

## SIU NEXT STEPS



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## 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

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### 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.

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**It should take full account of the diversity of EU markets.**

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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.

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**Improve access to capital, create an efficient tax framework, and ensure regulatory certainty.**

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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

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### 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.

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**Completing the SIU is crucial to ensuring that Europe remains an attractive investment destination.**

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**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.

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### The potential of the SIU is huge – let's make use of it!

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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.