



Q&A

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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*.