFs proved incredibly resilient; no MMF needed to suspend redemptions or impose fees and/or gates in 2020, nor when facing a raft of other once in a lifetime market dislocations, such as Russia's invasion of Ukraine with its cataclysmic effects on energy prices, global inflation, and interest rates.

The development of NBFIs, particularly MMFs, has significantly improved the financing of economies.

Notwithstanding the successful management of MMFs, the data does support the argument for specific reform enhancements which could be implemented to enhance the safety and resilience of MMFs. For example, the delinking of minimum liquidity thresholds and the imposition of liquidity management tools will allow MMFs to utilise all their available liquidity as intended. We are supportive of a data-driven approach to regulation that will enhance the safety and resilience of MMFs and allow the existing MMF structures to continue, including the stable NAV feature of LVNAVs.

The development of NBFIs, particularly MMFs, has significantly improved the financing of economies and contributed to the development of capital markets in Europe. MMFs provide essential liquidity to the financial system, support short-term funding needs and enhance market efficiency and stability. Looking ahead, the MMF sector is expected to continue growing, driven by demand for safe and liquid investment options. However, challenges remain, including the need to balance regulatory requirements with the need for innovation and competitiveness.



STÉPHANE JANIN

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Non-bank financial intermediation: Which improvements to manage the risks?

Obviously securities regulators and prudential supervisors are fully legitimate in reflecting upon reducing the potential systemic risks embedded in financial markets. When identifying market participants, they make a clear distinction between banks and non-banks. Furthermore, regulators and supervisors have more recently recognized that, among Non-Bank Financial Intermediation entities (i.e. NBFIs), various types of players and products co-exist, in particular Regulated NBFIs (such as Regulated Asset Management Companies and Regulated Funds) as well as Non-Regulated ones (such as Archegos, which appeared not to be scoped by the US Investment Advisers Act).

Overall, today, where do the main systemic risks lie (apart from the banking area) in the non-banking area and how to tackle them?

First of all, among NBFIs as entities, the danger is centrally where the entities are not identified by regulators or supervisors: from that basis, they can act on financial markets without any prior licensing or further monitoring of their consolidated activities by regulators or supervisors. Such non-identified NBFIs, by not being regulated, may develop without any early notice by regulators or supervisors.

Second, among those non-identified NBFIs, it is where they develop significantly leveraged activities (being through either borrowing or use of derivatives) that the top systemic risks arise. It was typically the case for Archegos, which cumulated a non-regulated status with highly leveraged activities. Their banking counterparties on OTC markets were interacting with them (in the limits of information they received from them and partial visibility they had from their activities), but no regulator or supervisor was consolidating their activities and positions. In fact, regulators and supervisors may benefit from the potential capacity to have an overall view of activities on financial markets, but only if they receive reporting from market participants - which is not the case for non-regulated ones. They may initiate targeted investigations too (including towards non-regulated entities), but with various legal limitations depending on jurisdictions.

We are therefore providing for a few suggestions regarding possible further regulatory actions:

- Enlarge the spectrum of NBFIs covered by regulatory frameworks. In the EU, Regulated Asset Management Companies and Regulated Funds are already fully known by regulators, through upfront licensing as well as reporting obligations, which allow for a consolidated and exhaustive view of their activities - including on OTC markets. That reporting by regulated asset management companies and regulated funds is even enhanced in the eurozone, through

a dual reporting to securities regulators as well as central banks. Following a similar approach for categories of currently non-regulated NBFIs would obviously reduce the non-identified systemic risks that they may represent for financial markets;

- Prioritize the regulatory actions on the use of High Leverage by Non-Regulated NBFIs. For instance, within the current EU regulatory framework applicable to Regulated Funds, in case of significant leverage (i.e. above 300% of Net Asset Value), enhanced reporting to regulators is required. For currently Non-Regulated NBFIs, there is no similar reporting to regulators or supervisors;
- Exercises like System-Wide Exploratory Scenarios, such as the one carried out in the UK recently, may also contribute to bring supervisors with a better view of market participants' activities and related systemic risks. They might be successfully replicated in other jurisdictions, including in European ones - as long as being done reasonably and proportionally;
- On OTC markets, the recent enhancement of counterparty risk assessment Guidelines by the BCBS is definitely welcome, but its implementation should be prioritized vis-à-vis non-regulated NBFIs, as their activities are not consolidated by supervisors or regulators (contrary to regulated NBFIs);
- Last but not least, more widely, a better data sharing between regulators and supervisors at national levels as well as on a cross-border basis would definitely improve that consolidation of knowledge and monitoring of what happens on financial markets overall.

Prioritize the regulatory actions on the use of High Leverage by Non-Regulated NBFIs.

Through those non-exhaustive types of regulatory and supervisory actions, regulators and supervisors would definitely improve their monitoring of potential systemic risks embedded in the least known side of the NBFI market - to the ultimate benefit of Regulated NBFIs and their clients.



MICHAEL SCHOCH

Head of Governmental & Regulatory Affairs – UBS

NBFI risks require a multifaceted response

According to the European Commission, around 41% of EU financial assets – just over EUR 42 trillion – are held by non-bank financial intermediaries (NBFIs). Globally, FSB data shows this share to be even higher at 49%, representing almost USD 240 trillion as of the end of 2023, a figure that has doubled in just over a decade. Diverse sources of finance are positive for the European economy's resilience but the fact that NBFIs have contributed to some of the recent stresses in the financial sector tells us that this rapid expansion brings new risks too.

NBFI is a broad term that encompasses a diverse range of firms, from highly regulated insurance companies through to some lightly regulated funds or entities. The regulatory focus is rightly on those entities outside of comprehensive regulatory frameworks, such as Solvency 2, MiFID or the AIFMD, where some NBFIs have features that can weaken financial resilience. Regulators have found that excessive leverage, liquidity mismatches or interconnectedness can cause an economic shock to be amplified in the financial system, rather than absorbed by it. The issue is complex because the actions that cause this amplification may be rational. As the Bank of England's System Wide Scenario Assessment (SWES) noted, firms take actions that are individually prudent but "collectively...can result in procyclical outcomes".

How, then, should EU policymakers respond to these risks? The starting point must be to increase transparency. If risks have moved within the financial system, then the market and policymakers need to be sighted, and risks need to be subject to appropriate regulation. A lot of data is already reported in the EU, including by NBFIs. Policymakers should review if there are gaps and if that's found to be the case, seek more data from NBFIs directly. This should also involve making sure that reported derivative and Securities Financing Transaction (SFT) data is used effectively and shared with relevant authorities, including those with a macroprudential remit. This requires join up and coordination between EU authorities. Given that NBFI markets are global, efforts should also be made to share more data internationally.

Another area where transparency can be improved is private disclosures between leverage users and their leverage providers, which can vary in depth and quality. Promoting consistency – ideally through best practice – will give banks better sight of a counterparty's risk profile and support risk management.

Better information about NBFI risks allows targeted interventions. While strong bank counterparty risk management is vital, it cannot be the whole solution to dealing with risks originating from outside of the banking sector. Targeted and proportionate interventions are needed.

Yield buffers on Liability Driven Investment (LDI) funds or the leverage limits that can be imposed on alternative investment funds under the AIFMD are examples of entity-level interventions that respond to clearly identified sources of risk and the entities exposed to them. This is a good model for intervention that avoids penalizing lower risk firms or banks. Addressing procyclicality is challenging but the EU should consider the output of the international workstreams on increasing NBFI margin preparedness and the transparency and responsiveness of initial margin in centrally cleared markets.

**Diversity of finance is positive
but the rapid expansion of
NBFIs brings new risks too.**

Beyond this, the Bank of England's SWES exercise warrants reflection. It was not a stress test but a system level assessment, which yielded important, qualitative insights. The EU should consider if a similar method can be developed that focuses on better understanding behavior.

Finally, we cannot ignore the elephant in the room. Banks play a vital intermediation role that helps absorb market shocks. Post-GFC regulation has weakened this, potentially increasing market volatility. In the US, the Fed has said that it plans to review the Supplementary Leverage Ratio to support Treasury market functioning. As with every market evolution, the expansion of NBFI needs to be accompanied by a firm understanding of the implications for financial stability; if banks have retreated from certain activities because of regulation and this has weakened the resilience of the system, then this needs to be addressed at source.

We thank the partner institutions
for their support in organizing
the Eurofi Warsaw Seminar



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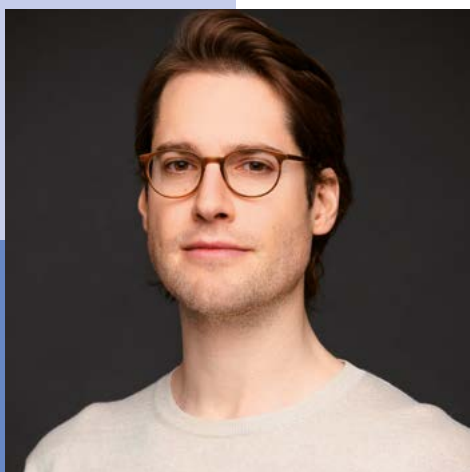


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AML: PROGRESS AND PRIORITIES



ANDREAS SCHIRK

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Putting the new AML/CFT supervisory system from theory into practice

The European Anti-Money Laundering Authority (AMLA) is taking shape. Not only has it an office in Frankfurt but most importantly a growing number of talented and motivated people. What is more, its main policy-making body, the General Board, is constituted and the members of its Executive Board will be appointed very soon. At the same time national supervisory authorities (NCAs) like the Financial Market Authority (FMA) in Austria are further stepping up their efforts to contribute to the creation of a new AML/CFT supervisory system in the EU.

Joint preparation for putting the new AML/CFT supervisory system into practice includes the development of several technical standards in priority areas. An area particularly

important for establishing a common supervisory approach as soon as possible is the preparatory work undertaken by national supervisors under the leadership of the EBA on a common risk assessment methodology. Speaking the same language in terms of money laundering (ML) and terrorist financing (TF) risks is a joint priority as this is prerequisite to identify common trends in ML/TF across borders and entity types and to understand the need for joint action, notably in the context of joint supervisory teams (JSTs) to be set up in the medium term.

Another area where the FMA is coordinating its preparatory efforts and collaborating with other NCAs in the transition to AMLA is the usage of SupTech tools, data and reporting. Smooth information exchange and collaborative data governance which allows for jointly leveraging data and rapid as well as direct interactions are key for AMLA to succeed in “connecting the dots” across NCAs and integrating their work with the intelligence of FIUs. When it comes to SupTech, for instance, the FMA has been developing a tool to systematically assess the in- and outgoing transactions of crypto asset service providers to measure the ML/TF risk they are exposed to and to identify emerging trends related to such financial flows. Other NCAs have complementary analysis tools and within the Single Supervisory Mechanism common core IT-systems. Tools and systems like those could be easily shared among AML/CFT authorities thereby leveraging their analytical power and fostering economies of scale against the background of scarce resources.

Putting the new AML/CFT supervisory system into practice starts with a joint action plan.

AMLA has a key role in terms of capacity building, developing and sharing of IT-services as well as organising joint trainings and staff exchanges. Having truly collaborative (IT-)structures and sufficient highly qualified staff in both AMLA and the NCAs is the foundation of the new AML/CFT supervisory model. While in the start-up phase NCAs will have to contribute with and

through their best staff members, once AMLA is fully up and running its staff would ideally spend parts of their career supporting the work of NCAs locally. Only if staff mobility eventually goes both ways between NCAs and AMLA fostering mutual understanding and learning, will we develop a most-needed common supervisory culture.

Effective collaboration among supervisors is a key ingredient for effectively preventing financial crime and hence critical for the success of AMLA. The FMA has come a long way in collaborating with other authorities in- and outside the EU due to the cross-border activities of the financial groups under its supervision – be it on various concrete cases, tasks and projects, be it in different formats such as joint on-site inspections, AML/CFT colleges or JSTs in the area of prudential banking supervision, just to name the most important ones. With a view to preparing the ground for AMLA, we are taking stock of relevant lessons learnt and sharing them mutually with other NCAs to learn from each other.

Preparation and collaboration need to go beyond the EU and financial sector. Because the risks do not stop at the EU borders, the FMA together with several other NCAs has been initiating work on a common approach to involve authorities from third countries in AML/CFT colleges – AMLA will be instrumental to take this work further and help strengthen supervisory cooperation also with our partners outside the EU. Because the system is only as strong as its weakest link, the FMA has been setting up domestic structures to further enhance the coordination and collaboration with the AML/CFT supervisors responsible for the various obliged entities of the non-financial sector in Austria. It turns out that establishing sustainable collaboration at all levels requires first and foremost mutual trust, built on honest engagement, firm commitments and shared benefits.



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Effective AML/ CFT compliance: Key guidelines for financial supervisors

To ensure ongoing compliance of financial institutions with the requirements set out in the Sixth AML/CFT Directive (AMLD6), financial supervisors must further enhance their risk-based approach, supported by continuous educational initiatives. These activities are essential to ensuring that obliged entities comply with AML/CFT regulations and continuously enhance their practices and procedures. A proactive stance is necessary to help financial institutions remain vigilant in identifying, assessing, and mitigating potential AML/CFT risks.

Supervisors should develop comprehensive risk assessment questionnaires for their obliged entities, which should be completed on a regular basis, including both monthly and annual submissions. These assessments provide critical data that can be used to evaluate the risk levels of individual entities, as well as entire industry sectors. To refine and improve these assessments, supervisors need to develop and apply a dynamic risk matrix that facilitates both individual entity assessments and sector-wide evaluations. The insights gained from these assessments allow for a more precise understanding of AML/

CFT risk scores, ensuring better alignment with regulatory requirements and compliance obligations.

The data collected in this manner should be utilised in the development of a structured, risk-based supervision plan. Such plan must prioritize higher-risk entities and activities, ensuring that they undergo more frequent and thorough reviews. Where irregularities are identified during supervisory activities, appropriate corrective actions should be recommended. In cases of significant non-compliance, stronger measures may be necessary, including the initiation of misdemeanour proceedings or other regulatory actions.

Supervisory findings should also guide the organization of specialized training sessions for obliged entities. These training programs must be designed to address identified deficiencies, raise awareness of emerging AML/CFT risks, and equip financial institutions with the knowledge and tools necessary to strengthen their internal compliance frameworks. Furthermore, fostering a shared understanding of regulatory expectations across the financial sector enhances the overall compliance effectiveness.

The adoption of reliable and verified technological solutions is encouraged within the framework of the EU AML regulations. Financial institutions should implement advanced technological tools, such as transaction monitoring systems, automated risk detection tools, and customer due diligence platforms, to improve their ability to detect and respond to suspicious activities. However, the selection of these technologies must be carried out with caution to ensure alignment not only with the EU AML/CFT regulations, but also with specific national legislative requirements, thereby achieving comprehensive compliance.

**Strengthening AML/CFT
compliance starts
with a proactive,
risk-based approach.**

For national supervisors, cooperation with other supervisory bodies from other EU member states plays a crucial role in strengthening the AML/CFT frameworks. Supervisors should actively engage in international training programs, supervisory colleges, and exchanges of best practices to enhance their regulatory approaches and ensure

a more harmonized approach to AML/CFT compliance.

Participation in committees and working groups within the European supervisory bodies, such as AMLA, provides an opportunity to share practical experiences and contribute to shaping the AML/CFT regulatory landscape at the European Union level. Such engagement is particularly important for the supervision of financial institutions that engage in cross-border operations, as it facilitates a coordinated approach to AML/CFT compliance across multiple jurisdictions.

The insights gained from international cooperation, training programs, and supervisory activities should be leveraged to refine national training initiatives and education programs. By identifying areas requiring improvement, financial institutions can continuously enhance their compliance efforts, ensuring alignment with AML/CFT regulations.

With the rapid advancement of technologies such as machine learning and artificial intelligence, financial supervisors need to focus on strengthening their technological capabilities to support AML/CFT compliance. While AI holds immense potential in improving AML processes, it must be deployed with a clear and thorough understanding of its functionalities, ensuring that biases and transparency concerns are effectively addressed. The application of AI in AML remains an evolving field, requiring ongoing discussions and exchanges of practical experiences to maximize its effectiveness and ensure its responsible use in financial supervision and compliance efforts.



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Steering Malta through the new EU AMLCFT regulatory framework

The new EU Anti-Money Laundering and Countering the Financing of Terrorism (AMLCFT) regulatory framework presents both challenges and opportunities for Malta's regulatory agencies and financial industry, which are working to adapt to evolving standards while enhancing operational capabilities and preparing for increased scrutiny by the European Anti-Money Laundering Authority (AMLA).

This article discusses the proactive strategies adopted by the Malta Financial Services Authority (MFSA) and the Financial Intelligence Analysis Unit (FIAU) in Malta, to ensure timely compliance with the new regulations, focusing on three key areas:

- participation in the European Banking Authority's (EBA) development of Technical Standards;
- internal implementation strategies; and
- initiatives for industry outreach and guidance.

1. EBA – Technical standards

The EBA is set to submit technical standards for the new AMLCFT framework

to the European Commission by the fourth quarter of this year, supported by a dedicated committee responsible for drafting these standards. Recently, the EBA initiated its first consultation on key areas, including criteria for institutions under the AMLA's supervision, assessments of money laundering and terrorist financing risks, customer due diligence information requirements, and financial penalty indicators. The MFSA and the FIAU are actively involved in this drafting process, ensuring that the unique needs of smaller jurisdictions like Malta are addressed while emphasizing regulatory proportionality. This approach is crucial for tailoring regulations to the risk profiles and capacities of diverse entities, fostering effective compliance while alleviating burdens on smaller operators.

2. MFSA FIAU - Practical implementation

The FIAU is Malta's supervisor for AMLCFT, with the MFSA serving as both a prudential and conduct supervisor, incorporating AML/CFT considerations into its supervisory processes. Both agencies are assessing their internal procedures to align with the new EU AMLCFT framework and upcoming reforms from AMLA. A key development is the integration of AMLA's risk assessments with those of the FIAU and the MFSA, requiring changes to enhance risk evaluation methodologies. Additionally, the formation of joint supervisory teams between AMLA and FIAU staff signifies a shift toward greater collaboration and information-sharing, which is crucial for effective oversight in a complex regulatory environment. Ongoing discussions also emphasize leveraging insights from existing frameworks, like the European Central Bank's Single Supervisory Mechanism, to reinforce AMLA framework for AMLCFT supervision.

Steering Malta through the new EU AMLCFT Regulatory Framework.

3. Outreach with the industry and the importance of early preparation for practical implementation

The FIAU and MFSA have launched extensive initiatives to guide the industry through the new EU AMLCFT framework and associated AMLA reforms, which are set to impact the Maltese financial services sector significantly. To enhance understanding and adaptability, the FIAU and the MFSA have organized seminars and conferences to share critical information

about the upcoming regulatory changes with supervisors, law enforcement agencies and industry stakeholders. This proactive engagement highlights the importance of early preparation for practical implementation, equipping stakeholders with the necessary knowledge and tools to navigate the new EU AMLCFT regulatory landscape. By promoting compliance and resilience, the FIAU and MFSA aim to ensure that entities can effectively adapt to these changes, thereby reinforcing the integrity and stability of Malta's financial ecosystem amid evolving international standards.

Conclusion

In conclusion, the implementation of the new EU AMLCFT framework presents both challenges and opportunities for the financial services sector. The proactive efforts of the MFSA and FIAU in providing guidance, fostering collaboration, and incorporating industry feedback are vital for a smooth transition to the new regulatory landscape. By emphasising proportionality, a risk-based approach, supervisory effectiveness, and cooperation among supervisory, intelligence, and law enforcement agencies, the MFSA and FIAU are facilitating compliance while bolstering the resilience and integrity of Malta's financial ecosystem. As the country navigates these changes, a commitment to ongoing dialogue and adaptation will be crucial for developing a regulatory framework that is both robust and conducive to sustainable economic growth.



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Egmont Group: Driving innovation and collaboration in global AML/ CFT efforts

The Egmont Group enhances the global AML/CFT framework by fostering cooperation and intelligence exchange with over 175 Financial Intelligence Units (FIUs), which serve as key hubs for financial intelligence related to money laundering (ML), terrorist financing (TF), and predicate crimes.

Beyond FIU-to-FIU cooperation, the Egmont Group collaborates with international organizations to align FIUs' insights with global policies and standards, ensuring cohesive AML/CFT practices. The Egmont Group also engages the private sector by providing guidance, typology reports, and facilitating dialogues to improve reporting of suspicious transactions and address emerging risks.

Looking ahead, the Egmont Group focuses on emerging ML/TF risks tied to new technologies and digital assets. It promotes using advanced data analytics, AI, and machine learning to enhance FIU effectiveness and global cooperation,

ensuring FIUs can tackle evolving crime threats. In that regard, the Egmont Group, together with FATF, INTERPOL, and UNODC, works on a project to enhance international cooperation in ML/TF matters, providing guidance for competent authorities. Other ongoing projects aim to boost FIU effectiveness in asset recovery and tackle laundering of environmental crime proceeds. Increasing public awareness of financial intelligence's role in combating climate change is also a focus.

The Egmont Group operates in a complex global environment, where jurisdictional differences in legal frameworks, regulatory approaches, and institutional capacities present challenges to effective AML/CFT coordination. Many FIUs face resource constraints, impacting their ability to gather, analyze, and share intelligence effectively. A key challenge is the threat to the operational independence and autonomy of FIUs, hindering impartial intelligence sharing, especially in politically sensitive cases. Despite these challenges, the Egmont Group has driven innovative approaches to enhance FIU effectiveness, promoting advanced tools, offering training, and encouraging collaboration for better intelligence sharing, overcoming jurisdictional limitations.

**The Egmont Group
fosters global AML/
CFT cooperation with
FIUs, key hubs for
financial intelligence.**

Resource constraints and varying levels of independence have led to innovative solutions, promoting cooperation among FIUs to combat ML/TF effectively. The Egmont Group addresses key topics through joint projects with FATF, INTERPOL, IMF, WCO, and UNODC, constant policy reviews, and participation in international AML/CFT initiatives. Joint financial investigations use the secure ESW platform to track illicit financial flows across jurisdictions. By promoting timely information exchange, the Egmont Group helps FIUs act as a global intelligence network, identifying and disrupting illicit networks before funds enter the legitimate economy. Trust and autonomy are crucial for FIUs to share sensitive intelligence swiftly and securely.

There is longstanding coordination between EU AML/CFT bodies and the Egmont Group. For example, the Egmont

Group is a longstanding member of the EU FIU Platform, hosted by the European Commission, where discussions occur regarding the enhancement of the FIU.Net and its transfer under AMLA administration. The Egmont Group finds this discussion particularly relevant, focusing on enhancing technology's role in facilitating informal international cooperation. An area where ESW plays a significant role with the future application of pseudonymized matching capabilities, allowing secure identification of subjects of common interest. This enhances detection and effective information exchange between FIUs. Automation is another topic where the Egmont Group sees common perspectives and room for shared activities. The European Commission is a longstanding partner, regularly presenting during Egmont Group meetings on their supranational AML/CFT approach.

The Egmont Group has made significant strides in promoting the integration of AI, machine learning, and big data analytics in FIUs' AML/CFT frameworks, enhancing data analysis to detect money laundering patterns and uncover hidden links between entities and transactions. The Egmont Group has facilitated knowledge exchange between FIUs, helping them adopt technology tools effectively and enhancing their data analysis capacity despite resource limitations. At the same time, the Egmont Group emphasizes the need for coherent IT business strategies within FIUs. Technology adoption must align with operational goals and legal mandates, requiring governance, strategic investment, and coordination between teams to ensure technology investments are effective.

Integrating AI and advanced technologies presents challenges, particularly regarding data governance, quality, and security, given the sensitive nature of financial intelligence handled by FIUs. Ultimately, while technology can enhance FIU effectiveness, its value hinges on solid IT strategies, data quality and security, and alignment between technology and strategic goals—areas where the Egmont Group continues to provide critical support.



JEROME LACHAND

General Secretary – CCF Group

Leveraging technology in anti-money laundering (AML) at CCF Bank

With the introduction of the Anti-Money Laundering Directive 6 (AMLD6) by the European Union, CCF Bank has faced the challenge of refining its AML practices. In a context of an in depth transformation of the French retail bank inherited from HSBC, CCF is leveraging on advanced technologies like Artificial Intelligence (AI), machine learning, and Robotic Process Automation (RPA) to enhance its AML framework. Additionally, CCF Bank ensures high-quality data governance while navigating integration challenges.

Optimizing AML models for enhanced detection

Optimizing internal models to make them more precise and predictive is a cornerstone of CCF's AML setup. Periodical back testing enables us to adjust the thresholds to reduce the false positives without weakening the level of control or the number of suspicious activity reports (SAR). An internal SAR database has also been setup, that improved the models but also sped up the staff training process. Complementing model data with information gathered within the branch network also improved the models' predictions.

Robotic process automation (RPA) for efficiency and accuracy

RPA has been crucial in automating repetitive tasks in CCF Bank's AML framework, such as data entry, transaction monitoring (TM), and reporting. RPA bots can scan transactions against sanction lists and flag suspicious activities, significantly reducing manual errors and enhancing processing speed. RPA also allowed for creating dedicated dashboards where TM analyst can find all necessary information to examine a case swiftly. This automation significantly increased productivity, enabling the bank to optimize TM teams' size in particular. Basic activity automation also allows staff to focus on more complex and interesting investigations, leading to improved efficiency in AML operations.

Upgrading AML staff activity requires significant investment in training. As part of the CCF Academy, dedicated programs are being setup, to help staff leverage on advanced technologies tools effectively, improving both the efficiency of AML processes and staff's ability to analyze suspicious transactions.

CCF is improving effectiveness and efficiency of its AML setup with advanced technologies.

Integrating advanced technologies into AML processes

This process of integrating advanced technologies into CCF's AML organization will continue. As a second step, the objective is to have AI and machine learning play a pivotal role in transaction monitoring and customer due diligence. These technologies will improve our real-time detection models by analyzing large volumes of historical transaction data. Machine learning models learn from past data, improving their ability to identify emerging threats and reduce false positives. This will enable the bank to better identify complex laundering schemes, ensuring better compliance with AMLD6.

CCF Bank will also integrate Natural Language Processing (NLP) to enhance its Know Your Customer (KYC) process. NLP algorithms analyze unstructured data from sources like news articles, legal documents, and social media. By improving risk assessment, this technology can help the bank identify

potential red flags and assess clients' risk profiles more accurately. This will speed up the onboarding process and ensures thorough due diligence.

Ensuring data quality & integrity

Integrating data from multiple sources, including KYC records, transaction systems, and sanction lists, is always a challenge. These data sources often reside in silos, making it difficult to create a cohesive and accurate dataset. Answering Financial Intelligence Units' requests on time is also challenging when diverse elements have to be consolidated. To address this, CCF is implementing advanced data integration tools that enable seamless data flow across systems, ensuring that all AML data is standardized and clean.

With the increased regulatory scrutiny under AMLD6, CCF Bank has implemented robust data governance frameworks to ensure that the data used in AML detection is accurate and up-to-date. This includes data validation checks, real-time reconciliation, and data lineage tracking. The bank also fully complies with GDPR to protect personal data purges outdated elements.

Conclusion

CCF Bank has made significant strides in enhancing its AML framework, and is now in midstream. Upcoming technologies like AI, machine learning, and NLP have a very significant potential to further improve detection capabilities. But this evolution should also take into account other regulations such as GDPR and AI regulation. This generates for banks an additional level of complexity, and also some kind of regulatory uncertainty. Instead of facing silo approaches from regulators, having clear guidelines combining the various applicable regulations would help.



PERRINE KALTWASSER

General Manager of Risk,
Compliance and General
Counsel, of the Conglomerate
& Member of the Management
Board – La Banque Postale

AI and digital technologies are powerful tools to scale up the AML fight

For more than 30 years and the publication of the 1st AML Directive, banks have been continuously adapting their internal processes to regulatory requirements provided for in the successive AML/CFT packages. They are key players and the main providers of information to FIU (financial intelligence units), thanks to the implementation of dedicated services for investigations and to huge investments in IT, training, and compliance tools.

The new AML Regulation, directly applicable in all the EU Member States, will ensure greater alignment between countries and avoid gaps in national transpositions, particularly detrimental as the strength of the whole AML system depends on its weakest link. Applicable from 10 July 2027, it will be supplemented in July 2026 by AMLA guidelines and technical standards.

For La Banque Postale, as for all banks, this new regulation will lead to a

significant change in the current KYC and organisational processes in terms of AML/CFT. Among important evolutions that will have to be taken into account: the recording of new mandatory KYC data, the possible use of the European E-wallet – a new electronic identification solution provided for in the e-IDAS Regulation –, a larger scope for enhanced due diligence obligations (new categories of concerned customers, extension of PEPs), or the new deadlines for periodic review of KYC information, five years maximum for all clients and one year for customers with a high AML/CFT risk.

As the fight against AML intensifies and regulatory measures become more complex, new technologies and artificial intelligence (AI) are now a major lever for meeting both challenges of strengthening risk coverage plans and improving team efficiency.

In the first case, La Banque Postale is working on a deep learning algorithm to identify cases of terrorist financing. The algorithm being developed works on more than 100 variables related to the client or his transactions. The latest tests managed to isolate cases out of a population of over 10,000 high-risk clients, and out of these cases, a majority were subject to suspicious reports that were not identified by the current tools. La Banque Postale goes on testing and hopes to put this new algorithm into production.

**The use of AI devices
could be expanded to
many situations in the
areas of AML/CFT.**

In the second case, La Banque Postale is working on machine learning to simplify the work of the AML analysts by sorting the alerts produced by the systems. They will have two groups of alerts in front of them, one with a low probability of ending in suspicion reports, the other with a high probability. This will save the teams precious time. La Banque Postale is also working on generative AI by proposing templates for suspicious reports to analysts based on the elements recovered in the alert.

High-quality and well-structured data are prerequisites for any AI work. La Banque Postale has been dealing with this issue for several years since its AML tools are in-house tools that La Banque Postale developed 5 years ago around a data lake. 80% of the development

time is devoted to this essential phase of data qualification. La Banque Postale was therefore made aware, very early on, of compliance on these issues. At the compliance department, the data scientists work very closely with data managers, who are specialists of this multi-petabytes data lake.

Integrating AI and other technologies into the AML framework means moving from proof of concept to the industrial phase. There is a technical challenge in this transition: transforming a laboratory experiment into an industrial process impacting the daily lives of dozens of employees with a high requirement for regularity and reliability. Beyond the technical aspect, there is the human challenge with a need to help employees fully understand their new work environment and the new production process. Finally, we face a regulatory challenge since these practices are governed by the AI Act, ensuring a responsible use of AI. La Banque Postale must ensure that it complies with it at each stage, in development, production, and recalibration.

Finally, AI devices can be applied to many situations in the areas of AML/CFT (prioritisation of alert processing / prequalification, predictive models on the follow-up to be given to alerts, detection of risky customer profiles, improvement of the risk exposure coverage rate, etc.). The fight against money laundering and terrorist financing is therefore an opportune area to benefit from all the advances in AI. However, it should not be forgotten that AI is only a tool; the information generated by AI in all processes regarding customers should then be subject to appropriate and proportionate human control, especially for enhanced examinations.

SUSTAINABILITY RISKS IN THE FINANCIAL SECTOR



**JONATHAN
DIXON**

Secretary General –
International Association of
Insurance Supervisors (IAIS)

Climate risk: from policymaking to implementation

Last year was the hottest year on record. At 1.5 °C above pre-industrial levels, global temperatures have already exceeded the aspirations set out in the Paris Agreement. This is contributing to the intensification of weather events, exposing households and businesses to natural catastrophes. Many do not have the protection afforded by insurance coverage, particularly in emerging market and developing economies (EMDE).

As efforts by governments to address climate change stall, the medium- and longer-term physical risks for insurers will increase. Without action, the protection gaps we see today will continue to grow.

In 2021, the IAIS published our first Application Paper on how supervisors could assess and address climate-related risks. Over the last two years, we have built on this foundation to further support a globally consistent supervisory response. The IAIS materials are aligned with, and

contribute to, other cross-sectoral initiatives on addressing climate-related risks, notably that of the Network of Central Banks and Supervisors for Greening the Financial System, as well as the Financial Stability Board's Roadmap for addressing financial risks from climate change.

Last year, we adopted changes to our Insurance Core Principles, the global standard for insurance supervision, to clearly state the need for climate risk to be incorporated into existing risk frameworks. This month marks another milestone, as we will publish an updated Application Paper on climate-related risk that covers a comprehensive set of supervisory practices, following an intensive period of policy development and consultation. The Application Paper supports both market conduct and prudential supervisors in delivering against their mandates as climate risk increases.

Conduct

From a market conduct perspective, the paper supports supervisors in their efforts to identify instances of potential unfair treatment of consumers that can emerge in relation to natural catastrophe protection products or sustainability-focused products – for example, through greenwashing or misleading information on the sustainability of an insurer's operations.

Microprudential

From a microprudential perspective, the paper supports supervisors' understanding of climate-related risks by setting out considerations for effective supervisory reporting, which is a key first step in assessing any risk.

Climate-related risks need to be managed on both sides of an insurer's balance sheet. The paper sets out the need to improve asset and liability valuation by incorporating climate risk and reflecting this in investment strategies. It provides practical steps on how climate risk can be integrated into corporate governance, internal controls and risk frameworks, to help ensure that insurers' boards and senior managers understand and manage these risks.

The paper also highlights the need for material climate risks to be disclosed to market participants and policyholders in line with existing requirements both in our standards and generally with existing securities law.

Macroprudential

Climate change has the potential to create spillover effects into the rest of the financial system. For instance, if policyholders cannot secure affordable coverage for mortgaged properties, this could increase credit risk for banks. Equally, increasing protection gaps can make economies less resilient in the face of increasing natural catastrophes.

Scenario analysis is highlighted as a tool that insurers and supervisors can use to better understand emerging climate risk. The focus is on understanding the resilience of insurance business models and the strategic decisions needed to protect policyholders and insurance markets, rather than reaching a precise financial estimate.

Next steps

The IAIS' membership of more than 200 jurisdictions will see climate risk crystallise in different ways and at different times. Many of our EMDE members are likely to have the greatest exposure to climate risk, but also the fewest resources to respond. The IAIS will continue to support our members to effectively integrate climate-related risks into their supervisory frameworks and support them to address protection gaps caused by increasing physical risks. Initially, work will focus on climate metrics for supervisory reporting and public disclosures, and on natural catastrophe modelling.

As we shift our focus to implementation, the IAIS will provide practical guidance and supervisory capacity building opportunities. For example, the IAIS was one of the launching partners of the Climate Training Alliance, a dedicated online platform for training on climate risks for central banks and supervisors. Similarly, we are collaborating with international organisations on joint work related to increasing physical risks, including: i) with the IMF on, for example, the high-level panel on protection gaps as part of the IMF annual meetings 2024; ii) with the OECD to support the G7 publication of a High-Level Framework for Public-Private Insurance Programmes against Natural Hazards; and iii) co-authoring with the World Bank an input paper for the G20 Sustainable Finance Working Group (SFWG) on assessing and addressing natural catastrophe insurance protection gaps, as part of the SFWG's priority focus on adaptation.



BARNABÁS VIRÁG

Deputy Governor –
The Central Bank of Hungary

Building a resilient economy: Climate risk assessments for a sustainable future

We live in an age of profound transitions - demographic shifts, geopolitical realignments and the accelerating impacts of climate change. The way policymakers navigate these challenges will determine the trajectory of economic growth, the viability of sustainable development and the resilience of social cohesion. For central banks, price stability remains the primary mandate, with inflation as the number one adversary. Achieving and maintaining price stability in the short, medium and long term requires managing the real economic and financial stability consequences of climate change.

Climate change poses a systemic risk to financial stability, necessitating the continuous development of risk assessment methods within the financial sector. To assess the materiality of these risks around financial stability and as part of its green mandate, the Magyar Nemzeti Bank (MNB) has conducted a series of climate stress tests. These tests serve as critical tools in identifying vulnerabilities, quantifying potential losses and guiding financial institutions toward improved risk management practices. These initiatives are in line with recommendations of the NGFS

and built on the work and knowledge of this international community.

The MNB employs long-term scenario analyses to assess the sustainability of banking and insurance business models and short-term climate risk stress tests to evaluate solvency risks. The 30-year banking sector scenario analysis considers physical risks and transition risks across three pathways, from a Paris-aligned orderly transition to a “Hot-house world” scenario with failed decarbonization. Findings indicate that a lack of alignment with climate targets could significantly increase credit risk in the electricity and gas supply, mining and utilities sectors. Similarly, a long-term analysis—based on NGFS scenarios—evaluated transition risks on insurers’ asset portfolios. Results showed these risks remain manageable with existing risk management tools.

Building on these insights, the MNB developed a short-term climate risk stress test methodology to identify institution-specific transition risks as part of microprudential supervision. Covering a 2–3-year horizon, these exercises assess the impact of carbon price shocks on individual banks. Results confirm that while all Hungarian banks would remain solvent, increased carbon costs could lead to sectoral credit risk differentiation, particularly for sectors with high carbon intensity. Banks with concentrated loan portfolios in these sectors could be also prone to such risks. This underscores the importance of forward-looking risk management and continuous monitoring of climate risks.

Banks must incorporate climate stress testing into their risk processes.

In response to these findings, the MNB has strengthened its supervisory expectations, requiring financial institutions to integrate climate risks into their governance, risk management and capital adequacy frameworks. Banks must incorporate climate stress testing into their risk processes, covering both physical and transition risks under severe yet plausible scenarios, including institution-specific adverse scenarios.

Climate related risk sensitivity has also been introduced into the MNB’s macroprudential regulation. Among other steps, the MNB has adjusted its borrower-based measures, implemented since 2015, applying more favourable debt-service-to-income (DSTI) and loan-to-value (LTV) limits for energy

efficient green property purchases and for loans with renovation purposes from 1 January 2025. The preferential treatment supports the energy renewal of the Hungarian residential real estate portfolio, while from a risk perspective the adjustment is motivated by a growing amount of empirical research confirming that mortgage loans financing green real estate can have lower credit risk. This can be attributed to their lower utility costs (higher disposable income) and price premium (more resilient pricing), and therefore borrower-based measures can be disproportionately effective for such properties compared to their riskiness.

For a central bank, the continuous assessment of climate risks in its balance sheet and its carbon footprint is also essential. To enhance transparency regarding its climate exposures, the MNB was among the first central banks to publish a climate-related financial disclosure in 2022, which has been publishing annually since then. With the publication the MNB also aims to provide guidance for the local financial sector to monitor their own carbon footprints and their climate-related financial risks.

The MNB’s climate stress tests and evolving supervisory approach highlight the growing importance of climate risk integration within the financial system. While the Hungarian banking sector has shown resilience, enhanced risk assessment and strategic portfolio realignment remain critical. As climate risks evolve, the MNB intend to continue refining its methodologies and integrating them into the SREP to ensure financial institutions are well-equipped to navigate the green transition.



KENTARO TAMURA

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Potential of climate scenario analysis

Climate change is a global issue that requires a long-term commitment. During the initial phase of this journey, it was essential to set ambitious ultimate goals in order to formulate effective ways of achieving such goals. At this juncture, we need to take a pragmatic approach in order to keep the various stakeholders on board while continuing our journey on this global scale project.

The field of climate scenario analysis is a good area for central banks to take advantage of their analytical capacity. Despite differences in their policy mandates, central banks generally share commonalities in their approaches towards monitoring and research of climate risks and their impact on the macro economy and financial stability. These commonalities have led to central bank cooperation at the international level such as at the NGFS, which developed climate scenarios for assessing the impact of climate related financial risks as a global common starting point for both public sector authorities and private sector market participants worldwide.

Yet, central banks and financial sectors still continue to struggle with data and scenario gap issues. The usefulness of

any climate scenario analysis depends on whether it captures the changing natural, technological and macro-economic environment and relevant national level initiatives, from the viewpoint of the user. For instance, not only do scenarios need to be adjusted for technological advancements but as each jurisdiction has different natural environments and industrial structures, the underlying assumptions will vary, implying that at least in the short term, these scenarios need to account for different priority measures. In the Asian context, a large proportion of industries belong to energy-intensive and hard to abate sectors, creating significant need for transition finance in these areas. For people in other regions who do not directly experience these conditions, understanding the necessity and importance of such financing may not be easy. In fact, even the latest NGFS scenarios or other publicly available scenarios have not properly covered these issues.

How could we address these analytical and operational challenges to pave a way forward? Two examples of pragmatism are worth noting from the Bank of Japan's scenario analysis exercise initiatives, conducted jointly with the Financial Services Agency of Japan.

First, the Bank of Japan developed sectoral GDP pathways with an in-house model to supplement the NGFS scenarios in the 2022 pilot exercise. Given that climate policies could have significantly different impacts depending on the sector and that sectoral variables are key to understanding sector specific shocks such as those on carbon intensive sectors, there was a clear need to fill these key data gaps using this approach. This initiative facilitated the dialogue with scenario analysis participants and led to an improvement in their scenario analysis approach.

Tailored scenario analysis leads to better risk management.

Second, we shortened the scenario analysis time frame for transition risks to 2030 in the current exercise, compared to 2050 of the 2022 pilot exercise. The 2022 pilot exercise highlighted various challenges posed by data gaps arising from uncertainties in climate change, the development and implementation of emission reduction technologies and climate policies over the long term. For the current ongoing exercise, we decided to focus on the shorter time

horizon to conduct scenario analysis in the period where the interim target and roadmap of Japanese government and major carbon intensive firms are already available. By doing so, the current ongoing exercise with richer data provides a severe but more plausible vulnerability assessment under short term shocks that is useful for scenario analysis participants risk management.

Climate scenario analysis is a vital toolkit that has the potential to show to various stakeholders a pathway towards achieving long-term goals based on plausible scenarios. The key to unlocking this potential is connecting scenarios with realistic policies. Efforts to make scenario analysis more accessible to a diverse range of stakeholders to promote further use, involves narrowing down the risks being analyzed and conducting scenario analysis with a shorter time frame.

The scenario analysis process itself helps deepen mutual understanding between public and private sectors regarding climate risks. It also contributes to enhancing banks' risk management and supporting their clients in their climate change response efforts. To achieve long-term goals, it is essential to first present a realistic story that is easy for people with different perspectives to understand, promote information sharing, and advance concrete discussions.



GERARDO DI FILIPPO

Head of Group Risk
Management Processes and
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Stronger public-private collaboration to close the protection gap

The most significant impacts of climate change today stem from the increasing frequency and severity of the atmospheric phenomena that underpin extreme weather events. Over recent years, global data has shown a rise in climate-related perils, such as more frequent heavy rainfall leading to river floods.

While the economic and societal effects of these trends are clear, it remains challenging to separate the direct impact of intensified climate events from the growing exposure subject to losses.

This can be due to a denser urbanization especially in high risky areas, assets with higher vulnerability (e.g. the new thermic cohabitation applied to the residential buildings), more susceptible of losses than in the past, as well as to poor maintenance of infrastructures and natural landscape, like the canalization of rivers.

These phenomena are also exacerbating the gap in protecting and recovering from the losses caused by the climate events. Whilst the insurance industry

plays a key role in reducing this gap through its product offerings and mutualization of risks, the cost of insurance coverage is, however, closely related to the level of risk to be covered, which is progressively aggravated by such climatic events; these increasing costs could potentially lead to unaffordability, or even un-insurability.

In parallel, the absence of proper risk-based pricing could ultimately affect the strength of the industry's solvency, triggering wider challenges where the policyholders are impacted on a larger scale, regardless of the products they hold, and risking societal issues.

To keep insurance costs manageable, the exposures subject to losses must be reduced through effective prevention and adaptation measures. This requires collaboration from all stakeholders.

Households and the private sector must develop a greater risk awareness of the zones where they live or operate, introduce risk reduction measures to improve buildings and production systems' resilience, and, not last, improve their prevention behaviors by anticipating the occurrence of risky events.

At Generali, being a Lifetime Partner means offering protection to our clients with solutions to actively help mitigate risks. This includes leveraging advanced climate risk models, AI-driven loss projections, and satellite-based claims management. Innovative products, such as parametric solutions tailored to SMEs, more vulnerable than large corporations yet essential to Europe's economy, are crucial.

However, individuals and private sector cannot achieve climate resilience alone. Governments and policymakers must step in with fiscal incentives, urban planning reforms, and public awareness programs.

Key to this effort is also Public-Private Partnerships (PPPs), which can help distribute losses across a broader base. However, PPPs should be seen as temporary mechanisms, because true long-term solutions lie in CO₂ reduction and energy efficiency measures.

Achieving these measures requires substantial investments: governments must create conditions for competitive returns, encouraging capital to foster penetration of mature technologies and scale up the emerging ones, but also to push research and development of innovative solutions (e.g. low emission production of fertilizer), especially with the advent of new enablers like Artificial Intelligence and Quantum Computing.

Industrial decarbonization, especially in high-emission sectors, must be financially sustained to prevent economic stagnation caused by stranded sectors from further hindering climate action, creating a negative feedback loop. Simply excluding high-carbon industries from investment portfolios is not a solution.

The Fit-for-55 package specifically warns of such unintended economic side effects, which could be further exacerbated if solvency capital charges are introduced for investments in high-emitting sectors. It highlights the need for comprehensive transition strategies, but it should also consider a wider range of scenarios, including policy failures and different global transition speeds, especially outside the EU.

**Private investments and
public interventions are
key to achieve climate
goals and insurability.**

Generali has implemented a robust decarbonization strategy, both on investment and underwriting portfolios, complemented with green bonds issuance, green financing strategy and the engagement of the emitting counterparties to contribute to investments in mitigation.

Given the systemic nature of climate change, the private sector can do a lot, but not alone. Without coordinated government policies to support both mitigation and adaptation efforts, the economic viability of climate action remains at risk. And the longer we delay, the more painful the necessary adjustments will become.



NEIL ACRES

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The new risk playbook: Adapting to the evolving definition of sustainability

The old proverb says fortune favours the bold, but in today's world, fortune favours the prepared. Businesses must navigate an ever-expanding landscape of sustainability risks that directly impact operations, financial performance, and long-term resilience. While risks like climate change, resource scarcity, and shifting regulations aren't new, their complexity is intensifying. Sustainability is no longer about compliance—it's a strategic imperative for resilience, innovation, and competitive advantage.

Sustainability risks evolve alongside technological advancements and market shifts. The digital revolution has introduced new challenges, from data privacy and cybersecurity threats to the ethical dilemmas of artificial intelligence (AI). Meanwhile, transition risks - like inadequate decarbonisation pace - lead to stranded assets while slowing down take up of green technologies. As some risks escalate and others diminish, businesses must continuously adapt to a risk landscape where sustainability is increasingly synonymous with success.

In developing programmes to address the shifting dynamics of sustainability risk, we have found three areas of intense focus by the market, reflecting

major new trends: the financial impact of climate change on the insurance sector, the growing influence of social risks, and the increasing complexity of AI governance.

Insurance faces the storm: The rising cost of extreme weather risks

Extreme weather is reshaping economies, disrupting supply chains and real estate markets. As climate change accelerates both the frequency and severity of these events, insurers are facing mounting financial pressures. The cost of claims is soaring, forcing some providers to withdraw coverage from high-risk areas, leaving businesses and communities vulnerable.

Research shows that adaptation costs due to extreme heat could quadruple under a 3°C warming scenario compared to 1.5°C.¹ Rising temperatures will increase infrastructure damage, lower labour productivity, and drive-up healthcare costs—further amplifying insurance liabilities. Recognising the urgency, 98% of insurers now integrate climate risk into underwriting, up from 88% in 2021, signaling a shift toward proactive risk management.²

From talent to trust: Why social risks matter more than ever

Social risks are reshaping financial markets, with human capital, data privacy, and cybersecurity emerging as key challenges. Over the past decade, tech giants have transformed equity indexes, with the ICT sector now comprising over a third of global market value—double its share from a decade ago. This shift has exposed new vulnerabilities, where talent retention, supply chain stability, and operational safety are no longer abstract concerns—they have direct financial implications.

Businesses must navigate an ever- expanding landscape of sustainability risks.

According to MSCI's research, companies with high social scores have consistently outperformed their lowest-scoring peers across North America, Europe, and Asia-Pacific over the past 11 years.³ Among social risks, human capital management has proven most financially significant, affecting 99% of public companies in the past five years. Other key risks—product liability, social opportunities, and stakeholder opposition—are increasingly shaping financial performance.

AI, accountability, and the new corporate risk frontier

The rapid rise of AI presents both opportunities and risks that businesses are only beginning to grasp. As AI systems grow more complex and autonomous, they generate decisions that even their creators struggle to predict. Companies leveraging AI—especially in data-driven industries—face intensifying scrutiny over privacy, bias, and ethical transparency. Meanwhile, rising cybersecurity threats are pushing businesses to rethink AI governance.

Yet, our research shows that nearly half of major consumer-facing companies lack a responsible AI policy addressing privacy, discrimination, and copyright risks. Even among companies with AI policies, only a third cover both privacy and discrimination, exposing critical oversight gaps.⁴

The question now is whether governance will evolve to meet these challenges—or if another disruptive shift will redefine AI-related risks again. Businesses that fail to adapt risk being blindsided by the next wave of AI accountability demands.

AI is no longer an emerging risk—it is a central concern shaping the future of corporate sustainability, regulatory compliance, and ethical responsibility.

Rather than debating what sustainability means or its relevance, we must focus on equipping ourselves with the right tools to identify and measure the materiality of evolving financial and non-financial risks. In a shifting landscape, adaptability and precision drive resilience.

1. *Mapping Extreme-Heat Costs for the World's Largest Cities* - MSCI
2. *MSCI ESG Research, September 2025.*
3. *Social Risks and Opportunities for Corporates: Long-Term Performance in Global Equity Markets* - MSCI
4. *Sustainability and Climate Trends to Watch for 2025* - MSCI



HIROTAKA HIDESHIMA

Counsellor on Global
Strategy to President and
the Board of Directors –
The Norinchukin Bank

Time to take a step back on sustainability- related issues: Back to the basics?

It might be a good time to take a step back and think about sustainability risks from the basics.

Don't mix risk management and transition strategies

The first thing to emphasise is that risk management and transition strategies should be treated separately as these are totally different issues and should not be mixed.

Let us start from risk management.

Sustainability risks should be captured through traditional risk categories

First, one important point to revert to is the explanation by the BCBS and the NGFS that climate-related financial risks or nature-related financial risks should be captured through the traditional risk categories, and not as new risk categories. Thus, we should be thinking about how to capture sustainability risks within the context of credit, market, operational, or liquidity risk.

Second, it is always useful to remind ourselves that risk has always been about the future. Risk is the estimated potential maximum loss that the bank may incur in the future using certain assumptions.

Third, although better quality and more relevant data is important, it is likely that there will never be perfect data that will allow us to calculate risk with certainty. Data is observation about the past, and it is only useful as the starting point in estimating the future. We all know that the future will not be the same as the past. This is not only the case for sustainability risk, but for all types of risk.

Where does this all lead to?

Let us take the case of credit risk, as it is probably the easiest to understand.

Rating downgrades (and upgrades) should be the method

In the case of credit risk, sustainability risk should be understood as how these types of risks would impact the bank's borrowers' ability to repay. Then, this will be a question of whether or not there is a need to downgrade (or upgrade) a borrower in the internal rating scale. This can be a question on whether a downgrade is needed because of climate-related risk, nature-related risk, or even for geopolitical risk. In the case of climate- or nature-related risks, it might be useful to think about this need both in the context of transition and physical risk.

Treat sustainability risks through traditional risk categories, don't mix with transition strategies.

Paragraph 36.33 of the Basel Framework states "Credit scoring models and other mechanical procedures are permissible as the primary or partial basis of rating assignments, and may play a role in the estimation of loss characteristics. Sufficient human judgement and human oversight is necessary to ensure that all relevant and material information, including that which is outside the scope of the model, is also taken into consideration, and that the model is used appropriately." This is within the section on the minimum requirements to use the IRB approach, and the paragraph on the use of models for rating assignment. Although this is the minimum requirement for the use of the IRB approach, similar thoughts can be applied to banks using the standardised

approach for regulation, since most, if not all, of them will use internal rating systems for risk management purposes.

Assessment for each entity, not at the sector level

As with any structural changes to the economy, regardless of whether it is due to geopolitical or sustainability risks, there will be those entities that will adapt better and those that will not. This would probably be true within those sectors that find the changes favourable, as well as within those that find them unfavourable. The challenge for banks would be to assess whether each of their borrowers are capable of adapting to the forthcoming changes. There is a need to make such assessments for individual entities, and not at the sector level.

Check the appropriateness with back testing

The appropriateness of rating downgrades (or upgrades) should be tested with back-testing comparing the actual default rate and the estimated probability of default for each rating grade (note: do not try to adjust individual PDs of the borrowers since this will make back-testing impossible).

In the case of market risk, the relevant question should be whether the distribution of potential future losses change as a result of sustainability risk. Since this is an empirical question, we may have to wait until we have relevant observations, and stick with the current methodology for the time being.

The real economy needs to transition

On transition strategies, either for net zero or nature positive, we believe the important point is not to try to superficially align our portfolios with the transition target, for example by divesting from those clients that are deviating from the pathway and maintaining our relationship only with those that are aligned. Instead, we should do our most to engage with our customers and try to work with them so that they can revert to the desirable pathway. It is important to keep in mind that the real economy needs to transition, and making the portfolios of financial institutions superficially aligned is not going to solve the problem that we are trying to solve.



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Creating long-term value through ESG: How financial institutions navigate climate

Financial institutions are adjusting their strategies to manage the physical and transition risks associated with climate change by integrating environmental, social, and governance (ESG) criteria into their business models. This integration is essential to reduce risks and ensure the sustainability of their operations as well as identifying new sustainable lending opportunities. Banks identify areas vulnerable to physical risks and transition risks and adjust their loan and investment portfolios to comply with climate goals. They finance renewable energy and green technologies and work with all their customers to help them on their transition to net zero. The concept of transition and the understanding of detailed, sector specific transition pathways are increasing all the time.

The EU's "Fit-for-55" scenario aims for a 55% reduction in greenhouse gas emissions by 2030 compared to 1990 levels. This scenario is crucial for assessing the resilience of banks to transition risks. It includes policy measures such as increasing renewable energy, promoting sustainable mobility, and introducing carbon taxes. Banks use it to steer their financing and investment portfolios by

reducing exposure to carbon-intensive sectors and favoring sectors aligned with these goals. The analysis of this scenario helps measure banks' and investors' exposure to transition risks, particularly in fossil fuel sectors, while identifying opportunities in green technologies. This guides financial decisions and strengthens business resilience in the face of a rapid transition.

Banks play a key role in financing the energy transition. They finance green infrastructure projects and invest in decarbonization companies, aligning their portfolios with the EU's climate goals. They actively support low-carbon technologies such as renewable energy, electric vehicles, and energy efficiency. Aligning portfolios with climate goals while maintaining profitability is complex, especially for certain sectors such as aviation or heavy industry. Banks must face the challenge of adapting to a rapidly evolving environment, particularly with uncertainties regarding global climate policies. To meet these challenges, institutions are developing CO₂ emission forecasting models and continuing their commitment to the "Net-Zero Banking Alliance," aiming for carbon neutrality by 2050. Maintaining these voluntary commitments is essential to reduce long-term risks and ensure business model competitiveness. Even though US banks are leaving NZBAs, they are still managing climate risks. Public and private approaches are diverging. US banks will lag while EU and ASPAC banks take advantage or transition opportunities.

In January 2025, the EBA published its guidelines on ESG risk management, requiring banks to formalize climate transition plans. These plans must integrate ESG-related financial risks and align with the EU's 2050 climate neutrality goals. They must also be consistent with other transition plans set out in European legislation. The new requirements will apply to GSIBs from 2026 and to smaller, non-complex institutions by January 2027. In addition, EBA launched a public consultation on its draft guidelines on ESG scenario analysis, which precise the use of scenario analysis to test business model resilience to the negative impacts of ESG factors. All those require rapid implementation of transition strategies to meet climate commitments.

The publication of the EU Competitiveness Compass has led to easing some reporting requirements for businesses, particularly regarding the CSRD, CS3D, and the EU Taxonomy. While this reduces the regulatory reporting burden, it is crucial that banks continue to fully integrate ESG criteria into their business models, as

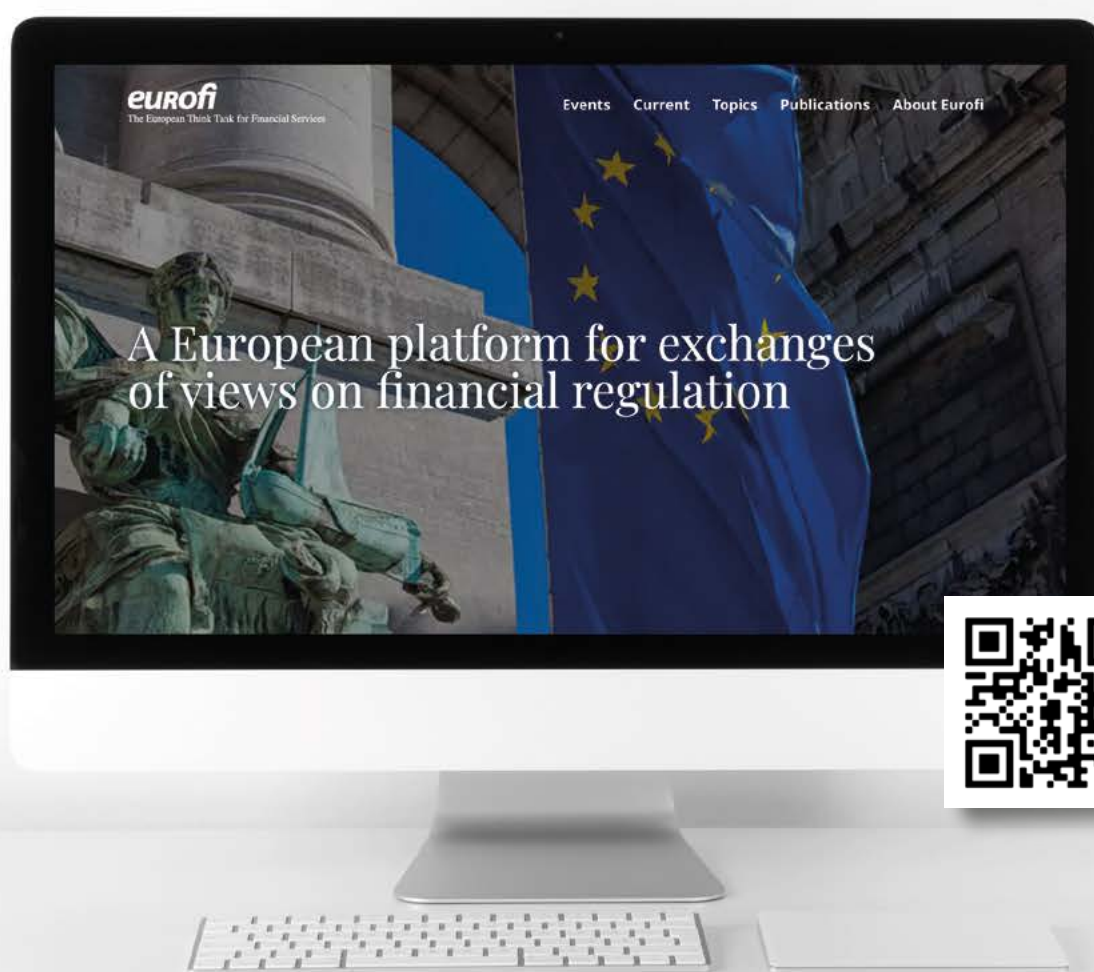
this remains a key lever for reducing long-term climate risks and preserving the viability of business models. The election of Donald Trump in November 2024 has major implications for global climate policy. His decision to exit the Paris Agreement has a non-zero effect, but the work continues even though it complicates international climate cooperation. This creates tensions for Europe, which continues to promote ambitious climate policies despite this geopolitical shift.

**Address climate
challenges is a key lever
to protect business
models and create value.**

Integrating ESG criteria into financial institutions' strategies is more essential than ever to reduce climate-related risks and ensure the sustainability of banks' business models. Strengthened EBA requirements, the analysis of the "Fit-for-55" scenario, and evolving regulations are pushing banks to formalize climate transition plans and prepare for the risks of the energy transition. Although the publication of the EU Competitiveness Compass offers reporting relaxations, it is essential that banks maintain a strong commitment to integrating these criteria into their operations. This approach is strategic to address global climate challenges while protecting banking business models and creating value.

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ABOUT EUROFI

The European think tank for financial services

- Two major annual international events fostering open dialogue between public authorities and financial industry stakeholders from all sectors and steps of the value chain;
 - A broad and forward-looking agenda covering regulatory developments, macro-economic trends, and key financial industry transformations;
 - A neutral, fact-based and general interest approach aimed at enhancing the effectiveness, integration and further development of European financial markets.
-

OUR OBJECTIVES

Eurofi was created in 2000 with the aim to contribute to the strengthening and integration of European financial markets.

Our objective is to improve the common understanding between the public and private sectors of the trends and risks affecting the financial sector, and to facilitate the identification of areas for improvement that can be addressed by regulatory or market-based measures.

OUR APPROACH

We work in a general interest perspective for the improvement of the overall financial market, using an analytical and fact-based approach that considers the impacts of market trends and regulations for all concerned stakeholders. We also endeavour to approach issues from a holistic perspective, considering all relevant implications from a macro-economic, risk, efficiency and user standpoint.

We organise our work mainly around two annual international events, which bring together the main stakeholders concerned by financial regulation and macro-economic issues for informal debates. Research conducted by the Eurofi team and contributions from a wide range of private and public sector participants allow us to structure effective debates and provide extensive input. The result of discussions, once analysed and summarized, provides a comprehensive account of the latest thinking on market and economic trends and on financial regulation and helps to identify emerging and pending issues that merit further action or assessment.

This process, which combines analytical rigour, diverse input and informal interaction, has proven over time to be an effective way of advancing the regulatory debate in an objective and open manner.

OUR ORGANISATION AND MEMBERSHIP

Eurofi operates on a membership basis and comprises a diverse range of more than 100 European and international firms, covering all sectors of the financial services industry and all steps of the value chain: banks, insurance companies, asset managers, stock exchanges, market infrastructures, service providers, tech providers... The members support Eurofi's activities both financially and in terms of content.

The association is chaired by David Wright who succeeded Jacques de Larosière, Honorary Chairman, in 2016. Its day-to-day activities are conducted by Didier Cahen (Secretary General), Jean-Marie Andres and Marc Truchet (Senior Fellows).

OUR EVENTS AND MEETINGS

Eurofi organises two major international events each year (the High Level Seminar in April and the Financial Forum in September) for open and in-depth discussions on the latest developments in financial regulation and the implications of ongoing macro-economic and industry trends. These events bring together a wide range of representatives from the private sector, the EU and international authorities and civil society.

On average, more than 1000 participants have attended these events in recent years, with a balanced representation between the public and private sectors. All European countries are represented, as well as several other G20 countries (US, Japan...) and international organisations.

These events take place just before the informal meetings of EU Finance Ministers (Ecofin) in the country holding the EU Presidency. Eurofi has also organised similar events in parallel with G20 presidency meetings.

OUR RESEARCH ACTIVITIES AND PUBLICATIONS

Eurofi conducts extensive research on the main topics on the European and global regulatory agenda, recent macro-economic and monetary developments affecting the financial sector and significant industry trends (digitalisation, sustainable finance...). Three main documents are published every 6 months on the occasion of the annual events. They are widely distributed in the market and to the public sector and are also publicly available on our website www.eurofi.net :

- **Views Magazine:** A unique collection of over 230 articles from leading public and private sector figures offering forward-looking insights on regulatory trends, macro-economic challenges, sustainable finance, and digital transformation in the European financial sector.
- **Macro-economic & Monetary Scoreboards:** Data-driven publications presenting key figures, charts, and analyses on macro-economic developments, monetary policy trends, and their implications for finance in Europe and globally.
- **Conference Summaries:** The latest thinking of the key stakeholders shaping the European financial market on macro-economic priorities, regulatory initiatives, sustainable finance, and digital transformation.

Eurofi also regularly publishes research notes on key topics such as the Banking Union, the Savings and Investments Union, the use of technology in the financial sector, vulnerabilities in the financial sector, sustainable finance...which are published on the Eurofi website.

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