

EUROFI

HIGH LEVEL SEMINAR WARSAW APRIL 2025

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

Summary



Inside

- **ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU**
- **BANKING AND INSURANCE REGULATION**
- **DIGITALISATION AND TECHNOLOGY**
- **PAYMENTS AND THE DIGITAL EURO**
- **EU AND GLOBAL SUSTAINABILITY AGENDA**
- **SIU FUTURE STEPS**
- **FINANCIAL STABILITY AND SUSTAINABILITY RISKS**

Foreword

The Eurofi April 2025 High Level Seminar took place in Warsaw ahead of the informal Ecofin meeting and was organised in association with the Polish Presidency of the Council of the EU.

Over 1200 participants from the public and private sectors attended the Seminar, which featured 40 panel discussions, as well as speeches and exchanges of views with key representatives from government, European and international public institutions, regulatory and supervisory authorities, industry, and civil society.

The Seminar addressed Europe's macroeconomic challenges and examined major regulatory and supervisory developments in the financial sector at both European and global levels. Several sessions also explored key industry trends such as digitalisation and sustainable finance, along with their related policy implications. With the start of a new political cycle in Europe, discussions further highlighted the priorities for the new European Commission in the financial services area.

The following pages contain summaries of the Seminar's panel discussions and transcripts of the speeches delivered during this event. These provide a comprehensive overview of the current trends and issues affecting the financial sector and the policy measures needed to address them. We hope you find this summary informative.

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



Marc Truchet
Senior Fellow



Didier Cahen
Secretary General



Jean-Marie Andrès
Senior Fellow

I. ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU

Growth and competitiveness challenges and priorities in the EU
Implications of globalization and international uncertainty for EU growth
Economic and financial priorities for the new Commission
Closing the innovation gap in the EU
CEE region growth model

II. BANKING AND INSURANCE REGULATION

Priorities for the EU banking sector
Simplifying EU banking regulation
Competitiveness of the EU banking sector
Banking Union: combining EU and national interests
EU bank crisis management framework
Diversity in the EU banking system
Global priorities for the insurance sector
Insurance protection gaps

III. DIGITALISATION AND TECHNOLOGY

Digital finance trends and priorities
Can AI be a game changer for banking and insurance?
AI innovation in capital markets
Cryptoassets and EU financial markets
Scaling up tokenization and DLT
Cybersecurity and digital operational resilience
Open Finance and FiDA next steps

IV. PAYMENTS AND THE DIGITAL EURO

Policy priorities in the payment area
Retail payment innovation
Digital Euro

V. EU AND GLOBAL SUSTAINABILITY AGENDA

Combining decarbonation and competitiveness
Simplifying the EU sustainability agenda
Energy transition policies
CSRD implementation
SFDR review

VI. SIU FUTURE STEPS

Building an effective SIU: key dynamics
SIU next steps
EU capital markets fragmentation
Securitisation in the EU
Asset management and the SIU
Increasing retail investment
Long term retail investment products
T+1 settlement: next steps and impacts on SIU
EU clearing competitiveness and resilience

VII. FINANCIAL STABILITY AND SUSTAINABILITY RISKS

NBFI macroprudential challenges
AML: progress and priorities
Sustainability risks in the financial sector

The impact of current fiscal and economic divergence across the EU on the monetary union and the euro

Fernando Navarrete Rojas - MEP, ECON Committee, European Parliament; **Markus Ferber** - MEP, ECON Committee, European Parliament; **Rimantas Šadžius** - Minister of Finance of the Republic of Lithuania; **Jérôme Grivet** - Deputy Chief Executive Officer, Crédit Agricole S.A.; **Jacques de Larosière** - Honorary President, EUROFI

Strategic autonomy and competitiveness of EU financial players

John Berrigan - Director General, DG FISMA, European Commission; **Riccardo Barbieri** - Director General of the Treasury, Ministry of Economy and Finance, Italy; **Harald Waiglein** - Director General, Economic Policy and Financial Markets, Federal Ministry of Finance, Austria; **Odile Renaud-Basso** - President, EBRD; **Jean Lemierre** - Chairman, BNP Paribas; **Francesco Vanni d'Archirafi** - Chairman of the Board, Euroclear S.A.

Conversation with Corentine Polivet-Clediere (LSEG)**Conversation with Chris Betz (AWS)**

Speeches

Andrzej Domański - Minister of Finance, Poland
Opening Remarks

Jurand Drop - Undersecretary of State, Ministry of Finance, Poland
Gala Dinner Keynote Speech

Marta Kightley - First Deputy Governor, Narodowy Bank Polski
Speech

Maria Luís Albuquerque - Commissioner for Financial Services and the SIU, European Commission
Speech

Valdis Dombrovskis - Commissioner for Economy and Productivity; Implementation and Simplification, European Commission
Speech

Aurore Lalucq - Chair & MEP, ECON Committee, European Parliament
Safeguarding the EU financial, banking and monetary sovereignty

Éric Lombard - Minister of the Economy, Finance and Industrial and Digital Sovereignty, France
Speech

Jörg Kukies - Federal Minister of Finance, Germany
The path for a stronger EU economy: Structural reforms, Simplification and Savings and Investments Union

Klaas Knot - President - De Nederlandsche Bank
Stating the obvious - a central bankers perspective on resilience in times of uncertainty

François Villeroy de Galhau - Governor, Banque de France
A European approach to simplification: avoiding three misconceptions, and suggesting concrete milestones

Sam Woods - Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority, Bank of England
EU-UK regulatory cooperation, competitiveness and growth

Jean-Paul Servais - Chairman, Financial Services and Markets Authority, Belgium
Towards a pragmatic SIU approach to the benefit of all EU member states

Shigeru Ariizumi - Vice Minister for International Affairs, Financial Services Agency, Japan
Wrap up on SIU priorities and next steps

Bernard Mensah - President of International, Bank of America
Speech

David Wright - President, EUROFI
Speech

Sessions

I

ECONOMIC CHALLENGES AND PRIORITIES FOR THE EU

- Growth and competitiveness challenges and priorities in the EU 7
- Implications of globalization and international uncertainty for EU growth 12
- Economic and financial priorities for the new Commission 16
- Closing the innovation gap in the EU 20
- CEE region growth model 24

Growth and competitiveness challenges and priorities in the EU

Introduction

The Chair observed that the European Union is clearly facing significant challenges in terms of growth and competitiveness. While the competitiveness gap between Europe and the US is gathering, Europe excels in terms of stability. In 2024, half of the world's population participated in elections, including many EU member states. These countries delivered relatively positive outcomes, maintained political stability, and experienced no substantial shifts in policy direction.

It required instability in the US for Europe to realise how positive its stability is compared to others. The same is true with regard to income inequality, which in Europe is the lowest in the world. Unlocking higher growth will come from adding scale in the single market, and bold national reforms.

1. The time to act is now

1.1 Europe's prosperity is in peril

An official remarked that the World and Europe in particular have been exposed to an exceptional series of shocks. The world experienced a pandemic and the Russian invasion of Ukraine. The disruption to Russian gas supplies had a significant impact on Europe. Europe now faces tariffs imposed by the United States and heightened global trade tensions. These developments have exacerbated longstanding structural challenges within Europe. In order to sustain its living standards and uphold the social contract, Europe must address its poor medium-term growth prospects while contending with long-term fiscal pressures. European per capita GDP is currently 30% lower than that of the United States, with 70% of this disparity attributed to a persistent productivity gap.

1.2 Europe's competitiveness gap with the United States has become a priority issue for all EU leaders

An official referred to the Polish proverb, 'Strength lies in peace'. Ongoing global challenges, including the trade war between the United States and China, have left Europe somewhat sidelined. However, political stability within Europe is a valuable asset, and potentially a financial one. Europe is not engaging in radical reforms. Figures such as Valdis Dombrovskis are tasked with pursuing simplification agendas, carefully analysing the practical impact of EU legislation on businesses. The Commission is maintaining a stable regulatory environment, which is a key advantage for business confidence. While no radical changes are underway, ongoing negotiations on files such as the Corporate Sustainability Reporting Directive (CSRD) and

the Crisis Management and Deposit Insurance (CMDI) framework are progressing steadily.

20 years ago, similar concerns were raised regarding Europe's competitiveness gap with the United States. What has changed is the degree of urgency and political attention. Competitiveness is viewed as central to Europe's future. As a result, it has become a core theme of the Polish EU presidency, and a frequent subject of discussion at Economic and Financial Affairs Council (ECOFIN) meetings.

1.3 Many of the challenges confronting Europe are long-standing, but recent developments may serve as catalysts for change

An industry representative stated that many of the challenges confronting Europe are long-standing, but recent developments may serve as catalysts for change. The imposition of tariffs on trade increases the risk of recession in both Europe and the United States. This heightened vulnerability reinforces the need for Europe to act as a unified single market and exert global economic influence.

While the response to these shocks must be coordinated at the EU level, there is also a critical role for national governments. These must move beyond a traditionally cautious approach and adopt more proactive strategies to promote a business-friendly environment and incentivise private investment.

1.4 Broadening investment opportunities for European businesses

An industry representative noted near-unanimous agreement on the current assessment and desired outcomes, thanks in part to the Letta, Draghi and Noyer reports. The emphasis must now shift to action and defining a concrete roadmap. For decades, Europe has concentrated on consumer protection, but going forward the emphasis must be on production, enabling Europe to become a global powerhouse alongside the United States and China. The objective should be to cultivate 450 million producers, not merely 450 million consumers.

2. Lowering internal trade barriers, especially in services and achieving the Savings and Investment Union (SIU)

2.1 A deeper single market is essential

An official highlighted that the remedy identified by Draghi, Letta and others lies in strengthening the single market. European firms currently lack economies of

scale, and the level of business dynamism remains insufficient. Numerous barriers within the internal market prevent companies from scaling effectively. The cross-border trade in goods imposes an ad-valorem equivalent cost of approximately 44%, while the figure for services stands at 110%. According to the IMF, lowering intra-EU trade barriers and services to US levels could boost productivity by nearly 7%.

The solution is well understood. If internal barriers within the single market were reduced by 10% then overall GDP output would rise by 7%. This assertion is supported by the experience of the 2004 EU accession: 15 years after joining the EU, new member states recorded a 30% increase in GDP per capita, while existing members also benefitted from market enlargement, gaining an additional 10% in GDP per capita. Deepening the single market is essential, as it offers a pathway to resolving productivity shortfalls and enhancing economic resilience.

The single market requires decisive action, urgency, and a comprehensive approach. Eliminating internal barriers will only be effective if firms also have access to capital to support growth. Structural reforms at the national level are indispensable, particularly given the scale of transformation required. The EU budget could be made conditional upon performance based milestones, as exemplified by the Next Generation EU (NGEU) initiative. Europe has no alternative; both growth and resilience are essential. Public spending is expected to increase by 5¾% of GDP in advanced economies and 8% in emerging markets due to demographic pressures, healthcare, defence, and the green transition.

An official stated that internal market barriers remain a major challenge. While the Commission disputes some figures, internal barriers currently equate to an effective tariff of 44% for goods and 110% for services. The high cost of cross-border service provision significantly undermines growth. This issue will be central to the informal ECOFIN discussions. Removing internal market barriers would constitute the most significant political and economic initiative available to the EU at this juncture. It is a smart and strategic response to growing protectionist pressures.

The missing element in the single market discourse has been focus. There is now a broad consensus that attention must be directed toward the energy market, financial services, and defence integration within the single market.

The Chair added that the single market ensures the recognition of qualifications, such that a ski instructor in Sweden is also considered a ski instructor in France. Domestic reform and the single market must advance hand in hand.

2.2 Achieving a genuine SIU to drive growth

2.2.1 Boosting productivity

An official explained that eliminating finance-related barriers to upscaling through a well functioning SIU would be indispensable for boosting productivity.

Capital markets in the EU remain highly fragmented. Private pension funds and insurance companies in the EU manage only around \$11.9 trillion in assets, which is a fraction of the \$42.5 trillion held in the US. 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. A more integrated SIU would address these inefficiencies. Channelling savings into risk capital would help start-ups and upscaling of larger firms, while ensuring financial futures for households. It would also strengthen the financial ecosystem, making it more resilient to economic shocks.

An industry representative noted that Europe experiences an annual outflow of approximately €300 billion in savings from its financial system. Redirecting this capital towards private investment could unlock substantial potential for growth. Nordic countries have already demonstrated success in encouraging household savings to support private investment and infrastructure. There is a clear opportunity for other EU member states to replicate such models.

The Chair added that the Letta report states that consumers will always go to a single market if an existing market has been fractured. Europe has the most savings in the world, but before transforming it into investment it needs to go to the United States before it comes back as investment.

2.2.2 Driving growth

An industry representative argued that the EU must vigorously defend the principles of a free market, particularly as the US increasingly questions them. The policy discussion must expand beyond labour markets and social spending. It must also include strategic investment priorities at the EU level. Europe has two key ingredients for competitiveness and growth, which are talent and savings, but it has failed to effectively align them. What is needed is the political will to remove barriers and build a financial system that truly works for growth. European citizens are highly educated and entrepreneurial but are constrained by an ecosystem that hampers innovation. Factors such as taxation, regulatory burdens, and labour market rigidity discourage entrepreneurship.

Europe generates ample savings but lacks mechanisms to deploy them efficiently. Institutional investors face regulatory obstacles. Since the 2008 crisis, Europe has produced four times more financial regulation than the United States and Canada. Additional supervisory layers impose capital burdens far beyond what is written in legislation. Regulatory stability must be balanced with growth and lending objectives. There is a need for a robust banking union (BU), a fully developed capital markets union (CMU), and a retail investment strategy (RIS). Regulatory incentives should favour long-term financing and equity.

2.3 Priorities and key success factors for an effective SIU

An industry representative urged a reconsideration of how Europe functions in light of significant geopolitical shifts. Future historians may characterise the period between 2022 and 2024 as a turning point marked by the United States' strategic pivot towards Asia. If Europe is to secure its economic future and maintain prosperity, then a fundamental reboot is needed.

2.3.1 A bottom-up integration approach is needed to accelerate decision making

An industry representative argued that the EU legislative process is no longer fit for purpose, as the current model often produces suboptimal legislation that then falls to regulatory agencies such as ESMA to implement. According to the Draghi report it takes an average of 19 months to finalise EU legislation. Speed must be prioritised. Bottom-up integration is needed. Industry-led initiatives, such as International Swaps and Derivatives Association (ISDA) contracts, have already transformed the derivatives market. Similar efforts should be replicated across sectors to establish common standards and enhance market functionality.

2.3.2 Reviewing prudential ratios, developing pension funds and equity financing

An industry representative observed that the prudential regulatory environment currently in place reflects the post-2008 environment of excessive risk, but the challenge today is that there is too little risk capital in the system. Europe must revise therefore its prudential frameworks and solvency rules to unlock capital for equity financing. The United States will not apply Basel standards, and the United Kingdom has postponed implementation. Europe cannot afford to remain constrained. Another source of untapped capital lies in household savings. Governments need to decide whether to continue incentivising sovereign bond purchases, or to provide equivalent incentives for equity investment. Prioritising local investment and 'buying European' is a strategic shortcut to drive capital into domestic innovation and industry. Governments must rethink how European savings are transformed into investment. Pension tax incentives and more accessible investment accounts will be a game-changer.

2.3.3 Accelerating the unification of the European regulatory framework

An industry representative highlighted that Europe's financial markets suffer from excessive fragmentation, making cross-border investments and liquidity management unnecessarily complex. The divergent national implementations of EU directives create multiple interpretations across the EU and inefficient gold plating. 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. For the SIU to succeed, Europe must embrace three essential principles: simplification, speed and bottom up initiatives from willing partners.

An industry representative added that reconnecting savings with investment is critical. Reindustrialisation

and enhanced competitiveness depend on the presence of strong European investment players. It is vital to eliminate national biases that limit scale within the EU, to strategically leverage the power of an integrated market as a 'base camp' in the global economy. European asset managers already allocate 15% more to EU investments than their international peers. Long-term investment should not be equated with low cost. Funding for small and medium-sized enterprises (SMEs), infrastructure, innovation, and the green transition requires strategic and patient capital. EU-level mechanisms, including pension reforms and auto-enrolment, are essential.

2.3.4 EU Presidency priorities for financial services

An official stated that there is a growing consensus that Europe must recalibrate its financial regulatory framework. The Polish Presidency is determined to move quickly, especially in advancing reforms to the securitisation market, which remains a critical yet underdeveloped component of the financial ecosystem. Progress on the CMDI package is also essential. While the CSRD and the Corporate Sustainability Due Diligence Directive (CSDDD) have been concluded, more ambitious revisions are required. The Polish presidency has been in dialogue with the Commission to propose radical improvements to the Carbon Border Adjustment Mechanism (CBAM), which currently excludes approximately 200,000 European companies. Furthermore, an agreement has been reached with the Danish Presidency to continue prioritising simplification, as this is now widely recognised as the most pressing policy priority.

Regarding external trade, there is a complex global landscape. The EU's initial restraint in imposing tariffs is a moderate and measured approach. While retaliatory tariffs have been introduced on specific goods such as steel and aluminium, these remain limited in scope compared to measures adopted by the United States. The EU's objective remains to promote free trade and avoid further escalation. Energy trade, particularly the import of liquified natural gas (LNG) and equipment from the United States, is another piece of the broader puzzle.

3. National reforms must match EU ambitions

3.1 Comprehensive reforms at the national level should further accelerate growth

An official highlighted that structural reforms at the national level have stagnated over the past 15 years. Supply-side reforms are crucial for improving productivity. The labour market and regulatory environment should be prioritised, as these areas directly complement the single market. 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 harmonising product market regulations, deepening capital markets that improve access for startups or small firms and implementing innovation

and digitalisation policies. Better governance would amplify the impact of reforms, particularly in Central, Eastern and Southeastern Europe (CESEE) countries.

An industry representative noted that domestic reforms include reducing bureaucratic obstacles, encouraging private investment, enacting structural reforms in public administration and education, and enhancing labour market flexibility. These national efforts should be aligned with the broader EU-level simplification agenda. A predictable and stable policy environment is essential. A careful balance must be maintained between regulatory oversight and the need for a business-friendly framework that facilitates the implementation of reforms. National authorities should engage in continuous dialogue with regulators to ensure effective implementation and necessary adjustments. If the EU is to pursue a Savings and Investments Union (SIU) then it must be supported by national measures that encourage households to allocate savings to risk-bearing assets.

Germany's recent defence and infrastructure package marks a historic shift in its fiscal policy and demonstrates the government's willingness and capacity to act decisively. Although the package will increase Germany's debt by nearly 10%, reaching around 72% of GDP by the end of the decade, this level remains consistent with the criteria of a Aaa credit rating. Germany therefore enjoys more fiscal flexibility than countries such as Canada or the United States. The package is expected to initially raise Germany's real GDP by at least 0.5%, with further increases projected over time. Although some of this growth may be offset by tariffs, it is still likely to support domestic demand.

3.2 National opposition to the single market

An official reflected on long-standing advocacy for the benefits of the single market. Despite its clear advantages, the reality is that the European Union has supported free trade selectively, often only when it serves specific interests. Much of the progress made in single market integration has been driven by the judiciary rather than by political will. There is always a political rationale when member states resist deeper integration. The hope remains that a genuine political impetus for a fully realised single market will emerge, though this appears unlikely given opposition to external trade deals such as Mercosur. In addition, differences in labour markets and social policies between European countries are difficult to overcome.

Labour markets vary significantly across the EU. Some Member States have dynamic and flexible employment systems, whereas others are more rigid. Jurisdictions where dismissal requires a court order represents a considerable hiring disincentive. This structural rigidity is not addressed at the European level, as labour market reform falls within national competence. Since 2000, social spending as a share of GDP has increased on average by 6 to 7% across OECD countries. This figure exceeds the €800 billion cited in the Draghi report. There is a growing concern that escalating social expenditure is crowding out other critical public investments.

Social policy remains firmly a national responsibility. Taxation is another area of divergence. Some member

states maintain relatively low tax-to-GDP ratios, while others impose much higher levels. When attempting to attract international talent, high marginal tax rates can deter potential recruits. For instance, if the top tax rate reaches 55% it significantly increases the cost of employment compared to jurisdictions like the United States. The Competitiveness Compass highlights the importance of collaboration between academia and the private sector. In the United States, institutions like MIT serve as hubs where firms collaborate, even as competitors, to produce network effects. Emulating this in Europe is difficult under current tax regimes that deter research and innovation.

The Chair stated that despite institutional constraints many European countries have achieved impressive employment results. In 2000, the EU set a target of a 70% employment rate by 2010; the new objective is 78%, and several countries now exceed 80%. Europe is responsible for half of global social spending, which may enhance its appeal as a destination for talent. Success in health and education outcomes is also evident. Education is a public good in Europe, with significant investment in training, upskilling, and reskilling. Through the European Social Fund, 38 million individuals have received training over the past seven years. The Pact for Skills aims to upskill around 25 million people by 2030 through private sector engagement. Proactive labour policies are essential. Labour market dynamics are being reshaped by artificial intelligence and digitalisation. Recent announcements, such as the closure of Cora in Belgium, have caused shockwaves.

Concluding remarks

A market expert challenged Europe's persistent inability to act on well-diagnosed economic and strategic issues. Referring to repeated contributions by European figures such as Letta, Draghi, Monti, and Giovannini, the market expert argued that while Europe consistently identifies its problems and formulates solutions, it repeatedly fails in execution. The problem is Europe's collective hesitancy to act decisively.

The Trump administration has been a catalyst for European awareness and response. Trump's approach forced Europe to react, which is something it tends to do better than acting independently. However, Europe's initial responses, such as proposing reciprocal zero tariffs, miss the strategic context of current US policy. The United States is no longer focused primarily on trade; it is undertaking a broad strategy of autarky, which is re-establishing domestic control over industrial, technological, and defence capabilities. The shift reflects deep-rooted concerns about future geopolitical confrontation, particularly with China, potentially supported by Russia. The current US mindset is one of consolidation and preparation, not cooperation.

Europe cannot continue its pattern of forming new unions to patch individual problems. Instead, it must pursue a proactive, comprehensive strategy to build a truly integrated and capable Union. The European Union was born out of the ashes of war through

industrial cooperation. Today's imperatives, particularly in digital, defence, and infrastructure, require a similarly foundational approach.

There is some scepticism regarding Europe's readiness to meet these challenges, particularly when comparing its firms to their American counterparts. Deutsche Telekom remains dwarfed by US technology firms, both in investment capacity and strategic scope. Without substantial reinvestment and policy shifts, Europe risks strategic dependency.

The market expert has restructured their own investment approach to support European resilience, divesting a majority US equity holdings, maintaining only diversified exchange-traded funds (ETFs) and created two long-term investment portfolios. The first is Make Europe Great Again (MEGA), which is focused on rebuilding Europe's industrial and technological capabilities. The second is Make European Finance Great Again (MEFGA), which is concentrated on reinforcing Europe's financial institutions and capital markets. At the end of Q1, the industrial MEGA portfolio had returned 40%, driven by firms identified for their potential to substitute US leaders in defence, technology, and digital services. However, such results reflect early momentum and should not be interpreted as sustainable without broader systemic support.

There is strategic relevance in services and capital flows. Applying US methodologies for calculating goods

autonomy to services yields a -38.5% equivalent tariff for Europe. As a net exporter of services, the US views its dominance in this area as a competitive advantage. Europe continues to export capital via pension funds and institutional investments into US equity markets, reinforcing American corporate leadership. This misallocation of capital reflects a fundamental misunderstanding; by investing abroad, Europe neglects its own development and erodes its economic sovereignty. Strategic reallocation of European capital is essential for fostering innovation and resilience within its own borders.

A market expert strongly supported the development of a European defence capability. However, such ambitions require far more than political declarations; they demand sustained financial commitment and structural reform. Defence, digital infrastructure, industrial production and financial markets must all be viewed as pillars of strategic autonomy. With the Polish EU presidency and the war in Ukraine intensifying Europe's geopolitical exposure, Europe must be prepared for a range of outcomes, not only the most optimistic. Europe must recognise the scale of the strategic transformation underway and act with urgency, clarity and unity.

Implications of globalization and international uncertainty for EU growth

The Chair explained that up until the past few weeks, the euro area's monetary policy environment had become relatively benign as past shocks were slowly but surely moving to the rear-window. The European Central Bank (ECB) had successfully brought inflation down to close to target and interest rates are close to neutral. However, large shocks had now brought new challenges for monetary policy. Germany is planning a substantial increase in infrastructure investment, and across Europe—including Germany—higher defence spending is being envisaged. And of course, the US administration's recent package of tariffs will have major implications for Europe's economy.

The first round of interventions focused on the consequences of fragmentation, increased defence spending and tariffs for growth, inflation and monetary policy. In the second half of the discussion, panellists were asked to consider the potential structural reforms and fiscal policy responses to these developments.

1. The macroeconomic impact of US tariffs

1.1 As trends in globalisation, demographics and digitalisation are changing, the global economy is undergoing a structural shift

A Central Bank official suggested that a structural shift is happening in the global economy. Globalisation, the growth of world trade and demography have helped central bankers keep inflation in check by mitigating price pressures. From 1980 to 2010, the world's labour force expanded from 700 million to over 2 billion. This is the largest positive labour supply shift in history. Increasing digitalisation has also boosted productivity and helped dampen inflation. However, most of these trends have started to reverse. The nature of global demography is no longer providing the same benefits to monetary policy. Population and labour force are declining everywhere except Africa, where the labour supply will continue to grow. However, Africa is unlikely to experience the kind of rapid productivity growth seen in Asia or Central and Eastern Europe (CEE).

1.2 The US balance of payments deficit is poorly understood by the Trump administration

1.2.1 The US current account deficit is a product of excessive credit and insufficient savings

A Central Bank official stressed that the current US administration may misinterpret the structural nature of the US current account deficit. This imbalance primarily reflects the fact that the US spends more than it saves leading to higher consumption, growth and

investment. As Robert Triffin pointed out many years ago, any country with a dominant global reserve currency is required to run a current account deficit to provide global liquidity. However, aspects of the Chinese and European economies support Trump's arguments. The Chinese economy is still based on production and exports rather than consumption, which increases its trade surpluses. The peace dividend has freed up Europe's defence spending for other uses and the German economy maintains, to some extent, a strong manufacturing base. A former Central Bank official (Marek Belka) added that the ECB's monetary strategy will need to take into account the potential for US pressure to weaken the dollar in the coming years.

A market expert explained that the new US administration believes that Germany's trade surplus is hurting America economically. As Jacques Polak of the IMF made clear, a current account deficit is a national phenomenon caused by excessive domestic credit. The provision of excessive credit to government and the private sector bumps up against a country's productive capacity. While this stimulates some domestic production, it also means the country will need to import additional production. Ultimately, the US will have to start saving.

1.2.2 The US imposition of high tariffs will undermine the interconnected global economic system

A market expert stated that the United States is risking significant damage to the global economy. Current US policy is seeking to imitate the time when the US developed its industries around the turn of the 20th century. This is a profound mistake. The world economy in 1900 was nowhere near as interconnected as it is today. Increasing tariffs will not improve domestic competitiveness; it will destroy the interwoven fabric of the system.

1.2.3 The US savings deficit has the potential to spark a financial crisis

A market expert emphasised that the US balance of payments deficit is the inevitable consequence of its savings deficit. The US will eventually face the Triffin dilemma, where confidence in the dollar is undermined by its excessive current account deficit. If America continues to borrow without restraint, doubts about the durability of its economic model will trigger a financial crisis. It is time for those who understand economics and monetary policy to speak out.

1.3 Tariffs will not reduce trade deficits and may damage both the US and EU economies

1.3.1 Tariffs are not the solution

A Central Bank official agreed that tariffs will do little to address trade deficits. Tariffs will likely raise prices in

the US. If Europe retaliates, inflation will also rise, and GDP may fall. The factor that could trigger a change in US policy is the reaction of financial markets, particularly regarding US Treasury yields. Establishing the Savings and Investments Union (SIU) should be a priority for the EU. The discussions at the Eurofi conference have made clear that Europe is not currently doing enough to achieve this goal.

1.3.2 US tariffs will misallocate global resources, reduce productivity and increase inflationary pressure

A Central Bank official noted that the United States' tariff policy appears to signal the start of something akin to a trade war, though there is considerable uncertainty about what the US administration will decide to do from day to day. In the medium to long term, tariffs will not alleviate inflation. Tariffs are a tax on cross border goods and services. Even if this tariff policy achieves some of the administration's goals, it will inevitably lead to a misallocation of resources in the global economy, which will lead to falling productivity and higher price pressures in the medium to long term.

1.3.3 The necessary investments in decarbonisation and defence will contribute to inflationary pressure

A Central Bank official highlighted that spending on decarbonisation should make renewable energy cheaper in the long run, but in the medium term it will require huge investment, which puts pressure on prices and usually involves some form of carbon taxation. The additional investment in defence also has the potential to mildly affect inflation.

2. International uncertainty: an opportunity to refresh EU economic and financial policy

2.1 Lessons to learn from recent years

2.1.1 Excessively low interest rates have discouraged long term savings and productive investment

A market expert noted that the easy monetary policy of the last 20 years has had a profound impact on productive investment. The policy of lasting very low real interest rates has shortened the savings horizon. People are discouraged from saving for the long term because the return is very low. The reward for long term investment has disappeared. As Keynes warned, this has eroded long term productive investment. If the importance of productive investment continues to be ignored, Europe will continue to favour speculative investment and real estate investment in existing goods, which does not create additional space.

2.1.2 Productive investment will not return to Europe if interest rates in the EU remain below US rates

A market expert added that productive investment will not return to Europe if its interest rates remain 150 basis points below US rates. Every year €350 billion leaves Europe. If the EU wants to develop its capital markets, it

needs capital. European capital is fleeing Europe because of the systematically lower interest rates.

2.2 Building a European defence industry

2.2.1 State led investment in defence should boost high tech innovation and competitiveness

A former Central Banker and Prime Minister explained that the military build up could spur industrial growth in Europe by driving technological innovation and creating high tech jobs. The development of unified defence infrastructure could deter external threats and improve Europe's economic competitiveness. Coordinated defence investments should also lead to cost efficiencies, better resource allocation and greater resilience against external economic pressures. Investing in the European defence sector could create high tech jobs and spur industrial growth. Despite Europe's over indebtedness, financing military expenditure is a geopolitical necessity. Europe must take control of its security through greater integration, common debt issuance and fiscal reform.

2.2.2 The issuance of common European debt could help to finance military reinforcement

A former Central Bank official and Prime Minister highlighted the key role that common European debt could play in financing military expenditure. A degree of military build up appears existentially indispensable. This should be formed of a national pillar and a common pillar. To fund the national pillar, member states will need to increase defence spending. The exact level of expenditure should be differentiated according to the challenge faced by each state. The Scandinavian countries, Germany, Poland, Romania and the Baltic states will have to spend more. Fortunately, these countries have some fiscal room for manoeuvre.

The common pillar should be formed of a European fund to develop the defence industry. The EU defence industry is fragmented and uncoordinated. The way to finance this fund will be to leverage the capital markets and issue joint debt. This would allow member states to pool resources without exacerbating national debt burdens. If structured properly, the issuance of common debt will maintain fiscal discipline while enabling the modernisation of Europe's defence capabilities. This initiative could also strengthen the euro's role as a global currency by creating a stable and liquid European asset that attracts international investment. This common fund will require a stable source of funding, which can only be the EU's own resources.

2.2.3 Reforming EU macroeconomic management

A former Central Bank official and Prime Minister stressed that further reform of the EU's Stability and Growth Pact will be essential 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. The current system of deficit limits is based on unobserved variables. Instead, EU policymakers should take a more holistic view of macroeconomic management and adopt strict, clear and simple expenditure rules. The simpler the rule, the harder it is to circumvent.

2.2.4 Implementing the SIU seems more difficult than supporting the European defence industry.

A former Central Bank official emphasised the difficulty of making the changes necessary to implement the SIU. It is much more practical to undertake a programme of state enabled military spending. The US and Israel have both benefited from this kind of investment, which should develop high tech industries and potentially increase competitiveness. Instead of waiting decades for the capital markets to grow, Europe should look to stimulate its defence industry with smart investments. The economic challenges are serious but a geopolitical necessity because the situation is not hopeless.

2.3 Implementing a genuine Savings and Investments Union

2.3.1 The integration of EU financial markets will require major pension reform

A Central Bank official noted that the key ingredient of a US style capital market is the proper investment of lifecycle savings. To achieve a similar depth in European capital markets, pension funds would need to play a much bigger role in the investment landscape. Pension funds play a key role in every single well developed capital market in the world. Currently, only a few EU countries have significant pension funds. Without significant improvements and substantial reforms of Europe's pension systems, it will be difficult to mobilize the long-term savings needed for a functioning SIU and to make real progress on the SIU. In this context, aligning the tax framework is a key priority to support well funded pension systems. The EU has many challenges to address, but the current set of policy measures may fall short of achieving its objectives.

2.3.2 The potential for a 'safe asset' based on mortgage backed securities

A Central Bank official suggested that the EU could strengthen market integration by creating an EU 'safe asset'. While politically sensitive, especially in light of high public debt levels across several member states, such an instrument could increase certainty and improve the effectiveness of monetary policy transmission. As exemplified, he stated a paper from the 2024 Jackson Hole conference about assets based on mortgage backed securities (MBS) in the US. Developed for Europe, this would offer a better way to conduct monetary transmission and would be a common European asset based on a private asset.

2.4 Without sound public finances, Europe will not be able to finance essential infrastructure, defence and the green and digital transitions

2.4.1 Recovering budgetary margins

A market expert stressed that the EU will not be able to finance all its spending needs while maintaining a highly unbalanced fiscal position across the Union. Further fiscal reforms will be needed. If Europe continues to finance its expenditure and debt with more borrowing, it will create a financial crisis. There is no reason to pursue fiscal stability dogmatically, but it will be necessary to create fiscal space to finance these new

expenditures. The currently 'crazy' fiscal policies in some countries will need to be normalised in order to finance Europe's environmental and military objectives.

2.4.2 Both public and private debt are largely unproductive and unsustainable

A market expert noted that the EU is in a bewildering state of instability. Europe's enormous public borrowing only finances current spending and deficits. It does not generate future returns. The same applies to the private sector. A recent report by the Organisation for Economic Co operation and Development (OECD) found that most corporate borrowing is not used for productive investment. It is used to finance financial operations such as share buybacks, which do not generate returns. It is a very sobering to realise that both public debt and private debt are not self financing and do not generate returns. It should not be the case that European policymakers lack the intellectual capacity to deal with today's challenges, but this argument is certainly worth considering. The Chair agreed that fiscal space must be created to finance additional spending. This involves both fiscal policy measures and structural reforms to boost potential growth. Higher growth is crucial to solving Europe's fiscal challenges.

2.4.3 The banking system is resilient, but market volatility does pose risks to financial stability

A Central Bank official noted that the banking system has proven resilient to recent market developments. It is much better capitalised, more liquid and generally more robust due to the supervisory and regulatory reforms implemented after the global financial crisis. However, there are many opaque exposures in the non banking sector, and market turbulence can have unexpected effects. The recent correction in equity markets has been welcomed by some, but such abrupt moves can bring a degree of danger, particularly in unusual situations where there are simultaneous falls in equity markets and bond prices. These situations can lead to rapid unwinding of positions and margin calls.

2.5 Euro adoption and the digital euro

2.5.1 The euro is a political phenomenon

A former Central Bank official emphasised that the euro is a political phenomenon, but it is still important for economists to make the right economic arguments for euro adoption. In the CEE region, these arguments are always about the Balassa Samuelson effect and the risk of stagnation. This has never happened in any CEE country. The claim that the introduction of the euro will create trade is impossible to prove. EU trade has been booming with or without the euro. In the case of Poland, the depreciation of the zloty was a shield against the trade crisis in 2008, but this was only made possible by the speculative bubble that happened two or three years previously. When a small currency is next to a large one, capital flows are prone to instability. Additionally, the cost of maintaining a national currency is reflected in growing foreign exchange reserves. Poland has accumulated reserves of around €200 billion. If it were to join the euro, it would only need reserves of €15 billion. The remainder of these reserves

should instead be spent on importing arms to facilitate the military build up.

A Central Bank official noted that Croatia's experience of euro adoption was very positive. During the Covid crisis and Russia's invasion of Ukraine, Croatia had lower inflation than the rest of CEE and lower interest rates than the rest of the eurozone. As a small central bank next to the second largest central bank in the world, Croatia's monetary policy could never be truly independent from the ECB. When the ECB decided to implement quantitative easing (QE), Croatia was forced to prevent its currency from appreciating by purchasing euros and accumulating foreign exchange reserves.

2.5.2 If carefully designed, the digital euro has the potential to enhance EU strategic autonomy

A Central Bank official explained that the use of cash is declining as the adoption of digital payments increases. Cash is central bank money held by

households and citizens. All central bankers want some central bank money to be held by their populations. The digital euro will be central bank money held by households in an electronic digital wallet, and it will be the only European digital payment solution for the whole of Europe. In the current geopolitical circumstances, this kind of European payment solution offers a form of strategic autonomy, but it must not create any additional risks to financial stability. The use of a holding limit will guarantee that the banking system is not drained of savings and that people do not use the central bank to save.

Economic and financial priorities for the new Commission

In the face of major geopolitical risks and economic and financial challenges, the speakers in this final session defined the conditions for a European revival and the priorities for revitalising Europe.

1. Europe faces unprecedented challenges

1.1 Amid war and rising political tensions, Europe must pragmatically reassess its priorities

A Member of the European Parliament emphasised that Europe's priorities have to be readjusted in light of the political and geopolitical realities. The best illustration of this is the fate of the so called Green Deal, which was the flagship programme of Ursula von der Leyen's first mandate. After the massive borrowing in response to the pandemic and Putin's aggression, the programme was given a new name: the Clean Industrial Deal. The aim is now to save the planet while preserving competitive jobs. The goal of climate neutrality by 2050 has not been abandoned, but there has been a pragmatic revision of the rules on climate and migration. The agenda is now focused on simplification and deregulation, as a result of Mario Draghi's influence.

The drive for simplification has its merits, but Europe is living in the shadow of war. The challenge is how to finance defence when member states' debts exceed 80% of GDP. Finding a solution to this problem will require creativity. Most of the €800 billion for Ursula von der Leyen's ReArm Europe plan will come from member states. The spending limit for triggering the excessive deficit procedure (EDP) has been raised by 1.5% of GDP. It is clear that private capital needs to be mobilised alongside public funding. The EU immediately launched the Savings and Investments Union (SIU) initiative to revive its underdeveloped capital markets. There is now a race against time to finance defence in an indebted Europe.

1.2 Europe is facing major budgetary challenges

A Member of the European Parliament explained that the big budgetary challenge is how to repay Europe's outstanding subsidies. Nearly €400 billion in subsidies is due to be repaid after 2027. The assumption was that member states would repay these grants with own resources, but there has been no progress on this point. There is no appetite to increase taxation for fear of provoking a Eurosceptic reaction. There is also the challenge of how to finance defence, which is a completely new priority. For 20 years, the EU was a pacifist project. NATO was for defence and the Union was for progress. The budget negotiations themselves are another challenge. Ursula von der Leyen has a tendency to seek to control everything. She wants to redesign cohesion

with decentralised national plans, which the regions of Europe do not want.

1.3 Europe must rethink its global role and strengthen its strategic and financial autonomy

A Member of the European Parliament highlighted the importance of proper analysis. Europe faces more than just Donald Trump. There is a terrible war in Ukraine, recent developments in the Middle East and Turkey and continuing instability in Africa. On the surface, these issues do not seem related to financial services, but everything is interlinked. Europe needs to think more deeply about the role it wants to play. There are a number of challenging issues. During the last term, there was extensive discussion about how to decouple from China and become less dependent on China for trade. The initiative to create a digital euro is really a discussion about decoupling from the United States. The worrying recent developments in equity and bond markets have demonstrated the potential value of such a move.

It is essential to understand that not every problem can be solved by regulation. The Union needs to invent other tools for cooperation. It must adopt a broad strategy that takes into account the importance of the real economy and the financial world. Europe has very competitive industries, but it is unable to provide the financial services that companies want. The Savings and Investments Union (SIU) is a welcome initiative, but it will not achieve a truly European approach.

1.4 To make real progress, Europe must go beyond unanimity and adopt enhanced cooperation

A Member of the European Parliament stressed that the Union is reaching conclusions that are not being adopted unanimously. The other instruments in the Treaty, such as enhanced cooperation, need to be developed. Hopefully, the new German government will take this approach forward. Member states should be free to move forward and it should always be open to others to follow. The Commission can play a key role in making progress through better cooperation. People like to say that Europe is the answer. Europe must now deliver, and not just through regulation.

The European Union started with a small number of nations, but it has come a long way. The euro was not created with the participation of all member states; now it is the overwhelming majority. Member states that would never have considered joining NATO are doing so. The Schengen area was not created on the basis of a Commission proposal. Even the liberalisation of the telecommunications market was the result of a judgment of the European Court of Justice. The momentum to achieve these goals was properly harnessed. There is now momentum to achieve Europe's goals, but it will not be possible to wait for the agreement of all 27 member

states. Enhanced cooperation will allow the Union to move forward and should be launched without delay. The others will join when it is clear that it can deliver.

2. The conditions and priorities for revitalising Europe

2.1 Rethinking monetary and fiscal policy

The Honorary President of Eurofi stressed the importance of reflecting on Europe's fundamental problem. There is a parable in the Gospel of Luke about a man who wants to build a tall tower. He counts the cost of the tower before he builds it because he would be ridiculed if he started something he could not finish. The EU is losing ground every day to the rest of the world, especially the US. It is losing out in productive investment, productivity growth, research and innovation. The EU needs to reflect on what it needs to do to build the tower it is erecting.

2.1.1 A prolonged period of very low interest rates has discouraged productive investment

The Honorary President of Eurofi (Jacques de Larosière) explained that productive investment has fallen over the last 20 years because the level of long term savings in Europe has deteriorated as a result of interest rates being too low for too long. Low interest rates discourage long term savers from holding long term assets, which could be used to drive the energy transition and environmental improvements. The use of low interest rates has created a liquidity trap, just as Keynes warned. If long term savers are not adequately rewarded, they will not save for the long term and will keep their money in more liquid forms. The disappearance of long term savings is the root of Europe's decline.

2.1.2 Restoring order to the public finances will create the budgetary space to fund Europe's environmental, defence and innovation objectives

The Honorary President of Eurofi emphasised that Europe must restore order to its public finances or it will not be able to catalyse the immense resources needed to fund its objectives around ecology, energy transition and rearmament. If the EU continues to ignore fiscal discipline, there will be a financial crisis. In a few years' time, France will have to spend almost €100 billion on debt service each year. This sum will not be spent on research, defence or the younger generation. It will be squandered on the elderly with no regard for the future. The second way to bring order to the fiscal system would be to create a credible stability pact with more selective objectives than the current system of public costs.

2.2 Deepening the single market

2.2.1 Progress on deepening the single market and creating a European safe asset has been stalled by institutional reluctance and fragmented regulation

A Member of the European Parliament highlighted the recent International Monetary Fund (IMF) report which suggested that the European markets suffer from implicit tariffs of 40% for goods and 110% for services. There is no

more important priority than removing these national barriers. National regulation and national barriers can only be removed by European regulation. There should be more European regulation to supersede national regulation. Eliminating these implicit tariffs would reduce bureaucracy across the Union. The euro area needs a European safe asset, as recent developments in the United States have shown. This safe asset should be part of the EU framework, but the EU does not seem able to make progress on this task. The Parliament, the Commission and the financial industry are obsessed with European regulation. The Commission should consider whether it needs to take a different approach during this mandate. The Commission does not seem committed to making progress on the single market. The new SIU proposals do not tackle the national barriers to the single market.

2.2.2 The focus must be on eliminating implicit tariffs in the single market

The Chair noted that the implicit barriers highlighted by Mario Draghi and the IMF are the Union's biggest challenges. Addressing them will require more European regulation, stricter enforcement by the Commission and a much quicker enforcement process.

A Member of the European Parliament agreed, adding that the European People's Party (EPP) was right about the need to reduce administrative burdens and increase EU competitiveness, however, the discussion around European regulation always focuses on cutting the wrong regulations. It remains to be seen whether the actions of the last mandate will prove effective or not. The omnibus proposal is now on the table and needs to be implemented. It would be foolish to discuss changes to EU regulations endlessly. But, most importantly we should be thinking about how to remove the tariffs identified by the IMF.

2.2.3 A new approach is needed to overcome fragmentation in key sectors

A Member of the European Parliament commented that the lack of the single market is felt in some areas but not in others. It is simple to book a flight but extremely difficult to book a train. This is not because of regulation; it is a market failure caused by member states treating rail as a matter of national sovereignty. The EU is proud of roaming price caps, but the US has five nationwide telecoms providers; Europe has more than 100. There is already European regulation to deal with this problem, but member states insist on keeping the regulation of these sectors in national hands. Mario Draghi's proposal to transfer some supervisory activities to the European level will not solve the underlying problem. All 27 member states do not need fully equipped infrastructure for all requirements, even in the area of cross border trading. A new way of tackling this challenge must therefore be found. Progress will have to be made by a smaller group of member states, perhaps through a new Franco German initiative.

2.2.4 To overcome the mistrust of EU institutions, a coalition of willing countries must choose to deepen the single market by sharing sovereignty and pursuing cross border solutions

A Member of the European Parliament the key to overcoming the non tariff barriers in the single market is

the member states, which do not trust the institutions they have built. The system of checks and balances leads to excessive complication. The result of the discussions on crisis management and deposit insurance (CMDI) illustrate the problem. Because member states did not trust the European institutions, they demanded national checks and balances at every step, which became so complicated that the proposal was unworkable. This mistrust will not be overcome by regulation. It will only be overcome by a coalition of the willing choosing to trust each other and cede a small part of their sovereignty to a cross border institution. This is what will put the Union on the right track.

The Chair remarked that a crucial element of this debate, which was absent from the Letta and Draghi reports, is the macroeconomic evidence of the benefits of acting on the European level. These debates can only be won if the benefits are spread across all member states. Indeed, the Treaty needs to be used to the fullest extent possible. De minimis or predetermined solutions will only lead to excessive complexity which has to be simplified later.

2.3 Europe must find a way to channel excess savings into productive investment

A Member of the European Parliament agreed that easy money and low interest rates discourage structural reforms. Europe needs to channel its €10 trillion in bank deposits into productive investment. The problem is one of mentality and economic culture. The EU cannot replicate Silicon Valley. That was a bottom up technological revolution, albeit with some help from the federal government. The 'visible hand' of Brussels could be surprisingly helpful, however. Usually the phrase 'visible hand' means regulation. The story of China is the opposite of Silicon Valley. The visible hand of the Communist Party enabled the Chinese technological revolution. It seems risky to rely on the visible hand of Ursula von der Leyen, but there seems to be no other way to upgrade the capital markets from the bottom up and transform them into the SIU. Indeed, the only way to make progress will be not to count on all 27 member states but to form a coalition of the willing.

Another Member of the European Parliament noted that most of the SIU proposals focus on how to move deposits into the capital markets rather than how to consolidate the single market, which is a much more urgent priority if we want an European capital market. Tackling national barriers in the single market is the only way to improve competitiveness in the short term. The trade off between growth and regulation can be broken with greater consolidation of the single market. The Parliament is not in the way; the Commission is not as committed as might be expected; and the Council's position is well known.

2.4 Rebuilding trust and seizing the momentum

2.4.1 Deepening trust and cooperation between likeminded economies is essential to the EU's future

The Honorary President of Eurofi observed that the key priorities are for overindebted countries to restore order to their finances and for all member states to work together to implement EU strategy. The big capitals need to be willing to work together and trust each other. Today,

there is no cooperation between Germany and France, which for many years was the pivot of the Union. The answer is not more regulation. The answer is to work together and act together.

The Chair noted that the importance of trust was highlighted by President Obama's recent comments on the current situation in the United States. There is a total breakdown between Republicans and Democrats. They do not simply disagree; their disagreement has reached the point of hatred. This breakdown shows how the world should react to recent developments in the US. The likeminded countries of the world must work together, trust each other on the basis of democracy and law and refuse to allow the multilateral system to be destroyed. It may even be necessary to create new multilateral institutions to facilitate greater cooperation, as the United States did in previous eras.

The issue of trust lies at the heart of the banking union. There is no trust between countries. This fact was not widely discussed at the conference, but it prevents progress being made on the hugely important issue of competitiveness. The discussions during the conference have shown that there is broad recognition of the need for Europe to move forward at this crucial geopolitical moment. There is a consensus on the need to remove barriers and to trust each other to create economic growth and prosperity. If this lack of trust continues, it will be Europe's undoing. It will eventually cause a financial crisis.

2.4.2 Europe must seize the momentum and accelerate all its reforms

The Chair observed that there is broad support for the substance of the Commission's SIU proposals, which rely heavily on member states. The Commission has been urged to speed up the implementation of these proposals. The securitisation proposals will be an early test of the package. The securitisation disasters of 2007/08 originated in the US. This legislative proposal on securitisation will test whether the EU can repair a key policy area to improve the competitiveness of the banking system.

On Franco German cooperation, the new German Chancellor and government have been extremely bold. Their actions could be a decisive catalyst for a renaissance that will include Spain, Poland and every other country. While everyone agrees on the need for simplification, the devil is in the detail. It will not be a silver bullet for economic growth. Removing the internal barriers in the single market would have a much stronger economic impact. The development of the digital euro is an area where Europe is ahead of the US; it seems to be an opportunity for the Union. The European Union has the opportunity to bring together likeminded countries that believe in the rule of law and democracy to act together in the face of the seemingly arbitrary decisions of the current US administration.

2.4.3 Clear deadlines, strong institutional coordination and bold industry support will show that Europe is on the move

The Chair emphasised that the Union also needs to address some very worrying issues. The European political agenda needs deadlines. The use of deadlines and

timetables stimulates the political process. It puts pressure on the Council and the Parliament, and it can create momentum if there is a strong control and monitoring mechanism. There should be agreement between the three institutions on the content and timing of policy measures. This would send a very strong message to the international community that Europe is on the move. International capital is flowing out of the US. If Europe creates momentum, it will flow here. All players in the financial industry and the regulatory and supervisory community have a huge role to play in this task.

The key issues around interest rates and fiscal issues also need to be addressed. Some countries will have to increase their defence spending dramatically. Finally, the members of Eurofi also have an important role to play.

Political leaders like nothing more than hearing that industry and consumer organisations support them. Industry needs to be a little bolder in saying, loudly and clearly, that it fully supports what the Commission and the European institutions are doing. The next Eurofi meeting will take place in Copenhagen in September 2025. Hopefully, there will have been real progress in the intervening period. The world wants Europe. International investors feel comfortable with Europe and its values.

The Chair thanked Didier Cahen and the rest of the Eurofi team for their excellent organisation of the conference before concluding the panel and closing the High-Level Seminar 2025.

Closing the innovation gap in the EU

The Chair explained that innovation is fundamentally linked to competitiveness, which is vital in an increasingly complex and at times adversarial global context. Enhancing competitiveness is not possible without improving productivity, and productivity gains rely on innovation. This core message has resonated throughout the Eurofi conference. The objective of the panel is to explore how the distinct growth approach of the US could inform Europe's strategic direction.

1. The financial causes of the innovation deficit

The relative scarcity of late stage venture capital (VC), the EU's fragmented regulatory landscape, the cost of capital and risk aversion and the absence of a European capital market are main financial reasons for the EU's innovation gap with the US.

1.1 The relative scarcity of late stage venture capital

1.1.1 The role of the European Investment Fund (EIF) should be expanded

A European financing institution (EFI) representative described how the EIF since its inception has invested toward innovation, by participating in a wide range of EU financing initiatives, including InnovFin, tech transfer programmes, the European Fund for Strategic Investments (EFSI)/the Juncker Plan and InvestEU. Despite this, VC deals in Europe have a relatively low aggregate value compared to the US and there is a shortage of growth capital, late stage financing and large scale funds.

The EIF's investments also exert a catalytic effect by enabling funds to raise additional capital. A key example of the EIF's fund-of-funds (FoFs) activity is the European Tech Champions Initiative (ETCI), which is a FoFs incubated by the EIF with support from the French Presidency and five other Member States. Launched in 2023 with €3.85 billion, it has already deployed €2 billion in 8 investment funds, which in turn have invested EUR1.7bn in 25 companies, from different technology sectors and throughout Europe, expecting to mobilise EUR10bn. The EIF is already working with Member States and market stakeholders on ETCI 2.0, leveraging on the participation of private investors to continue closing the funding gap of European scale-ups.

1.1.2 There are more hurdles to scaling up companies in Europe compared to the US

An official observed that reinforcing the financial sector is critical to the EU's broader strategic objectives. European companies must not be systematically acquired by non EU entities once they reach a market capitalisation of €100 million. Significantly more effort is required to foster the development of funds capable

of supporting late stage growth. To finance companies worth €100 million, these funds must exceed €1 billion in size. Some of the promising national initiatives, such as France's Tibi Initiative, which has raised €13 billion to support tech financing, must be developed further.

1.2 Fragmentation in the EU regulatory landscape

1.2.1 A major deterrent to growth

A market expert explained that smaller firms face many disadvantages when operating in the fragmented regulatory landscape of the EU. Banks wishing to serve retail clients must obtain banking licences in several jurisdictions, but tech platforms are not subject to this constraint. Both large firms and start ups are affected by the wide disparities in technological infrastructure, administrative systems and labour laws across member states. Smaller firms cannot absorb the costs associated with these differences. Europe's diversity makes it a wonderful place to live, but this diversity also creates serious obstacles to doing business. In light of the recent developments in the United States, there is a compelling case for overhauling the EU framework. The problem is not the availability of capital but the complexity of deploying it. The Chair commented that these remarks underline the importance of matching the supply of funding with the innovation demand.

1.2.2 Investing or setting up a business in another country remains too complicated

An industry speaker remarked that the Draghi and Letta reports diagnosed the persistent fragmentation across Europe. Business owners find it extremely difficult to sell goods and services across borders due to inconsistencies in tax law, health and safety rules and other national regulations. Ultimately, this problem stems from the European Union's governance model. While the United States Constitution is founded on individual freedom, the EU is based on the free movement of capital, goods, people and services. However, Europe does not enjoy the same degree of capital and service mobility as the US. Businesses regularly cite fragmentation as the main obstacle to cross border growth. A US firm can expand rapidly from Idaho to all 50 states, but a European company expanding into 27 countries might be required to appoint 27 different CFOs. Despite Europe's long history of commercial expansion, it remains surprisingly difficult to conduct business with neighbouring countries.

1.3 The high cost of capital and risk aversion hinder innovation

An industry representative observed that the two barriers to innovation funding are the high cost of equity capital in Europe and its more limited risk appetite. For European companies seeking financing, the cost of equity is around 200 basis points higher than the cost of debt. Despite the lower interest rates in the EU, the cost of equity is cheaper in the US. In other words, the equity risk premium is much higher in

Europe than in the US. Europe does not suffer from a shortage of talent, but European ideas are often implemented in the United States due to its more dynamic and accessible funding ecosystem. Similarly, there is no shortage of capital in Europe, but European savings are not being effectively channelled into innovation and productive investment. The transition to the Savings and Investments Union (SIU) is an opportunity to direct European savings more coherently.

1.4 Why some of Europe's unicorns are fleeing to the US

An industry speaker outlined four key advantages for firms listing in the United States. First, the US investor base is deeper, wealthier and more diversified. Secondly, the prevalence of technology firms on Nasdaq makes it easier to benchmark new listings. Thirdly, the US remains the largest commercial market for software and healthcare, making it more appealing for companies in those sectors. Finally, the US market consistently raises three times more capital than European markets each year.

However, the actual number of European firms listing in the US remains low. Over the past seven years, only 50 European companies listed in the US, accounting for 5% of total European listings. The majority of these were in healthcare, particularly medtech and biotech. Listing in the US can result in greater liquidity and valuations for firms with a market capitalisation over €5 billion, but small and mid cap firms do not always realise these benefits. The successes such as Spotify and Arm Holdings are exceptions, and Europe has its own impressive growth stories: Adyen was listed at €10 billion and is now worth €50 billion; Planisware was listed at €1 billion and rose 70% by the end of 2024.

2. Now is the time for action

In creating an ecosystem as dynamic as that of the USA, which both fosters technological and digital innovation and provides adequate financing, the EU's top priorities should be to reduce the bureaucratic and talent recruitment hurdles for scale up companies and complete the single market for companies, capital and banks. The development of the role of pension funds in providing more private capital for the European economy and the cross border expansion of businesses should also be accelerated.

2.1 Creating an ecosystem as dynamic as that of the United States

An industry representative opined that the SIU can help the private capital ecosystem becomes as vibrant as that of the United States. In the US, pension funds, life insurance companies and annuity providers play an active role in funding data centres and green energy projects. Europe must replicate this dynamic. The forthcoming wave of defence spending and fiscal stimulus across Europe will generate infrastructure investment, creating a multiplier effect and offering resilience against some of the current uncertainties.

Defence expenditure is closely linked to innovation. The SIU can help address capital costs by encouraging investment from pension and annuity providers. The real challenge, especially for policymakers, is to overcome Europe's low risk appetite, which hinders innovation financing.

2.2 Pension funds could provide more private capital to the European economy

The Chair suggested that the defence challenges may require the public sector to invest in infrastructure and mobilise a higher level of funding. An industry representative commented that public financing is essential, but there must be a diversity of funding mechanisms. Each stage of a company's development and innovation requires a different type of capital. The financial markets should be structured to maximise the impact of household savings and ensure they are directed towards innovation at every stage. A market expert agreed that the EU should encourage pension funds and institutional investors to allocate more capital to high growth European start ups by introducing tax incentives or reducing regulatory constraints. Greater promotion of cross border investment funds would enable investors to support companies regardless of their country of origin.

The Chair emphasised that meaningful progress is achievable. The innovation ecosystem in the Nordic countries is functioning well, with effective matching of supply and demand. The global context is a wake up call. Europe cannot afford to choose between a top down or bottom up approach. Europe's pension systems remain deeply national, which makes it difficult to take EU level decisions. However, it is possible to enhance compatibility. There are sound political reasons to coordinate in policy areas that are not matters of EU competence.

2.3 The European Commission's Competitiveness Compass is welcome

2.3.1 Simplifying the regulatory environment

An official observed that the European Commission's Competitiveness Compass is an important step forward. The Competitiveness Compass lists priority actions to reignite economic dynamism in Europe, which includes simplifying financial services legislation. Areas such as company law remain poorly harmonised; some recent regulations, such as the Corporate Sustainable Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), have significantly increased the regulatory burden. The first practical outcome of the Competitiveness Compass was the adoption of the first Omnibus package, with which the Commission wants to identify issues that can be resolved quickly. This simplification effort should be amplified.

An EFI representative stressed the prominence of private, venture, capital in the Commission's new financing initiatives, adding that the Noyer, Letta and Draghi Reports and President von der Leyen's strategic direction all highlighted the importance of de-risking and crowding in private capital, and of an expanded role of the EIF.

2.3.2 A 28th regime for scale ups

An official noted that the Competitiveness Compass also proposed the introduction of a 28th regime for scale ups. While this is an interesting idea, it raises several questions. First, the harmonisation of insolvency laws, which would directly benefit scale ups, is already being discussed at EU level. The Council is currently negotiating a third insolvency directive, which should harmonise some of the key elements of insolvency law related to payment difficulties and the later stages of insolvency procedures. Secondly, focusing simplification efforts solely on scale ups suggests that innovation originates only from start ups, but it also stems from established blue chip firms. Although the concept of a 28th regime remains controversial, certain aspects of the proposal, such as simplified registration for scale ups, could be implemented in the near term.

2.3.3 Consolidate, improve, simplify: learning from the EIF

An EFI representative highlighted that the proposed European Competitiveness Fund builds upon the successes of the EFSI and of the Invest Europe concept. The key is to consolidate, improve and simplify. These tools are expected to act as a solid foundation for the efficient deployment of capital. In anticipation of these instruments, and towards further consolidation, improvement and simplification, the EIF is already incubating several financing initiatives such as ETCI 2.0 as well as other investment platforms, which, inter alia, aim to act as a single entry point for investors (including private investors) and multiple investment programmes pulling together products financing the full growth cycle of firms, from start-ups to growth finance.

2.4 Cross border expansion must be fast tracked

2.4.1 Differentiated regulation and supervision for local and cross border firms

A market expert opined that Europe needs to harmonise key regulations across member states, especially in data privacy, digital taxation and labour laws. Companies operating within Europe should be subject to a single resolution regime, supervisory regime, regulatory regime and deposit guarantee scheme. The unfinished state of the banking union has undermined the EU's ability to meet its objectives. The current external pressures present an opportunity to rethink the EU's financial architecture from a pan European perspective. A harmonised framework would allow European firms to compete more effectively with the dominant US players in technology, finance and digital services.

In this context, the European implementation of the Basel rules is a key barrier. In Europe, the Basel rulebook applies to all banks, which means the speed of progress is dictated by the most reluctant institutions. Even banks that do not engage in cross border business are subject to the same regulatory burden. For Europe to be a viable destination for ambitious firms, cross border expansion must be fast tracked. The EU's desire for a level playing field is understandable, but European regulation should apply to entities engaged in European business. In this way, the EU could form a fast moving coalition of the willing and significantly boost

innovation. The banks that do not engage in European business should not be subject to the same regulatory framework. A temporary differentiation in regulation could be a decisive step forward.

The Chair observed that the Spanish government has launched a regulatory sandbox to explore how a layered regime might be implemented across the EU. This touches on the issue of supply and demand. Innovative firms typically begin as local businesses and only later require broader funding. It is unclear how a layered framework would facilitate their growth.

2.4.2 Once they succeed in two countries, start ups are able to scale across the entire EU

A market expert argued that a harmonised insolvency system should apply to pan European firms. The jurisdiction where a firm is established should not bear the full burden of insolvency once a firm has expanded across the Union. The first expansion to a neighbouring country is often the most challenging, as the regulatory complexity often forces them to abandon their plans. When they succeed in two countries, however, they are more likely to expand across the EU.

2.5 Taking a comprehensive approach

An industry speaker emphasised that a comprehensive approach is required to address the innovation challenge, but the completion of the single market for corporates, capital and banks should be among the top priorities. Banks, stock exchanges, scale ups and other companies should be able to operate under a national framework or a 28th regime with unified supervision, rules and even taxation. The banking union remains incomplete. The macroprudential buffers have created unequal conditions across member states and there is no deposit guarantee scheme or common resolution framework.

On the investment side, retail investors need to be encouraged to trust the financial markets and Europe's pension systems need to be activated. Public funds must be used strategically to address market failures and support areas of natural monopoly that deter private investment. European companies must become more investable, which requires more liquidity and investment in research. Universities and defence spending are central to fostering innovation. R&D must be properly accounted for under International Financial Reporting Standards (IFRS). The treatment of intangible assets under IAS 38 is a notable barrier in this regard.

A market expert added that Europe's capital markets are indeed fragmented when Germany's capital markets are, in some ways, closer to the US than France. The US generally imposes no withholding tax on dividends, while France applies a 25% tax and requires investors to request refunds. These discrepancies contradict the spirit of the Union. As long as these structures remain unchanged, it is unsurprising that a truly integrated capital market is yet to emerge in Europe.

2.6 Boosting the financing of innovation through IPOs in the EU

An industry speaker explained that there are currently around 200 unicorn firms in Europe preparing to list in

the EU or US. The European markets can support these listings if the firms are sufficiently mature. However, many firms hesitate to enter the market due to volatility and poor performance. This is often because companies list too early. European equity funds often do not accept these higher risk profiles.

To address this issue, firms must reach or approach breakeven before listing. Ultimately, improving the appeal of European stock markets will require the creation of specialised IPO funds. CDC Tech Premium is currently the only fund of this kind in Europe, which invests at the IPO or post-IPO stage through capital operations such as accelerated book building or follow-on offering. It invests early as a cornerstone investor, securing discounts of up to 20% during IPOs. Cornerstone investors can influence pricing and guidance, contributing to stronger post IPO

performance. Their returns are enhanced because they receive a full allocation even in oversubscribed deals. CDC Tech Premium aims to create a model that can be replicated by other funds.

The problem is not a lack of high-quality companies but rather a shortage of mature firms and dedicated firms. It will take a coordinated effort on both sides to revitalise the tech IPO market in Europe.

An industry representative agreed with this, noting that Sweden's three pillar pension system provides 30% of its venture capital funding. The public capital market in Sweden represents 2.45 times GDP, compared to 1.4 in the US, 0.4 in Germany and 0.7 in France. This demonstrates the possibility of building vibrant capital markets alongside strong banking and pension sectors.

CEE region growth model

1. Unsustainability of the current CEE region growth model

A public representative outlined that the Central and Eastern European (CEE) region has experienced strong and sustained growth since the 2004 EU enlargement, emerging as one of the most dynamic regions globally. There has been substantial convergence with Western Europe supported by EU funds, with the region's GDP rising from approximately 40% to 80% of the EU average and even surpassing 90% in the Czech Republic. However, despite accounting for 22% of the EU population, the region contributes only 12% of its GDP, highlighting the limitations of its current growth model. The region remains positioned in the lower stages of the EU value chain, with a continued focus on manufacturing. This reflects a broader European structural challenge described in Draghi's report as a "middle technology trap", a pattern of specialisation in mature, mid-tech sectors with limited innovation and upward mobility. Average wages remain below 50% of the EU average in the CEE region, and continued reliance on labour cost advantages is no longer viable. A shift towards a new development model, based on innovation and higher value-added activities, is therefore essential. The public representative noted that the strong entrepreneurial spirit that has contributed to the region's economic success and the modernised infrastructure of the region are assets on which to build.

Several panellists echoed the view that the growth model which has underpinned the CEE region's development over the past two decades — driven by export-led expansion, low labour costs despite a highly educated workforce, high energy intensity, and sustained capital inflows — is becoming increasingly unsustainable.

An official noted that the openness of CEE economies has made them major beneficiaries of foreign direct investment (FDI) and associated know-how transfers. However, like other advanced economies, the region is now facing structural challenges such as ageing populations and rising labour costs, which can only be mitigated through greater innovation and digitalisation.

An industry speaker observed that EU financial support has gradually declined as countries in the region have developed economically.

Another industry speaker stressed that these trends are evident in Poland notably, which has been one of the main drivers of European growth over the past two decades. While labour costs in Poland remain at 50% of the EU average, this advantage is now offset by relatively low productivity, contributing to a slowdown of the country's economy.

An official emphasised that it is becoming increasingly difficult to speak of a single growth model for the region. While CEE countries started from broadly similar positions in terms of demographics and level of education, differing

national policy responses and external factors, such as approaches to energy supply and pricing, have led to diverging development paths. In the Baltic region, for instance, the model based on low-cost labour and energy has long been phased out, with a gradual shift towards service exports already under way. This proactive transition has gained relevance in the current geopolitical context, shaped by Russia's war in Ukraine and wider global trade tensions. Moreover, prudent policy decisions in earlier years have helped build financial buffers, creating fiscal space for increased defence spending without undermining the stability of the region's economic model.

An industry speaker concluded that despite current political and economic headwinds, the CEE region continues to offer strong potential. This is underpinned by a well-educated and resilient workforce, a demonstrated capacity for innovation, evident in the significant number of start-ups and fintechs, and the region's close integration with Western Europe, which remains a key foundation for future growth.

2. Structural and geopolitical challenges faced by the CEE region

2.1 Structural challenges

An industry speaker explained that Poland, like the rest of the CEE region, is facing several interrelated structural challenges that are reshaping its competitiveness and growth prospects. These challenges span four key areas: energy, demographics, investment, and corporate structure. The sharp rise in wholesale electricity prices threatens the viability of energy-intensive industries, requiring a restructuring of the country's industrial base. Demographic trends also pose a serious concern. Over the past two decades, Poland's working-age population has declined by approximately 1.5 million, while employment has increased by 3.5 million, a net difference of five million. This gap was bridged by bringing 1 million economically inactive individuals into the workforce, reducing unemployment by 3 million, and attracting 1 million additional workers through immigration. However, the first two sources of labour growth have now been largely exhausted.

The industry speaker added that investment levels, particularly in Poland, are low and declining, unlike some other CEE countries such as the Czech Republic. Substantial investment is needed to transition away from a growth model reliant on cheap, high-quality labour, which is becoming increasingly scarce. New investment must prioritise productivity gains, addressing labour shortages, and enabling the adoption of new technologies. Without this shift, Poland's competitiveness cannot be sustained. Affordable electricity will also be critical to support this transformation. In terms of corporate structure, Poland's economy is characterised by a few large firms, either state-

owned or developed through foreign direct investment, and a vast number of small enterprises. Notably, 37% of Polish companies have fewer than 10 employees, compared to just 19% in Germany. The small size of the majority of firms hampers productivity growth, as they often lack the capacity to invest at the scale required for long-term transformation. Brunon Bartkiewicz also pointed to inflationary pressures. While price levels in Poland remain relatively favourable, they are rising much faster than in Western Europe, which poses a growing concern. Some other CEE countries have seen higher price increases. In Romania for instance, prices increase by a factor of 6.6 over the past 20 years.

Another industry speaker illustrated Poland's significant underperformance in terms of investment relative to its EU peers. The country's investment-to-GDP ratio is among the lowest in the EU, at just 70%, and its performance on innovation indicators is similarly weak.

2.2 Geopolitical challenges

A public representative observed that discussions about transitioning to a more innovation-driven economy are overshadowed by the ongoing war in Ukraine nowadays. For many CEE countries, rearmament has become an existential priority. Poland, for example, is allocating around 5% of its GDP to defence, which is a major change. This new reality requires the CEE region to reconcile the need for innovation-led growth with defence imperatives, in the context of a new geopolitical landscape.

The public representative added that EU enlargement must be realistically accounted for in future policy planning. Although the next EU multiannual financial framework does not envisage any new accessions before 2030 or even 2034, enlargement remains a critical issue. There are currently 10 candidate countries for EU membership, including Ukraine. Ukraine, the first country to be granted candidate status during an active war, presents a particularly complex case. Despite a declining population, it remains more populated than all the other candidate countries combined, and it is also ageing. Its potential impact on EU agriculture and the Union's budget must also be carefully considered.

An official remarked that geopolitical risks and the resulting trend towards global fragmentation pose structural threats to open economies such as those in the CEE region. These risks must be taken into account in shaping future policy responses.

An industry speaker added that, in the current geopolitical context, maintaining a robust domestic defence industry is essential to support ongoing rearmament efforts.

3. Priorities for enhancing the CEE region's growth model

3.1 Developing capital markets to boost investment and innovation

An industry speaker stated that sustaining long-term growth in the CEE region requires improving productivity through increased investment and innovation. This

depends on broader access to affordable, long-term financing, which is best supported by well-developed capital markets. Poland currently has the most developed capital market in Central Europe. However, its market capitalisation amounts to only 25% of GDP and has declined over the past decade, failing to keep pace with economic growth. By contrast, countries like Sweden have capital markets exceeding 170% of GDP, illustrating the current disparity across the EU. Sweden also offers a strong example of how capital markets can be effectively developed in a European context. Its success, built on solid domestic capital sources provided by pension fund investments and the widespread use of retail investment accounts (40% of Swedes hold ISK accounts), is supported by high levels of financial literacy and a well-developed financial ecosystem. Adopting similar reforms in the CEE region could help lower the cost of capital, attract more corporate listings, and foster innovation through deeper and more dynamic markets.

The industry speaker noted that the EU's Savings and Investments Union (SIU) initiative, aimed at developing capital market funding and channelling household savings into productive investment, could support these goals. However, its effectiveness depends on recognising the specific characteristics of smaller markets. A fully unified EU capital market with centralised infrastructure could negatively impact the CEE region, where SMEs form the backbone of the economy, reducing their visibility to investors and limiting their access to funding. Rather than top-down solutions, initiatives are needed to support the development of national and regional capital markets. In this regard, the EBRD-led effort to connect seven regional exchanges through voluntary, bottom-up cooperation offers a more suitable model. Previous attempts at harmonisation, such as MiFID's best execution and research unbundling rules, have weakened local brokerages and undermined competitiveness rather than strengthening the ecosystem. Future reforms must avoid repeating these mistakes. Crucially, member states also need to recognise the strategic importance of developing their own capital markets.

Another industry speaker noted that a further challenge to capital market development in the CEE region is the risk-averse mentality and low level of trust in financial markets among households. Although household savings in CEE, notably in Poland, are relatively high, more than half are held in cash or bank deposits. This stands in sharp contrast to countries like Sweden, where a much larger share of household wealth is actively invested. Overcoming this barrier requires both improved financial education and a stable, well-regulated environment to build confidence among individual savers and unlock the potential of domestic savings for capital market investment.

An official emphasised that improving the productivity of SMEs and their integration into global value chains is essential for the CEE region to remain competitive as labour costs rise. Supporting this transformation requires expanding access to equity financing to support innovation, moving beyond traditional bank lending. Facilitating SME access to capital markets is therefore critical and should be accompanied by targeted efforts to strengthen financial literacy among SME managers. Stock exchanges have an important role to play, not only by simplifying listing

procedures but also by offering educational initiatives tailored to the needs of smaller companies, helping them grow and innovate.

An industry speaker suggested that deeper EU integration of the financial sector, along with an expansion of the euro area, could help stimulate investment in the CEE region. For instance, the issuance of joint EU bonds for defence could attract additional investment and strengthen economic resilience. As small, open economies, CEE countries have already benefited significantly from the EU single market and stand to gain even more from further integration. Beyond finance, additional areas where deeper EU cooperation would be beneficial include infrastructure, such as energy and rail systems, and research networks.

3.2 Implementing structural reforms and enhancing digitalisation

In response to a question from the chair about the lessons that structural reforms in the Baltic States may offer the broader CEE region, an official noted that the pressure for economic restructuring has existed for some time. Growth strategies should focus on core foundations such as education and labour market structures. Sustained competitive pressure, particularly through a well-functioning single market, is also critical. Although such structural reforms are politically and economically demanding, they are essential to drive continued transformation in both the private sector and public policymaking.

Another official highlighted that digitalisation is a key enabler of productivity and innovation, and a powerful tool for reducing administrative and regulatory burdens, a shared priority for both governments and businesses. Beyond financing, the financial sector can contribute significantly by creating a supportive ecosystem that helps SMEs navigate the twin transitions of digitalisation and sustainability. Its expertise should be mobilised to guide SMEs through this shift. In Hungary, several banks have established innovation centres to foster closer cooperation with corporate clients and promote public-private collaboration. Additionally, the Hungarian Investment Promotion Agency (HIPA) facilitates partnerships between investors, local firms, and universities to enhance skills and support innovation-driven growth.

An industry speaker stressed that energy supply remains a central issue for the CEE region's economic transformation, as it is a critical factor for competitiveness. With demand continuing to rise, swift action is needed to reduce energy costs and adapt to a rapidly evolving energy landscape. This requires a rapid shift towards a more diversified energy mix, along with the deployment of solutions such as smart grids and effective storage systems to stabilise supply and strengthen industrial resilience.

4. The role of banks in the CEE region's economic growth

An industry speaker explained that the banking sector in the CEE region underwent significant rationalisation following the 2008 financial crisis. Before the crisis, the

entry of numerous Western European banks in the region had created an overbanked and fragmented market, where many institutions lacked the scale and market share needed for efficient operations. A post-crisis wave of consolidation alleviated these inefficiencies, leading to stronger capital bases, operational improvements and cost synergies. Larger, consolidated banks became better positioned to offer cost-effective services, while smaller institutions continued to struggle with limited capital and structural constraints. Today, strong regional banking groups play an increasingly important role in promoting economic integration across the CEE region through cross-border activity. Their regional focus and greater familiarity with local markets and the risks they pose enable them to serve businesses and consumers more effectively, though this potential is still not fully realised.

To enhance banks' ability to support economic transformation in the CEE region, the industry speaker suggested that targeted policy actions should be pursued. These include simplifying and tailoring capital requirements in a risk-sensitive manner and providing incentives for lending to priority sectors such as green finance and defence. Currently, these areas are often seen as unattractive by banks due to complex compliance obligations and limited profitability. Regulatory and supervisory frameworks need to be adjusted to improve the viability of lending to these sectors. In parallel, it is important to promote a more positive narrative around the role of banking and finance as essential components of a well-functioning society.

A second industry speaker noted that, while governments and EU institutions are leading efforts to reduce energy costs, financial institutions can also play a role in supporting mid-sized companies operating within energy supply chains. In Poland, banks currently face no significant barriers to financing projects in the energy or defence sectors, however regulatory frameworks must remain stable, given the long-term nature of such investments.

A third industry speaker highlighted that the banking sector in the CEE region is generally resilient, well-capitalised, and maintains strong liquidity coverage. In Poland, for example, banks display solid fundamentals, with a total capital ratio of 20%, a liquidity coverage ratio above 200%, a 14% return on equity, and low levels of non-performing loans. However, regulatory frameworks must evolve to support greater risk-taking and a shift towards more growth-oriented assets, enabling banks to act as drivers of economic transformation and play a more active role in capital market development. Current rules in Poland favour conservative investment strategies, encouraging banks to hold government bonds rather than expand lending, a trend driven by tax burdens, banking levies, and legal uncertainty around consumer rights. As a result, banks maintain a risk-averse stance that limits their ability to finance private sector growth.

5. Wrap up

The chair observed a broad consensus among the panellists that the current growth model of the CEE region

has reached its limits and must be reoriented. Over the past two decades, the region has achieved substantial growth by leveraging low labour costs, foreign direct investment, and EU single market integration. However, it now faces a dual constraint: the mid-tech economy trap, as highlighted in the Draghi report, and the middle-income trap. Further development is increasingly difficult due to skill shortages, labour force constraints and the small scale of businesses. Additional structural challenges, such as energy supply issues, and heightened security concerns with the war in Ukraine also weigh on the region's growth prospects.

Despite the diversity of situations in the region, from the Baltics to the Balkans, the chair noted a shared set of priorities for the future. These include strengthening domestic capital markets to support investment and innovation, better integrating SMEs into global value

chains, and improving financial literacy to mobilise household savings. Panellists emphasised the importance of structural reforms in labour markets and education, simplifying regulatory and administrative burdens, and ensuring stable, long-term policy frameworks, particularly for sectors like energy and defence. There was also support for deepening EU integration, including progress on the SIU, provided that the specific characteristics and needs of the region are taken into account. Finally, the discussion underlined the importance of balancing top-down EU policies with bottom-up regional initiatives and ensuring proportionality in regulatory approaches.

Sessions



BANKING AND INSURANCE REGULATION

- **Priorities for the EU banking sector** 29
- **Simplifying EU banking regulation** 33
- **Competitiveness of the EU banking sector** 37
- **Banking Union: combining EU and national interests** 41
- **EU bank crisis management framework** 46
- **Diversity in the EU banking system** 50
- **Global priorities for the insurance sector** 54
- **Insurance protection gaps** 57

Priorities for the EU banking sector

Three topics were discussed, the first being how the banking sector is addressing and confronting the current geopolitical risks and volatility.

The second important theme was European-specific and structural priorities for the next five years. It is vital to stress the importance of aligning banking priorities with EU objectives, in particular in the context of improving the overall competitive position of the EU banking sector and the need to create a robust Savings and Investment Union (SIU) as part of a broader EU initiative aimed at promoting savings flows and facilitating investment across the region.

The third area of focus was how the sector is dealing with ongoing regulation. It is also important to effectively implement global regulatory frameworks such as Basel III while addressing the challenges associated with consistency of implementation across the EU's diverse financial landscape. Achieving a harmonised regulatory framework is crucial to maintaining the stability of financial markets, given their international interconnectedness

1. The European banking sector is showing remarkable resilience in the face of an uncertain external environment and a broader risk landscape

1.1 The European banking sector is resilient enough to cope with the uncertain external environment

An industry representative stated that capital is needed to withstand a crisis. Banks supervised by the Single Supervisory Mechanism (SSM) have maintained strong capital and liquidity positions. At the end of 2024, banks directly supervised by the SSM reported an aggregate common equity tier 1 (CET 1) ratio of 15.86%, compared with the requirement of 11.3%, up from 12.72% in the second quarter of 2015. The liquidity coverage ratio (LCR) of SSM banks is 158%, while the net stable funding ratio (NSFR) is 126.85%. Market movements are currently very volatile. Macroprudential buffers can be released, as seen during Covid. The earnings capacity of European banks remains very strong.

Challenges remain in the technological infrastructure of European banks. On average, US banks invest three times more in IT than their European counterparts. This investment gap is strongly correlated with medium-term operational efficiency and the overall security of banking institutions. Modernising outdated technology is a necessity to improve competitiveness and operational capabilities.

European banks are also facing increasingly fierce competition, not only from each other but also from non-

bank entities that are rapidly developing their service offerings. There is a need to redirect technology budgets from maintenance to innovation and expansion, particularly in light of accelerating technological advances and evolving consumer expectations. European banks are well positioned from a financial perspective, but there is a need to guard against complacency. Continuous assessment of current conditions and emerging risks is required.

An industry representative appreciated the remarks on the strengths of European banks in terms of capital, liquidity and profitability. European banks are entering this situation from a position of strength, but uncharted territory lies ahead. There is a need for collective thinking to address these emerging challenges. The ECB's initiative to promote discussions with industry representatives and regulators is welcome.

1.2 Addressing a broader risk landscape: geopolitical and cyber risk

1.2.1 Dealing with geopolitical risks and macro-economic uncertainty

A Central Bank official emphasised that geopolitical risks have been a concern in recent years and need to be integrated into regular risk assessments across the banking landscape. There is a historical context to the perception of these risks, as there was little discussion of them following the Russian occupation of Crimea. The need to address these risks only gained momentum after the unjustified invasion of Ukraine, which was a wake-up call for the financial sector and forced stakeholders to fundamentally reassess their risk frameworks. Exposure to regions of geopolitical uncertainty, such as Russia, has become a very tangible risk for many financial institutions.

Geopolitical risk is now considered a mainstream concern, requiring careful assessment in the areas of credit, liquidity and operational risk. Operational risk has increasingly attracted the attention of regulators and bank executives, given the frequency and impact of cyber-attacks that the banking sector has faced in recent years. The Digital Operational Resilience Act (DORA) aims to strengthen the operational resilience of financial institutions.

Both the public and private sectors need to join forces to address operational challenges more effectively. Despite the strong capital and liquidity positions of European banks, significant operational risks remain, especially those arising from cyber threats or other state-sponsored activities. It is an undeniable fact that operational risks are significantly more complex than traditional banking risks, which underlines the need for banks to develop comprehensive plans to mitigate the impact of these emerging threats.

A Central Bank official added that banks need to be encouraged to incorporate geopolitical risks into their

scenario planning and to make contingency arrangements for their risk management and governance. Coupled with maintaining strong operational resilience frameworks, the best defence against geopolitical risks is the robust capitalisation of banks.

The Chair agreed that geopolitical risks permeate through all risks, but there is a particular emphasis on operational risks and operational resilience.

1.2.2 There is a need for collective intelligence, humility, and proactive crisis preparedness in the banking sector to address emerging geopolitical and technological risks

An industry representative stated that geopolitical risks are horizontal drivers of various banking risks, including credit, market, liquidity and operational risks. Scenario planning and preparedness are important; effective planning is crucial, but it should also focus on how banks respond during an actual crisis. It is vital for the banking sector to be able to react quickly in times of need, and for a culture of collective intelligence and humility to prevail among industry players in meeting the challenges posed by geopolitical volatility.

There is a difference between traditional risks and those arising from advanced technological disruption. The banking industry needs to be proactive in responding to the growing cyber threat, as conflicts in the modern world extend into cyberspace. The banking industry must adopt robust cybersecurity measures to counter vulnerabilities that could arise from service disruptions. It is important to be more open, humble and clear about the unknowns and, as a result, find the right responses, especially in a world where paradigms have shifted significantly in recent months.

1.2.3 Overcoming Europe's financial fragmentation, boosting investment in defence and innovation, and adopting more agile regulation are essential to strengthen resilience against geopolitical and technological challenges

The Chair observed that banks have a great deal of capital, good liquidity and good non-performing loan (NPL) ratios, but that does not necessarily make them robust to cyber-attacks. Dependencies on infrastructure also need to be addressed.

An industry representative emphasised that maintaining a continuous dialogue between the public and private sectors is crucial to successfully navigate the unpredictable landscape that currently surrounds Europe. There are concerns about the fragmented state of European financial markets. The greatest risk facing Europe is the failure to coordinate effectively in response to potential threats. Significant investment is needed to strengthen defence infrastructure; moving to a 2.5% investment level will require around \$360 billion of additional investment; conversely, moving to 3.5% would require around \$1,100 billion of additional investment.

Europe's energy infrastructure is aging, and immediate upgrades are needed to support a sustainable transition. While the US may be scaling back its global commitments, Europe cannot afford to abandon its focus on innovation, especially in key sectors such as AI, which play an important role in modernising the financial services

landscape. Because of its fragmentation, Europe is lagging behind the US in both AI and financial markets. Europe's fragmented financial market structure needs to be overcome, as the existence of 26 central securities depositories (CSDs) and 14 central counterparties (CCPs) across the region hinders the creation of an integrated, efficient financial infrastructure.

The final challenge is the banking sector itself and how it deals with all the challenges, especially cyber risk. US banks have invested three times more in software IT development, but that is because they are much more profitable and have a deeper capital market to tap into. US companies do not have to deduct investment in software, as European companies do. More agile regulatory frameworks are essential to respond effectively to the multiple challenges posed by geopolitical risks and rapid changes in the operational landscape.

Large defence companies are well capitalised and do not need further support from the financial sector. Their supply chain is fairly dependent on SME funding, but if it is raised to 3.5%, they will struggle to get the funding they need because they are not tapping the capital markets. The banks are still very strong and have good, solid CET1 ratios, but they are also constrained in terms of being able to provide more support to defence companies.

2. Priorities for EU regulation and supervision

2.1 Europe's true obstacle to unlock its competitive potential is not over-regulation, but the urgent need for greater harmonisation and standardisation

An industry speaker explained that intra-European competitiveness is not as negative as has been expressed, as the EU is the largest single market. It has its competitive potential, as it has 450 million customers, most of whom have money. If energy is taken out of the equation, the EU is still a major manufacturing centre and has large trade. The EU is significantly diversified, with countries and regions whose economies are based on different economic foundations. The EU also has talents that should not be underestimated.

While there is a persistent criticism of over-regulation in the EU, there are legitimate concerns about excessive regulatory burdens. However, it is important not to focus only on extreme examples. Despite some absurdities in the regulatory framework, simple and harmonised rules could act as a catalyst to improve market competitiveness and stability. This can be seen in the example of the European railway system; although each country has developed its robust railway system independently, the lack of standardisation ultimately leads to inefficiencies. The same idea can be applied to the financial market. There are well-developed banking systems in each EU country, but there is insufficient harmonisation and standardisation in the regulatory framework, particularly in the area of investment, which undermines optimal performance. Some European countries require a licence

for mergers and acquisitions (M&A), while others do not.

The problem of over-regulation is secondary; the real problem is the lack of harmonisation and standardisation. Deregulation is a very good concept as it temporarily boosts the credit and lending market, but President Reagan's deregulation ended in a mass bailout and cost the taxpayer some \$124 billion. There is a need to improve intra-European competitiveness in the financial market. There must be standardisation and harmonisation of rules and regulations, but there must be an end to gold-plating in all areas of regulatory activity, which the EU does far more than it needs to.

The Chair agreed that affecting the frictions of the single market is a core issue. When talking about trade wars, the equivalent internal tariffs within the EU will potentially be about 100% when compared to an effective single market.

2.2 To implement, or not to implement: geopolitics and Basel III

A Central Bank official stated that the introduction of extensive tariffs would lead to an economic downturn. Recently, the biggest threat to financial stability is a global tariff spiral. Markets are currently volatile, but there are no signs indicating an uncontrolled crisis. Financial and capital buffers are thus important. There is a debate about whether Europe needs to focus on financial deregulation. The idea that came out of the financial crisis was to have global standards. It is important not to question the Basel regulation, but the call for simplification by the central bank governors of Spain, France, Italy and Germany was positive. Detailed work needs to be done on how to streamline regulation, but it should not end in a race to the bottom.

The US has a differentiated system. Global systemically important banks (G-SIBs) are treated differently from small and medium-sized banks. Proportionality is key. The implementation of the Fundamental Review of the Trading Book (FRTB) needs to be reviewed once it is clear what the US will do. US G-SIBs do not have the same capital buffers as EU G-SIBs. The US already has a Collins floor.

An industry representative underlined that the EBA is looking at Level 2 mandates, as this will be an important aspect of the simplification process. Global standards are needed, both on the financial markets side and on the Basel side. The world is becoming more and more digital, so it is important what is done at a global level. Climate change cannot be ignored.

FRTB is a clear example where the process of setting global standards is flawed, because it was designed and agreed around 2017. It took time to test, to run the numbers and to look at the trading desk to see what would happen in practice. There are flaws in the standard, even if what the US and UK are going to do is ignored. The ideal scenario would be to fix FRTB at a global level, but it has to be done at a regional level because there are no procedures or processes to do this quickly at a global level. If FRTB is not fixed then European banks will be less able to support the government bond market, which is already dominated by their US counterparts. The global standards need to be maintained, but the feedback

process needs to be changed.

The Chair observed that regulators have been pushing the standards for the last decade and it has taken the industry a decade to accept them, but the regulators are now being asked to quickly revise them.

2.3 EU regulation and supervision should focus more on horizontal risks in a world where paradigms are rapidly shifting

An industry representative noted that the increased capital liquidity seen after the financial crisis is positive and makes the system much better. The challenge is whether the right things are being talked about in terms of regulation and supervision. If two-thirds of a bank's time and effort is spent on insignificant micro adjustments to internal credit risk models, then that is not the right focus. What should be discussed are horizontal risks and how banks respond to them, but a risk-based debate is needed on what is important and what is not. There needs to be a discussion about what the game changers are, because the world today is one of paradigm shifts.

It is important to ensure that what needs to be funded can be funded. Five years ago, it was green transformation, and today it is defence. Everyone agrees that a defensible Europe is a necessity, so people need to think about their role as supervisors, regulators and banks to help finance that, respecting all the difficulties and constraints.

2.4 Mobilise savings through swift EU reforms

2.4.1 Complementing the Savings and Investment Union

An industry representative noted that there are some quick wins to be had. Before the next Eurofi it would be beneficial to have the securitisation framework in a place where significant new liquidity can be unleashed. The second quick win is the review of the prudential framework with a view to harmonising capital requirements. National buffers should be harmonised because they are punitive for certain structural products, for mortgages and for other complicated issues.

Europe has €13.5 trillion of savings, but €2 trillion of that is in the US. European savers go to the US because they have higher return expectations over a longer period of time. Higher annualised returns in the US have created a self-perpetuating cycle; higher returns attract more capital and greater market depth, widening the performance gap. Banks welcome the EU's initiative to provide more information on financial products, so that savers who park their money in low-yielding deposits can put it into higher yielding products that are injected into the economy to stimulate faster growth. Secondary liquidity is needed through market making, which is the responsibility of both banks and non-banks.

An industry speaker explained that rapid implementation of the issues previously discussed is essential. The SIU is also part of harmonisation. A rethink is needed on how success is measured. It is not just about the volume of assets involved, it is about inclusivity and whether SMEs are getting money from outside the big cities. It encourages the regulator and supervisor to see banks as partners in what needs to be done, rather than as the source of the next crisis.

There are four points for success that need to be addressed in terms of investment: education, standardisation for a true pan-European market, how the future of the EU is funded, and the fact that the Markets in Financial Instruments Directive (MiFID) should be seen as a warning to educated investors, rather than something to scare them.

2.4.2 There is a need for more efficient and harmonised regulation whilst streamlining securitisation processes and supervisory practices, and also reassessing burdensome reporting requirements

A Central Bank official said that promoting the competitiveness of banks is essential for effective financing of the economy. The discussions on the capital markets union (CMU) and SIU are critical components of a regulatory dialogue. Significant progress is overdue, given the historical context of the last decade. Success requires a focus on regulatory efficiency. There is a need for regulatory harmonisation that does not lower capital standards. Completing projects such as the Banking Union (BU) and addressing areas such as crisis management and deposit insurance (CMDI) are necessary to avoid repeating the mistakes of the past, while moving towards more robust financial outcomes for the industry.

There have been improvements in the supervisory approach, such as the introduction of more risk based assessments under the Supervisory Review and Evaluation Process (SREP). It is also important to streamline securitisation processes, as such developments are essential to maintain the overall efficiency of market operations. There are concerns about the extensive reporting requirements, which have been heavily criticised by banks. This underlines the need to assess whether the plethora of data points required are really necessary for effective risk management.

The current momentum within the EU provides a unique opportunity to strengthen the banking sector. There is a need for stakeholders to work together to enhance the resilience and adaptability of the financial landscape to ensure that it can meet emerging challenges while taking advantage of growth opportunities. Further work is needed on levels two and three. It is also important to harmonise the use of macroprudential buffers across Europe.

2.4.3 Benefitting from the significant opportunities presented by the new German government

A Central Bank official highlighted the significant opportunities presented by the new German government's initiatives, particularly in financing sectors such as defence and infrastructure. The announcements of new tax deductions and investment incentives to stimulate economic growth are welcome, as they reflect a proactive government. There is a need for decisive action on the pending legislative proposals on CMDI, reinforcing the essential cooperation needed to achieve tangible progress in these areas.

There is also a need to review the competitive landscape within the banking sector. European G-SIBs have indicated that returns on similar transactions in the European market are nine to ten times lower than in the US market. This discrepancy is a critical issue. A close

examination of the factors affecting the profitability of European banks is needed, especially with ongoing discussions on the SIU and CMU.

There is an urgent need to mobilise available capital and to raise public awareness of the importance of risk-taking and investment strategies. Effective cooperation between financial institutions, government representatives and legislators is essential to create a regulatory framework that supports mobility and economic innovation, while addressing key risk factors that affect growth. Citizens need to understand the need to mobilise capital within the EU, as there will be no high-tech development without risk taking.

The Chair acknowledged the consensus that has emerged surrounding significant issues, particularly the complexities presented by geopolitical and cyber risks, which have been identified as pressing priorities for EU banks. Despite the banking sector's solid positioning concerning capital and liquidity, ongoing efforts are crucial to enhance resilience and effectively respond to the challenges posed by both geopolitical and operational risks. There is a pressing need for coordinated action aimed at reinforcing integration within the EU banking sector, ensuring that it remains equipped to effectively confront both current and future challenges. There is a perception that risks are being faced by the industry relatively well, but more needs to be done at the margin to make sure that those challenges are able to be addressed.

Simplifying EU banking regulation

The aim of the session was to identify possible ways to simplify banking regulation while maintaining financial stability. The discussion took place in two rounds. The first focused on concrete areas for simplification within the existing European regulatory and supervisory framework, and the second addressed the process of prioritisation and holistic impact assessment.

1. Concrete areas for simplification in the European regulatory framework

1.1 Stakes and challenges

1.1.1 *The need to simplify EU banking regulation without deregulation*

The Chair outlined that the significant efforts made by the EU in the aftermath of the 2007/08 global crisis have increased the resilience of the European financial system. The end of the regulatory cycle provides an opportune moment for review and recalibration. There is a growing momentum for simplification in Europe. The Draghi and Letta reports specifically identified regulatory simplification as a key driver of European competitiveness. There is the decision on the Single Supervisory Mechanism (SSM) to streamline and simplify supervisory practices with the Threat of Tomorrow initiative. A holistic and thorough assessment of the standards applicable to EU banks should be guided by the overarching principle that simplification should not mean deregulation. Finally, the European Commission's commitment to a simpler and faster Europe is a key focus of its mandate for 2024-2029.

1.1.2 *The overly prescriptive and fragmented nature of EU regulation*

An industry representative noted that although European regulation is undoubtedly sophisticated, it is also significantly more prescriptive than that of many other jurisdictions, creating significant implementation challenges for financial institutions and potentially impacting competitiveness. The 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.

This then impacts on enforcement and audit, creating additional challenges. The approach often incentivises a line-by-line implementation methodology, which can be particularly burdensome for institutions with unique operational characteristics or business models. The total regulatory volume of the Digital Operational Resilience Act (DORA), including primary legislation, regulatory technical standards (RTSs) and implementing technical standards (ITSs) in between exceeded 1,200 pages. A more principles-based approach to regulation could

have achieved the same objectives with less complexity.

Despite the existence of the single rulebook, there is fragmentation across Europe, which undermines the goal of creating a level playing field and creates difficulties for institutions operating in multiple jurisdictions. There should be greater harmonisation, not only of the legislation itself, but also of its interpretation and enforcement.

1.1.3 *Simplification to reduce uncertainty and better address fast-evolving challenges*

An industry representative noted that the European regulatory process is lengthy, typically taking four to five years from initial proposal to application. That is further extended for directives, as they require national transposition, and for Level 2 and Level 3 regulations, in addition to supervisory guidance. Dynamic areas such as the digital domain can change massively in such a timeframe, affecting the relevance of the regulation.

The Commission often prioritises early regulation to prevent individual national authorities from acting first, inadvertently encouraging a sense of urgency and potentially premature regulatory action. A possible solution could be to clarify the respective competences of European and national authorities, to reduce the pressure for early regulation. There could be a critical review of pending files to assess their utility, including, for example, the Retail Investment Strategy and Financial Data Access (FIDA).

The existing regulatory architecture is complex, populated by numerous new agencies with narrow mandates and, crucially, limited accountability. This proliferation of agencies often leads to overlapping responsibilities, so comprehensive overhaul of this architecture is needed.

1.1.4 *Cross-sectoral and rapidly evolving risks*

An industry representative highlighted that a distinction can be drawn between well-established risks like credit risk, for which developing a solvency ratio took approximately 50 years, and newer, more rapidly evolving challenges like those related to environmental, social, and governance (ESG) factors. European regulation struggles with cross-sectoral risks like digital fraud, irrespective of the number of authorities involved or their coordination efforts. The inherent structure of the regulatory framework is not well suited to addressing threats that transcend sectoral boundaries.

There are traditional risks that are difficult to encapsulate with prescriptive rules. A typical example is retail investment strategies. Even seemingly simple concepts like 'value for money' can quickly become complex when translated into quantifiable indicators, potentially leading to an explosion of data points given the number of products and banks in Europe, for example. Efforts should not focus on adding further layers of regulation at levels 2 and 3 to address the regulatory machine's

limitations at level 1.

1.2 Priorities

1.2.1 Increasing accountability with better governance

An industry representative said that the simplification process needs to take place at all levels of regulation and in all areas (prudential, sustainability and digital regulation). It is crucial that simplification at one level does not mean more regulation at another level or at member state level.

The UK regulatory model can be commended for its efforts to balance agency independence with robust accountability mechanisms. The adoption of explicit competitiveness objectives, similar to those introduced in the UK, would be beneficial in the European context. Greater accountability, particularly for the SSM, would also be helpful. Dialogue between banks and the SSM should be improved, and the governance of the SSM's Administrative Board of Review should be refined to increase transparency. The governance structure of the EBA could be improved by increasing the representation of independent members and reducing the reliance on national supervisors.

Two particular areas ripe for simplification are the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) framework and the overlapping nature of existing regulatory buffer structures, which are often determined by different authorities without adequate consideration of potential redundancies.

1.2.2 The call for regulatory stability

A policy-maker indicated that the Commission's recent Competitiveness Compass explicitly identifies simplification as a key factor for European competitiveness. However, different interpretations of simplification could pose challenges. There has been a significant amount of regulation in recent years, including the comprehensive banking package and digital security rules. It is important to have a period of regulatory stability to allow industries sufficient time to implement existing rules effectively. The fact that the industry is asking for the legislation to not be reopened is in itself an element of regulatory stability.

There is a need to reduce the inherent gold-plating that we face in Europe because we apply prudential requirements at all levels – consolidated and solo level. This layered approach s, remains an area in need of simplification. Prudential requirements applied at multiple levels often unnecessarily locks up capital and liquidity that could otherwise support the real economy.

1.2.3 Clarifying European Supervisory Authority (ESA) mandates and preventing regulatory overreach

A public representative expressed concern that simplification efforts often start with Commission proposals that rely heavily on Level 2 measures, effectively postponing problem-solving rather than addressing issues directly in primary legislation, as this can simply involve moving problems to another level. Political problems should be resolved at the legislative level by the European Parliament, Council and Commission, and RTS can be reserved for technical

adjustments. Cases where issues are transferred to Level 2 measures simply because consensus could not be reached in triologue negotiations are problematic.

There should be stricter adherence to established ESA mandates. Supervisors operate from a limited perspective, and the process by which they independently develop their own Level 2 and Level 3 measures would benefit from rethinking.

In addition, there are challenges in having to review an increasing volume of delegated acts due to capacity constraints. ESA governance structures could be re-evaluated to encourage a broader approach to problem-solving, and the Commission could consider legislative changes to facilitate this.

1.2.4 Strengthening EU regulatory hierarchy and streamlining Level 2 and supervisory processes

A regulator highlighted that the levels should be taken seriously. Level 1 is primary legislation, level 2 is delegated acts subject to approval by the Commission and scrutiny by the co-legislators, and level 3 includes 'comply or explain' guidance for competent authorities. Level 1 legislation has a higher authority than level 2. Level 3 guidelines grant implementation discretion to national competent authorities, and permit convergence of supervisory practices. These issues should not be treated as being at the same level. An EBA report, while valuable in identifying best practices and providing guidance, does not have the force of a regulatory requirement.

For the example of DORA, although 1,400 pages is lengthy, that number should properly be divided by the number of member states, yielding approximately 50 pages per country. It is questionable that individual nations would independently produce regulations of comparable brevity and consistency without a unified framework, and such an approach would likely exacerbate fragmentation.

Three key areas for improvement are being considered. One is the refinement of the Level 2 process, including the level of detail and prioritisation, whether the co-legislators can be involved and how this can be done earlier to address whether the mandates make sense or are just being transferred to a lower level.

The second area concerns reporting, including how effective reporting requirements are, whether they are proportionate and whether they are actually used. It would not be helpful to remove reporting requirements that are supplemented by national competent authorities or other European competent authorities. Information sharing and integrated reporting should also be part of the process. The third area is how the ESAs function internally to ensure efficiency.

1.3 Simplification cannot solve structural weaknesses

1.3.1 More effective and targeted regulation to create a true single market

A regulator noted that the issue of simplification represents a broader European challenge. Focusing on simplification may misdirect efforts, as simplification is inherently related to efficiency. The primary question

should be whether the current systems are effective in achieving their intended objectives. Within the financial sector, and banking regulation in particular, the approach has been very effective. There are demonstrable improvements in resilience, robustness and financial stability. The measures taken with regard to the provision of credit to the economy have also been effective so far. Questions arise about the potential for future constraints on the provision of adequate credit to the economy, given the evolving financing needs, and this can be monitored and proactively prepared for.

A key shortcoming is the creation of an effective single market within the banking union or the wider financial sector in the EU, but this will not be solved by simplification or increased efficiency. Real progress will require more robust rules specifically designed to address the challenges of the single market

1.3.2 Simplification in the context of a declining global role for European banks.

An official warned that framing the discussion solely in terms of how successful Europe has been, that the banking sector is safe, and that things will improve with simplification might obscure a more fundamental issue: the declining share of European banks in global banking assets. This share has fallen from 40% in 2007 to around 20%, mainly due to a contraction in investment banking. It is doubtful that simplification alone can remedy this situation, as it represents a broader trend towards reducing risk appetite in the banking sector. Risk reduction has repeatedly taken precedence over maintaining the capacity to deal with potential challenges, resulting in an overly conservative approach.

The banking union is a positive achievement, but there is no mechanism comparable to the US Federal Deposit Insurance Corporation (FDIC), which plays a crucial role in reducing systemic risk. This absence may contribute to the prevailing low risk appetite in the European banking sector.

2. The need for holistic analyses

A policy-maker underlined the Commission's responsibility to assess the functioning of existing regulatory frameworks and their continued suitability for the purpose, noting that established mechanisms already exist to facilitate this assessment. The forthcoming Commission report was highlighted not only as an opportunity to analyse the international competitiveness of EU banks, but also to consider how our banking system can actively contribute to Europe's wider economic competitiveness. This does not mean having no new regulation, but it is a valuable opportunity for a comprehensive assessment.

2.1 Systematic ex-ante and ex-post impact assessments and a holistic, accountable regulatory review

An industry representative advocated a holistic impact assessment, alongside improvements to existing assessments. The burden of proof should be on the need

for regulation. The last 10 years in Europe were a period of intense regulatory activism, and we need now more regulatory stability. The Commission and the ESAs should lead the review, probably using external resources and building on the Commission's work plan.

Impact assessments should be carried out both ex-ante and ex-post to ensure that regulations achieve their objectives within a reasonable timeframe. Impact assessments should systematically assess the impact on competitiveness. Low intermediation margins, higher remuneration for savings and low borrowing costs are key objectives.

An industry representative emphasised that any assessment should be guided by clear objectives. The importance of competitiveness should be taken into account, as a profitable and efficient banking industry contributes to security. 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.

In addition to those who own and produce regulation, those who are subject to it should be involved in the review.

A public representative explained that the Commission has a monopoly on initiative to ensure internal consistency and coherence. The Commission's first obligation is to ensure that each proposal is interlinked and properly connected to all the others. The first omnibus, the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), require similar but not identical data, creating duplication of effort for companies. That being addressed is a genuine simplification without deregulation.

2.2 Reducing overlapping authorities and limiting over-reliance on soft law to preserve flexibility and clarity

An industry representative highlighted the reinforcing effect of simplification. Simplifying rules reduces the complexity of supervisory processes. Authorities are needed to monitor and enforce at all levels. However, multiple authorities can be involved at national level, justified by the double effect of regulation and supervision. Regulatory simplicity creates a corresponding simplicity in supervision.

An official stated that a major challenge is balancing comprehensive assessments with the need for timely decision making. Not every situation requires a fully holistic analysis, and sometimes no formal analysis is required at all.

For example, there is ongoing cooperation between the Ministry of Finance in Poland and the Polish supervisory authority on a recent addition to the Capital Requirements Regulation (CRR) regarding the use of the favourable prudential treatment for investments under legislative programmes. This has the potential to modernise the banking sector and generate positive spill-over effects in the capital markets. In the Commission's communication on the Savings and Investment Union (SIU), there was

language implying incoming 'guidance' by the Commission in this area, which could be interpreted as a threat due to reducing flexibility. Soft law provisions are often ineffective because they do not encourage the desired behaviour and instead potentially reduce flexibility.

2.3 Holistic, well-targeted assessments with integrated impact reviews, coordinated capital rules, and streamlined reporting

A regulator affirmed the value of holistic assessments but cautioned against overly broad approaches that could impede progress. There are three key priorities in banking and financial regulation. First, impact assessments should be carried out in a more integrated manner, going beyond individual rule-by-rule assessments and considering both ex-ante and ex-post

analyses. Ex-ante assessments can prove difficult, making ex-post evaluation crucial.

Secondly, interactions between different components of capital requirements, including prudential rules, Pillar 1 and Pillar 2, national implementations, macroprudential oversight and recovery and resolution frameworks, should provide comprehensive guidance to banks in their capital planning processes.

Thirdly, ongoing efforts to integrate banks' prudential and statistical reporting to the European Central Bank (ECB) represent a promising area for expansion. The aim is to create a system in which supervised entities submit information only once to a single authority, allowing seamless internal sharing without redundant requests.

Competitiveness of the EU banking sector¹

Ugo Bassi welcomed attendees and introduced the panel on the competitiveness of the EU banking sector. The critical objective of the discussion is to identify policy priorities, means, instruments, and tools needed to tackle the profitability gap that European banks are encountering within a challenging international environment, characterised by an unlevel playing field.

Interest rates in Europe are structurally lower than those in the US, which severely impacts profitability. There are increasing economic and fiscal divergences manifesting across Europe, illustrating the paradox of having a single supervisor while national authorities still opt to impose capital liquidity requirements, thereby restricting the operations of pan-European banking groups.

Several governments are hesitant to endorse cross-border mergers and often express a preference for ensuring that local savings finance local investments. The European Commission is preparing a global report on the banking sector, which will incorporate all suggestions that are deemed relevant. There needs to be an emphasis on the importance of focusing on solutions, while facilitating an open exchange in pursuit of concrete strategies.

Ugo Bassi asked Aurelio Maccario and Tanate Phutrakul to give their views as industry representatives.

1. Seizing the moment to foster pan-European banking competitiveness

Aurelio Maccario stated that every crisis brings an opportunity, and it is clear that there is the willingness to move forward with cohesion in a very structured way. The European banking sector is currently in a very favourable position, marked by notable strength, resilience, and robust capital and liquidity levels. Europe also now has a strong regulatory framework, with a single supervision that allows it to move in a joined up way

There are three pivotal areas that can significantly enhance the sector's competitiveness. The first is a swift conclusion of the regulatory framework, underscoring that while Capital Requirements Regulation III (CRR3) is already in place, a timely decision on the Fundamental Review of the Trading Book (FRTB) is still pending. Different stakeholders have varying opinions on the issue, but independently finalising the regulations will showcase Europe's capacity to determine its own regulatory future without waiting for rulings from other jurisdictions. Initiating regulatory clarity will allow banks to plan with greater certainty.

There is also a need to simplify the securitisation framework and to make it more market-friendly. This simplification will serve multiple purposes, primarily enabling banks to liberate portions of their balance sheets to better support the real economy during crises, while simultaneously generating capital. Since the great financial crisis, European securitisation default rates have remained impressively low, with an average of just 1% which is in stark contrast to the 4% of defaults seen in the US. However, despite this, Europe is still trailing behind regions such as the US, UK, Australia, and parts of Asia, indicating that there is a clear opportunity for improvement.

Aurelio Maccario concluded by reiterating the critical nature of pursuing operational simplifications while adhering to the regulatory principles established over the last decade. Central banks and regulators are taking steps to ease the implementation of regulations without altering the overall regulatory framework itself, ultimately aiding in the competitiveness of the sector

2. Three critical areas where scale is lacking: technology investment, wholesale banking, and cross-border diversification

Tanate Phutrakul highlighted the resilience and robust supervision of the European banking system, which has successfully navigated through several recent crises. The current economic challenges are 'known unknowns', showing that the sector is well-prepared and profitable, with strong returns on equity being evident in its operations. Banks have weathered significant events, including the COVID-19 pandemic, the geopolitical ramifications of the Russia-Ukraine war, and the challenges posed by the collapses of Silicon Valley Bank and Credit Suisse. Despite these difficulties, there is a comparative strength and profitability of European banks. However, there is a concern around the scale at which European banks operate compared to their American counterparts. The market capitalisation of the largest 10 European banks does not match that of the largest American bank, pointing to the need for improved competitiveness.

He identified three critical areas where scale is lacking. The first is technology spend, to prevent cyber security or to prevent cyber crime, to make sure to digitise, and to make sure that banks' payment systems are secure. That takes a significant amount of investment and cannot be done with a sub-scale banking platform. 30% of ING's spend is on IT.

1. Although the conference was held under the Chatham House Rule, the speakers of this session agreed to be identified by name in this summary.

The second area of scale that needs to be improved is around wholesale banking, in particular financial markets. European banks are too reliant on American competitors. The regulatory regime needs to be improved in order to enable European players to be able to effectively compete in the wholesale banking space. The notion of a regional wholesale bank does not work; a bank is either global and providing wholesale banking clients in Europe with a global footprint, or it is not actually able to compete effectively over time.

The third aspect around scale is that banks need to be able to diversify. Indeed, banks need geographic diversification across European countries to mitigate local downturns and support profitability.

Tanate Phutrakul concluded by emphasising three objectives: ensuring a free flow of liquidity and capital among European subsidiaries of groups like UniCredit and ING, simplifying the macroprudential capital regime, and creating a framework that reduces the cost and complexity of cross-border mergers, thereby enabling further European banking consolidation.

Ugo Bassi noted that some of the issues that have been mentioned are very well known, and others are more hidden. Ugo Bassi asked Jacek Jastrzębski for his views.

3. Is Europe willing to accept slightly more risk to enhance competitiveness and profitability?

Jacek Jastrzębski agreed with previous statements that Europe has been able to build a resilient, strongly capitalised, liquid banking sector. Europe has become the world leader in stability, which is particularly true for the banking sector. However, this success has come at the cost of competitiveness and growth.

While regulators have prioritised financial stability, this has limited European banks' profitability compared to global peers. A fundamental question must now be addressed: is Europe willing to accept slightly more risk to enhance competitiveness and profitability? This is an open question which requires a deep discussion with all the stakeholders.

In the US only around 35 banks are subject to their equivalent of resolution procedure. There are various reasons for this approach. He noted cultural differences between Europe and the US regarding the acceptance of business failures and bankruptcies. In Europe we sometimes believe bankruptcy should be avoided at almost all costs in Europe, whereas in the US bankruptcy is part of business life. Of course there are also other factors, including potentially fewer concerns about public aid in the US, which means that the remainder of distressed situations in banks – i.e. those not subject to the US-equivalent of resolution – can be dealt with in a more flexible manner without the public aid concerns that Europe has.

There is also the underlying issue of fragmentation. European banks are unable to achieve the economies of scale that are available to their US counterparts

because of the fragmentation of European markets. Due to fragmentation, Europe is actually imposing tariffs on itself; internal tariffs in Europe are the equivalent of roughly 110% of external tariffs on services. It is not only about a harmonisation of financial regulation, but also about a genuinely single market.

European banks are traditionally strongly focused on retail and traditional corporate lending. The margins that can be achieved within traditional banking are lower than what can be achieved in advanced corporate investment banking businesses, which is also a source of explanation of the different level of profitability and of the different level of competitiveness between European banks and their global counterparts.

We are in a moment where maybe we should reconsider our approach to the perfect balance between stability on one hand and competitiveness and profitability on the other. If we come to the conclusion that the level of stability which we have aimed for so far comes at a cost which is too high in terms of competitiveness and profitability, we may decide to readjust or recalibrate our approach. Supervisors are happy to take part in this discussion, but it cannot be done if they and the regulators are the only ones who carry the risk. There needs to be a wider public debate around the level of risk that will be accepted. All stakeholders – and the general public – have to be aware and also very blunt and open about it that there may be some sort of a trade-off – and that increasing competitiveness (also through deregulation) may increase risk. And there must be a wide consensus around such a recalibration or readjustment.

Policymakers and regulators should consider facilitating banks' engagement in new business areas like private equity and venture capital. In Poland, regulators are working with financial institutions to encourage investments in innovation, dual-use technologies, and early-stage ventures, which could boost both banking competitiveness and broader economic performance.

Ugo Bassi asked Gabriel Cumenge and François-Louis Michaud to provide their views.

4. The key issue is the capacity of European banks to finance growth, particularly for corporates and SMEs. A more competitive and integrated corporate and investment banking (CIB) sector is critical for the EU's economic autonomy and industrial strategy

Gabriel Cumenge highlighted a focus on the competitive dynamics within the corporate sector. There is concern over the competitiveness of European banks in serving the market, particularly regarding their role in financing corporates and small and medium-sized enterprises

(SMEs). The outlook looks bleak in the sector, evidenced by the decline in the market shares of European banks in favour of their US counterparts in these transactions.

A robust competitive banking environment is needed, to support both growth and the geopolitical autonomy of European companies. In conversations with larger corporates, there is a clear expectation that banks should be able to service projects beyond European borders, necessitating a competitive, globally-focused European banking sector. There is great importance in the forthcoming European Commission report, as it will be pivotal in assessing the current environment and will determine where improvements could be made. The Single Supervisory Mechanism (SSM) has been a regulatory success, but there is a disparity in market shares between European and American banks, and this persists despite a strong regulatory framework.

Simplification needs to be addressed, with a significant responsibility for regulators and co-legislators. Level 1, level 2 and level 3 practices need to be addressed, as well as supervisory practices. There is not an entire trade-off between competitiveness and financial stability; in Europe there is room to manoeuvre around simplifying, being more risk-based and risk-oriented. It is not about increasing the risk but giving the banks more room to manoeuvre. There is a fine balance that has to be found.

A level playing field is a positive thing. FRTB will be the key issue, but all regulations will need to be examined when Europe is clear on what the US will do. If there is a push in the next two years to simplify and to be more competitiveness-oriented then regulations can be examined, but a change of culture is required. Change is needed on the way the new regulations will be done in the future. The 2009 de Larosière report will need to be re-examined, as well as the whole European architecture of how the norm is produced, how it is implemented, and with what mandate.

5. Assess whether the structure and implementation of the EU regulatory framework is delivering the desired results. To take stock of existing rules and identify areas for streamlining or rebalancing. A system-wide review, involving all key stakeholders to calibrate the overall regulatory burden across different dimension

François-Louis Michaud observed that panellists seem to agree on the matters at hand. Care is needed that what is actioned is not a trade-off between efficiency and stability, as the two issues need to be combined. The change should not be led by a push for deregulation or losing the standards that have helped Europe to navigate the crises and shocks it has been through in recent years. Checks are needed for strengths and efficiencies. The picture for

strengths is extremely positive, as evidenced by what has been seen over the last 10 years. Banks have been able to collectively navigate a series of very dangerous exogenous shocks of all kinds with no damage. Results from EBA stress tests showed banks holding more than 10% Common Equity Tier 1 (CET1) during different scenarios. Credit distribution on the whole has been dynamic in the EU over the past decade, and that is despite a significant buildup of regulation. There is 40% nominal origination of credit. For SMEs as a whole it is 90%, and it is 65% for commercial real estate.

Despite the significant buildup of regulation and increase in supervisory intensity, credit origination has been dynamic. There are eroding market shares for European banks in certain EU areas. To a certain extent, the EBA interprets the question as one of strategic autonomy, rather than the competitiveness of the banking sector as a whole. The EBA and the Commission have delayed the implementation of FRTB to ensure there is a level playing field. There is also a scale of size effect. After the great financial crisis, EU banks have been very quick to merge in order to obtain the size that allows them to operate on a much larger scale, but that consolidation and integration has not been seen within the EU. There are still a great deal of frictions in the single market to facilitate the type of size that is needed. Europe also lacks mechanisms like securitisation that could increase the size of the balance sheets and also provide instruments for banks to originate more dynamically.

The second big issue is the accumulation of needed rules, such as micro, macro, anti-money laundering (AML) and conduct. The financial regulation framework is being added to, with new authorities being introduced at both national level and EU level. Everybody is performing their role very well, but they have their own agendas, so cooperation may not be entirely well-organised between entities and organisations. Capital requirements, liquidity requirements, reporting requirements and inspections takes time and money for banks.

François-Louis Michaud advocated for pausing the rebuild, as Europe has acquired the strengths it needs as a whole and they have been positively tested. It is now a good time to check whether Europe has the design it wants for the entire financial regulation, whether it is executed on an ongoing basis in terms of the cooperation amongst all authorities and their mandates, and whether it is sufficiently coordinated.

The third question is whether the outcome is as expected in terms of the overall impact on the sector, such as the reporting burden and the time that is spent with a firm. Work is ongoing around what can be streamlined or rebalanced. In terms of the reporting burden, Europe has harmonised to a significant degree, which is a positive because it should simplify the work of the institutions, provided that national regimes are not kept in place and that Europe does not have supervisory authorities that keep adding to the burden on an ongoing basis. The correct balance needs to be found between what has been harmonised and what is still required. There might also need to be a focus on convergence, and how this harmonisation is working in practice within the EU.

The topic of calibration is difficult, as it focuses on the desirable level of capital requirements or burden in general for the system as a whole, taking into account all the dimensions that have previously been mentioned, such as micro, macro and AML. Europe does not currently have the right place for that, because nobody is really in charge of it. There is no real forum for discussing those issues, which have multiple dimensions; governments have an interest in it, but so do micro supervisors and macro authorities. It is not an easy institutional issue or architectural issue to solve, but it is one that is very much needed.

François-Louis Michaud concluded by stating that there are a significant number of commonalities. Everyone agrees on the situation, and that adjustments and improvements can be done, but it should also be clear that it is not a game of deregulation. The work needs to build on the strengths that have been acquired. It has taken a significant amount of effort for Europe to reach the point that it has, and that should not be traded for easy gains. The system needs to be made more efficient as a whole. The EBA is committed to that, and will be contributing to what DG FISMA will be proposing.

Ugo Bassi noted that it was a challenge to draw a conclusion on the diagnostic issues and potential solutions, due to the strong consensus that has been demonstrated

among the participants. There has been a clear agreement on the necessity for regulatory simplifications, but simplification efforts could invoke further legislative needs. There is a critical role of enhancing cross-border banking operations and developing proposals in important areas such as securitisation, banking union, and establishing a European Deposit Insurance Scheme (EDIS).

There is also the apparent complexity of achieving regulatory progress, particularly when systematic bureaucratic barriers overshadow the regulatory aspirations. There is an importance of sustained communication between the Commission and all stakeholders, both within the public and private sectors, as they navigate suggested reforms or enhancements to the banking framework. While discussions might appear straightforward, implementing effective changes requires considerable collaboration and a commitment to facilitating a more competitive and robust banking environment for Europe as a whole.

Jacek Jastrzębski expressed optimism about the trajectory of developments in financial markets, given the vibrant discussions that have been taking place. It reinforces the belief that it is an exciting time to be part of the financial community and to co-shape the evolving landscape of the financial market.

Banking Union: combining EU and national interests

Introduction

The Chair opened the session on the Banking Union and introduced the panel. The discussion focused on three main areas: the underlying reasons for, and the costs associated with, the absence of a completed Banking Union today; whether host country supervisors continue to prevent cross-border banking groups from managing their capital and treasury functions centrally; and the European Union's policy priorities required to complete the Banking Union. A number of highlights emerged from the discussion:

There is a broad consensus on the vital role of the banking union for Europe's financial future, its interdependence with the capital markets union (CMU) within the savings and investment union (SIU) and the need to overcome market fragmentation and regulatory inconsistencies to unlock its full benefits. National ring-fencing policies, which apply to capital, liquidity – and in particular output floor, leverage ratio and MREL liabilities –, need to be suppressed. In addition, the patchwork of national authorities' different views on macroprudential rules and conduct needs to be resolved.

To break the deadlock on the banking union, it is essential to address the concerns of host countries, which do not always see the benefits of abandoning ring-fencing practices. These countries, which are often dependent on the subsidiaries of cross-border groups for financing, fear that they would find it difficult to finance their activities in the event of a banking crisis. There is also a lack of confidence in European banking supervision and resolution mechanisms.

Trust cannot be mandated but regulation can foster the right conditions for it, with crisis management and deposit insurance (CMDI) and European Deposit Insurance Scheme (EDIS) playing key roles. A balanced approach, combining simplification and targeted legislation to address market fragmentation and strengthen confidence across member states, is required.

The introduction of a single European banking licence for banks operating in multiple markets, allowing them to operate under a harmonised set of rules, with the banking union becoming a single jurisdiction for these institutions, was proposed. At the same time, domestically focused institutions would benefit from a lighter, more tailored regime.

1. The costs of the non-banking union

1.1 The EU banking market remains significantly fragmented, with limited cross-border synergies

An industry representative argued that the European Union has fallen into a self-imposed trap of fragmentation.

As noted in a recent article in the Financial Times by Mario Draghi, internal barriers caused by excessive regulation and market fragmentation impose an effective 110% tariff on services, which is far more damaging than any external tariff, such as that imposed by the United States. This fragmentation stifles growth turns capital allocation into a bureaucratic maze and significantly increases compliance costs. The savings and investments union (SIU) aims to reduce these barriers, but the single market for banking services remains overly complex and bureaucratic. A capital markets union (CMU) cannot exist without an effective banking union. Current regulatory and supervisory inconsistencies, such as the Capital Requirements Regulation 3 (CRR3) output floor, the internal minimum requirements for own funds and eligible liabilities (MREL) and the fragmented macroprudential framework, continue to prevent banking groups from managing their liquidity and capital efficiently (centrally). National differences persist, resulting in a lack of a level playing field.

1.2 Without a truly integrated single market, Europe risks falling behind in key areas like energy, defence and digital transformation

An industry representative observed that fragmentation has led to a banking sector characterised by a large number of small institutions operating under high-cost, low-return business models. This structure prevents the emergence of European banking champions capable of competing on a global scale. However, there are promising proposals. The SIU strategy recommends an earlier report assessing the competitiveness of the European banking sector. It also suggests that the global context of regulatory frameworks, such as the United States' selective commitment to international standards, the United Kingdom's postponement of Basel III and Canada's suspension of the output floor, needs to be taken into account.

Centralised banking supervision has not helped to remove barriers. An integrated market cannot be built and promoted by supervision alone. Europe has created a huge and expensive framework around crisis management but there is very little engagement with it. CMDI and EDIS in their current form are bureaucratic solutions that do not remove the existing barriers. A single banking market is essential, not optional, if the European Union is to remain globally competitive and able to drive investment in critical sectors such as energy, defence and digital transformation.

1.3 The inefficient banking union leads to higher costs, lower growth and greater systemic risk, all of which weaken the global competitiveness of European banks

An industry representative listed the three main categories of costs associated with the incomplete banking union: higher operating costs, lower economic growth and increased systemic risk. Higher operating costs affect not

only banks, but also the individuals and businesses they serve. Regulatory and liquidity constraints that impede the flow of funding and deposits across regions reduce the volume of lending and ultimately suppress economic growth. Smaller and more isolated pools of capital limit the ability to effectively diversify risk, thereby increasing systemic risk. Together, these three factors undermine the competitiveness of European banks relative to their US counterparts. Breaking this cycle is essential if Europe is to improve its financial strength and global standing.

1.3.1 Regulatory fragmentation in Europe leads to high operational complexity and hinders banks' ability to offer similar services across the EU

An industry representative explained that their fintech firm is licensed in Lithuania and has chosen to establish branches in several European countries rather than subsidiaries. This approach was designed to overcome the discrimination of International Bank Account Numbers (IBANs). Initially, the firm tried to passport its services from one country to many others. However, it became clear that, in a fragmented regulatory environment, it was necessary to establish branches in each country. These branches are now subject to supervision by seven national regulators, in addition to oversight by the home regulator in Lithuania, the European Central Bank (ECB) and the Single Resolution Board (SRB).

While achieving 'significant institution' status has brought benefits (Revolut is now directly supervised by the SSM) such as coordination through the ECB's Joint Supervisory Team (JST), national interpretations of EU rules and specific practices continue to pose significant challenges. The multiplicity of legal and regulatory frameworks will only increase operational complexity as the firm grows, creating an environment that is not conducive to expansion. For example, it took the firm four years to launch personal loans in just nine European countries, despite its status as a fast-growing fintech. The scale of the differences between jurisdictions makes it extremely difficult to provide a consistent service across Europe. Granting greater authority to the Single Supervisory Mechanism (SSM) could be helpful. Fragmentation exists not only among supervisory bodies, but also within national legal frameworks. These inconsistencies continue to hinder progress.

1.3.2 The lack of a completed banking union, particularly the absence of EDIS, limits competition, cross border growth, and deposit mobilisation in the EU financial sector

The Chair noted that the European banking system suffers from a lack of scale and limited cross-border mergers. Over the past 15 to 20 years, cross-border banking activity has declined. There are frequent comparisons with the strength of the United States banking system and Europe must take decisive action if it wishes to compete effectively.

An industry representative stated that the absence of a completed banking union significantly limits competition in Europe's financial sector. The fragmented regulatory environment hampers banks' ability to operate across borders and scale effectively, which negatively impacts their customers and the wider economy. This regulatory fragmentation also limits banks' ability to raise deposits to support their operations. The lack of an EDIS prevents existing banks from attracting sufficient deposits to

implement their strategic plans and develop a more ambitious cross-border presence. Without urgent action, Europe will not be able to realise its full potential and the financial services sector will not be able to fulfil its role of supporting the economy.

1.4 The banking union is vital for EU competitiveness and must advance in tandem with the CMU

An industry representative stated that both the banking union and the SIU are urgently needed to enable growing banks and diverse financial institutions to operate across borders and benefit from the single market. The current tensions must be resolved to support economic development and the wellbeing of European citizens.

1.4.1 Completing the banking union as a key part of the broader SIU

A policy maker confirmed that the European Commission remains committed to making progress on the banking union. Banking union features prominently in the 19 March communication, which sets out a broader strategy for the SIU. The SIU is not simply a rebranding of the CMU but a comprehensive vision that encompasses both capital markets and the banking union, although this integrated approach has not been widely recognised and therefore should be emphasised.

In contrast to capital markets, significant progress has already been made in the area of banking. For example, the implementation of the SSM is an important milestone. Nevertheless, further efforts are needed to complete the banking union. The communication of 19 March outlines two main work streams. First, the negotiations on CMDI need to be finalised. Second, the EDIS needs to be reviewed. The benefits of a completed banking union would be considerable. The most important of these is financial stability, which is fundamental in the current context where competitiveness and growth are key priorities. A financial system cannot be considered competitive if it is not stable. Other benefits include greater economic integration, the development of innovative financial products and improved cross border capital flows.

1.4.2 The SIU offers a key opportunity to foster fintech growth, capital market development and financial inclusion in Europe

An industry representative suggested that the SIU represents a valuable opportunity to strengthen capital markets and create a more favourable environment for new fintech firms. The speaker's firm has already grown to serve 50 million customers, despite being less than ten years old. A more integrated financial landscape would allow for the emergence of other European champions of similar scale. While fintech is often associated with technology and services, it is also important to enable progress in the regulated segments of the market, especially for firms that provide services to consumers and businesses. Fintech companies have the potential to develop into listed companies and contribute to the growth of capital markets.

Over the past 18 months, the speaker's firm has introduced low-risk investment products to consumers in 18 European countries, with 2 million individuals participating. Although the total amount invested remains modest, this development

reflects a shift in accessibility for European consumers who previously lacked such opportunities. The willingness of citizens to invest demonstrates the need for the SIU to create a framework that encourages the development of similar offerings. The Commission's recent proposals should therefore be pursued as a matter of urgency. CMDI and EDIS will be essential components of this effort.

1.4.3 Banking union and SIU must move forward together

An official remarked that the banking union is particularly important in the broader context of enhancing the competitiveness of the European Union and improving the efficiency and effectiveness of its financial system. It is not possible to complete the banking union without the development of strong capital markets. This is particularly true for the host countries in central and eastern Europe, which are heavily dependent on bank financing. Conversely, a CMU cannot be achieved without significant progress on the banking union. Banks have well-established distribution channels and are often the first point of contact for consumers. They also act as market makers in regulated markets and as key providers of liquidity.

The Commission's recent recognition of the link between the CMU and the banking union is therefore welcome. Building the SIU on the three pillars of CMU, banking union and retail participation is the right approach. However, it is worrying that the recent report on competitiveness did not pay sufficient attention to the banking union. This omission suggests that the Commission may be trying to decouple the banking union from broader efforts to improve competitiveness. Such an approach would be unwise, as the banking union is a prerequisite for a competitive banking sector.

2. Addressing host countries' concerns

2.1 The widespread lack of trust in Europe's banking system and institutions hinders cross border integration and effective use of crisis mechanisms

An industry representative noted that the central problem facing Europe is a pervasive lack of trust in the EU institutions, including the SSM and Single Resolution Board (SRB), and the banking sector itself. This hinders cross-border integration and creates further barriers between Member States. Building trust among host countries is particularly challenging because it involves public institutions. The speaker cited their bank's experience in Greece during the sovereign debt crisis over a decade ago. The group provided significant financial support to its Greek subsidiary, which was eventually sold to another Greek bank. This example shows that banks can act responsibly and honour their commitments, which should help to build confidence.

2.2 Countries rely heavily on transnational banking groups and further discussion on how to ensure stable financing in times of crisis is needed

An official stated that they were looking forward to the 2026 report and confirmed that plans are underway to

introduce appropriate safety nets, including EDIS. Several member states in central and eastern Europe are entirely dependent on the capital strength and crisis absorbing capacity of well-capitalised banking groups, particularly in times of economic disruption such as the pandemic. Further discussion of these dependencies is needed to ensure that the economies of these member states will be appropriately financed in all circumstances.

2.3 Trust can be built among host countries by clearly communicating the benefits of the banking union, addressing concerns over financial stability and the financing of their economies and advancing work on all key components, including EDIS and resolution liquidity.

An official acknowledged that there are conflicting interests in this area. What financial institutions or industry may see as an obstacle or a hindrance, is often perceived by host Member States as a safeguard or anchor of financial stability and often the only viable source of financing for their national economies. So far, EU authorities and financial institutions have not clearly communicated the potential benefits of the banking union for host countries. These countries are mainly concerned about whether a completed banking union would improve their access to credit or lower the cost of financing. There are also concerns about so-called home bias and the possibility of ring-fencing, even at a consolidated level, in what is currently a highly politicised environment.

The banking union project and the broader SIU concept should be welcomed. Notable achievements so far include the SSM, the SRB and the resilience of the banking sector during the COVID-19 crisis. However, building confidence will take time and continued efforts. Diversifying the sources of financing for the economy is essential to enhance the shock-absorbing capacity of the financial system. Work must continue across the four established banking union workstreams. A holistic approach is needed. In particular, EDIS provides a necessary safety net. Technical discussions should start immediately on resolution-related liquidity issues, which remain unresolved and are likely to be confirmed by the SRB or the SSM. A stronger focus on the banking union in future Commission communications would be highly desirable.

The Chair observed that some member states remain concerned that, in the event of a crisis, their national economies could be placed at serious risk.

An official confirmed that trust remains the central challenge. Building confidence among member states will take time. Improvements in governance could contribute meaningfully to this effort. However, progress has been limited due to the relatively low number of bank resolution cases. Each case contributes to the learning process and enables the system to evolve. For example, the most recent resolution case revealed several areas in which the SRB's governance framework could be enhanced.

2.4 Trust cannot be mandated but regulation can foster the right conditions for it

A policy maker commented that, although trust cannot be legislated into existence, regulation can create the conditions in which trust can be built. CMDI and EDIS are

essential tools in the effort to build that trust. The primary objective must be to reassure host member states that banks will no longer be 'European in life and national in death'. Liquidity in resolution scenarios is another crucial component, and this area is ready for further assessment. Confidence continues to be undermined by market fragmentation, the patchwork of national rules and divergent application of EU rules across member states.

The report on the banking sector, originally scheduled for 2028 but now expected in 2026, will take a global perspective. Several policy ideas will be considered, including intra-group support arrangements, which are particularly relevant to this discussion. While proposals such as unrestricted free movement of capital or liquidity are unlikely to inspire confidence at this stage, a balanced approach is needed. There is considerable support for a regulatory pause and simplification. In some cases, however, legislation is needed to simplify the system. Without concrete action, existing problems will persist.

3. EU policy priorities

3.1 The banking sector must move beyond incremental change and follow other industries in creating a truly pan-European market through stronger EU-level integration and regulation

An industry representative explained that the usual approach has been to maintain the status quo, with a high degree of involvement, oversight and control by the host country's domestic authorities, and then try to make incremental improvements. However, this approach is no longer sufficient. Examples from other sectors could be instructive for the banking sector. In the pharmaceutical industry, the European Medicines Agency approves new products at EU level before they are marketed across borders. In addition, the European Health Data Space facilitates the secure exchange of health data across borders, fostering innovation and enhanced patient care. In the telecommunications sector, a major regulatory effort at European level led to the abolition of roaming charges, creating a single market. Several telecoms operators now operate on a truly pan-European basis. In the automotive sector, vehicle type-approval is also carried out at a single European level. Although banking is often seen as an exception because of its impact on national sovereignty, similar arguments could be made for healthcare and transport. These examples show that a truly pan-European market is possible. The banking sector should emulate these models rather than sticking to a strategy of incremental change.

3.2 Building a unified regulatory and supervisory framework

3.2.1 Thinking at consolidated level to overcome obstacles to cross-border activity

An industry representative emphasised the need for a consolidated regulatory and supervisory approach to remove existing barriers to cross-border activity. Ring-fencing creates inefficiencies and limits the ability of banks to contribute to economic stability and growth. The

banking union must be recognised as a single regulatory and supervisory area to improve intra-group capital and liquidity flows, encourage cross-border investment and promote the creation of EU champions. Resolution rules must be fit for purpose and not distort competition or undermine the level playing field. Currently, the CMDI is a bureaucratic mechanism that does not sufficiently address the economic challenges posed by market fragmentation. Indeed, the CMDI keeps resolution processes at the national level and fails to break the link between banks and national taxpayers. A constructive solution would be the removal of internal MREL requirements, which would signal a tangible step towards the integration of a single banking market.

Enrico Letta recently warned that Europe risks becoming a 'financial colony' of the US. The EU has opened its single market to third-country institutions, while at the same time erecting internal barriers that hinder the development of home-grown financial champions. This contradiction needs to be resolved. The EU's integration process has often been driven by necessity in times of crisis, including now. A pragmatic mindset, combined with a long-term political vision, is essential to achieve meaningful progress. Mario Draghi recently noted the need for defragmentation and investment, which are two closely related priorities. Addressing both will be essential to prevent Europe from entering a prolonged period of stagnation characterised by low growth and declining productivity. European growth could be revived through strategic investment. Concrete, actionable proposals must be put forward to overcome the prevailing inertia and revive Europe's financial dynamism.

3.2.2 Fully harmonised rules and breaking the link between national deposit guarantees and sovereign taxpayers to overcome persistent national barriers.

A supervisor confirmed that significant progress had indeed been made, especially compared to the situation in 2008. However, the co-legislators' decision to combine European Union rules with national rules has caused increased complexity and some inconsistencies in day-to-day supervision. Ideally, fully harmonised rules would provide a better framework for the supervision.

EDIS and CMDI are not just bureaucratic constructions; without them, a fully-fledged banking union will remain elusive. As long as the current link between deposit guarantees and sovereign taxpayers is maintained, national authorities will continue to implement safeguards such as ring-fencing to protect their own taxpayers. This link must be broken to complete the banking union. The current 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. EDIS, however, would significantly mitigate host countries' concerns around deposit protection and make it possible to move financial resources more freely.

Fundamental change is needed, as well as recognition that the current barriers are not just bureaucratic. It is essential that all EU member states develop confidence in a fully functioning banking union. National barriers, whether related to capital constraints, liquidity or the lingering perception from the 2008 crisis that national taxpayers will ultimately bear the cost, must be dismantled

3.2.3 Regulatory changes and action by banks can foster integration in an incomplete banking union

A supervisor acknowledged that the ECB and the SSM supervisory teams are well aware of the undesirable fragmentation along national lines. A key EU policy priority should be to strengthen the legal and practical frameworks that facilitate cross-border activity and allow greater capital and liquidity mobility across member states. This would enhance the efficiency of the EU economy as a whole.

A wide range of views are represented on the SSM board, including representatives of 21 national authorities, six ECB representatives, a chair and a vice-chair. The common focus is on building a European supervisory community. While national idiosyncrasies and reactions are inevitable due to the different banking landscapes in each country, they must not be allowed to impede collective progress. Moving forward as a single European Union is the only viable solution.

Supervision should aim to protect depositors by ensuring a stable funding environment, which will support economic growth, but banks should also take proactive steps. Banks are part of the real economy and should be treated as such. Cross-border mergers and acquisitions are not a panacea. Retail banking and retail services are only part of the picture. In corporate and investment banking (CIB), banks must be able to operate efficiently across borders, invest in modernising their IT platforms and build integrated and tailored platforms to serve a pan-European clientele. These platforms must serve individuals, SMEs and large corporates alike. 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.

3.3 A single European banking licence and unified supervision to enable the emergence of pan European banks capable of competing on a global scale and a more tailored regime for smaller, domestically focused institutions

3.3.1 A single licence for institutions operating across multiple markets

An industry representative proposed the introduction of a single European banking licence. Under such a regime, any bank operating or wishing to operate on a pan-European basis would be regulated and supervised exclusively at European level. Such an arrangement would allow them to provide services without being hampered by different national regulations or supervision. All European banks would operate under a single deposit guarantee scheme, freeing them from contributions to national schemes where they exist. Liquidity would be increasingly managed at the EU level, with a weaker link to national sovereigns. In addition, consumer protection for bank customers and insolvency laws would be more closely aligned, boosting confidence in a truly single market. Instead of leading to more regulation overall, regulation would reduce. Given the importance and interconnectedness of finance, the EU could use the banking sector to create a blueprint for ensuring the appropriateness, effectiveness

and efficiency of all European regulations. Increased sovereign debt issuance at the EU level would help weaken the so-called sovereign-bank nexus.

At present, cross border mergers and acquisitions are often blocked by national interests that favour domestic champions over European-scale institutions. These transactions need to be facilitated if Europe is to address the stark contrast in scale with US banks, especially in wholesale banking and capital markets, which are crucial to the financing of the European economy. A strong alignment with the CMU and a renewed focus on securitisation will also be crucial. The difference in size between the European and US markets remains significant.

The prevailing narrative in both the public and private sectors continues to be shaped by the 2008 financial crisis. There is a perception that banks are inherently risky and need to be tightly regulated. This narrative needs to evolve. Banks should be recognised as indispensable actors in achieving Europe's strategic goals.

3.3.2 A lighter, more tailored regime for smaller, domestically focused institutions

An official suggested that, as the EU is entering a new political and institutional cycle, future discussions should differ from past debates by focusing on proportionality. The single market currently applies similar conditions to small, domestically focused banks and internationally active, cross-border banks. Any future proposals to complete the banking union should target significant institutions and apply Basel III-style standards, while ensuring that these banks can fully benefit from the single market, including the free movement of capital and liquidity. For smaller and mid-sized locally operating banks, a lighter regime could be introduced, taking into account national specificities. In this way the principle of proportionality could be applied in both directions. The system must remain open and support market access and regulation cannot favour one group over the other.

The Chair closed the session by emphasising that immediate action is required to safeguard Europe's future prosperity and economic dynamism. Attracting international investors and embracing fresh thinking will also be of vital importance. Europe is at a critical juncture and bold, practical solutions must be pursued. Historical experience has demonstrated that, with the right investment, a compelling economic case and appropriate safeguards, meaningful progress can be achieved.

EU bank crisis management framework

The Chair opened the debate and mentioned that the Draghi and Letta reports have put in focus, and in context, a series of problems – some known and some less well known – that, collectively, are holding Europe back. Regulators in each sector have been intensively working on trying to address the issues identified in those reports.

The key answer in many sectors so far has been simplification. The European Commission has been quick in drawing up lists of regulations that could be simplified or even eliminated altogether. Simpler rules are good for everybody and, certainly, can drive growth.

A single European banking regulation is a great achievement. One rulebook instead of 27 and one authority instead of 21 makes the rules of the game simpler. In the last 10 years, the push towards more Europe has delivered – a simpler and yet more effective framework. Lowering our European standards does not seem to be the best way to go.

Creating a true Single Market carries massive growth potential. In our sector, this means delivering the Savings and Investment Union, the Capital Markets Union, the Banking Union. The Chair concluded by saying that, converging and harmonising our rules, aiming to a true Single Market, we can achieve great competitiveness without compromising anything on financial stability – an increasingly valuable asset in such volatile times.

The first round of contributions from industry representatives, policymakers and regulators focused on simplification, a concept that is gaining traction across the EU. Some argue that there is an irreconcilable tension between simplification and competitiveness. While in some cases simplification might improve competitiveness, in other cases it might undermine resilience. It could also be argued that simplification is synonymous with deregulation.

The discussion suggests that, to achieve a genuine banking union with a robust EU framework for bank crisis management, there are several priorities: ratifying the treaty enabling the European Stability Mechanism (ESM) to provide a backstop to the Single Resolution Fund (SRF); establishing legally binding intra-group support mechanisms allowing parent banks to support their subsidiaries in difficult according to clear trigger criteria, allaying the concerns of host country authorities; developing a credible resolution liquidity mechanism; and establishing a European deposit guarantee scheme, accompanied by an EU agreement on genuine freedom of capital and liquidity within cross-border banking groups.

1. Better EU bank crisis management is key to strengthening financial stability and integration

Panel participants are in broad agreement on the issues of ringfencing, flexibility, simplification and crisis management. It is vital that citizens, as the customers of banks, be considered and their confidence in the European crisis management framework strengthened.

1.1 Simplification alone cannot revive the EU economy without structural reforms and simplicity must not compromise regulatory effectiveness

A public representative suggested that simplification is becoming a dominant topic of debate. The question is whether the simplification of regulation and other elements of the banking system can boost productivity and competitiveness, in order to revitalise the EU economy. It is possible that it might only be a complementary measure alongside other, more decisive drivers. It would be a mistake to consider simplification alone sufficient to improve the EU's economic position without fundamental structural change.

There is an inherent trade-off in regulation between simplicity, on the one hand, and effectiveness and precision on the other. Opting for a simple, one-size-fits-all rule in every context may ultimately undermine overall effectiveness and productivity. EU policymakers and regulators should keep this in mind. The current focus on proportionality also risks the creation of unintended consequences. It is possible that regulation will become a distillation of the views of competing interest groups, blurring the distinction between necessary complexity and concessions made to stakeholders, the result of which is an overly complicated legislative process.

Stakeholders must carefully consider the legitimacy of the objectives pursued and assess the costs and benefits involved. In the financial sector, the cost of poor regulation, inadequate risk management and weak enforcement is particularly evident in light of past crises.

An industry representative argued that greater market integration is essential if the scale and productivity of and confidence in the EU economy is to increase, financing ongoing environmental, technological and geopolitical transitions. Confidence could be boosted by harmonising the CMDI regulation, which is currently too specific. Stakeholders must take a holistic view of the European system.

1.2 Strengthening the single market, not ringfencing, is key to boosting EU growth, improving banking efficiency

A public representative emphasised the need to recognise that the global context has changed. Most now understand that cooperation, collaboration and joint action are the most productive way forward for the EU. The most productive response to Europe's sluggish growth and the competitive challenge posed by the US is

to improve the single market. A recent study by the International Monetary Fund (IMF), and the ongoing difficulties in completing the banking union, demonstrate the significant remaining obstacles. Ringfencing perpetuates inefficiency, slows growth and reduces customer service quality.

Simplification alone will not revitalise the EU economy or foster a new spirit of productivity. The single market offers greater opportunities in this regard and the banking union should be at the top of the agenda. The current fragmented approach is both costly and frustrating. With a common approach, firms operating across the single market could benefit from economies of scale and play by transparent, comprehensible rules.

1.3 European resolution rules must be simplified to enhance competitiveness and allow banks to focus on their core role of supporting economic growth

An official observed that, in the US, only banks with more than \$100 billion in assets are subject to full resolution planning. In Europe, a much wider range of financial institutions are subject to full resolution planning. Any substantive debate on EU competitiveness and simplification must take this interesting account. Poland has practical experience of resolution processes from which the EU could benefit, having conducted four resolution processes involving larger and smaller banks.

The primary role of banks is to carry out banking activities, rather than to be preoccupied with resolution planning and extensive reporting requirements. Given Europe's slow growth, it is increasingly important that banks focus on their core functions. European banks serve as the bloodstream of the economy by providing credit and regulators must recognise this role.

1.4 Ringfencing and internal barriers weaken Europe's financial sector and must be reduced to stay globally competitive

An industry representative highlighted the inextricable link between competitiveness and ringfencing. In order to meet the current geopolitical and economic challenges, Europe must forge a new dynamic by strengthening ties with international patterns and tackling internal rigidities. Ringfencing remains the main obstacle to the development of a stronger European financial sector and the emergence of European financial champions capable of competing on a global scale.

The CMDI must be considered through the lens of competitiveness. As noted in the Draghi report, internal barriers within the EU can be higher than the tariffs recently imposed by the US. In the words of Enrico Letta, if Europe does not act to remove or diminish these barriers, fostering greater integration, the EU risks becoming a colony of American finance, dominated by highly competitive US players.

1.5 Reaching a practical and trust-based compromise on CMDI is essential to strengthen the single market and avoid a renationalisation of the crisis framework

A public representative stressed both the practical and symbolic importance of reaching a compromise. Ringfencing and the failures of the single market cannot

be overcome without improved legislation. The CMDI is a positive development that would protect the economy and incentivise solutions for medium-sized banks. However, it is a complicated and technical exercise. Some stakeholders do not understand its necessity, likely because they do not foresee another relevant crisis taking place in the future.

The CMDI negotiations involve various interest groups with different priorities. In the European Council discussions in particular, there was a sense of action and reaction, with groups agreeing to make concessions in return for acceptance of part of their own agenda. The result was a compromise that is not workable. Nevertheless, there is hope for the continuing negotiations. A symbolic agreement would demonstrate that European actors trust one another and can reach meaningful, workable political compromise. If this proves impossible, there will be questions about the feasibility of the more fundamental, structural change required.

The aim of the CMDI, opening up the European system to the benefit of medium-sized banks, must be kept at the forefront of the ongoing discussion. Any solution devised should be practical and feasible within the timeline of the resolution weekend. Participants should be careful not to renationalise the crisis framework. The Polish presidency is working well on this basis. The key to the entire exercise is trust. On the CMDI and beyond, European actors must work together for success or face failure alone.

2. Priorities for stronger EU bank crisis management

2.1 Resolution must be simple, flexible and effective

An official noted that, more generally, regulation must be kept as simple as possible. Over time, layers of complexity have been added to the CMDI negotiations. The Bank Guarantee Fund, as the resolution authority, devotes significant effort to planning and testing, but the time available to take action is usually limited to only a weekend. The Polish experience demonstrates that decisions taken under pressure are subsequently subject to lengthy judicial review. Unnecessary complexity makes this process that much more challenging.

Regulation must be coherent to the general public. This is aided by simplification. Citizens must understand why and in whose name resolution measures are taken. Such measures are ultimately aimed at protecting taxpayers and depositors. Flexibility is also key. The 8% total liabilities and own funds (TLOF) rule is an arbitrary benchmark around which compromise efforts seem unproductive. The resolution of Poland's systemically important Getin Noble Bank, for example, required the intervention of eight private sector banks as a result of this rule. The TLOF rule must be revisited.

There is too much focus within CMDI negotiations on finding common ground on process. Stakeholders should centre themselves on the objectives to be achieved if appropriate and effective compromise is to be reached. It would be helpful to this end to consider the example of

other jurisdictions, such as the US, or to delineate a threshold, with one set of rules applying to banks with the largest market share and another, more simplified set to medium-sized banks. The current one-size-fits-all approach is not productive.

2.2 Making sure that minimum requirements for own funds and eligible liabilities (MREL) remain the first line of defence in resolution and clearly limiting the use of the Deposit Guarantee Scheme to avoid unfair costs for banks and customers

2.2.1 Making sure that MREL remains the first line of defence in resolution

An industry representative stated that internal market barriers, such as the internal MREL, should be reduced. In a true banking union, such restrictions would not exist. Proportionate MREL policies could enhance the competitiveness of European banking groups. Maintaining and strengthening confidence in the framework nevertheless depends on preserving some level of MREL as a line of defence. The industry is in favour of this. Any reduction beyond a sensible limit would create a moral hazard and weaken consumer confidence in the financial system.

Additionally, if the EU maintains the current output floor, the level of MREL and capital required for resolution will increase, putting EU banks at a disadvantage in a global market context. Meanwhile, the 8% TLOF rule likely will not have changed. There is an inconsistency here that must be addressed, while prioritising simplification and flexibility. This sentiment is reflected in the European Association of Cooperative Banks (EACB) 'Less is More' report. Despite this, regulatory complexity continues to increase, most notably in capital requirements regulation 3 (CRR 3), which has doubled in volume compared to its predecessor. There also remains duplication between the CMDI proposals and existing (MiFID II) rules, particularly in relation to the sale of MREL-eligible instruments to real estate clients.

2.2.2 Limiting the use of the Deposit Guarantee Scheme to avoid unfair costs for banks and customers

An industry representative recommended that use of the Deposit Guarantee Scheme (DGS) for small and medium-sized banks going into resolution be clearly framed and restricted in line with the scheme's goal of protecting covered depositors, rather than absorbing losses. Limiting access to the DGS or SRF is a method of limiting contribution post-resolution of other banking participants, for which customers would eventually be invoiced.

The European Council's CMDI proposal, and particularly the introduction of a four-tier creditor hierarchy and complex maturity criteria, would be operationally challenging to implement. Recent Single Resolution Board (SRB) consultations on testing and valuation demonstrate the significant investment required on the part of the industry. Going forward, a more integrated, EU-wide approach to resolution would be beneficial, in a move away from the current fragmentation of national authorities attempting to deal with their own banking situations. Any new guidance must carefully balance costs and benefits to avoid undermining the broader objective of simplification.

2.3 Reaching an agreement on establishing a European deposit insurance and liquidity in resolution mechanisms

2.3.1 True integration and simplification in crisis management are hindered by the lack of a common safety net, making ringfencing costly

A regulator characterised simplification as the dominant theme of the debate. The concept must be examined in the context of crisis management, as simplification has important implications for financial stability. Within the current framework, there are clear interdependencies between flexibility and ringfencing. While there is some limited scope to enhance flexibility, for example through refining the macroprudential framework or introducing enforceable intra-group support arrangements, such measures are not transformational in nature.

The incomplete nature of the EU's crisis management framework means that ringfencing remains embedded in the architecture of the banking union. Without a comprehensive safety net, including a common deposit insurance scheme, national authorities will continue to be reluctant to dismantle existing barriers. While stakeholders understand the collective benefits of integration, they have not yet found a mutually beneficial way to achieve it. It is true that integration brings benefits in times of stability, but can increase contagion risks in time of crisis if the appropriate safeguards are not implemented.

Ringfencing has significant costs and inhibits banks' ability to diversify and scale up, widening the EU's competitiveness gap with the US. US banks, in contrast, benefit from a strong crisis management framework underpinned by robust backstop arrangements. While simplification might help eliminate redundancies and reduce the administrative burden, financial stability must be kept in mind. There is insufficient urgency amongst stakeholders in terms implementation of the fundamental reforms required to complete the crisis management framework. The urgency is instead directed solely at the need for simplification.

Financial stability risks are clearly increasing. Europe cannot wait for the next financial crisis to expose systemic vulnerabilities. Deregulation could lead to the repetition of past mistakes. Open dialogue, such as that fostered by Eurofi events, remains crucial to determining a cooperative way forward.

2.3.2 Overcoming ringfencing and completing the banking union, including a European deposit guarantee scheme, are essential to enable true pan-European banking and effective crisis management

An official reiterated that ringfencing remains a critical obstacle to effective management of pan-European and international banking groups. It limits banks' flexibility to move resources within groups and discourages pan-Europeanisation of the banking sector. National authorities have clear responsibilities for safeguarding financial stability within their jurisdictions. Domestic industry and taxpayers often bear the cost of financial instability, creating an inherent tension between objectives and responsibilities at a national and European level.

The Financial Stability Board (FSB) aims to establish international standards that foster understanding between home and host authorities. Through initiatives such as the total loss-absorbing capacity (TLAC) standard, crisis management groups have been established to facilitate cooperation. Despite this progress, there remains a need to pre-position internal resources within subsidiaries to ensure orderly resolution. To tackle ring-fencing effectively, Europe needs to deepen its banking union and provide the right incentives for the pan-Europeanisation of banking activities, removing existing barriers to facilitate the mobilisation of resources within groups.

Opinions differ on how to achieve this. Some advocate for a quasi-compulsory intra-group arrangement, while others are sceptical about their stability and effectiveness. Legal obstacles and the natural reluctance of national authorities complicate matters. Domestic authorities, financial systems and taxpayers must not bear disproportionate risk in the event of institutional failure. The establishment of a European deposit guarantee scheme is vital in this context. Centralising crisis management would help remove ringfencing incentives but would also require accompanying appropriate tools and mutualised funding, with the SRB responsible for a larger and more diverse range of banks.

2.3.3 Securing a reliable liquidity in resolution mechanisms is urgent to strengthen confidence, manage funding in resolution during crises

A regulator shared the view of the ESM, in that strengthening and securing resolution funding arrangements is essential to enhancing an overall feeling of confidence. It is concerning that the amendment ESM treaty is yet to be ratified, leaving the system without a relatively straightforward element of the solution. Without a reliable resolution mechanism, tensions between home and host will persist, complicating cross-border crisis resolution. It is also imperative to put in place credible mechanisms to address the liquidity needs of the resolution process. EU financial stability risks continue to grow and a solution is urgent.

Reliable resolution mechanisms can also serve to reassure host countries. Building trust requires legally binding intra-group support mechanisms, through which parent banks can support distressed subsidiaries under clear supervisory triggers. In the current geopolitical environment, sudden market disruption can increase systemic risk. A national response is insufficient. A common, European approach is required to ensure that crisis response is credible, effective and proportionate.

2.4 Rethinking the balance between internal and external funding by exploring more flexible models, like the UK's approach, could strengthen the system without undermining resolution

An official concluded that, in resolution scenarios, creditors essentially absorb losses and contribute to the recapitalisation of an institution. However, there are other, external sources that could also be used to fund resolution strategies, including industry-contributed funds. Access to such external sources of funding is limited under the banking union. The minimum bail-in requirements for access to the SRF are particularly stringent and shareholders creditors might absorb losses equivalent to the 8% TLOF rule before an institution can receive SRF support. Moreover, strict least-cost constraints make deposit insurance funds rarely accessible to support resolution challenging to access. Other jurisdictions do not face these obstacles.

Stakeholders should explore the possibility of a different balance between internal and external resources to fund resolution. While the current European approach is a legitimate political compromise, there may be other, more effective solutions. For example, the UK is in the process of developing a solution allowing the resolution authority to levy funds from the banking industry in support of sale-of-business transactions. EU actors should carefully consider such cases going forward. It would not be prudent to change MREL requirements in line with TLAC without acting to change the system at a more fundamental level.

Diversity in the EU banking system

The panel explored possible improvements to the EU's financial regulatory framework regarding different banking models, in particular mutual, cooperative and deposit-taking banks, as well as new market entrants. This was followed by a discussion of the supervisory framework in both the Single Supervisory Mechanism (SSM) and non-SSM contexts, including how supervisors across Europe can more effectively recognise the diversity of business models.

The discussion showed that a diversified banking system strengthens the resilience, inclusiveness and financing of economies. To preserve this diversity, proportionate regulation, supervision and impact assessments are needed to ensure fairness without overburdening smaller institutions.

According to policymakers, over-simplification of rules based on bank size could jeopardise financial stability and depositor confidence. Industry leaders indicated that one size does not fit all, and there should be simpler, but no less prudent, rules for smaller institutions. They also called for a regulatory pause to reassess the complexity of EU banking rules, and for a test to ensure that any new legislative proposal enhances European competitiveness and sovereignty.

1. A diverse banking system for greater resilience, inclusion, and economic financing

1.1 The need for EU regulation and supervision to support banking diversity

The Chair observed that recent sessions had reached a consensus on the importance of maintaining banking diversity to meet the varied needs of stakeholders across Europe. Banks throughout the EU must offer tailored services to individuals, small and medium-sized enterprises (SMEs), large corporations, and start-ups - serving both technologically adept younger clients and those less familiar with digital tools. Achieving such inclusivity depends on the availability of diverse business models.

1.2 Resilience through diversity in financial systems: the BPCE example

An industry representative suggested that there was broad agreement among stakeholders about the benefits of diversity in financial systems, noting that diversity increases resilience. Uniformity creates systemic vulnerability, as it can lead to collective failure. Co-operative banks were born out of the need for individuals to access financial services previously denied to them. These banks were designed to enable people to save and borrow, and over time they developed into large networks like BPCE. Co-operative banks now

represent around 65% of the French banking market and are consolidated into three major groups. Their growth has been driven by grassroots demand, creating networks with thousands of branches.

Large branch networks based on genuine proximity to territories are often criticised for inefficiency, but customers continue to value them. French co-operative banks predominantly offer fixed-rate mortgages, which is unusual in other countries. The banks take on the interest rate risk themselves, funding themselves through non-fixed rate deposits and capital markets. This model demonstrates a form of diversity as it is different from practices in other jurisdictions, but it is no less stable. Co-operative banks are well capitalised and have historically shown resilience in times of crisis. Applying uniform benchmarks to institutions with fundamentally different models risks misinterpreting diversity as an aberration rather than a strength. The real challenge is to recognise and appreciate the value of specific approaches.

The Chair asked whether the approach of the single supervisor unintentionally disadvantages such banking models by comparing them to inappropriate peers. An industry representative responded that supervisory outcomes are closely linked to how the single supervisor conducts its assessments.

1.3 Desjardins in Canada: success through adaptive regulation and cooperative European inspiration

An industry representative explained that Canada is trying to learn from what is happening in Europe, although it also feels pressure from America and has to find a balance there. The Canadian financial landscape consists of five or six major international banks, approximately 100 smaller co-operatives and credit unions, fintech companies, and Desjardins, which is a significant co-operative financial group with about CAD 470 billion in assets and 54,000 employees. Desjardins operates mainly under provincial regulation in Quebec, with its insurance activities under federal oversight and wealth management supervised at both levels.

Any regulatory approach should prioritise consumer protection and systemic stability. Founded 125 years ago to serve French-Canadian communities underserved by Anglophone banks, and inspired by the BPCE and Raiffeisen models, Desjardins benefits from a collaborative relationship with its provincial regulator. The Autorité des marchés financiers (AMF) looks at everything in Europe and around the world. Desjardins wants to be regulated by the best standards while building a strong relationship with its regulator.

There are four key aspects of this success. First is the provincial regulator's significant influence on federal regulators, which involves open debate. Second is adaptability such that the regulator is able to accommodate and adapt to Desjardins' unique role, particularly in providing services to remote regions

where other banks have no presence. The regulator balances stabilising Desjardins in the ecosystem while accepting the need for Desjardins to ensure that are financial services in certain regions of Quebec and elsewhere in Canada. Third is consistent communication through regular, monthly meetings that. Fourth is ongoing efforts towards harmonisation between federal and provincial regulations, which the regulators are working on extensively. There is both a strong relationship with the regulators, but they nonetheless regulate Desjardins like any other systemic co-operative, and that is what Desjardins wants because it wants to be compared with the best of them.

1.4 The custodian model: emphasising asset servicing and its stabilising role in finance

An industry representative highlighted that much of their firm's business is focused on asset servicing, which is the custody and administration of institutional clients' assets. The firm connects banks by looking at their administrative processes, primarily in securities servicing. The firm's P&L is therefore less dependent on products that generate interest income. Instead, the model relies heavily on commissions on assets under management and involves handling extremely high volumes due to low margins on custody and administration fees. As a result, the firm is designated a global-systemically important bank because it moves large volumes and sits on many assets.

Custody banks play a stabilising role within the industry and protect investors. Aspects such as lending or deposit-taking are different for custody banks. Lending, for example, is mostly intraday, overnight, to provide clients with a line of credit to facilitate their processes. The stabilising effect of this model is essential for the industry. There should be sufficient flexibility within the regulatory framework to take account of the specific characteristics of custody banks. The current capital framework is an example of where there custody bank specificities ought to be better reflected. In particular, capital rules that treat lending to regulated investment funds, including EU UCITS, as exposures to unrated corporates. This 'one-size-fits-all' approach unfairly restricts custody banks' ability to provide lines of credit to EU UCITS and other regulated entities, often required to accommodate day-to-day operational needs.

2. How regulation and supervision need to evolve to preserve diversity

2.1 Canada's principles-based regulation: ensuring consistency through dialogue and coordination

An industry representative commented that the strongly principles-based regulatory approach in Canada can in effect become rules-based at the implementation level. To address this, there are quarterly discussions with senior regulators to ensure alignment and to escalate concerns about the translation of principles into rules. These meetings have allowed for verification that both sides are speaking the same language, leading to cooperation and even simplification.

Proportionality is not just about a common language. It is also about harmonisation across different regulators, which requires a significant investment of time and effort. In 2019 the International Monetary Fund (IMF) presented a report that advocated increased federal-provincial co-operation in Canada. If banks and co-operatives do not understand, then that generates another risk in the country, because some will not apply the rules. The IMF's involvement therefore provided external pressure for greater accuracy and collaboration, thereby mitigating the risks arising from misunderstanding or non-application of regulations.

2.2 Proportional regulation and impact assessments to support fairness for small institutions

2.2.1 SSM's commitment to more effective and proportional supervision

A Central Bank official stressed that equivalent activities with similar risks should be subject to the same rules. However, proportionality can be achieved through both regulation and supervision. The SSM already applies a proportionate approach, using risk profiles to determine the scope and frequency of assessments. Sustainability assessments are conducted annually, while other areas may follow multi-year cycles.

Proportionality also applies to reporting requirements, so that smaller or less well-known banks are not overburdened with complex obligations. Governance is particularly challenging for small banks, where board responsibilities may be unclear or less rigorously applied. While governance standards must be maintained, expectations of board structures should differ according to the size of the institution.

In some cases, smaller institutions may not be able to afford dedicated staff for functions such as anti-money laundering (AML). Compliance responsibilities should be distributed across mixed teams to ensure effectiveness. Recovery plans for smaller banks could be assessed less frequently, provided they follow consistent principles for similar activities and risk levels.

A supervisor noted that there is considerable diversity in the European banking system and the intention is not to stifle this or to create a single bank under a single supervision. Supervisory efforts include benchmarking for all institutions. The SSM itself is benchmarked against other supervisors, such as the Office of the Superintendent of Financial Institutions (OSFI), to identify areas for improvement.

Proportionality is already embedded in the current framework, which distinguishes between less significant institutions (LSIs) and significant institutions (SIs). The allocation of resources also varies at the national level. Even among LSIs, the level of market activity and complexity varies.

During the 2008 financial crisis, business model type was no guarantee of immunity from impact, and banks across all sectors were affected, including banks from the co-operative sector, whatever nation they were from. There have been banks with enormous crises, and specialised lenders and universal banks are also not

immune from crises. Business models must be respected, but they have to be understood and managed by the board and CEO of the bank in question. The focus for supervisory bodies remains risk management, which is assessed through annual evaluations.

An industry representative reiterated the importance of a risk-based approach to supervision, also in the context of evolving supervisory expectations such as those related to climate and wider sustainability related risks. Climate and other sustainability related policies must recognise that custody banks cannot influence client ownership of specific assets, or more specifically the 'decarbonisation' of such assets.

2.2.2 Neutral and flexible regulation with benchmarking to ensure proportionality and respect for bank diversity

A Central Bank official stated that, despite some commonalities, each bank has unique characteristics. While comparative benchmarking is valuable in this context, regulators and supervisors must remain neutral across all business models. This neutrality extends to avoiding favouring or hindering any particular model. Regulation must not create barriers to entry or sustainable operation. In order to ensure that banks are sustainable and viable, benchmarking is a useful way of making comparisons, but the specificities of each bank should not be forgotten.

When benchmarking, it is also important to know whether proportionality applies. If a comparison of a group of banks shows that certain requirements are difficult for all of them to meet, this may suggest that the regulation or supervisory practice is not appropriate for that type of bank. It therefore helps to identify what simplifications are needed.

A bank's sustainability goes beyond profitability and includes risk strategies, risk assessments and the ability to adapt, which are important to take into account when benchmarking. Benchmarking serves as a useful tool for determining proportionality by identifying areas where regulation may be inappropriate or in need of adjustment. In addition, the assessment of banks relative to others needs to be considered over a longer period than a single year in order to take into account cyclical factors and unforeseen events. There is therefore a need for flexibility in the application of the rules, but this implies no favouritism and no interference with business models.

2.2.3 The importance of impact assessments in regulation

A Central Bank official affirmed that impact assessments are essential, though that is a complicated area. Such assessments are already conducted for new regulations. However, the European Commission is not the only actor; the legislative process also involves the European Parliament, the European Council, the European Banking Authority (EBA) and the SSM.

Stakeholder consultations are conducted during the development of regulations and when implementing technical standards, to understand the concerns of the banking sector. Balancing the interests of different types of banks when testing the solutions prepared by

the Commission is a major challenge in the development of regulations. For instance, the statement of one small cooperative bank showed that it had a high Liquidity Coverage Ratio (LCR) and a high Net Stable Funding Ratio (NSFR). However, the figures were not relevant for its day-to-day management. The Commission should use the results of the impact tests, while recognising the complexity of accommodating different banking models.

2.3 The risk of oversimplifying rules to financial stability and depositor trust

A supervisor highlighted that there is extensive talk about simplification and deregulation. There are potential inconsistencies that may necessitate legislative adjustments, but the comprehensive review by the European Commission in 2026 will be waited for before conducting a full stocktaking exercise. Maintaining financial stability and depositor protection are paramount. Differing rules based on size could incite instability as depositors seek what are perceived to be safer institutions. Such an approach should not be encouraged, because it is not completely understood.

European citizens expect uniformity and equal treatment. There were instances in 2008 when discrepancies in deposit guarantees between countries prompted depositor flight from some banks, because they were considered to have less protective deposit guarantees. That should not be repeated. Simplification efforts should not compromise sector resilience, particularly given current uncertainties. Some rules are complex, and that is true both for banks and supervisors. The capital stack, for example, is difficult to follow clearly. However, it could be simplified without going into the level of capital.

The European banking sector is well-capitalised with a good level of liquidity. The aim is to maintain the high level of protection for the banking sector while maintaining the level of activity over the next decade.

The Chair indicated that simplifying regulation could reduce granularity, potentially hindering supervisors' ability to enforce proportional rules. Any such changes must be based on sound, risk-based assessments. Moreover, simplification could spark debate over increased supervisory discretion and its impact on maintaining a level playing field across the EU's integrated banking market. The development of the single rulebook was intended to promote consistency, especially for cross-border banking operations. This also raises the question of the extent to which European oversight should be strengthened in response.

2.4 One size does not fit all: simpler, not less prudent, rules for smaller institutions

An industry representative explained that his article proposed a three-step approach. National Association of German Co-operative Banks (BVR) represents a network of around 670 independent cooperative banks in Germany. Although these institutions have an average asset size of around EUR 1.5 billion, which is significantly smaller than Europe's largest banks, they remain collectively profitable. This refutes the argument that

success depends on large, consolidated entities. Co-operative banks meet the needs of their customers and continue to maintain branch networks where there is demand for physical banking services.

A single set of rules for all banks, regardless of size or structure, does not reflect diversity. The EU has made progress through initiatives such as the single market, single rulebook, single supervision and single resolution framework. However, these frameworks can conflict with the need to preserve diversity.

The proposal in the article has three main elements. The first is a moratorium on new regulation. The second is a holistic review of existing frameworks. The third is the development of a dual rulebook approach. Since the introduction of the single rulebook, it is estimated that one new regulatory measure has been adopted per day, and a significant piece of legislation, such as a Regulatory Technical Standard (RTS) or Implementing Technical Standard (ITS), has been adopted about every 10 days. Smaller banks struggle to keep up with this barrage of regulations.

Europe has undoubtedly made significant progress since the 2008 financial crisis, but inconsistencies have emerged. For example, there are inconsistencies between the Capital Requirements Regulation (CRR) and the European Commission's proposals on crisis management and deposit insurance (CMDI). The finalisation of Basel III, which is included in the EU's CRR III package, imposes unnecessary administrative burdens on smaller banks. BVR banks use the standardised approach to calculate RWA, and the finalisation of Basel III does not change the amount of RWA, it only adds to this administrative burden. Some positions would increase and some would decrease, but when netted the number remains the same, but nonetheless the change in approach has to be implemented. An Institutional Protection Scheme (IPS) is in place and is working well for the group of small, homogeneous banks, but they still have to put in place recovery plans. While this is beneficial, it represents a significant ongoing cost for institutions already covered by the IPS, so it is simply an additional burden.

A differentiated regulatory framework with two different sets of rules, one for large international banks and another for smaller institutions, would reflect practices

in other jurisdictions, such as the United States, Asia and the United Kingdom. The case of Silicon Valley Bank (SVB) is significantly different, as its size of USD 250 billion far exceeds the size of the banks in the BVR network. Post-Brexit, the UK is developing a 'strong but simple' framework for smaller banks.

2.5 A regulatory pause to reassess EU banking rule complexity and introduce a financing economy test

An industry representative suggested that given diversity is widely acknowledged to be beneficial, the European Central Bank (ECB) and European public authorities should actively encourage it rather than maintain a position of neutrality with respect to business models. The SSM has been a major success over the past decade, but adaptation may be necessary given its increasing complexity over that period, with many hundreds of regulations published. There should be a shift toward a simpler rulebook, as already requested by co-operative banks and the Federation of Banks. Central bank governors of several large European countries also call for a pause in regulation to allow for reassessment. A less-for-more approach, or a stop and reassessment of regulation, should be utilised.

There is a shared interest, between public authorities and banks, in maintaining financial system solidity. Public authorities want banks to be resilient. A weak economy undermines the possibility of resilience. Therefore, any new regulation should be tested for its potential impact on the common goal of financing European economies, ensuring it does not hinder economic growth.

The Chair acknowledged the consensus on the essential nature of diversity within Europe. Supervisory practice and regulation should be distinguished: the SSM focuses on implementing existing regulations rather than creating them, as regulatory changes require action by institutions such as the EBA or in Brussels. Major ongoing events are creating significant challenges for Europe. Despite being well-prepared for various crises, continuous improvement of the system remains vital – a goal to which the discussion has contributed.

Global priorities for the insurance sector

1. Structural shifts and evolving business models in insurance

1.1 Alternative investments: addressing savings gaps with risk and regulatory considerations

A regulator highlighted that after a long period of low interest rates in the US, insurers are increasingly pushing to find yield while managing their risks, and those assets have performed quite well, but there is not as much transparency there. There are efforts to lessen reliance on rating agencies in understanding credit risk. There has been stress testing of collateralised loan obligations (CLOs) and collateralised fund obligations (CFOs), a redefining of bond classifications and associated capital charges, and residual tranches have been looked at. There are attempts to ensure a tailoring of regulations to reflect actual risk levels while acknowledging the need for life insurance products to address retirement savings gaps, particularly given that 40% of Americans currently lack any retirement savings and so, without a robust social safety net in the country, there will be reliance on life insurance products and similar.

A regulator detailed that structural shifts in the life insurance sector involve increased investments in alternative assets, and greater reliance on cross-border asset-intensive reinsurance. While the global insurance sector's exposure to alternative investments is currently limited, significant exposures exist, requiring careful assessment of their implications for supervisors and regulators. Potential risks include valuation issues, liquidity risks, and conflicts of interest at the micro level. At the macro level, concerns extend to regulatory arbitrage, concentration risks, both within jurisdictions and individual insurers, and recapture trigger risks. The International Association of Insurance Supervisors (IAIS) has published an Issues Paper providing a comprehensive analysis of these shifts and outlining potential areas for future investigation, which is currently open for public consultation. The IAIS, encourages feedback from stakeholder until 2 June.

1.2 Building Resilience in Long-Term Insurers through Governance, Earnings Stability, and Risk Modelling

An industry representative emphasised that there is a potential temptation for companies to follow suit if some pursue a strategy of incorporating alternative investment assets into portfolios, and it is important to have expertise in understanding and managing these products both on the industry and regulatory sides. That necessitates regulatory oversight to avoid unintended incentives such as overly generous reserving of benefits for risk assets or misaligned capital requirements. Effective management requires both industry competence and appropriate regulatory structures, ensuring customers benefit from these necessary long-term products without undue risk exposure.

1.3 Complementary views on investment and resilience strategies

A regulator observed that within the supervisory world, there is a need for international collaboration, underpinned by the shared goals of supporting industry resilience, and enabling it to thrive, and consumer protection. With those goals in mind, much can be done internationally on standards. Principle-based standards are minimally harmonised, and so permit variable implementation, and how that is done can be discussed. Success is dependent on communication and addressing vested interests. It is more difficult where there are pre-existing practices than where there is a new risk emerging.

A regulator commented that the US is better at adding components than it is at subtracting and simplifying, but it is actively working towards simplification of its risk-based capital system by reviewing existing regulations and considering factors such as climate risks, wildfire exposure, and life insurance residual tranche risks. The attempt at a holistic approach aims to promote convergence, because the industry will be able to see more consistency, even if complete harmonisation across jurisdictions remains unattainable. The best to hope is the promotion of convergence and bringing participants along.

2. Supervisory and regulatory challenges in a fragmented global market require greater international regulatory convergence and harmonisation

2.1 Fragmentation risks call for global convergence

A regulator remarked that one of the IAIS's core objectives is to achieve a globally consistent and comprehensive implementation of its standards and to this end, the IAIS finalized the Insurance Capital Standards (ICS) for Internationally Active Insurance Groups last year. The IAIS also undertook an assessment of whether the US Aggregation Method (AM) provides comparable outcomes to the ICS, which helps ensure convergence on an outcome basis.

As the strategic plan shifts from robust standard setting to implementation, the aim is to have the first ICS implementation assessment in 2027. For 2025, the IAIS will focus on producing the High-Level principles for the ICS. The aim is to have a consistent perspective of this implementation assessment including the USAM, which is important for alleviating some of the concerns around supervisory fragmentation.

An industry representative highlighted that although regulatory fragmentation's impact on resources is a key concern for global reinsurers, a more fundamental

issue lies in the obstacles this fragmentation creates when attempting to address globally relevant problems such as climate change. One concrete example among many others: multiple jurisdiction-specific climate-related disclosure reports have to be produced on the same topic, hindering transparency and diverting resources from more effective efforts towards transitioning to a more sustainable economy. Many of those national requirements are based on the same underlying framework and arise despite regulatory commitments to the reports being interoperable. Regulators should work towards a more streamlined and effective approach to global regulatory standards, through ongoing dialogue and collaboration in international fora such as the IAIS.

2.2 Perspectives on regulatory coordination and implementation

An industry representative emphasised that the diverging legal and regulatory frameworks necessitate increased compliance resources, all while financial markets exhibit greater volatility than in the past. Reputational risks are heightened when conducting business across jurisdictions with conflicting interests, posing challenges to long-term engagement. The question that arises is how long an entity believes it can do business in two jurisdictions that are in conflict with one another.

A regulator suggested that the approval of the Insurance Capital Standard (ICS) was a significant milestone, achieved after years of development and the comparability assessment for the US regime. The IAIS is now developing an implementation and compatibility assessment methodology to ensure consistent application of the ICS in jurisdictions with appropriate local flexibility.

3. Enhancing risk coverage through coordinated legislative and supervisory action

3.1 Promoting insurance uptake via education, public-private partnerships, and tailored regulation

A regulator stated that insurance fundamentally protects communities against risks to property, liability, human life, and stabilises markets by channelling long-term savings. Without policyholders, there is nothing to protect. The integrated effects of the protection gap extend beyond direct financial losses, and indirectly hinder economic growth, potentially leading to political instability, which in turn undermines financial stability.

Regulators with mandates encompassing only policyholder protection and financial stability have a vested interest in reducing the protection gap. For regulators that also have responsible innovation on their mandates, and those with financial inclusion, market development or competitiveness as goals, it is even more applicable. These are six key actions for regulators. First is the core business of developing and implementing solvency regimes that ensure policyholder protection and market stability. Second is

contributing to the development of innovative solutions addressing the protection gap. Third is enhancing financial literacy and education to increase insurance and reinsurance uptake. Fourth is collaborating with public authorities and industry on insurance schemes and public-private partnerships. Fifth is elevating the issue at high-level policymaking forums like the G7 and the International Insurance Society (IIS). Sixth is adopting a multipronged approach combining public intervention, economic policies, partnerships, and increased insurance adoption.

3.2 The reinsurer's role in enabling risk transfer innovation

A regulator warned that, although the dynamics driving the cyber risk protection gap are well understood, there is less understanding of the savings gap, particularly for asset-intensive insurance products. A key driver of this disparity is demographic shifts, specifically an aging population in some developed markets that lack robust social security systems, such as the United States, leading to increased demand for annuity and guaranteed return products, subsequently driving growth in asset-intensive reinsurance. This trend differs in Europe, where demand for these products remains low. Bermuda's asset-intensive reinsurance provisions from the EU decreased over three years from \$17 billion to \$13 billion, representing only 0.12% of total life reserves within the EU and just over 1% of Bermuda's life reserves. Simultaneously, public markets demand traditional capital returns, prompting private capital investment in these products.

The Bermuda Monetary Authority (BMA) has contributed to reducing the global protection gap through its solvency regime, which has been deemed fully Solvency II equivalent and National Association of Insurance Commissioners (NAIC) reciprocal and qualified jurisdiction that has served the commercial market well. Over the past eight years, its property and casualty (P&C) insurers have paid over \$455 billion, \$47 billion of which to European policyholders. Meanwhile, insurers and reinsurers have in the same period paid \$417 billion in life claims, \$16 billion of which went to EU policyholders. Bermuda's vibrant insurance-linked securities market has contributed to the reduction of the protection gap in natural disasters. In the past year it issued its first cyber-linked catastrophe bond, and it has a captive market that helps governments and institutions further contribute to the gap reduction.

In terms of savings and retirement, there is a need for innovative solutions. Asset-intensive, when done well, can also reduce the protection gap, but there are important risks. That business model has idiosyncratic risks that demand intensive supervision, so there have been supervisory and regulatory changes encompassing the valuation of reserves capital requirements, stress testing liquidity, public disclosure and supervisory reporting, including the approval of all long-term transactions. In combination, this has resulted in a material increase in the total asset requirement while still allowing the market to function.

An industry representative noted, regarding AI, that, while there are benefits, there are real challenges related

to privacy, liability, cybersecurity vulnerabilities, and potential algorithmic bias. Firms can adopt responsible AI principles to promote transparency, auditability, data integrity, and adherence to legal and ethical boundaries.

Regarding climate-related risks and addressing the protection gap, insuring those risks remains fundamentally possible. It is not an issue of a lack of supply, particularly in Europe with its global reinsurance leadership. The primary challenge lies in affordability in certain cases. There are two possible strategies for tackling that. One is loss prevention measures to structurally narrow the gap by reducing damage risk to property and infrastructure. The second is expanding insurance coverage. Reinsurers and insurers have a crucial role in both areas, by incentivising loss prevention through pricing signals and stakeholder engagement, and innovating data analytics and distribution to expand coverage to underserved risk pools. Progress has been made, as evidenced by the fact that insurers and reinsurers are now able to design cover for risks previously considered uninsurable.

An industry representative added that, on the geopolitical side, the implications for international insurers are that tackling global risks such as climate change, cyber threats and pandemics will become significantly more difficult, in part due to decreasing governmental collaboration. Such a decrease being due to the tensions that are present will make it more challenging to find holistic solutions. International risk diversification is also becoming increasingly complicated, impacting underwriting practices, investment portfolios, and ultimately increasing the cost of insurance provisions.

The industry cannot afford to respond to each of those elements of geopolitical crisis. A holistic framework is needed that is capable of navigating continuous volatility and uncertainty, rather than responding to individual crises in isolation, whilst also recognising that in times of uncertainty and volatility there is a flight of trust. Opportunities arise from increased consumer demand for trusted partners during times of instability and continuous crises, particularly regarding protection gaps and retirement planning. The industry and individual insurers should provide the level of trust and the services customers need, as that will generate a great deal of business. The value of insurers is heightened during such periods of uncertainty, and they must be at customers' sides, on the condition that they are trusted partners.

4. AI-driven transformation in insurance: enhancing speed and precision in claims and customer service

A regulator insisted that supervisors need to communicate. There is significant anxiety around the AI Act in Europe, but if an insurer states it has to do a great deal because of that act then that is a concern. There is nothing in the AI Act that is not already in Solvency II. Supervisors should prioritise clear communication about the expectations, which are not different from those that already exist, and

should work together with the industry to harmonise regulatory approaches to facilitate innovation and allow this new technology to deliver what it can to improve things, all while effectively mitigating risks.

5. Unified consumer protection and conduct standards for resilience and market efficiency

An industry representative suggested, regarding the balance sheet, that careful consideration should be given to the level of the firms' reserves, its asset quality, its portfolio diversification in an increasingly fragmented geopolitical landscape, and there should be scrutiny of volatility assumptions. In terms of governance, a strong internal oversight culture where individuals feel empowered to raise concerns is essential. Adherence to regulation and collaborative engagement with supervisors are also crucial components of this holistic framework, as that enables entities to navigate economic challenges effectively.

Gaining customers' trust involves having high-quality services, being responsive at the moment of a crisis, and having engaged employees, which again relates to the need for a holistic approach underpinned by a thorough understanding of how crises are interconnected.

A regulator stated that there is a need for a holistic European perspective focused on creating a single market for conduct and consumer protection, allowing member states to function together rather than them competing with another. There is not a single market on the conduct side, and that should be worked on at the EU level. There should be simple and holistic regulatory design, given the shared goals there are.

Insurance protection gaps

1. Rising climate risks are outpacing insurance coverage: the need for immediate, coordinated action

1.1 Underinsurance as a growing systemic threat

The Chair opened the panel by stressing the urgency of addressing insurance protection gaps, particularly in cases of natural catastrophe (NatCat). This issue featured in an earlier panel on global priorities, demonstrating that insurance supervisors are increasingly concerned about the societal risks arising from underinsurance.

A regulator presented data from the European Insurance and Occupational Pensions Authority (EIOPA) illustrating the growing severity and cost of climate-related events in Europe. Since 1980 til 2023, extreme weather and NatCat events have caused €900 billion in damages, with 20% occurring in the past three years alone. An average of €15 billion in annual damages between 2000 and 2010 rose to €18 billion in 2010, and again to an annual average of €44 billion across the past three years. These are apolitical issues that require significant attention.

1.2 The limits of market-only solutions in addressing new climate realities

A regulator noted that, despite action taken by insurers, on average only 25% of total damages are covered in the EU. There is significant variation between member states, with some seeing coverage rates lower than 5%. This underinsurance results not only from insurers' inaction, but rather is due to damages rising faster than coverage, unawareness of risks (also due to reliance on the government), creating challenges in risk pricing and access. EIOPA provides dashboards demonstrating such figures, as well as identifying European areas of particular risk for flooding, earthquakes, extreme weather events, drought and forest fires in comparison to insurance coverage rates. This is sobering reading.

An official warned of the limitations of purely risk-based pricing in this context of rising hazards. It can be challenging to ensure that insurance is simultaneously available, affordable and risk reducing. Sometimes, a prioritisation exercise must be undertaken and a choice made. When opting to favour risk reduction, for example, the price might become prohibitive to the policyholder, leading to participants exiting the market.

1.3 Bridging protection gaps through strategic global cooperation

The Chair observed that, at the international level, the International Association of Insurance Supervisors (IAIS) has made protection gaps a strategic priority for the coming period between 2025 and 2029. The body's 2023 call to action report was a key milestone, following

which collaboration across sectors has continued. The IAIS has worked with the G7 on a high-level framework for public-private insurance programmes against natural hazards and is currently contributing to the G20 sustainable finance working group under South Africa's presidency, with a focus on multi-stakeholder solutions to the issue of NatCat protection gaps.

The panel presents an opportunity to explore the issue in more depth and emphasise the need for coordinated action among insurers, regulators and public authorities. A regulator commented on the growing interest across EU institutions in climate resilience, referencing initiatives on property, water events and crisis management currently in place.

2. Strengthening resilience through innovative public-private partnerships (PPPs)

2.1 PPPs as essential tools where market mechanisms fall short

A regulator argued that PPPs increase insurance penetration, awareness and financial preparedness among consumers. Where PPPs exist, on average, more property is insured. Such schemes must begin at the national level, but can also benefit from EU-level coordination. Where insurance becomes unaffordable or unavailable, EIOPA sees pooled schemes as a way to maintain coverage while building capacity. Those participants able to take the lead must do so, fostering a culture of solidarity and collaboration. Then perhaps regulation can be considered.

An official agreed that PPPs can expand access to insurance, reinforce insurers' roles and complement existing market mechanisms, particularly under worsening climate conditions. It nevertheless remains unclear how the world will act to control hazards through climate change adaptation and mitigation as such events continue to increase in frequency. It is for insurers to try to contribute to control exposure and reduce vulnerability.

2.2 Lessons from Spain: a mature and scalable collective model

An official highlighted Spain's public-private insurance system, in place for over 70 years, which mandates coverage for extraordinary risks, such as floods, windstorms, earthquakes and terrorism, through a legal surcharge. Almost all policies sold by the market include this cover, enabling a collective response to major events, and three out of four Spanish residential properties have insurance, including coverage for NatCat events like flooding or windstorms. Consorcio de Compensación de Seguros (CCS) acts as the direct

insurer, but relies on cooperation with the private market for distribution and, in some cases, claims management. Spain's model pools uncorrelated risks and applies flat surcharges adjusted by property type, ensuring both affordability and broad participation. Prompt payment of customers is underpinned by a national culture of public and private sector cooperation.

2.3. The role of national and EU-level frameworks in scaling PPPs

A regulator underscored the importance of both national and EU-level PPPs. In EIOPA's view, while national-level discussions constitute the natural first step, EU-level schemes could provide additional incentives to national players, in much the same way that national schemes incentivise insurance uptake. Following this logic, insurers will be able to incentivise their customers to take mitigating and adaptive action.

EIOPA, the European Central Bank (ECB) and the European Investment Bank (EIB) are increasingly present in discussions on the issues of insurance protection gaps and adaptation planning efforts across different European Commission departments. More specifically, EIOPA and the EIB are collaborating with the European Commission on resilience in the face of water-related extraordinary events, such as flooding or drought as well as property resilience. There must be a more integrated approach moving forward.

3. Ensuring equity and solidarity in risk pooling amid market fragmentation pressures

3.1 Preserving mutual insurance models against demutualisation risks

An industry representative reiterated the importance of preserving mutual insurance models in the face of new and emerging risks. Legislative changes or commercial practices resulting in a fragmented system and weakened risk pooling should be avoided. Public initiatives prioritising solidarity should be welcomed. However, concern remains about the Financial Data Access Regulation (FiDA), which might facilitate the entrance of new market participants in low-risk areas without contribution to the solidarity pool. Such demutualisation could lead to unequal access to insurance and fragmentation of protection coverage.

3.2 Adjusting insurance funding and reinsurance accessibility for further system resilience

An industry representative noted their support for the raising of France's NatCat levy from 12% to 20%, strengthening the system and funding preventative measures. There must be transparency in how such funds are utilised, which should be strictly for the benefit of mitigation and resilience efforts. Furthermore, directing savings towards targeted investment in transition, adaptation and biodiversity projects should be a primary priority of the savings and investment union (SIU).

The EU should also seek to develop broad access to reinsurance. Luxembourg and Ireland have captive reinsurance models that should be replicated across Europe, alongside a greater focus on local-level involvement, to create a collective risk culture.

3.3 Combining insurance affordability and mitigation incentives

An official commented that Spain has a more mature approach to PPPs than many of its European neighbours. The system fosters affordability through a flat rate surcharge, with an average annual residential contribution of about €20. This approach supports broad participation and stabilises the market. 62 million Spanish properties are covered by insurance. Everyone contributes to a collective fund to help the collective cope with future losses.

A regulator advocated for individual property risk labels and a stronger political dialogue on insurance protection gaps, noting that two-thirds of global reinsurance is based in the EU. There are significant opportunities and possibilities within this space that are going unutilised.

4. Empowering insurance to support adaptation and climate change mitigation

4.1 Insurers as long-term investors in resilience infrastructure

An industry representative suggested that insurers can seek to support disaster prevention as institutional investors into green bonds or other types of sustainable investment. Their organisation, for example, invests in municipal bonds funding flood and earthquake defences, such as coastal barriers and riverbank reinforcements. Insurers' investment arms are underused resources and could be better utilised in service of climate resilience.

4.2 Promoting adaptation through impact underwriting and property risk labelling

A regulator reported on EIOPA's exploration of how insurers might incentivise adaptation to insurance gaps through impact underwriting, leading to a joint ECB-EIOPA initiative that proposed a ladder approach. The entire ecosystem must move collectively if protection gaps are to be filled. First, consumers and builders at the city level must take decisions on mitigation and adaptation measures. Then, a risk assessment can be carried out and insurance obtained. This requires capacity to insure, to which both reinsurers and capital markets are relevant. A pan-European insurance label, similar to existing energy efficiency labels, could help households reduce their climate risk by informing them of both the level of risk and what they might do to mitigate and adapt to the impacts of NatCat events. This would both generate awareness of and create incentives for the implementation of adaptation plans.

4.3 Enhancing claims processes and local partnerships

An industry representative characterised rapid claims handling as central to the insurance sector's disaster response. After the 2011 tsunami in Japan, the industry established a central database to help bereaved families identify which company held the policy of their loved ones. Claims were processed even without the relevant documentation, which may have been lost during the tsunami and preceding earthquake. Ensuring prompt payout is only one way in which the industry can seek to act compassionately towards its customers in times of crisis. Insurers can also, for example, decide to cover non-traditional emergency care from the date of the NatCat event, relax policyholder loan terms or facilitate continuous coverage in circumstances of cashflow concerns following a disaster.

An official flagged the importance of stakeholder cooperation, with insurers and public institutions jointly facilitating rapid payouts to customers. This is demonstrated by the fact that 85% of claims, at a final expected value of close to €4.5 billion, related to the recent flooding in Valencia have been paid out five months after the event. Such significant insurance events must be addressed collectively if insurance is to remain relevant to consumers in a context of increasingly frequent loss events.

An industry representative concluded that insurers must work closely with municipalities and community actors to foster a shared risk culture. Local engagement is essential to long-term climate preparedness. In France, industry players have been working closely with relevant government representatives to strengthen the existing model, which sees 20% of the premium put towards prevention and mitigation measures.

resilience. The green transition is more important than ever before. Pragmatic simplification, minimising the burden on stakeholders, must be combined with identification of and action on risks.

5.2 Aligning regulation and market practices with long-term social objectives

A regulator encouraged the industry to adopt a more long-term, mission-orientated view. The more effectively the initial crisis is addressed, the more prepared the sector will be to tackle the smaller, second order economic impacts on businesses and citizens. Sector participants are urged to accept lower profit margins in high-risk areas in exchange for social stability and market resilience.

5.3 Building a shared climate risk culture through data and governance

An official noted that CCS provides municipal-level data on loss patterns, guiding local authorities in implementing prevention measures and aligning all stakeholders on a common aim. Insurers hold a wealth of data on losses and damages related to NatCat events and can contribute to resolving the issue of protection gaps and providing physical resilience by pinpointing areas of high risk.

A regulator confirmed that EIOPA will continue to make publicly available data on NatCat damages that might be useful in addressing insurance protection gap concerns, while supporting fair, affordable and resilient insurance solutions.

5. From reflection to implementation: a call for mission-oriented sector leadership

5.1 Moving beyond discussion to concrete action and risk pooling

A regulator emphasised the need for implementation over reflection and discussion. While interest in NatCat protection gaps has grown, concrete action remains limited. EIOPA, in turn, is a regulator with only a limited mandate. EU countries are urged to pool risks at the EU level, expanding coverage and improving financial

Sessions



DIGITALISATION AND TECHNOLOGY

- Digital finance trends and priorities 61
- Can AI be a game changer for banking and insurance? 64
- AI innovation in capital markets 68
- Cryptoassets and EU financial markets 71
- Scaling up tokenization and DLT 75
- Cybersecurity and digital operational resilience 79
- Open Finance and FiDA next steps 82

Digital finance trends and priorities

1. Digitalisation trends in the financial sector

The Chair observed that the momentum of digital transformation extends to various critical areas of the financial sector, including service delivery, product design, risk management frameworks and overall market operations. Innovations such as AI-enabled financial advice and blockchain settlement solutions appear almost daily, reflecting a shifting landscape fraught with both opportunities and challenges.

An industry representative emphasised that organisations across the global financial ecosystem are increasingly taking advantage of the opportunities of digital technologies such as cloud computing, to deliver their day-to-day operations, including instant payments and banking services, in a secure, resilient and efficient way. There is a marked acceleration in the adoption of AI in particular, especially generative AI and large language models, which is reshaping the financial ecosystem and that of many other sectors. Research shows that AI usage among European businesses has grown by 27% in the past year and that 97% of firms reported a revenue increase attributable to AI. By 2030, the use of AI is expected to be ubiquitous across European firms, fostering European economic growth.

A public representative agreed that innovation in the EU financial sector will largely be shaped by the strategic deployment of AI and leveraging data. The ability to generate, share, use and combine data will be critical to digital finance in the future. The expansion of digital assets, tokenization and new payment infrastructures, such as private stablecoins and central bank digital currencies (CBDC), are other key drivers of innovation in the European and global financial sectors. The EU must take advantage of these inevitable trends going forward.

A Central Bank official noted that Europe is ahead of the US in some aspects of digital finance, such as mobile banking, insurance and instant payments. There nevertheless remains a considerable gap with US banks in terms of market cap and competitiveness. The most valuable European bank has a market cap 10 times smaller than that of the largest US bank, underscoring the challenge of scale in Europe. The creation of a European single market for financial services is at an early stage. A single market for payments exists, supported by robust infrastructure and widespread instant payment adoption, and cross-border investment and consumer lending services are developing. However, the asset side of banks' balance sheets, including mortgages and corporate lending, remains fragmented, with cross-border friction. There is significant potential for digitalisation to help overcome these barriers, provided that the relevant infrastructure is developed and regulatory harmonisation pursued. Digital mortgage services, for example, could allow European customers to access products from banks in other member states.

An industry representative highlighted the growing

confidence financial institutions feel in relation to digitalisation. Beyond adopting externally developed technologies, banks are now building proprietary solutions such as cloud-based software. The financial sector has been at the forefront of digitalisation for a long time, but there is now a new sense of urgency, driven by growing opportunities related to the use of AI and cloud for core functions, and also competition.

2. Benefits and opportunities of digitalisation

An industry representative stated that digitalisation, particularly through AI, has the potential to enhance European productivity and close the growth gap with the US. Research suggests that AI could boost productivity by 0.8% to 1.3% over the next decade. This projection is significant in the context of a growing economic divide between Europe and the US and other jurisdictions. The insurance sector, which relies very much on data combined with human expertise, is uniquely placed to benefit from digitalisation. Geolocation technology, for example, allows insurers to locate customers in mere seconds, speeding up service, increasing efficiency and reducing costs. AI and data analytics can also help to better anticipate risk arising from climate change and prevent damage before it takes place. With satellite information, wildfire risk can be assessed and mapped with considerable precision. Between 2013 and 2022, global wildfire-related losses reached \$100 billion, underscoring the potential economic impact of such technologies.

Another industry representative identified three main benefits of digitalisation. First, it facilitates enhancement of the customer experience. Services can be personalised through the use of behavioural and know your customer (KYC) data. Second, it can drive operational efficiency in both front and back office activities. Third, it can facilitate financial inclusion, enabling access to digital banking services in underserved regions or populations.

A regulator summarised the opportunities that digitalisation presents in terms of expanding access to financial services, as well as increasing efficiency and EU integration, through the use of new technologies such as tokenisation and distributed ledger technology (DLT). The use of supervisory technology (sup tech) digital tools could also increase supervisory capacity, improving the efficiency of supervision on the ground and enhancing the use of data to better address risks in the financial system.

3. Obstacles to digitalisation

An industry representative emphasised that the fragmented European regulatory framework is an obstacle to digitalisation. In addition, privacy laws are not always

adapted to the digital age. Legacy systems are a further challenge when developing new solutions. A Central Bank official agreed that the EU's fragmented regulatory system, which is supervised differently across member states despite the existence of a common rulebook, is an obstacle. This creates additional compliance burdens for firms operating across borders. The jurisdictions with which the EU seeks to compete do not have the same problems, which is an important issue given that digital technologies ignore geographic boundaries. Addressing such obstacles should be one of the primary objectives of the next political cycle.

An industry representative added that regulatory uncertainty may specifically hinder AI adoption, particularly for institutions operating across borders. 44% of businesses recently surveyed by their firm identified that the inconsistent and complex regulatory landscape is a major reason behind their hesitation to deploy AI. The digital skills gap is also impeding firms' ability to innovate. In the same survey, 56% of companies referenced the shortage of relevant digital skills as a challenge, while 53% cited that this shortage leads to an increase in operating costs.

4. Risks posed by digitalisation

A regulator shared three types of risk arising from digitalisation. Firstly, third-party dependencies and the high concentration of service provision amongst a small number of vendors create single points of failure. Secondly, potential bias and opacity in AI models, coupled with a lack of explainability and transparency, can lead to discriminatory outcomes and reduce trust. Thirdly, there is the threat of technology being used maliciously, including for fraud, market manipulation and collusion, which is growing alongside digitalisation.

A Central Bank official emphasised that digitalisation risks must be clearly identified and understood. 90% of financial fraud in the EU is perpetrated through instant payments. Cybercrime and money laundering are other areas of concern where coordinated action at the EU level is required.

A regulator noted that the increasing frequency of cyber-attacks and data breaches poses a particular threat to the insurance sector, which relies heavily on data. Such incidents can damage consumer trust and quickly erode the reputation of insurance firms and the sector as a whole. The 'big data' approach increases data-related risks, and it is expected that AI will exacerbate this issue.

An industry representative noted that cybersecurity risks are also increasing in the banking sector, as its systems become more digitalised and data intensive. Customer data privacy and safety must be preserved as digitalisation progresses.

5. A focus on the implementation of existing digital frameworks

A public representative highlighted that a significant amount of regulation aiming to support the digitalisation of

the financial sector was adopted during the previous European political cycle, including the AI Act and data frameworks, and sector-specific rules, such as DORA, MiCA and the new AML framework. EU policymakers must now decide whether they need to continue producing new regulation to address emerging digitalisation issues or to pause and focus on enforcing the existing frameworks. The European Parliament is split on this question, but the speaker favoured the latter. The EU still has much to do in terms of harmonising regulatory and supervisory practices, while making greater use of technology to enhance supervision. In terms of policymaking, the savings and investments union (SIU) should be prioritised in the next political cycle, as it can support the digital and green transitions and help complete the single market. An industry representative agreed that the focus of the next political cycle should be on consistently implementing the legislation already adopted.

A regulator observed that the existing EU frameworks provide safeguards that address the key risks of digitalisation in the financial sector. DORA introduces enhanced ICT risk management rules and oversight of critical third-party providers (CTPPs), which should help tackle third-party dependency risks. The EU data frameworks and the AI Act will also mitigate the risks associated with AI and increasing data usage. The AI Act introduces measures to reduce bias in AI systems, particularly those classified as 'high risk'. Bias poses legal and ethical risks and needs to be mitigated, as it may affect customer trust.

Another regulator stressed that the current focus of supervisors is on implementing legislation adopted during the previous legislative period. The ESAs are actively working on implementing DORA, which requires significant resources from both industry and public authorities. Consistent implementation of the framework is needed to improve digital operational resilience in Europe. This includes designating the CTPPs, with the aim of having their oversight framework operational by the end of 2025. MiCA also poses an implementation challenge, as significant supervisory convergence efforts will be required among the 27 national competent authorities (NCAs). It has also been suggested that moving towards a single point of entry at EU level could be beneficial for large international crypto conglomerates.

An industry representative agreed that DORA can contribute to achieving EU-wide operational resilience and security. However, a proportionate, risk-based and harmonised approach to its implementation is required to achieve the legislation's objectives. New supervisory requirements that contradict or duplicate DORA should be avoided, as should regulatory overlap with closely connected frameworks, such as the Network and Information Security Directive (NIS 2). The regulation and oversight of cloud service providers and other technology providers must also consider their operational specificities and business model.

6. Policy priorities for the present political cycle, beyond the implementation of adopted frameworks

6.1 Enhancing the agility of policymaking

A regulator suggested that regulators must become more agile in how they update and adjust regulation to market developments. Current legislative processes are too slow to keep up with market innovation. A more principle-based approach to legislation at the EU level is needed, enabling quicker and more pragmatic implementation with a stronger role for supervisory guidance and a simplification of legislation.

Another regulator and the Chair agreed that regulators must adapt their approach to regulation in order to keep pace with digital innovation that is currently progressing faster than the rule-making process.

6.2 Reducing fragmentation across Europe

A Central Bank official believed that the EU should prioritise reducing fragmentation in order to support digitalisation. Despite progress in recent years, fragmentation continues to present significant barriers to the European financial sector. Further efforts are needed to establish a single digital financial infrastructure that complements existing payment systems. Financial institutions also need access to tools such as digital notary services and income registries to operate effectively across member states. Issues such as IBAN discrimination also hinder the expansion of cross-border access to digital financial services. While the SIU provides a legislative framework for the development of pan-European capital market activities, there must also be a stronger focus on achieving concrete outcomes, such as increasing the scale of European financial markets, to enhance the sector's ability to leverage technological innovation. The Anti-Money Laundering Authority (AMLA) is a good example of how a common approach can level the playing field and address risk effectively.

A regulator concurred with the importance of reducing fragmentation as an EU-wide objective. Supervisory fragmentation continues to impede effective oversight. A more coherent and coordinated supervisory approach is required, particularly as more and more firms adopt cross-border, digitally-enhanced business models. Supervisors must be equipped with the skills and resources to understand these new digital models and to assess the associated emerging risks in the context of fast market change.

To illustrate the impact of fragmentation on the European economy, an industry representative cited International Monetary Fund (IMF) data indicating that internal barriers within the EU single market are equivalent to internal tariffs of 40%, double those recently imposed by the US.

Another industry representative advocated for regulatory harmonisation as the cornerstone of efforts to improve Europe's global competitiveness. Fragmentation across 27 member states hinders data sharing, scale and technological adoption. To remain competitive at the international level, Europe must align its rules and adopt a risk-based regulatory approach, targeting the areas of greatest risk exposure, without stifling innovation elsewhere.

A regulator observed that, more generally, it is vital to recognise that digital finance is inherently cross-border and must be governed with an international perspective. Efforts

to address the risks arising from digitalisation must be coordinated at the international and global levels.

6.3 Simplifying the regulatory framework

A regulator identified simplification as a primary priority for the next political cycle and a guiding principle for future legislative initiatives. In particular, the Financial Data Access Regulation (FiDA) proposal needs to be simplified, with a focus on customer needs and on encouraging the market to make better use of data. It is also important to ensure that the current legislative approach to digitalisation, which combines horizontal and sector-specific frameworks, does not create unnecessary complexity.

An industry representative similarly called for the simplification of European regulatory frameworks. Duplication, inconsistency and unnecessary complexity must be avoided. This should however not go as far as deregulation, as clear and consistent rules are an asset for Europe, making the continent's economic and financial environment predictable and reflective of European values. Overregulation remains a significant barrier to EU competitiveness. As mentioned in the Draghi report, this is demonstrated by the passing of 13,000 legislative acts in the EU between 2019 and 2024, compared to 5,000 in the US. This regulatory burden naturally impedes European growth and innovation. On FiDA, there must be a gradual approach, driven by practical use cases that align with real market needs. In its current form, stakeholders struggle to connect the regulation to actual customer needs.

The Chair acknowledged the importance of simplification, harmonisation and supervisory agility, while noting that between some of these factors there may be tension. Simplification and harmonisation cannot always be comfortably aligned for instance.

6.4 Enhancing financial and digital literacy and clarifying responsibilities

An industry representative emphasised the importance of financial literacy in an increasingly digital age. The more customers have direct access to financial services through digital channels, the more they must understand the associated risks. Investment will always require some level of risk. The solution is not to overprotect customers, but rather to empower and inform them. There are responsibilities in this regard across the value chain. For example, almost 80% of fraud takes place in social networks and not in regulated financial institutions, yet banks often bear the brunt of liability. Accountability should be shared across the entire fraud chain to ensure fairer outcomes and stronger deterrence.

Another industry representative suggested that a virtuous cycle of innovation could be initiated and fostered through increased investment in relevant digital upskilling programmes to meet industry demand, and in regulatory harmonisation to reduce fragmentation and accelerate AI adoption across Europe.

A regulator agreed that enhancing the financial and digital literacy of EU citizens is essential to leverage the advantages and opportunities of digital finance and mitigate risks effectively.

Can AI be a game changer for banking and insurance?

1. Extent of transformation due to AI use

1.1 Adoption of AI in the banking and insurance sectors

A regulator observed that AI (artificial intelligence) adoption is increasing across the insurance sector and throughout the value chain. Not all insurers are using AI throughout the entire value chain, so there are a variety of use cases. According to an EIOPA study, 50% of non-life insurers and 25% of life insurers are using AI in Europe.

An official explained that AI use in UK banking is accelerating. Although it is still difficult to know whether AI is reaching a tipping point in the sector, it is clear that AI usage is increasing. Competitive pressures and leadership interest are likely to drive its use further, due to the fear of being left behind. According to a recent Bank of England survey, 75% of firms are already using AI and another 10% are planning to adopt it in some form over the next couple of years. The most dynamic area of growth is in the use of complex foundation models, currently used by 17% of firms. Use of third-party AI tools has grown significantly, rising from 17% to 33% over two years.

An industry representative noted that there are differences in the speed at which countries are adopting AI in the financial sector. The UK leads the way in Europe, followed by Germany and France, but all lag behind the US. An international AI Index shows that only two of the top 10 AI-mature banks are European. The current wave of AI adoption driven by generative AI is expected to be faster than that of traditional AI systems because generative AI is significantly more accessible.

Another industry representative commented that the current phase is about the practical implementation of AI and how it can enhance individuals' abilities within a team, moving beyond the initial hype and testing phase.

The Chair observed that supervisors are also on a learning curve in their usage of AI and are beginning to use AI tools in their daily work.

1.2 Main use cases

A regulator explained that AI use in the insurance sector initially focused on automating simple processes such as document handling, but there are now applications in a variety of areas including product development, sales, underwriting, claims management and fraud detection. Use cases vary widely among firms however, and many are still experimenting with several use cases.

An official stated that present applications of AI in the UK banking sector are largely in anti-money laundering (AML), data analytics, fraud detection and cybersecurity. Going forward, firms are increasingly considering applying

AI in customer-facing services to improve user experience. Use of AI for decision-making in an autonomous way is rare; only 2% of use cases involve AI making decisions without human input. However, in over 50% of cases AI is used to support decision-making by humans.

An industry representative observed that there are differences in the maturity of AI use between the insurance and banking sectors in Europe, as well as between regions. Insurers are generally ahead in customer-oriented applications, offering personalised services and improving customer interaction. In contrast, banks still focus more on optimising back-office processes, reducing costs and using chatbots. Currently, AI is primarily used for cost reduction in the banking sector, but future applications will likely be broader, including hyper-personalisation, risk management and anticipatory strategies. For example, AI enables proactive risk management, potentially allowing firms to manage risks before they fully materialise.

A second industry representative agreed that AI adoption in banking is more mature in some areas such as fraud detection and credit risk modelling, where the regulatory framework is more established. In these areas, traditional models are used. More advanced models are often more difficult to use for decision-making because of the lack of transparency, but they are used to challenge and compare results. When results differ, the final decision is made by human experts following further investigations. AI is also used internally by banks for operational efficiency, including internal document or information search via chatbots. Client-facing tools are used to support pricing decisions made by experts. Use of generative AI remains limited due to regulatory uncertainty, but natural language processing (NLP) tools are widely employed. The speaker's bank is also engaged in many internal proof-of-concept projects, reflecting a growing openness to innovation within the banking environment. Clients are increasingly interested in AI and the internal culture is now more supportive of experimentation and innovation than it was a decade ago.

A third industry representative referenced a recent Harvard Business Review article about the transformation brought about by AI at Moody's Analytics to illustrate use cases of AI. There, AI is used both internally and externally to enhance efficiency and decision-making. One such application of AI for efficiency, developed in 2017, uses optical character recognition (OCR) to read and standardise financial statements for use in credit assessments, thereby reducing the need for manual data entry. This can enable bank lending to customers who do not have an official rating. Another AI product, Research Assistant, which was launched in 2024, leverages the firm's vast archive of PDF documents to enable clients to conduct analyses, such as identifying rating changes or

comparing research on specific companies. A recently launched AI agent also supports processes in the financial crime and know your customer (KYC) space. The agent reduces false positives and speeds up decisions by automating screening processes, while leaving the final judgement to human analysts. AI agents (agentic AI) are likely to be the next phase of AI applications, helping to speed up decisions by collating data and analytics and helping analysts make faster and more effective decisions, without replacing these analysts.

1.3 Impact of AI on banking and insurance activities

An industry representative suggested that AI will eventually lead to a significant transformation of banking and insurance activities, but that this evolution is still at an early stage. Another aspect to consider is that, in the future, generative and traditional AI will interact, together with agentic AI models autonomously defining and executing tasks, which will further drive transformation.

A second industry representative agreed that AI has the potential to transform financial services across multiple dimensions such as decision-making, insight extraction and fraud detection, using techniques such as NLP and predictive analytics. AI can also support rapid prototyping by assisting coders, thereby accelerating the development and testing of new ideas. These trends are expected to continue. A recent Harvard Business School study demonstrates the far-reaching potential impacts of AI in terms of enhancing performance and teamwork. Individuals using AI can perform at the same level as entire teams without AI and AI-enhanced teams clearly outperform those without. This is primarily driven by the ability of AI to break down functional silos, enabling team members to view problems through multiple lenses and mental models, compare them, and identify new synergies, rather than focusing on their areas of expertise. AI will also make individual contributors much more effective. This will transform the way financial institutions deliver services in the future, speeding up delivery and enabling them to offer more customised, insightful products using available data.

A third industry representative remarked that the current stage of AI adoption is comparable to the 'dawn of the internet', when services that were previously only accessible in person or by telephone started to appear online. AI will have a significant impact, but this will take some time. Currently, AI applications are still very much focused on efficiency.

2. Drivers and challenges of AI adoption

2.1 Drivers

An industry representative referenced a global survey of 550 risk and compliance professionals conducted at the end of 2023 about the adoption of AI. This survey highlighted the importance of data quality and data management maturity for AI adoption. Firms with robust data governance are at the forefront of AI adoption. Empowering staff to experiment with AI is another factor

that can contribute to successful implementation, since AI is difficult to plan centrally. Some of the most impactful innovations arise from initiatives led at operational level. A culture that encourages innovation and enables employees to take the initiative is critical to success.

A second industry representative agreed that robust data governance is essential for effective AI, since AI is only as good as the data it relies on. Proper stewardship of data and ensuring data quality are foundational requirements for the successful adoption of AI.

A third industry representative emphasised that robust data management and governance and cloud adoption are essential factors for AI adoption. The digital ecosystem, including data centres and foundation model providers, is more developed in the US than in Europe. The US is also ahead on investment in AI, the number of data scientists working in the financial industry and the competitiveness of the regulatory environment. All these factors need to be considered when assessing how to drive further adoption of AI. Generative AI is also likely to be an important catalyst for AI adoption. Unlike traditional AI, which required specialist mathematical knowledge, generative AI tools can be used by non-experts. This has led to broader and more rapid adoption at an individual and organisational level. Firms not using AI risk being left behind.

Beyond data management and generative AI, key drivers of AI adoption include access to talent, sustainable energy use, and trust, the industry speaker remarked. Trust is central to AI adoption. Just as people trust their car to function without knowing how every component works, users need to trust AI systems. Building that trust requires reliable systems and clear accountability. Trust, combined with high-quality data, will enable the scale up of AI across the financial sector.

2.2 Challenges

An official reported that only about half of the firms surveyed were comfortable with having only a partial understanding of the models they use, which could be a barrier to further adoption. The Chair observed that the social acceptance of AI remains a critical issue that may impact its adoption.

A regulator highlighted that data quality challenges are particularly acute in the insurance sector due to legacy systems. The companies that are able to address these challenges and have access to quality data are likely to be the most successful in leveraging the potential of AI.

An industry representative outlined several challenges hindering AI adoption in the banking sector. Regulatory fragmentation means that global banks face uncertainty when dealing with cross-border data, particularly with regard to data privacy laws and other data requirements. These issues complicate the use of customer data for AI training. Banks are unsure how to utilise the data properly, which reduces the scope of data used. Additionally, while significant progress has been made in the explainability of traditional AI models, generative AI presents novel challenges in terms of explainability and performance measurement due to the subjective nature of evaluating language outputs, for example in terms of style or tonality. Regulatory frameworks are needed to

enable a consistent measurement of the explainability and performance of generative AI models.

Talent acquisition is also a concern, as the skills needed to develop AI systems are constantly evolving, and banks are competing with other industries for AI professionals. These other industries can use state-of-the-art models more easily due to lighter regulation, whereas banks must use more mature models. To retain top talent, banks must provide opportunities for innovation, experimentation and intellectual stimulation.

Another industry representative noted that generative AI also introduces new infrastructure and governance challenges.

3. Actions needed to support AI innovation

3.1 Policy framework

An official stated that regulation can address innovation in two ways. One is to provide upfront regulatory clarity to encourage investment in innovative technologies and applications, as firms need clear rules to invest. The other way is to allow innovation to evolve, since it is difficult to anticipate how things will develop. In this latter case, risks must be monitored and flexible frameworks used to manage them. Opinions among market stakeholders on the best course of action are usually evenly split. The Bank of England tends to put more weight on the second approach, which enables it to remain responsive to new developments and emerging threats. It relies on existing tools, such as model risk management and cybersecurity frameworks, to monitor risks, viewing AI primarily as an input that can be effectively managed within these established frameworks.

A regulator noted that, while existing frameworks such as Solvency II cover IT applications in the insurance sector, they do not fully address the unique risks posed by AI. The AI Act is therefore necessary to address specific issues related to the use of AI, such as discrimination, explainability and transparency. Implementing the AI Act requirements is challenging, particularly the demand for explainability, which is inherently difficult with advanced AI systems. Additionally, the AI Act is a horizontal regulation that was not specifically designed for banks and insurance companies. Some definitions and the classification of commonly used techniques in the insurance sector, such as generalised linear models, still need to be clarified under the AI Act. It is also unclear whether these models should be classified as high or normal risk. In addition, while achieving harmonised standards is necessary for preserving a level playing field in Europe, global alignment would be ideal.

The Chair noted that, at the international level, an application paper on the supervision of artificial intelligence was drafted in the fintech forum of the International Association of Insurance Supervisors (IAIS).

An industry representative stated that large-scale AI adoption in the banking and insurance sectors relies on the availability of clear and agile regulatory frameworks

that can keep pace with rapid technological developments. This is particularly important given the fast-evolving nature of solutions offered by hyperscalers, large language model (LLM) providers and emerging innovations such as agentic AI. To tackle the risks posed by AI, regulation must seek to impose homogeneous practices but avoid excessive standardisation. Premature standardisation risks hindering innovation. Instead, standards should be defined once the most effective innovations have gained market traction. A principles-based, risk-based approach, such as that of the AI Act, is preferable, but must be applied consistently across EU member states to prevent fragmentation that could slow AI adoption. Certain regulatory measures, such as GDPR, may also require adjustments to facilitate responsible data reuse in particular.

A second industry representative agreed that technology, and AI in particular, is moving too fast for a prescriptive regulation to be successful in controlling risks in an effective way. Effective innovation requires flexible regulatory approaches. Supervisors should focus on verifying whether firms understand and manage their risks, using frameworks such as NIST or ISO 42001. Companies that can articulate their risk management strategies will be better positioned to innovate responsibly. Shared understanding between regulators and industry is also key to sustaining progress.

A third industry representative noted that regulatory clarity and alignment are essential to support the adoption of AI in the European banking sector, particularly given the large size and complexity of many EU-based banks and insurance firms. A recent survey indicates that medium-sized institutions, including fintech and regtech firms, have been among the main beneficiaries of AI, likely due to their greater agility. In contrast, larger banks often face significant challenges stemming from differing regulatory interpretations across jurisdictions, which can create obstacles to adoption. Even where individual regulators show openness to AI, inconsistent application of rules across countries undermines the ability of multinational institutions to move forward with confidence.

3.2 Cooperation between industry, public authorities and tech providers

An official emphasised that for an adaptive approach to AI policy to be successful, it is essential for regulators to be sufficiently nimble and monitor market developments closely through continuous engagement with industry and market surveys. To this end, an AI Consortium has recently been launched in the UK, bringing together regulators and firms to monitor AI developments, assess risks and identify regulatory barriers. The consortium's objective is to support safe innovation without stifling progress.

A regulator noted that financial firms and supervisors are learning in parallel. Effective communication between industry and regulators is crucial. Industry and regulators must collaborate on the AI framework in particular to determine how AI systems used in the insurance sector should be categorised and managed under the new rules.

An industry representative agreed that greater collaboration is needed between financial institutions, regulators and technology firms, notably those providing foundation and LLMs. Open-source models often do not provide sufficient transparency regarding the data on which they are trained, adding to the complexity, but this can be clarified through more detailed discussions with tech providers.

4. Wrap up

The Chair summarised that fostering innovation requires accepting a certain level of risk, including room for mistakes. Striking the right balance between encouraging innovation and managing risk is essential. AI adoption in the banking and insurance sectors has clearly moved beyond the initial hype, with concrete progress now visible. Compared to six months ago, developments are tangible, especially in the insurance sector, which is advancing faster than banking. This is unsurprising given

insurance's data-driven nature and the central role of data in effective AI deployment.

To evolve from hype to full-scale maturity and broader adoption, several conditions must be met. A key need is for homogeneous, although not necessarily standardised, regulation that provides the flexibility to innovate while ensuring coherence. High-quality, reliable data and robust infrastructures are also crucial. At the same time, the environmental sustainability of AI, particularly its energy consumption, remains a relevant concern.

Talent is another critical enabler. With the right skills in place, the industry can better integrate AI across operations. If the elements of data quality, infrastructure, regulatory frameworks, sustainability and talent align, the expectation is that, in the next six months, the sector will progress well beyond the hype, moving towards greater competitiveness and, ideally, greater global coordination in AI deployment.

AI innovation in capital markets

Introduction

The Chair stated that artificial intelligence (AI) is an important topic for capital markets. Capital markets have been early adopters of AI through algorithmic trading. There are many benefits to the use of AI for capital market activities, such as improved liquidity, better risk pricing and the development of more tailored financial products. There are also certain risks and uncertainties, with issues related to data manipulation, lack of explainability and third-party dependencies, particularly with digital service providers located outside the EU. Market events such as the 2010 flash crash have also demonstrated the risks of using AI and algorithms for algo trading activities. A question, from a policy perspective, is whether there are the right tools available to ensure responsible use of AI with the present combination of capital market regulations, and horizontal legislation such as the AI Act, the General Data Protection Regulation (GDPR), the Digital Markets Act (DMA) and the Digital Services Act (DSA).

1. The level of AI adoption and its main benefits

1.1 Current AI adoption and future prospects

An official stated, drawing on findings from a 2024 survey on AI and Machine Learning regarding the adoption of AI across financial services, that 75% of financial entities surveyed, most of which were banks, had adopted AI for some of their processes, primarily for operational optimisation. However, only 2% of firms have fully replaced human decision-making with AI, highlighting a cautious and incremental adoption trend. Looking to the future, the recent IOSCO report on AI in capital markets predicted that AI would be used more widely in areas such as trading strategies, risk management, and regulatory compliance.

A Central Bank official agreed that AI use is gradually extending to core capital market activities, such as algorithmic trading and robo-advice services. However, these AI applications are less developed in Europe than in the US. AI is also already widely used by supervisory authorities for regulatory compliance, including fraud detection, anti-money laundering (AML) and combating the financing of terrorism (CFT) compliance and regulatory reporting, and it is prevalent in back-office functions.

1.2 Use cases of AI in capital markets

An industry representative observed that AI and machine learning have been utilised within the banking sector for over a decade, significantly contributing to operational efficiency, compliance and enhanced client services. AI's strength in processing unstructured data is particularly useful in cases where data is not entirely normalised or

accurate, such as with payment invoices. AI helps improve payment reconciliation and straight-through processing rates. In terms of compliance, AI supports automatic alert systems that monitor trader behaviour and bolster fraud detection by identifying payment anomalies, thus enhancing client protection. This is all the more important given that financial criminals are also adopting AI tools, making it imperative for banks to stay ahead. AI can also help banks enhance client services by providing tools such as cash flow intelligence for treasurers, accelerating their forecasting and delivering actionable insights.

The industry representative emphasised that generative AI (Gen AI) has the potential to make AI more accessible and mainstream. Gen AI is democratising AI usage by enabling business users, not just data scientists, to query large datasets in natural language, using conversational analytics to produce customised, actionable insights quickly. Gen AI also aids software and technology development by supporting coding and documentation. Gen AI can aid in the management of legacy systems and enhance transparency and control in this area. Some international banks are developing their own Gen AI tools that operate within their company firewalls to assist employees with tasks such as writing, summarising, problem-solving, and generating ideas. While AI will not replace humans, it will empower those who can leverage it.

Another industry representative explained that asset managers also benefit significantly from AI, particularly in operational optimisation and risk management. Machine learning enhances algorithmic trading by enabling the analysis of large data volumes and the prediction of market movements, thus informing better trading strategies and allowing the execution of trades at high speeds. In customer service, AI-powered chatbots and virtual assistants manage client interactions and offer personalised investment advice. In the future, an acceleration of AI adoption can be expected in the capital markets, especially through the integration of AI with blockchain, which should facilitate more secure, efficient and transparent transactions. Predictive analytics should also improve, allowing more accurate forecasts of market trends and client behaviours. The next step for asset managers is to leverage AI to enhance the way they interact with customers, developing highly personalised investment products, simplifying the investment process for customers and boosting client convenience.

A Central Bank official added that AI presents particularly promising opportunities for less developed capital markets to enhance market liquidity by optimising data collection and analysis. This has been emphasised in recent IMF and FSB reports.

An official noted that the greatest short-term benefit of AI lies in automating complex processes and analysing unstructured data in real time. Compliance and risk automation continue to dominate AI use cases, supporting

the streamlining of regulatory reporting, risk assessments, and fraud detection. A development of AI-enabled personalised financial guidance for consumers can also be expected. At the beginning of 2025, the UK Financial Conduct Authority (FCA) launched an AI Lab to enable firms to test new AI solutions in a safe environment. Innovations tested include for AI solutions that assess biometric verification systems for bias, improve fairness in identity verification checks and enhance transparency about the use of AI through explainability tools.

A public representative agreed that AI has the potential to reduce operational costs, boost efficiency and enhance risk management across the capital markets sector by enhancing workflow productivity, streamlining regulatory reporting across the EU and simplifying compliance with the EU's complex regulatory landscape. AI applications can also foster greater market integration, ensuring more consistent access to financial products and services for investors, and contribute to the growth of markets that are still under-developed in Europe.

1.3 The extent of transformation

The Chair invited panellists to comment on whether AI is mainly improving efficiency and reducing costs or has the potential to fundamentally transform business models in a more disruptive way.

An industry representative considered that while AI could transform the delivery of banking services, enhancing efficiency and customer experience, the fundamental services provided by banks, such as financial intermediation and providing adequate financing to the real economy, will remain unchanged. Therefore, although AI will change the operational model, the core value proposition of banks will remain the same.

A Central Bank official mentioned recent ESMA research showing that only 14% of fund managers currently declare that AI plays a key role in their investment decisions. This suggests that AI has not yet had a transformative effect on core capital market activities, such as investing. However, a Deloitte study predicts that investment decisions will mostly be based on AI by 2027, though that may be overly optimistic.

A public representative suggested that AI is due to play a pivotal role in advancing capital markets in three key areas. First, AI can support the development of fairer and more accessible capital markets notably by enhancing fraud detection and enabling greater product personalisation. Second, AI can strengthen market integrity and competitiveness by facilitating more effective and adaptive regulation. Third, AI can contribute to more sustainable and customer-focused capital markets by improving the quality of information available to retail investors, empowering them and enhancing their protection, which are key objectives of the Savings and Investments Union (SIU).

The public representative agreed that AI has not yet been transformative, mainly due to ongoing issues around customer trust and digital literacy. Without resolving these foundational challenges, it will be difficult for AI to radically change the current way of doing business.

2. Risks and challenges

2.1 Risks from AI use and policy responses

The Chair noted that the risks associated with AI include potential bias, inconsistent answers and other outcome quality issues, which remain barriers to broader adoption. Within banks, there is reluctance to embrace AI fully when there is insufficient control over outputs.

A Central Bank official noted that, although some AI-related risks, including those relating to explainability and model risk from large language models (LLMs), are specific to AI, the risks posed by AI are already covered by the existing regulatory framework. Therefore, new regulatory requirements do not seem necessary, and regulators should adopt a technology-agnostic regulatory approach.

An official questioned whether the risks posed by AI are, in fact, novel risks or merely an amplification of existing risks, suggesting this issue needs to be further clarified. Key risks posed by AI in the capital markets area include herding and market manipulation, where models behave similarly without central coordination. Addressing these risks is an ongoing focus. Cybersecurity threats are also a major concern, particularly as AI enables bad actors to carry out more sophisticated and frequent attacks on financial services. These areas are central to current risk management considerations. To manage AI risks, the UK for example is using existing regulatory tools, focusing on consumer protection, operational and model risk, and accountability and governance. Before introducing any AI-specific regulations, the UK authorities are monitoring whether AI introduces new risks or just amplifies existing ones.

An industry representative explained that AI is a general-purpose technology with the potential for both beneficial and harmful applications. Most AI-related risks are already covered by robust existing regulations in the financial sector.

An industry representative emphasised that AI must also be used responsibly in a way that respects individual rights. Ethical concerns with AI include bias, fairness, transparency and accountability, and are increasingly prominent. The human factor remains crucial with AI.

2.2 Third-party dependencies

An industry representative emphasised that scalability is critical for unlocking AI's full value, with the need for robust infrastructure to manage large datasets and complex computations. At present, US hyperscalers provide the infrastructure that is needed for financial firms to leverage AI without having to invest in proprietary infrastructure, but this creates significant dependencies. Storing and processing sensitive client data with these providers also raises potential data security, privacy and GDPR compliance challenges. Additionally, AI performance often hinges on the quality, accuracy and relevance of third-party datasets.

Cost and economic efficiency are other key considerations. While hyperscalers offer attractive, flexible pricing models, long-term dependencies and potential price increases must be carefully weighed against those positives. Although US providers currently perform well, the evolving geopolitical

environment necessitates proactive planning for alternative solutions. It can no longer be guaranteed that European firms will benefit from frictionless access to new technologies developed in the US in the longer term. In addition, there is the possibility of disruptive technology emerging from non-US providers, as occurred with DeepSeek. Therefore, Europe must invest in data centres and strive for technological sovereignty by fostering European hyperscalers, while simplifying digital regulations.

Another industry representative emphasised the importance of operational resilience, suggesting that firms using AI should design systems that allow for switching between AI models and cloud service providers (CSPs). The Chair questioned if switching between CSPs is feasible with the current market concentration. The industry representative responded that their organisation is comfortable with the prospect of switching between three or four major CSPs. Changes are also occurring quickly in the field of AI models, with the development of smaller, more targeted AI models that are potentially less energy-intensive and that require less advanced technology and chips to run, which could open up new provider options. While this may not be sufficient for the most advanced AI applications, many established use cases in the financial sector do not require the most advanced solutions.

The industry representative highlighted that access to a sufficient AI talent base is another important factor. Europe potentially has a strong position, with statistics showing that over 20% of the world's advanced AI researchers have studied in the EU, although many of them work in other regions.

A public representative highlighted that the barrier to having more data centres in Europe is more related to investment and energy supply than regulation. The EU is addressing this challenge, as well as other existing dependencies in digital, industrial and energy sectors. Europe needs a more autonomous economic model including more data centres, but building the necessary capacity and infrastructure will take time.

An official agreed that third-party risks are critical to consider, requiring monitoring of outsourced operations. Ensuring effective oversight and rigorous testing of third parties raises important questions about the frameworks and processes firms must adopt. There are also synthetic data techniques that support model training without using real customer data, thus preserving privacy.

3. Policy issues to be considered further

A Central Bank official emphasised that the lack of a common definition of AI tools in EU regulatory frameworks, despite existing OECD definitions, should be a key consideration. Ongoing debates about AI cover many different tools. It is necessary to differentiate between traditional AI tools that are already embedded in many capital market processes, and Gen AI.

Regulatory overlaps must also be avoided. AI is already subject to a wide range of AI and data regulations, which

does not facilitate innovation. Some requirements create obstacles to the use of AI, and thus to its capacity to support European competitiveness. For example, GDPR poses challenges for training LLMs on client data. Such issues must be addressed. The need for any new regulation must also be carefully assessed, although it is acknowledged that there are real risks associated with AI, some of which remain to be clarified. For example, there are ongoing debates on possible herding risks related to AI and potential collusion effects among LLMs.

An industry representative warned that the significant compliance burden for financial institutions associated with regulations, and the potential impact of legal uncertainty due to overlaps and ambiguity in the interpretation of regulation on technology usage and innovation, should not be underestimated. The Draghi report highlighted concerns about competitiveness within the EU due to the large number of technology laws. Legal uncertainty also increases the risks for financial institutions. Complexity arises from the interplay between legislation such as the GDPR, the Digital Operational Resilience Act (DORA), DSA, DMA and the AI Act. Specific examples include the impact of GDPR privacy rights under the AI Act, and how to define what constitutes a substantial modification to an AI model that would trigger provider obligations. The recently announced AI Continent action plan aims to harness Europe's potential to promote the development and deployment of AI solutions. This includes simplification measures, providing an opportunity for the EU to develop clear, concise, non-overlapping regulations in partnership with the private sector.

A public representative noted that the European Parliament seeks to foster innovation while safeguarding consumer interests. The EU is trying to strike a balance between innovation and consumer protection; however, consumers must come first. The objective is to create a transparent market with proper human oversight. The various legislative instruments complement each other. GDPR, in combination with the AI Act, ensures privacy and data security. The Data Act together with the AI Act address access to high-quality data and its economic value, The Data Governance Act together with the AI Act ensure that AI systems comply with ethical and legal standards. The Financial Data Access Regulation (FiDA) combined with the AI Act promotes the fair and safe use of AI in finance. While this regulatory setup may seem complex, it reflects the complexity of the underlying technologies. Simplification is needed, but not deregulation, and human oversight must be preserved in all cases.

The Chair noted that sector-specific regulations are typically easier to apply than horizontal frameworks, due to the way supervisory structures are established.

Cryptoassets and EU financial markets

1. Market trends and challenges

An industry speaker highlighted that digital assets are causing a deep transformation in the financial markets. An increasing number of investors are engaging with digital assets and crypto funds and seeking to understand their characteristics, risks and investment potential. There is a growing willingness among these investors to experiment with digital assets in practice.

Another industry representative emphasised the transformative potential of the digital asset industry, including crypto, stablecoins and tokenised assets, for investment activities and the funding of businesses. These innovations promise to address several persistent issues in traditional financial markets. However, there is no shared vision of the long-term evolution of the digital asset sector for the time being. This uncertainty may discourage investment and hamper strategic planning. Despite the many promising use cases, the absence of long term vision and the lack of predictable regulatory guidance are limiting innovation in the sector and reducing its ability to enhance EU competitiveness. There must be greater trust in the digital asset space. It will require a concerted effort to create a shared narrative and ensure the development of robust regulatory frameworks that can deliver tangible benefits. Most discussions about innovation are not clear enough on the expected outcomes. The sector must focus on producing concrete benefits, better understanding new risks and reaching a consensus on its strategic direction. Data can help to improve asset allocation by enabling more effective risk management, but data quality and accessibility remain insufficient.

2. Markets in Crypto-Assets (MiCA): opportunities and challenges

2.1. Benefits from the introduction of MiCA

An industry speaker emphasised that MiCA represents a paradigm shift in the crypto industry. Three months into implementation, crypto firms are starting to secure EU licences for their core crypto operations. Overall, MiCA is viewed positively by the industry, as it offers regulatory clarity and a path to licensing, which facilitates firms' strategic planning and ability to commit to the EU market. MiCA also capitalises on the best practices from traditional finance (TradFi) in terms of consumer protection, while being tailored to the specificities of the crypto industry, including its vertically integrated business model.

A regulator considered that MiCA is a major milestone towards a comprehensive regulatory regime for digital assets. It also puts the EU in a leadership position in this space. MiCA should bring clarity, trust and confidence to a sector that has long lacked them, which will benefit industry participants and investors. The regulation of

digital assets began with the implementation of anti money laundering (AML) rules, which were focused on governance, operating models and internal controls rather than broader supervision. When crypto asset service providers (CASPs) registered under the AML registry, they were only monitored for AML compliance. In contrast, MiCA covers the entire spectrum of a CASP's services. Over time, supervisory authorities have built up the expertise and tools needed for effective sector oversight. While there have been delays in finalising MiCA's regulatory technical standards (RTSs), the authorisation process is moving forward. National competent authorities (NCAs) are actively working, coordinated by European Securities and Markets Authority (ESMA), to ensure consistent implementation. It is crucial to get implementation right from the start. It is always more difficult to restore trust after it has been lost. Some delay can be justifiable if it leads to convergence and a robust supervisory framework.

An industry speaker agreed that MiCA will bring important benefits, particularly by enhancing security in the use of cryptoassets by retail investors. This is an essential factor in building trust and encouraging greater investment in cryptoassets. The EU digital regulatory framework including DORA and AML requirements should also significantly mitigate concerns around cyberattacks and fraud.

An official concurred that the implementation of MiCA offers a clear opportunity to develop the crypto market. Crypto can positively impact financial markets over time by supporting further digitalisation. It has already boosted retail investment largely because of the increased accessibility enabled by its underlying technology. In Poland, for instance, there are around 3 million crypto platform users, which exceeds the 2 million traditional investment accounts, of which only 250,000 are active. Although the risk of scams persists, crypto's improved user experience is likely to enhance investment participation. Traditional providers are now under pressure to offer comparable digital services.

2.2. Remaining challenges in MiCA implementation

A regulator highlighted the tight authorisation deadlines as one of the key challenges to MiCA implementation. MiFID regulated firms seeking to offer crypto services often have complex corporate structures, third party dependencies and potential conflicts of interest, all of which take time to address in the licencing process. This high level of complexity poses a significant challenge for NCAs. The crypto sector has long operated without a European regulatory framework. Guiding firms toward compliance is not straightforward. There will only be a smooth transition with continuous engagement between regulators and market participants.

An official agreed that there will be some difficulties and delays in implementing MiCA. First, MiCA contains a very large number of legislative requirements and their

implementation requires close cooperation with market participants. Many member states are still in the process of implementation. A key difficulty lies in the diversity of the transition arrangements across the 27 EU member states. The efforts of the European Commission and the European supervisory authorities (ESAs) to enhance supervisory convergence will be critical due to the cross border nature of digital services. Additional implementation challenges have also emerged, such as the interface between MiCA and the Payment Services Directive (PSD2), which could have been anticipated earlier in the process. Furthermore, cybersecurity and consumer protection remain significant risks for the sector.

An industry speaker observed that there are both short term challenges associated with the framework's implementation and longer term issues arising from its design, particularly when compared to the regulatory approaches in other jurisdictions. The short term implementation issues, such as the divergence in transition periods across Member States and the uneven readiness of NCAs, should be manageable over the next six to 18 months. However, these challenges will create market uncertainty in the meantime. The work on regulatory convergence led by ESMA and the NCAs will help to overcome this uncertainty. While some additional challenges are created by the unfinished state of several of the level 2 and 3 measures, significant progress should be possible over the coming year.

A second industry speaker pointed out significant differences in how CASP licensing is being handled across member states. MiCA has prompted regulators to engage with crypto firms more extensively than prior national frameworks. The mandated 40 day period for evaluating applications is proving difficult. Some firms have encouraged regulators to take more time to reach well founded decisions. Several market participants have also expressed the concern that firms previously licensed under national regimes may struggle to obtain a MiCA licence. Overall, the licensing process remains slow. Only a limited number of CASPs have been approved in certain jurisdictions, but the grandfathering clause allows firms to operate while awaiting approval. It is expected that a more harmonised licensing process will emerge over time.

A third industry representative underlined the importance of digital sovereignty in the context of MiCA, particularly in relation to reverse solicitation and the preservation of the level playing field. Crypto firms that are active in the EU should be physically based within the Union. The virtual asset service provider (VASP) registration process has shown the need for clear enforcement to identify non compliant entities, notably regarding AML rules, and prevent them from operating in the EU. The industry representative welcomed ESMA's strong guidelines on reverse solicitation, though not all market players share this view. There are some concerns about MiCA's interaction with existing frameworks, especially MiFID. Despite ESMA's clarifications, there is still ambiguity in some of the definitions, such as asset referenced tokens (ARTs). There is also a question around the status of e money tokens (EMTs) under PSD2. Finally, there is a degree of misalignment between MiCA's level 1 and 2 texts. The latter, which have still not been finalised, occasionally goes beyond the level 1 requirements. This

overreach has been criticised by parts of the industry. Some of the RTSs were halted by the European Commission for this reason.

3. International regulatory developments

An official explained that the international crypto landscape is changing with the policy actions undertaken by the new US administration. The current administration supports crypto innovation by promoting public blockchains and dollar-denominated stablecoins and banning central bank digital currencies (CBDCs) to leave space for private cryptoassets. Despite an overarching deregulatory trend, new rules for stablecoins have been introduced to formally legitimise them, as well as unbacked cryptoassets. The Office of the Comptroller of the Currency (OCC) is also introducing new rules or reinterpretations of existing ones, allowing financial institutions to carry out crypto-related activities without prior regulatory approval, and a crypto reserve has been established. The regulation of stablecoins is probably the most significant ongoing legislative development in the US. Stablecoins can support more efficient settlement of tokenised assets and improve cross-border payment efficiency. If they become more widespread, however, this could create risks to market integrity, consumer protection and monetary sovereignty. These risks grow with the scale of adoption but can be mitigated through regulation aligned with global standards.

The US approach contrasts with the EU's more risk-focused regulatory framework, the official observed. The GENIUS Stablecoin Act, currently under discussion in the US Senate, provides greater flexibility in terms of eligible issuers, backing assets, and the possibility of remuneration, though it remains uncertain whether remunerated stablecoins will ultimately be permitted. This combination of features could be very disruptive and lead to a reduction of intermediation in the financial system. While many banks welcome the opportunities offered by crypto, these developments raise some challenges. The US aims to boost the global role of the US dollar through dollar-based stablecoins, while Europe prioritises orderly development and risk mitigation. If adopted, the US framework could pressure the EU and other jurisdictions to adapt. The GENIUS Act includes reciprocity provisions with equivalent regulatory frameworks that may lead to convergence discussions. However, the EU's current position does not promote stablecoins domestically or internationally. It remains uncertain whether loosening safeguards would provide net benefits.

The Chair observed that the standards developed by the Financial Stability Board's and the International Organization of Securities Commissions (IOSCO) seek to establish common rules, but diverging jurisdictional decisions are creating ripple effects and prompting some countries to reconsider their approaches.

An industry speaker observed that several G20 jurisdictions—including the UK, the US, and Australia—are making notable advances in shaping their own crypto regulatory frameworks. MiCA stands out for lacking third-

country provisions, which are typically embedded in traditional financial regulation. Regulators and industry will have to determine how to deal with foreign players operating under third-country frameworks. Options include reliance on FSB standards, bilateral MOUs (memoranda of understanding) or encouraging global regulatory dialogue to promote convergence.

4. Opportunities and preconditions of integrating crypto in the SIU

A regulator noted that the current legislative momentum around the Savings and Investments Union (SIU) should lead to numerous initiatives in the coming years. Crypto is not yet a central focus of the SIU, but integrating crypto and digital assets into the SIU could enable the development of innovative ways to unlock capital, enhance transparency and efficiency in investment processes, expand the investor base and accelerate the adoption of tokenisation. These advances could foster innovation, entrepreneurship and growth across the EU. However, these opportunities come with risks to investor protection and concerns around financial stability, as the sector grows. The crypto industry is still immature, but it has entered a regulatory phase. Its evolution under regulation will determine the extent to which it can be integrated into the SIU.

An industry representative considered that with the adoption of MiCA, crypto must now be considered as part of the Single Investment Union (SIU). Despite the heterogeneity of the crypto ecosystem—which includes centralized and decentralized platforms, a variety of cryptoassets, and differing underlying technologies—there is a clear opportunity for crypto to contribute to the creation of a cross-border, digitally native single market within the EU. This could facilitate both retail investment and everyday payments, offering a more accessible and efficient financial environment for citizens across Member States. To realise this potential, there are three key policy priorities. First, improving financial literacy is essential. Citizens and firms must understand the benefits and risks of capital markets to participate meaningfully in the SIU. Indeed, risk is an inherent part of any investment ecosystem. Investors must make informed choices, firms must accept uncertainty in listing decisions, and regulators must recognise that eliminating all risk would ultimately stifle innovation. Secondly, regulators must strike the right balance between innovation and oversight. This ambition is reflected in MiCA Level 1, though not always consistently carried through in the Level 2 text. Thirdly, maintaining legal certainty is critical to ensuring trust and cross-border operability.

The industry speaker also stressed that ultimately the full integration of crypto into the SIU depends on overcoming several important challenges. While MiCA provides a foundational regulatory framework, it is not sufficient. Crypto must be meaningfully included in ongoing policy debates about SIU, and certain regulatory obstacles, such as the 1,250% risk weighting applied to cryptoassets under Basel 3.5, which contradicts the spirit of MiCA, need to be addressed. There is also a need for greater

professionalisation across all levels of the crypto industry, including among CASPs and issuers. For crypto to be a credible part of the SIU, the sector must shift its focus towards assets with clear economic relevance and move away from speculative, low-value instruments such as meme coins.

Another industry speaker considered that crypto is already connected to some of the SIU's key themes, such as the future of investing, simplification and international competitiveness. Crypto should be integrated into the broader SIU strategy, although it will require thoughtful action and time to determine the right course of action. Despite a decade of efforts to develop capital markets in the EU, bank financing continues to dominate. Crypto and its underlying technologies, notably tokenisation, are an opportunity to empower the next generation of investors to invest in the capital markets.

An official emphasised that crypto is already aligned with the SIU objectives in several ways. One of the key objectives of the SIU is to grow retail investor participation. Crypto has the potential to attract investors to the market, though this will require a higher level of financial literacy. The SIU aims to unlock new financing sources for the real economy. Cryptoassets and other digital asset solutions can support this goal through initiatives such as blockchain based SME bonds. These use cases can enhance access to funding. Eventually, digital and crypto firms could list on crypto exchanges rather than traditional ones. Furthermore, the underlying DLT technology and infrastructure can reduce investment costs in digital and traditional assets and improve accessibility. Faster transaction settlements and improved custody may simplify investing and ultimately increase retail investment.

5. Efficiency and competitiveness impacts

An industry representative emphasised that digital assets can expand global market access and foster a trusted environment for transactions. However, there are still psychological barriers between TradFi, digital assets and decentralised finance (DeFi). Market makers see strong demand for liquidity bridges between these environments. All market participants want optimal risk adjusted returns. Expanding the asset pool offers advantages to all players, but the digital asset system must be resilient and capable of managing risk at scale. Market makers can play a key role in creating interoperability by moving liquidity between TradFi and digital markets, thereby supporting the development of robust new infrastructure. This effort ties into a broader goal: finding the most efficient means to transfer liquidity between asset classes and regions. Over recent decades, the financial community has collectively invested heavily in infrastructure. The debates around fractionalisation and 24/7 or 24/5 market operations raise important questions about whether to upgrade existing systems or shift innovation to the digital space. If these overarching issues remain unresolved, there will be a proliferation of competing innovation paths, which will make it more difficult to create an effective regulatory environment. All

market participants must take responsibility for helping to shape a coherent digital asset adoption strategy.

An official considered that the existing EU regulatory framework, including MiCA, MiFID and the DLT Pilot Regime, provides a solid basis for integrating new technologies into the financial system. For instance, MiCA compliant stablecoins could serve as settlement instruments in tokenised securities transactions. However, stablecoins face limitations in scalability and elasticity and cannot replace central bank money. The focus should be on the broader benefits of the underlying technologies. Tokenised assets, especially tokenised deposits and government securities, should be promoted. Interoperability between platforms can be enhanced by developing common codes and standards and harmonising key aspects of the legislative framework, such as definitions of ownership for tokenised and programmable assets. A wholesale central bank digital currency (wCBDC) will be essential to ensure secure, flexible and scalable settlement mechanisms for tokenised transactions and realise the full benefit of DLT based infrastructure. Without a wCBDC, the potential for technological innovation to enhance the competitiveness and efficiency of the EU capital markets will remain constrained.

An industry speaker stated that blockchain technology has already delivered significant benefits beyond digital assets.

In a proof of concept, blockchain and stablecoins have been used to create a new type of money market fund offering instant order execution and instant NAV calculation. This innovation could lead to the emergence of entirely new fund structures, but it also raises new challenges that will require further regulatory discussions. There is clearly a need for market standards, particularly regarding stablecoins. EMT issuers currently propose their own versions of stablecoins. If stablecoins were backed by central bank money, they would gain significantly more credibility and adoption and would therefore have greater market impact.

Wrap up

The Chair concluded the session by stating that the implementation of MiCA over the next six to 18 months will give all the regulatory and industry stakeholders time to reflect on regulatory convergence and evaluate the international developments. There are financial stability risks that must be considered also. Historically, the sector has been relatively self contained, but there is now a growing interconnection between crypto and traditional finance.

Scaling up tokenisation and DLT

1. Tokenisation market trends and ongoing experimentation

An industry representative highlighted that currently only \$15 billion in real world assets are tokenised, but, with over \$100 trillion in capital market financial instruments globally, some forecasts suggest this could rise to \$30 trillion within five years.

Another industry representative added that according to a recent report, the global tokenised real-world asset market could grow to \$19 billion by 2033. While real estate and investment-grade bonds have led adoption so far, use cases are rapidly expanding to include liquidity management, collateral optimisation, trade finance, and treasury management for corporates.

A regulator explained that in Germany the approach to tokenisation has followed a step-by-step process, making use of the opportunities provided by the EU distributed ledger technology (DLT) pilot regime. The initial phase focused on the issuance of digital securities, which are electronic representations of traditional bonds issued under the existing regulatory framework. In this setup, order processing is carried out by traditional market actors using an off-chain register. Several digital bonds have already been successfully issued and redeemed this way.

The next stage involves the issuance of crypto-assets recorded on-chain, with order execution handled by market participants who are licenced under the Markets in Crypto-Assets Regulation (MiCA) framework. A range of pilot projective has been developed in this context. For the payment leg, the German Bundesbank offers a "trigger solution", which is a mechanism that emulates the functionality of on-chain settlement while not being fully on-chain. The most advanced phase consists of the integration of multiple value chain functions within a single legal entity. This model was tested in 2024 through a digital trading and settlement platform licensed by BaFin under the EU DLT pilot regime. The results and learnings of these tests were positive.

The DLT pilot regime offers a valuable opportunity to gain practical insights in a secure environment, while maintaining the reliability required of financial infrastructures, the regulator added. Since a minimum viable product approach is not suitable for such critical systems, innovation in this field tends to be evolutionary rather than revolutionary. As such, there is significant value in the experimentation and use cases being developed within the DLT pilot regime.

An official noted that different types of digital securities can be issued, transacted and used as collateral including digital forms of traditional bonds, equities and fund units. The UK's Digital Securities Sandbox (DSS) allows issuance, trading and settlement of digital securities within a single legal entity by switching off existing rules

and accommodates public and private DLTs. Eight firms have already applied to the sandbox, testing a variety of business models and features such as atomic settlement and fractionalisation. The UK government has committed to include the Digital Gilt Instrument (DIGIT) in the DSS. This experimentation will inform future regulatory adjustments, helping participants develop sustainable models. Not all experiments will succeed, but the learning process is essential.

2. Opportunities and benefits of tokenisation

The Chair highlighted the main benefits of tokenisation for financial activities, including cost reductions, enhanced transparency, improved reconciliations, 24/7 operations, and programmability of smart contracts. However, these benefits still need to be fully demonstrated.

An industry representative stated that tokenisation and moving assets on-chain could lead to significant cost savings and greater efficiency compared to legacy systems. A Global Financial Markets Association (GFMA) report estimates up to \$16 billion in annual savings, mainly through disintermediation in the post-trade infrastructure. Tokenisation and value transfers on blockchain also have the potential to democratise finance, by enabling broader access of retail investors to different types of investments and by supporting the financing of SMEs, which will contribute to the objectives of the Savings and Investments Union (SIU).

A second industry representative added that a key characteristic of crypto markets is their global nature. Traditional market infrastructures have expanded internationally, but they tend to be more tied to their original market base. Crypto markets facilitate cross-border asset transfers with fewer barriers and in a simpler way. Crypto-asset service providers (CASPs) have also pioneered the notion of 24 / 7 / 365 markets, underpinned by digital assets such as Bitcoin, Ethereum and stablecoins. Additionally, DLT and tokenisation can provide investors with access to asset classes in ways that were previously unavailable, particularly for emerging markets. This will enable broader participation, financial inclusion, and a more efficient capital formation.

A third industry representative agreed that tokenisation offers transformative potential for capital markets globally, and encouraged the EU authorities to support the acceleration of its deployment. The core advantage of tokenisation lies in its ability to record and transact assets on a blockchain ledger shared by different market participants, enabling near to real-time settlement in three to six seconds, as well as automated transactions. The asset and cash legs of transactions can be synchronised to achieve a similar outcome to delivery versus payment (DVP).

Compliance can be embedded into a smart contract and fractional ownership can expand access to investment opportunities. These features generate three main types of benefits. The first benefit is operational efficiencies in terms of speed and cost, with up to 40% issuance cost savings for corporates. The second benefit is greater accessibility for issuers and investors. Tokenisation can lower barriers to accessing capital markets for SMEs with the ability to issue bonds in smaller sizes. Investors may also access more diversified, lower-cost investment opportunities with smaller transaction sizes. The third benefit is resilience due to the underlying blockchains that eliminate single points of failure with decentralisation and enhance transparency.

An official concurred that tokenisation offers the potential for faster, cheaper and more efficient transactions, as well as for executing complex transactions more efficiently. This can be beneficial both on the asset and liability sides. If properly implemented, it could broaden market access, deepen capital markets and support economic growth. The biggest near-term potential lies in private markets, where trading structures and conventions are less established with many inefficiencies, and where tokenisation could reduce frictions and costs.

In more established markets tokenisation can also help to increase efficiencies by unlocking underused collateral, enabling fractional ownership, or increasing accessibility to certain assets. Instant settlement can also help to reduce settlement risks, but it is unlikely that wholesale firms will sacrifice the netting benefits or funding efficiencies for that instant settlement. In the longer term, tokenisation could also lead to a reorganisation of market structures as a result of the ability to collapse different functions into a smart contract, which will not require the same intermediaries as at present.

An industry representative noted that their bank is currently testing the practical benefits of securities tokenisation to reduce infrastructure costs, in collaboration with partner institutions, including insurance companies and the European Investment Bank (EIB). Tokenisation is a strategic priority for their bank, as a lever for boosting operational efficiency and remaining competitive in an increasingly digital financial environment. Unlike digital-native players, banks currently operate on legacy infrastructures, which are expensive to maintain and lack flexibility.

3. Challenges to address and conditions to meet for developing tokenisation

An industry representative stated that while a high level of capability has been achieved by banks for tokenising primary markets, scaling up the market remains a

challenge, as evidenced by experiments that have been conducted in recent years. One issue centres on developing secondary market liquidity, so that digital assets such as digital bonds can be traded at a sufficient scale to be in the balance sheet of banks and asset managers. The DLT pilot regime has helped in the testing phase, but it is constrained by the €6 billion market value cap¹, which makes commercial viability of DLT platforms difficult in a context where the total outstanding market cap amounts to €100 billion to €300 billion.

The second issue is fragmentation. Technological fragmentation, with each bank potentially developing its own DLT platform and with multiple blockchain protocols available, which limits interoperability and liquidity, must be overcome. Convergence will inevitably happen, but it should be accelerated. The Agorá unified ledger concept proposed by the Bank of International Settlements (BIS) could help in this regard. Regulatory fragmentation, particularly between the EU and US, is also a concern, the industry speaker added. The US SAB 121 rule that risked fragmenting the global market was recently repealed², but other challenges come from the Basel prudential regulations, which treat public and private chain-issued securities with identical risk profiles differently, potentially undermining technological neutrality.

Banks face the added challenge of balancing innovation with their responsibility to uphold financial stability and protect customers. This includes offering properly regulated products and payment solutions, which is supported by the legal clarity provided by the MiCA regulation and the DLT pilot regime.

A regulator added that national competent authorities (NCAs) welcome innovation that can potentially lead to more efficient markets as long as it is pursued responsibly, preserves financial stability, anti-money laundering (AML) compliance, and cyber resilience.

An industry representative emphasised that one of the key challenges lies in managing the transitional phase where the emerging digital ecosystem of tokenised assets will coexist alongside traditional market infrastructures. Industry-wide cooperation will be essential to effectively bridge the gap between legacy systems and new digital solutions. This transitional period raises important questions regarding settlement governance, particularly how interactions between the digital ecosystem and traditional infrastructures might affect the functioning of tokenised assets, notably those that confer voting rights, and how settlement processes are handled.

There is a need to apply existing regulatory frameworks in creative and adaptive ways to govern the aforementioned hybrid systems, which will operate tokenised assets and traditional structures in parallel.

An official added that sufficient market standardisation is needed to fully realise the benefits of tokenisation,

1. The total market value of DLT transferable securities recorded at a DLT Market Infrastructure may not exceed EUR 6 billion at the moment of admission to trading or initial recording.

2. SAB 121 was a rule issued by the U.S. Securities and Exchange Commission requiring banks to hold digital assets on their balance sheets as liabilities with corresponding capital charges. Intended to address custody risks, it was criticised for discouraging institutional involvement in tokenisation and was ultimately repealed due to concerns that it hindered innovation and conflicted with broader financial regulatory goals.

particularly in post-trade processes. That standardisation potentially needs to be driven by public authorities.

The Chair summarised that while tokenisation holds significant promise for the future of finance, scaling its use requires addressing several challenges—most notably, achieving interoperability, ensuring regulatory clarity, and securing access to appropriate settlement assets. Ongoing dialogue and cooperation between public authorities and private sector stakeholders will be essential to unlocking the full potential of tokenised finance. This engagement will also be key to managing potential divergences, particularly in relation to the most appropriate settlement assets for tokenised ecosystems.

4. Policy priorities and next steps

4.1 Policy priorities to support the adoption of tokenisation

An industry representative stated that the US is advancing quickly; it is introducing a market structure bill, which is likely to be agreed by Q3 2025 at the latest, that goes beyond experimentation. The bill proposes rules for using blockchain to trade financial instruments. Europe needs a similar policy momentum to adapt its market structure.

There are currently different perspectives in Europe among the private and public sectors on how to capitalise on DLT. A decision needs to be made for tokenisation markets about whether assets are going to be moved onto the chain within private, closed ecosystems, or using public, permissionless blockchains. The private sector is generally in favour of the latter option; there is an increasing recognition by public sector stakeholders of the potential of that option. Public, permissionless blockchains are more secure, resilient, interoperable, and innovation friendly, so the option should be kept. It is likely that there will eventually be a combination of the two systems, with a neutral, public and permissionless base layer, and then a permissioned, know your customer (KYC) layer on top of it, similar to the structure of the internet.

Several other policy issues need further consideration in order to scale tokenisation, the industry speaker suggested. One issue is the 1,250% risk weight that is currently applied to bank exposures to permissionless blockchain assets. The treatment blocks scale-up and contradicts risk sensitivity. Cooperation between crypto-native and banking sectors to advocate for balanced prudential treatment is welcome and the change of US administration may create opportunities for alignment. The implications of the Central Securities Depository Regulation (CSDR) and the Settlement Finality Directive for the scaling of tokenization also need considering. The MiCA capital requirements on stablecoin issuers may also need reviewing in the future.

A second industry representative highlighted the political transitions that have recently happened in many jurisdictions across the world. A renewed focus on economic growth and maintaining globalised financial markets should benefit tokenisation. The main tools to regulate digital asset activities are in place in the EU, such as MiCA, the Electronic Money Institution (EMI)

and the Markets in Financial Instruments Directive (MiFID) licences. The UK and US are also developing their own tools.

A third industry representative added that sufficient regulatory agility is also needed. When the Commission reviews the DLT pilot regime the aim should be to achieve a regulatory approach that can adapt to market changes and empower regulators to revise rules, in order to keep pace with technology and its opportunities.

An official emphasised that regulation must ensure legal clarity around tokenised assets in a digital environment. Authorities must assess the barriers faced by both incumbents and innovators in relation to tokenisation. There are many issues to be considered, including operational risks around permissionless systems, 24/7 governance, conflicts of interest and fractionalisation. These risks are manageable, but require clear principles to guide market development and ensure financial stability. The sandbox environment can also help to determine the conditions for tokenisation to scale up.

A regulator stated that MiCA offers a solid and harmonised regulatory foundation for digital assets across Europe. However, certain areas still require further development, particularly the regulation of staking and lending, which are currently outside the scope of MiCA. Additional clarity is also needed regarding liquidity requirements and the use of e-money tokens for payment purposes. Central bank digital currencies (CBDCs) also have an important role to play as a key building block of an efficient tokenisation ecosystem. Beyond financial regulation, civil and insolvency law issues must also be addressed in the broader context of the SIU.

While regulation must remain flexible and conducive to innovation, it is ultimately the role of the private sector to develop the market through compelling business models, the regulator stressed. Supervisors should refrain from prescribing specific technologies and focus on removing unnecessary barriers to innovation.

4.2 Settlement assets

An industry representative stated that on-chain cash is essential for the scaling of tokenisation markets to avoid having to off-ramp into fiat cash settlement. Three options exist for enabling on-chain cash settlements: CBDCs, tokenised deposits, and stablecoins.

The industry representative was supportive of a mixed-payments ecosystem providing access to these different solutions. Stablecoins, which already operate at scale, can play an important role complementing CBDCs and tokenised deposits. In 2023, stablecoins settled almost \$11 trillion in transactions, equivalent to Visa volumes and double those of PayPal.

The US has the world's largest economy and the most liquid capital market, but it has rejected CBDC and is decisively moving toward stablecoins. It is therefore likely that stablecoins will play an increasing role. Europe must keep an open mind, ensuring that MiCA regulated fiat-backed stablecoins can play a complementary role in the settlement of tokenised asset transactions. Some regulatory concerns that have been expressed regarding

the singleness of money can be addressed through robust regulation; it is expected that the US will impose similar requirements to the EU on this issue.

A second industry representative emphasised that stablecoins are currently the only settlement asset fully transferable on-chain, making them vital for near-term innovation. While central bank money remains the risk-free settlement asset, it is not yet available on-chain. Stablecoins fill that gap and should be able to circulate globally to unlock the benefits of tokenisation, with similar rules across jurisdictions. Global stablecoins that are MiCA-compliant should be able to circulate and be used in the EU, as envisaged by MiCA. EU-issued and regulated stablecoins must be similar to those issued and used in other jurisdictions.

An official agreed that determining the most suitable way to provide payment for the delivery of tokenised assets among the three available options of CBDCs, tokenised deposits or stablecoins is essential. The singleness of

money is an important principle for maintaining financial stability in wholesale markets.

An industry representative highlighted the need for wholesale CBDC to anchor interbank liquidity in the context of tokenisation, and urged the ECB to deliver tangible outcomes soon, noting that the push for stablecoins in the US may create fragmentation between the EU and US.

The Chair noted that the ECB recently took an important step in announcing the rollout of a wholesale CBDC, which could contribute to removing some obstacles to tokenisation business models. Europe will have a CBDC to rely on, contrary to the US. An important condition for the greater use of stablecoins is that the US stablecoin regulation is similar to MiCA, but that remains uncertain.

Cybersecurity and digital operational resilience

1. Progress of DORA implementation

1.1 Implementation of DORA in the EU

The Chair noted that the Digital Operational Resilience Act (DORA) framework became applicable in January 2025. The approach for developing the DORA Regulatory Technical Standards (RTS) has been pragmatic and rapid, taking around two years to deliver. Implementation is proceeding on schedule. Incident reporting is in place and convergence in supervisory practices across member states has been observed, facilitated by the joint efforts of the European Supervisory Authorities (ESAs).

A regulator confirmed that the early implementation stages of DORA are progressing well. Industry and supervisory authorities are both making significant advances. A dry-run exercise conducted in summer 2024 helped financial entities to prepare for the production of their registers of information. The ESAs will receive this data for the first time by the end of April 2025. While variations in quality are expected, this will be a key input to enable the identification of critical ICT third party providers (CTPPs).

Contractual adjustments are also needed. Although institutions have had to comply with these requirements from January 2025, supervisors are currently taking a proportionate and balanced approach to oversight. The new harmonised incident reporting framework is already operational and is enabling more efficient dissemination and coordination of information. Supervisory authorities, including ESAs and the National Competent Authorities (NCAs), are increasing their internal oversight capacity and hiring new staff. Methodologies have been developed and recruitment is ongoing, with proportionality factored into approaches.

The implementation of the new oversight regime for CTPPs is proceeding as planned, the regulator added. This model, similar to that used for payments, relies on close cooperation between authorities and stakeholders to ensure consistent expectations and effective risk management across the entire financial ecosystem. Formation of the Joint Examination Teams (JETs), which will lead on the oversight of CTPPs, is underway, with operations expected to begin by the end of 2025. The designation of CTPPs is due to begin after summer 2025, once relevant data is collected. Engagement with potential CTPPs has already begun informally and will intensify ahead of formal designations in November.

An industry representative shared the perspective of a cloud service provider (CSP) on the implementation of DORA. Collaboration between regulators, financial firms, and ICT providers is key to enhancing operational resilience in the European financial market. The speaker's firm has been preparing for DORA since 2022. The main focus so far

has been on equipping clients with the tools and information needed for their own compliance. Contracts have been updated to align with DORA's Article 30 requirements, and customer guides on ICT risk management and information registers have been published. Additional support includes a third-party risk management portal and a DORA FAQ page addressing the main questions around compliance with DORA.

Another industry representative agreed that good progress has been made in the monitoring ICT outsourcing. The delay in publishing the RTSs initially caused ICT service providers to pause moving forward with the implementation, but momentum is building, and implementation is now well advanced.

1.2 International cooperation

The Chair emphasised that international cooperation remains essential in the evolving global threat landscape and should be reinforced through deeper cross-border dialogue. The work of international bodies such as the Financial Stability Institute (FSI), Financial Stability Board (FSB) and Basel Committee to ensure consistency also supports effective cross-border dialogue, particularly through a focus on practical operational risks in today's challenging environment.

A regulator reported that, from the outset, the ESAs engaged with non-EU jurisdictions, such as the US and the UK, to share experience on risk mitigation practices and how qualitative and quantitative approaches can be appropriately balanced. These exchanges helped refine DORA and ensure coherence with global practices. As geopolitical risks are increasing, strong cross border cooperation remains a cornerstone of effective cyber resilience. The visibility of critical ICT vulnerabilities and dependencies enabled by DORA creates a solid foundation for building better informed responses and increasing cooperation both within the EU and internationally.

2. Main benefits of DORA

The Chair summarised that DORA is an innovative, outcome-focused piece of legislation designed to enhance digital resilience across the entire financial ecosystem, not just for a specific category of players. Instead of imposing detailed rules, DORA provides a flexible framework aimed at delivering tangible results in areas such as risk management, outsourcing, threat-led penetration testing, incident reporting, and oversight of cloud and third-party providers.

A regulator emphasised that DORA is a breakthrough in terms of content and approach. DORA is a cross-cutting framework that applies to all financial entities in the European financial ecosystem and addresses all the

dimensions of ICT resilience. Its implementation is harmonised across all 27 member states, streamlining previously fragmented practices and creating a systematic approach to digital resilience. The collaborative nature of the implementation of DORA, with all three ESAs working jointly is also a novelty. This coordination reflects the cross-cutting nature of digital operational resilience, which affects not just banks but all types of financial institutions. However, for many firms, while aspects such as incident reporting and contractual clauses may evolve, the underlying risk management principles will remain unchanged.

A central bank official remarked that DORA is a timely initiative that will contribute to strengthening awareness of cyber risks and the need for cyber resilience across the whole financial sector. While large systemic banks are already well-equipped to address cyber risks, this is generally not the case for smaller banks and pension institutions. DORA will have a particularly significant impact on these smaller institutions. In Denmark, smaller banks often depend on shared IT service providers. DORA clarifies governance structures and responsibilities within these shared arrangements, contributing to a reduction in associated risks. DORA has also prompted discussions around the applicability of threat-led penetration testing for pension institutions, which are a major component of the Danish financial system. Following detailed deliberations, regulators concluded that pension funds should be subject to such testing, which is expected to become mandatory once the relevant RTSs are finalised.

3. Improvements needed in the implementation of DORA

3.1 Aligning DORA and financial regulatory frameworks

An industry representative noted that DORA does not introduce radical changes but requires institutions to reassess their digital operational resilience across entire value chains. One challenge is the lack of harmonisation between regulatory regimes, such as between DORA and the Bank Recovery and Resolution Directive (BRRD), particularly in the definition of critical processes. To ensure continuous operation of essential services, alignment of these definitions is vital. Using the BRRD for scenario analysis in operational resilience remains difficult, as the directive is primarily focused on capital and liquidity and, unlike European Banking Authority (EBA) stress tests, it does not provide a clear pathway to concrete action.

3.2 Streamlining supervisory activities for CTPPs

An industry representative emphasised that the impact of the CTPP oversight regime must be carefully assessed. Implementation of this regime will require close coordination between supervisors, ICT providers and financial institutions. As a new and untested framework, it may introduce additional layers of complexity. One key challenge is the dual oversight structure of direct oversight of CTPPs by the ESAs combined with indirect supervision by NCAs via the financial institutions that use CTPP services. Clear expectations and consistent approaches

between these supervisory levels will be essential. It is also crucial to differentiate between traditional financial institutions and technology providers in the operational application of oversight. Supervisors need to develop a strong understanding of technology-specific concepts, such as the shared responsibility model in cloud computing. An outcome-based approach that enhances resilience without hindering innovation through overly prescriptive measures should be prioritised.

The Chair agreed that, as the implementation proceeds, CTPP oversight and traditional financial supervision must be effectively coordinated to avoid both duplication and regulatory gaps.

In response to the comments regarding the complexity of the dual oversight regime, a regulator acknowledged the potential concerns raised by the interplay between traditional supervision and the new DORA oversight regime. Efforts are being made to align supervisory activities and share information to minimise duplications and burdens, especially on third-party providers.

3.3 Improving the proportionality of DORA

An industry representative observed that the implementation of DORA within banking groups poses potential proportionality issues. All legal entities within a banking group must comply with DORA equally, even very small subsidiaries, which increases the complexity of implementing the framework. There should be greater sensitivity to the size of different entities within a financial group.

A regulator acknowledged that, although DORA includes principles of proportionality, there is a cost to the implementation of DORA for all entities, because there is a shared need for resilience across the financial system and any group is only as strong as the weakest link.

The Chair commented that proportionality and compliance costs are critical considerations. DORA aims to balance resilience and avoiding excessive regulatory burden. Its ecosystem approach is grounded in outcome-focused collaboration.

3.4 Improving recovery planning

A central bank official noted that DORA will improve the prevention of and protection against cyber-risks, for example by establishing threat-led penetration tests as mandatory for significant financial entities in the EU. In Denmark threat intelligence-based ethical red teaming (TIBER) tests have been conducted since 2018 building on a framework developed by the European Central Bank (ECB). However, further work is needed on recovery planning. Improvement is required at the individual institution level and across the financial sector as a whole. Central banks are currently evaluating whether public back-up systems or offline transaction mechanisms should be established in case a bank is unable to operate for several days.

The Chair remarked that the expansion of threat-led penetration testing under DORA presents not only a valuable opportunity but also a challenge for supervisors. TIBER was originally designed by the ECB as a cooperative model between banks and supervisors, but there is now a

risk that it will become a traditional supervisory tool. Supervisors will need to adapt their approach and remain open to cooperation to maintain its collaborative nature.

4. Emerging risks and new measures needed

4.1 Emerging and evolving cyber-risks

A central bank official commented that the growing threat landscape, intensified by geopolitical tensions such as the war in Ukraine, has further underlined the urgency of tackling cyber-risks. A rise in incidents, notably distributed denial-of-service (DDoS) attacks, has led to heightened concern about the possibility of more severe disruptions. The 2022 invasion of Ukraine was a turning point that led to broader consideration of cyber and operational resilience in the financial sector. New areas of concern are now being discussed, including vulnerabilities in submarine cable infrastructure, the illusion of redundancy when multiple providers rely on the same infrastructure and structural shifts in the tech industry. Europe's dependence on non-European ICT providers, including CSPs, is a major issue that raises questions of long-term contingency planning and digital sovereignty.

An official emphasised that, from a macroprudential standpoint, assessing the size and interconnection of ICT providers alone is not sufficient. It is equally important to consider ongoing developments within the tech industry to properly evaluate systemic risks posed by these providers. This includes examining the strategic resilience of dominant ICT providers and their ability to sustain investment efforts over time. The so-called 'magnificent seven', some of which may be designated as CTPPs in the EU, are currently undergoing significant changes in valuation. At the same time, non-western competitors such as Deepseek are emerging, potentially disrupting the market by offering similar technologies at lower costs. This could reshape competitive dynamics in a significant way. Another concern is the possible dependence of financial institutions on non-EU providers subject to foreign jurisdictions that may be exposed to geopolitical sanctions. Such reliance increases the risk of service disruption. A clearer understanding of these evolving challenges is essential to grasp their broader implications for digital operational resilience. Regulatory authorities must proactively address these issues, rather than assume that they will be resolved naturally.

An industry representative observed that, while the number of cyber-attacks has remained stable, their variety and sophistication has increased. Ransomware remains the most prevalent threat, with 'ransomware as a service' becoming common, although its success is still limited. Other risks include DDoS attacks and disruption attacks to infrastructure such as electricity, internet and subsea cables.

4.2 New policy measures needed

An industry representative suggested that industry-level cooperation within and beyond the financial sector is the

most effective tool to monitor and tackle emerging cyber-risks. In the Netherlands, chief information security officers (CISOs) from large corporates, including financial and non-financial firms, have established joint communities to share intelligence and improve preparedness.

An official acknowledged the efforts of public institutions to build readiness. Stress testing and scenario analysis are increasingly common, with the ECB and several member states, including Denmark, taking the lead. There are also ongoing collaborations with the Bank of England. A new coordination body, the pan-European Systemic Cyber Incident Coordination Framework (EU-SCICF), has been established with the ESAs to enhance preparedness for systemic cyber incidents. There is a question of whether there is "bias to inaction", meaning a tendency to delay hard decisions or ignore emerging risks, in this area. Using analogies from the Apollo 13 mission, where action was taken promptly, and the Titanic, where the opposite occurred, the speaker argued that effective crisis response requires early acknowledgment of problems and the courage to act swiftly.

The Chair observed that DORA aims to generate momentum and fast responses. Incident reporting is now operational and continuously shared across Europe, with 24/7 points of contact established in member states, and coordination during emerging events is improving. The implementation of the EU-SCICF framework should help to counteract potential inaction by embedding a more proactive, systemic approach to operational resilience.

An official commended the work conducted by the ESAs in this regard in parallel with the implementation of DORA

4.3 The role of technology

The Chair observed that there is a tension between the tendency of rapidly evolving technologies such as distributed ledger technology (DLT) and AI to expand the threat surface and their ability to offer potential solutions to cyber-risks.

An industry representative highlighted AI's dual role in digital operational resilience, presenting both opportunities and challenges. On the one hand, AI enhances operational efficiency, customer experience and data analysis for faster decision-making. On the other, it is increasingly exploited by malicious actors to better target and sophisticate attacks. Regulators must balance the benefits and risks when shaping policies for AI and other technologies.

CSPs can play an important role in mitigating cyberthreats, in terms of both frequency and sophistication, and enhancing cyber-resilience. CSPs such as Google Cloud contribute to building resilience by continuously investing in security and developing the cloud infrastructure based in the EU. Partnerships are being developed with European financial institutions to offer services tailored to their specific workloads and data with strong sovereignty protections. The objective is to enable financial institutions to continue operations independently, even in the unlikely event of Google Cloud exiting the market.

Open Finance and FiDA next steps

1. Update on the FiDA trilogue negotiations

The Chair noted that Open Finance, as part of the wider European data strategy, is a key lever for fostering innovation across financial services. The FiDA (Financial Data Access) proposal represents a concrete step in turning this vision into reality.

A public representative explained that the central aim of FiDA is to foster cross sectoral data sharing to support innovation and the creation of more tailored and consumer friendly financial products. The FiDA file was retained in the Commission's legislative programme, taking into account the potential role of data sharing and Open Finance in enabling fintech development and innovation in the market. However, the political momentum around FiDA is fragile. The banking and insurance sectors have shown limited support. The trilogues have started. The Commission was asked to produce a non-paper on how to simplify the legal text adopted by Parliament and the Council in 2024, which is overly complex in several areas. The non-paper is expected in the coming weeks.

2. Opportunities and benefits of an Open Finance framework

2.1 Bringing Open Finance into the scope of regulation and supervision

An official considered that FiDA creates clear benefits from a supervisory perspective by bringing unregulated data scraping business models within the regulatory perimeter. It is clear that some market players use data scraping, but it is difficult to understand how widespread the practice is because it is not subject to adequate oversight. FiDA would enhance consumer data protection and address the security concerns associated with data sharing practices. Without a European scale approach to Open Finance, there is a risk of fragmentation. The inclusion of gatekeeper provisions in the Parliament and Council texts is also a positive step, but any gatekeeper assessments must be conducted at European level. The same is true for the supervision of cross-border Open Finance schemes.

Another official expressed broad support for FiDA's innovation and consumer protection objectives, provided that data usage continues to be grounded in sound ethical frameworks and robust safeguards are put in place. First, there needs to be a sufficient level of standardisation to enable integration and interoperability among different financial institutions and third party providers. Secondly, it is important to make sure the costs introduced by the regulation are

outweighed by the benefits being delivered. Thirdly, it is crucial to ensure the supervisibility of new activities related to Open Finance and new players such as Financial Information Service Providers (FISPs). FiDA must include clear requirements on the role of NCAs notably in the Financial Data Sharing Scheme (FDSS) and ensure they can supervise FISPs effectively.

An industry speaker agreed that a sufficient level of standardisation is needed to encourage data sharing and for application programming interfaces (APIs) that are costly to build to be used effectively. Learning the lessons of PSD2, there must be a fair compensation model for data access, recognising the cost of sharing data, and a clear liability framework that defines the responsibilities of data holders and data users. These issues will have to be addressed explicitly in FiDA to ensure an efficient rollout.

2.2 A step towards open data

An industry speaker suggested that a redesigned FiDA could be a step towards a more comprehensive open data environment, integrating financial and non financial data sources. The real opportunities will indeed emerge from a broader approach that connects different sources of financial and non financial data. For example, connecting enterprises and customers with official social security and tax data could simplify administrative processes; direct access to data from utility companies could allow customers to better measure their energy footprint; and access to e commerce information could enable financial services providers to offer relevant new services to their customers. It is welcome to see that the European Commission is willing to move towards a more global approach in which these different data spaces are connected, but the key priority is simplification. If the framework is simple, it will enable the development of private initiatives.

An official agreed that FiDA could be a first step towards a broader sharing of data. Although financial data may need to be subject to specific protection, this should not lead to the creation of silos within the financial data ecosystem. The status of Account Information Service Provider (AISP) under PSD2 and the new status for FISPs in FiDA should be merged to simplify the data framework and avoid the creation of additional silos. It is essential to ensure that these providers are located in the EU to guarantee effective enforcement and supervision of the framework requirements.

Another official added that the objective of empowering customers regarding the usage of their data is a positive policy goal, but the implementation of FiDA will need to be balanced carefully to ensure that it achieves its intended outcomes and that the potential benefits of data sharing outweigh the costs. The financial ecosystem also has a responsibility to empower consumers to manage their financial lives.

3. Issues and challenges in the FiDA proposal

3.1 The lack of proven demand for Open Finance services and the high cost of implementation

Several industry speakers emphasised the lack of proven customer demand for Open Finance services.

An industry representative noted that Europe is yet to see any meaningful use cases of Open Banking supported by PSD2, and the same is true for Open Finance. Aggregation services have been adopted by less than 10% of digital users across Europe. This is not a 'chicken and egg' problem, as is often claimed. Focus group research has shown that consumers are consistently unwilling to share their data. There is a risk that FiDA will divert resources from other digital projects that may be more useful for consumers and could contribute more effectively to the EU's goals of competitiveness and simplification.

A second industry speaker agreed that FiDA could create similar difficulties to PSD2. The customer demand for Open Banking enabled services under PSD2 has still not materialised, and the FiDA data sharing framework is also not based on proven demand or driven by specific use cases. The differentiated implementation of PSD2 across the EU was also a significant problem for cross border banks.

A third industry speaker stressed the importance of aligning the data sharing requirements with actual market demand. While innovation is inherently unpredictable, it typically emerges from customer or service provider needs. Understanding what types of data are genuinely valuable to users should guide the regulatory approach. It would be a significant burden to require all banks to develop and maintain APIs with only very limited usage. This would be an ineffective use of resources and would be to the detriment of other digitalisation projects that might better respond to customer need. If the aim of the proposal is to foster innovation, it would be more effective to focus on initiatives to simplify regulation and reduce the burden on companies.

A fourth industry speaker noted that many insurers already collaborate with fintechs and share data to support innovation in services. If additional investment is needed to extend Open Finance, these costs will ultimately be passed on to clients, the majority of whom are not demanding the new services that FiDA aims to enable. Policy makers must determine whether Open Finance can be implemented without a significant increase in costs.

An official agreed that it is difficult to anticipate where innovation will happen. In some jurisdictions, the emergence of new models under PSD2 took some time and happened in unexpected areas, such as linking accounting data with payment services. There is a similar bet to make with FiDA. Hopefully, it will eventually lead to more innovation. Even when multiple actors are willing to work together, cooperation on innovation remains difficult in practice.

Another official observed that although innovation must be demand driven, low consumer awareness and confidence about data sharing tends to reduce the demand for innovative services, as the experience with Open Banking shows. More should be done to increase customer awareness about the benefits of Open Finance and enhance customer confidence.

A public representative agreed that the high cost of building APIs and complying with standardised data sharing requirements is an issue. This could impact consumers and make SMEs reticent to share data. Balancing innovation with affordability is key.

3.2 The risk of hindering innovation with a regulatory approach to Open Finance

An industry representative emphasised that some of the major banking groups were active in Open Finance well before the introduction of FiDA, offering added value services to customers through the secure sharing of a selected range of data with trusted partners. This includes tools that enable customers to optimise utility expenses by comparing their bills with the latest offers on the market and financing solutions that are integrated with third party e commerce platforms. These innovations have been driven by market demand and customer need, not a regulatory obligation.

However, FiDA's regulatory driven approach reverses the natural logic of innovation. In practice, any successful service starts with the identification of an area of added value for the customer. After this stage, a business model can be developed to provide this value. Only once the business model has been developed is it possible to identify the data that need to be shared. FiDA's top down approach does the opposite: it starts with the requirement to share data before considering the potential use cases. This is disconnected from real market dynamics.

The international examples show that regulatory driven implementations of Open Finance have not delivered the expected results. Four years after the implementation of an Open Finance regulatory framework in Australia, only 0.31% of bank customers have active data sharing arrangements. There are high revocation rates, reflecting the short term nature of use cases and limited customer value. The cost to the banking industry was estimated at AU\$1.5 billion over six years, which is AU\$3,000 per customer. This seems to validate the concern that the upfront investment in these services, which do not correspond to customer demand, will divert resources from more effective digitalisation projects. One Australian bank claims that the implementation of Open Finance took 90% of its funding and people assigned to digital projects, delaying investments in its digital app and core banking system. In Brazil, only 25% of the respondents to a customer survey conducted in 2023 expressed a readiness to share data for tangible benefits like enhanced credit limits. That figure dropped to 19% in lower income groups, indicating that these models may cater only to a digitally literate and affluent minority.

A second industry speaker agreed that the question of whether regulation should be implemented first to

foster innovation or whether the market should be allowed to innovate before regulating to address any risks and inefficiencies needs to be answered. The latter option appears to strike a better balance between costs and benefits, ensuring that the framework is not overly prescriptive and does not crowd out private sector initiatives or hinder innovation.

A third industry representative noted that many fintechs believe in the transformative potential of Open Finance to enable new business models, better products for customers and the development of digital cross border services, but it is uncertain whether a regulation such as FiDA will support the development of Open Finance. Existing platforms in the savings market are built on voluntary partnerships and mutual commercial interest, not on mandatory access, cooperation and regulated APIs. There is currently very little demand in the savings market among customers and partner banks for the kind of data sharing envisaged by FiDA. It is not clear that new regulatory measures are needed in this area, given that they do not seem to align with real needs.

3.3 Data security and sovereignty issues and potential impact on existing business models

An industry speaker outlined the key risks associated with Open Finance in the insurance sector: data security and sovereignty, market fragmentation and price uniformisation. Data security and sovereignty is a major area of concern. The level of cyber threat is currently very high and may be further increased with additional data sharing. The issue of data sovereignty is also extremely important. Although GAFAs are due to be excluded from the scope of FiDA, it is hard to guarantee that this will not change in the future if, for example, the US government were to put pressure on the European institutions or if regulatory loopholes were to appear. Therefore, it is essential to ensure that the data gathered and shared through Open Finance platforms does not leave Europe.

Secondly, there is a risk that Open Finance may lead to market fragmentation potentially undermining the social role of insurance. The application of individual level risk pricing through open data has the potential to erode the foundational principle of mutual insurance: solidarity. To safeguard the current system of mutual insurance, which ensures that those living in high risk areas or the most vulnerable customers can benefit from insurance coverage, there must be a level playing field between incumbents and new market entrants. The new entrants cannot be allowed to use data to cherry pick the most profitable clients and allow the remaining clients to fall into an insurance gap.

Finally, the use of digital comparators enabled by Open Finance carries a risk of price uniformisation. These comparators tend to drive clients towards very standardised products and reduce the level of advice provided by insurers. A data driven approach must be balanced with the preservation of advisory services to ensure that all clients are well informed and properly supported.

4. The need for simplification and progressive implementation

4.1 The benefits of simplification

An official placed the FiDA proposal in the broader context of EU legislative priorities, which include the Competitiveness Compass and the Omnibus Simplification Package. FiDA needs to be simplified as part of a larger movement to simplify EU legislation, which might even lead to a degree of deregulation. Legislations such as EMIR and MiFIR already impose a high regulatory burden on firms and FiDA must not increase complexity.

An industry representative emphasised the need for simplification and flexibility in FiDA, particularly in cases where banks offer only certain products, such as savings, through third party platforms. Requiring every bank to build an individual API is highly inefficient. If the data is already aggregated, a single API should suffice. This practical solution is not reflected in the current regulation, however.

A second industry speaker agreed that APIs should be standardised. In addition, the sharing of data should be limited to what is strictly necessary for the service provided, in order to reduce threats to the mutual insurance model. Generally, clients want to use Open Finance for complementary services, not a replacement for their existing insurance protections.

A third industry representative also advocated for further simplification of the FiDA proposal. One way to achieve this would be to remove all legal persons from the scope of FiDA, be it SMEs or large corporates. Including these entities in the framework would introduce complexity, as large groups in relation with Bank Coverage are composed of hundreds of legal entities, most of which qualify as SMEs according to the European definition. If SMEs are subject to FiDA, entities part of the same business group would be treated differently under FiDA, adding unnecessary burden both on the data holder side and the client side. Research shows that Open Banking only improves access to credit for small businesses if they have a prior relationship with a lender, a finding at odds with the financial inclusion goals of Open Finance policies.

An official cautioned that simplification must not come at the expense of market stability, resilience or consumer protection. The rules need to be sufficiently robust to tackle the risks and ensure that supervisors and market participant have sufficient information to fulfil their roles.

A public representative added that while simplification is necessary, it should avoid undermining the initial objective of the regulation, which is to create new and better products and services for consumers. In the upcoming trilogue negotiations, the FiDA regulation must be simplified without undermining its potential with an adequate balance between innovation, feasibility, and consumer benefit.

4.2 Progressive implementation with clear milestones

An official considered that a progressive approach to FiDA implementation is required because not all sectors of the industry and types of data are at the same maturity

level. The three priorities should be to ensure fair access to data with the appropriate incentives; to protect consumer data with strong safeguards; and to ensure that the regulatory framework is manageable for supervisors and institutions alike. The use of clear milestones will allow regulators to monitor the development of the schemes. Without interim benchmarks, the industry will wait for full implementation and regulators will be faced with inaction.

A second official suggested that the lessons from the implementation of Open Banking under PSD2 should be taken into account in the rollout of FiDA. The inconsistent transposition of PSD2 across member states led to fragmentation and the introduction of complex security requirements, particularly those concerning actors outside the regulatory perimeter, complicated its adoption. These challenges underscore the need for realistic timelines that reflect the complexity of implementation. If the timeline is not realistic, the intended benefits will not be realised. Many of these lessons have been taken into account during the development of FiDA. The aim of any regulation is to foster consistency in the application of requirements. The use of well calibrated timelines will contribute to effective execution. The timelines must reflect the operational complexity of implementation, and the policy ambitions should not outpace the market's ability to comply. Ultimately, successful implementation depends on building and maintaining trust in the framework. The implementation of FiDA should be phased, but that should be balanced against the need to maintain institutional momentum. While innovation creates many opportunities, it also introduces risks. This demonstrates the need for these regulatory guardrails.

A third official supported a gradual approach to implementing FiDA, noting that some caution is necessary to ensure alignment with market priorities and to safeguard consumer data from potential misuse by third parties. This will also reduce the costs and regulatory burdens for the industry, which will enhance its competitiveness. Standardisation is one initial step that should be pursued independently of regulation. Greater standardisation could facilitate data interoperability and enable data to be leveraged as technology evolves, such as in AI applications.

An industry speaker reiterated that any initiative related to Open Finance must be demand driven and a staggered approach is needed for the implementation.

A public representative acknowledged the mixed enthusiasm for FiDA within the industry and the complexity of the trilogue negotiations ahead. In this context, the Commission is focused on its core objective, which is to deliver better financial products for consumers and improve their ability to manage their financial lives. To achieve the best outcomes for consumers, there needs to be sufficient momentum in the movement towards the sharing of all data. The first step is to improve financial literacy, especially among women. However, it is equally important to reassure consumers about data security and ensure they understand how their data will be used and what they might gain from sharing it. It is not easy to anticipate what will emerge from an innovation like Open Finance, but any progress should at least be based on a clear view of the potential use cases that could arise from improved data sharing and how this might benefit consumers. A focus on these tangible use cases should be based on innovation and fostering public trust.

Sessions

IV

PAYMENTS AND THE DIGITAL EURO

- Policy priorities in the payment area 87
- Retail payment innovation 90
- Digital Euro 93

Policy priorities in the payment area

1. Evolving payment landscapes: Combining innovation and consumer preferences

1.1 Decline of cash and rise of digital payments

A central bank official explained that the study on the payment attitudes of consumers in the euro area (SPACE) is a comprehensive research project, assessing consumer payment habits across the euro area since its inception in 2016. The first iteration of the study required three years to complete, followed by subsequent studies conducted every two years. The latest study, published in December 2024, is based on interviews with approximately 40,000 individuals, regarding their payment habits, including point-of-sale (POS) payments, e-commerce transactions and peer-to-peer (P2P) payment methods.

The share of cash payments at POS have decreased significantly, dropping from 79% in 2016 to just 52% in 2024. Extrapolating this trend would mean that cash payments might reach zero by 2040, reflecting significant changes in consumer preferences and behaviours.

Mobile wallet payments have increased from 2% in 2019 to 6% in 2024 and could potentially dominate the payment landscape in 5-10 years. Cash usage differs across European countries, with the Netherlands reporting only 22% of cash payments at POS, while Italy remains at the opposite end of the spectrum, with 61% cash usage.

A central bank official confirmed the long-term trend of declining cash usage in Denmark, which is now around 10%. This prompted significant initiatives from the bank, including the decision to retire the largest banknote. This decision was driven by lower demand for high denominations.

1.2 Enhancing security and resilience in payment systems

A central bank official explained that conducting comprehensive cost studies on retail payments remains complex due to lack of transparency. A 2012 euro area-wide cost study used 2009 data and was not repeated due to its complexity. The ECB published a meta-study instead, revealing varying costs for cash versus card transactions across countries. In Denmark, societal costs of cash are 0.6% versus 0.5% for card; in Italy, high cash usage raises costs. Retail payment costs in Europe amount to about 1% of GDP, with digitalisation potentially reducing this.

A central bank official explained that Denmark is implementing a solution enabling cards to work offline for up to a week during outages. While Denmark already

has a national card scheme capable of offline operation, it aims to engage with international card networks to extend this capability across all cards and simultaneously enable offline card payments through wallets such as Apple Pay. The proposed system will allow transactions to be stored at terminals during outages, with a capacity to process the transactions once connectivity is restored. This approach will leverage technology similar to that used in transaction systems functioning during air travel.

An industry representative highlighted increasing sophistication in fraud techniques and the critical need for the development of robust fraud protection measures and security tools to safeguard consumers effectively. In the meantime, with the emergence of new types of payments rails, such as account-to-account present a unique challenge and as this infrastructure matures, it will need to be complemented by tested fraud prevention solutions, as the ones used in card payments. Resilience and offline capabilities are gaining attention, though online payments still offer stronger fraud protection. An open and competitive market with multiple solutions remains essential to strengthen the ecosystem and avoid single points of failure.

1.3 Adapting to consumer behaviour and technological advancements

An industry representative identified three key trends: innovation in payment technologies, changing consumer expectations, and growing recognition of the value of digital payments. Digital payments have become increasingly prevalent, particularly in Scandinavian countries, where contactless payment methods have surged. About nine out of 10 face-to-face payments are now conducted using contactless technology, reflecting growing consumer preference for instant transaction methods.

The rising interest in instant account-to-account payments has necessitated a shift in approach compared to traditional card payment methods, indicating an urgent need for the industry to keep up with evolving security measures as digital payment adoption accelerated. An EU led initiative to develop an European Digital Identity Wallet will enable safer payments when deployed.

An industry representative explained that consumer preferences are shifting from desktop to mobile phones, desktops, smart devices and other digital solutions, supported by AI-driven solutions and digital wallets. Digital wallets have evolved into multifunctional tools, storing digital assets like boarding passes and tickets. Many non-financial firms are entering payments, representing both an opportunity and a challenge. It is important to ensure that regulatory frameworks facilitate competition and innovation, allowing all market players to thrive.

2. Policy priorities in retail payments

2.1 Impact of PSD3 and PSR on market dynamics

An industry representative observed that PSD2 advanced security, competition and innovation, and PSD3 aims to further these goals. There is also a need for continuous improvement in customer experience.

A potential European ban on surcharging is under discussion and supported by 18 EU member states. Surcharges harm the customer experience and reduce transparency.

2.2 Ensuring strategic autonomy and sovereignty in payments

An official emphasised that evolving payment systems must maintain state sovereignty, also recalling initial concerns in 2019 with the Libra project and private money issuance. Europe must decide if it can control digital transactions on its territory.

Many major payment firms at Eurofi are not headquartered in Europe. A vibrant and competitive financial sector necessitates a mix of actors, including firms headquartered within Europe and others based elsewhere. Regulatory tools are needed to maintain oversight without distorting market competition.

There needs to be ongoing dialogue with stakeholders and collaborative efforts to navigate the intersection between digitalisation and strategic autonomy.

An industry representative remarked that the world is fragmenting politically and technologically, making interoperability critical. SWIFT maintains neutrality and focuses on enhancing interoperability across central bank digital currencies (CBDCs) and fiat currencies. Global economic fragmentation could result in substantial financial repercussions, potentially leading to a reduction in GDP by approximately 6%. Coherent global standards are essential.

SWIFT is experimenting with 40 banks and central banks on CBDC interoperability. SWIFT is also committed to building a supportive framework for the development of CBDCs while preventing strategic autonomy from devolving into isolation.

2.3 Promoting Competition and Innovation

An industry representative warned about the risks of misinterpreting statistics that frame international card schemes as dominant players in Europe's payments market. The European payments landscape remains highly competitive, with strong local payment solutions and domestic rails well established across many EU countries, such as Carte Bancaire in France that is widely used. There is growing interest in Europe in promoting a broader range of European payment options to support resilience and competitiveness. Whilst an important concern, developments must ensure there remains many options available to Europe's consumers and merchants to choose from.

An industry representative explained that Amazon serves 125,000 EU sellers and millions of customers, guided by customer obsession. Customer expectations around

privacy, security, trust and convenience are evolving. It is also important to offer popular local payment options to reduce cart abandonment.

The digital euro prototype is an illustration of how Amazon is committed to supporting payment diversification, striving to enhance customer access to financial services. An upcoming prototype will focus on conditional payments intended to build trust, and this will help address refund abuse, which cost merchants billions in the EU.

3. Technological advancements and future trends in payments

3.1 Instant payments and cross-border transactions

A central bank official remarked that the ECB retail payment strategy sees instant payments as the "holy grail". The ECB has been much in favour of this for a long time and believes it is a technology that should play a role.

The ECB has developed its own system in the form of the TARGET Instant Payment Settlement (TIPS) system, which it has been running since 2018. It has been successful as an operational framework for processing instant payments, particularly in Sweden, where it has facilitated transactions in Swedish krona for two years. Denmark will join TIPS, ensuring interoperability among euro area automated clearing houses (ACHs).

The ECB supports cross-border instant payments and pan-European infrastructure and believes it is a technology that should play a role.

A central bank official outlined that Denmark is attempting to support instant payments in physical stores. Attempts have struggled in the past but now there is the potential for success with the opening of NFC chips.

3.2 Innovations in payment technologies and security

An industry representative highlighted the role of a European digital ID in improving security. By integrating digital identity verification into payment frameworks, the industry could enhance consumer trust as payments become more digital and instantaneous. Technologies such as tokenization has already helped enhancing security, but also reducing fraud risks and protecting sensitive payment data so consumer could safely and securely make purchase online.

An industry representative outlined the importance of outcomes-based and flexible regulation around strong customer authentication as vital to fighting fraud. Through an outcomes-based design of SCA rules in the PSD framework, innovations like passkeys can be enabled to become more widely adopted, promoting security and convenience in the authentication flow.

3.3 Future of digital currencies and payment diversification

An industry representative expressed enthusiasm about the digital euro but cautioned against tying it to a single wallet/bank. Pricing models should include alternatives

to card scheme-based ones.

An industry representative outlined that conditional payments in escrow can help build customer trust and tackle fraud.

An industry representative outlined that the role wholesale digital euro has been recognized by the industry. However, retail use case has less clear value proposition. A Digital Euro should be additive to what currently exists today and provide specific value proposition to the payments ecosystem as a whole in order to drive adoption.

4. Transparency, consumer protection and financial inclusion in digital payments

4.1 Enhancing consumer protection and transparency

An official emphasised the need for transparency on merchant fees to enable better solution comparison.

4.2 Balancing cash economy with digital payment adoption

An official explained that France continues investing in cash infrastructure during digital transition. Denmark's rapid cash decline offers useful lessons, ensuring that France navigates the ongoing transition carefully while considering consumer preferences and maintaining public trust in the payment system.

4.3 Addressing fraud and social engineering in payments

An industry representative warned that fraud, including social engineering, is a fast-growing global industry. It is getting smarter, and it is enabled by new tools. Fraud often originates outside payments, beginning on social media and telecoms.

Agentic AI can be used in checkout processes for a seamless experience or in a deep fake context.

5. Collaborative efforts and policy measures for an innovative and safe payment ecosystem

5.1 Collaborative efforts to navigate digitalisation and strategic autonomy

An official called for collaborative engagement to navigate digitalisation and preserve autonomy. Discussions must continue with all market stakeholders.

5.2 Policy measures to enhance consumer protection and financial inclusion

An official described PSD3 and PSR as central to ensuring consistent, fair practices. PSD3 is a cornerstone regulation aimed at stabilising operations. Among various proposals under consideration, there is a critical need for transparency around fees paid by merchants, which would enable better comparability and understanding of payment solutions available in the market.

5.3 Improving security, harmonisation, and efficiency in payments

A central bank official reported that Denmark is shifting its payment infrastructure to Frankfurt. With the migration of the Danish krone to T2 and TIPS, the execution of payments and securities transactions in Danish kroner will be centralised on TARGET Services. Denmark is the first non-euro country to use T2, TIPS and T2S. The primary aim of joining TARGET Services is to enhance cybersecurity by cooperating with other countries.

Retail payment innovation

Introductory remarks

The Chair opened the panel by emphasising the dynamism of the retail payments space in Europe. The European Central Bank (ECB) biannual SPACE survey consistently highlights the growing prevalence of ecommerce and the corresponding decline in cash usage at the point of sale (POS). While card payments remain dominant, digital wallets are gaining traction as overlay solutions, potentially becoming in the future the preferred method of payment at point of sale.

An official noted that Markets in Crypto-Assets Regulation (MiCA) now provides a sound regulatory framework throughout Europe, which is also attractive to service providers. Stablecoins and digital euro have great potential. The legislative framework around payments in Europe is fully harmonised, which assists European or incoming players. However, during the last decade the amount of regulation has increased substantially. Other legislation, such as the Payment Services Directive 2 and 3 (PSD2/3), MiCA, General Data Protection Regulation (GDPR), and the AI Act, interacts with the payments area and there is a need for coherent, simplified regulation across sectors.

1. Diversifying payment methods ensure inclusion while preserving consumer choice and convenience

1.1 Preserving freedom of payment choice at the point of sale

An official highlighted the importance of ensuring consumer choice at the point of sale. Policies measures expected to be proposed by the new German government may include that merchants cash should be generally accepted and that gradually, at least one digital payment method should be accepted.

A central bank official stated that inclusivity is a central objective within the Polish payment framework. Despite growing digital adoption, two-thirds of Polish seniors still prefer cash. Poland has mandated that businesses accept both cash and non-cash payments, but ensuring the necessary infrastructure is present, particularly ATMs, remains a challenge for the private sector. Ensuring that both cash and digital payment modes are accepted is critical to maintaining a fair and accessible payment system.

1.2 Integrating innovation without excluding the digitally underserved

A consumer representative observed that many consumers remain excluded from digital payment systems due to a lack of digital skills. Experiences from the Nordics suggest that overly rapid transitions away

from cash can backfire. An inclusive electronic system will guarantee that citizens from all backgrounds, particularly those who may struggle to adapt to digital methods, are not left behind in an increasingly cashless society. The digital euro could potentially offer an inclusive public digital payment solution that replicates many of the benefits of cash.

1.3 Supporting SMEs through adapted and functional solutions

An industry representative highlighted the transformative impact of improved payment infrastructure in unlocking entirely new business models, including multi-sided platforms, subscription services and integrated commerce tools for SMEs. Functionality is crucial for the future of Europe's payment methods and payment rails. Solutions such as BLIK in Poland must continue evolving to meet the expectations of digitally native businesses and consumers. Today's small businesses have, in effect, become technology businesses. This evolution should shape the way policymakers approach both financial services and broader tech regulation.

2. Building European sovereignty and furthering EU integration in the digital payments space

2.1 Advancing pan-European initiatives to reduce dependency on non-EU providers

A central bank official noted that a number of the core objectives of the French national retail payments strategy align with those of the ECB's retail payments strategy. These include promoting the development of pan-European solutions, for example Wero, and preparing for central bank digital currencies (CBDCs). Europe's heavy reliance on non-EU payment solutions threatens strategic autonomy. Current geopolitical tensions and developments in the US underline the urgency of reducing this dependency.

An industry representative explained that EPI is a private-sector-led initiative involving major European banks and acquirers and offering a wallet and instant payment system designed for the European market. The ultimate aim is to build a truly pan-European solution by ensuring interoperability and reducing fragmentation, thereby contributing to European payments sovereignty. True strategic autonomy requires pan-European cross-border solutions. Rather than introducing new solutions that add fragmentation, the focus should be on interoperability between existing ones.

An industry representative stated that they support measures such as granting non-banks access to settlement systems and promoting interoperable

national schemes to ensure European strategic independence.

A central bank official noted the importance of creating systemic resilience through payment method diversification and infrastructure redundancy. Availability of different payment methods, such as cards, mobile payments or cash, addresses the needs of multiple groups, promoting inclusion, and ensures that payments can be executed even if some payment rails malfunction. In Poland in 2022 cash demand surged due to heightened perception of geopolitical risk. The whole payment infrastructure, including electronic payments systems, needs to be ready for these surges in demand. Infrastructure diversification at a deeper level will ensure that alternative payment rails are not reliant on the same technical infrastructure, suppliers or software. Digital Operational Resilience Act (DORA) tools can be used to ensure that backup systems are in place and to map ICT dependencies, including single points of failure. Redundancy should be viewed as an investment in security rather than a cost.

2.2 Interoperability as the cornerstone of an integrated European market

An official emphasised the importance of cross-border integration and interoperability in building a unified retail payments ecosystem in Europe. Local payment solutions are increasingly perceived as insufficient to address the demands of a pan-European market and do not align with the objective of the European Commission of a more integrated and beneficial retail payments ecosystem. The future viability of these local solutions relies on their ability to interoperate or scale beyond national borders. Integration can be built on pre-existing technology, payment solutions, clients and markets, provided they adopt shared technology standards and develop common infrastructure. Interoperability will potentially lead to a more equilibrated growth and governance path.

A central bank official stated that a pan-European payment solution, which can provide alternative to card schemes, can be built by broadening country reach of successful local mobile payment schemes (such as Ideal, Bizum, Swish or BLIK) and creating interoperability links between them.

2.3 Leveraging public-private cooperation for effective deployment

A central bank official shared that French national retail payments strategy is a jointly developed strategy involving both public authorities and private stakeholders. Key objectives are agreed with all stakeholders on the supply and demand sides and the public authorities. The strategy considers both cash and non-cash payment instruments. The evolving international context has created a strong impetus for more rapid progress in the coming period.

An official identified the public sector's crucial role in providing a legal and institutional framework that fosters collaboration, competition, and convergence toward a more integrated European market.

3. Enhancing security and resilience in response to the rising threat of fraud

3.1 Adapting fraud prevention frameworks and tools to evolving threats

A central bank official observed that the growing threat of social engineering fraud cannot be addressed through financial education alone. A coordinated response involving telecoms and other sectors is required. Although behavioural analysis can be useful to combat frauds involving stolen credentials, questions have been raised in Poland around how these tools should be treated under data protection law. EU regulators may need to balance between allowing financial institutions to use behavioural analysis with concerns around personal data protection.

An official indicated that there is ongoing EU Council work to combat social engineering fraud through a three-pillar legal framework focusing on prevention, including enabling data sharing to combat fraud, revisiting liability rules to strike the appropriate balance between consumer relief and legal certainty for payment services providers (PSPs) and cooperation with telecommunications operators. Regulation is not always the best tool to resolve issues, and practical solutions may be better explored through other platforms or forums.

A consumer representative commented that, although strong customer authentication has been extremely effective in reducing unauthorised payment fraud, new threats, especially social engineering fraud, have now emerged. Techniques such as AI voice cloning and number spoofing have made it easier for fraudsters to manipulate consumers. A survey conducted by BEUC's 44 national independent consumer organisation members concluded that concerns around payment fraud were a priority for consumers. This is a systemic problem across European member states.

An industry representative remarked that the key is, and has always been, to find the right balance between convenience and safety. Even if they are initially hesitant, consumers tend to adopt convenient solutions fast, as illustrated by the popularity of contactless in Europe, which now represents the majority of Mastercard's volumes at point of sale. Online card payments remain cumbersome, as it is usually still necessary to enter card credentials and details, or less secure if the card credentials are saved by the PSP or ecommerce player. Tokenisation is helping to address this by replacing credentials with a token that, even if it is stolen, is much more difficult for the fraudster to use.

3.2 Ensuring fair liability distribution for fraud victims

A consumer representative reported that European Banking Authority (EBA) and ECB data confirms that consumers bear most of the losses from social engineering types of fraud, with 86% of credit transfer fraud costs falling on them. Policymakers should

ensure that the new Payment Services Regulation reflects contextual fairness in liability for fraud victims. In addition, greater accountability should be required from the social media platforms that are often used to propagate fraud.

3.3 Investing in cybersecurity and global data-sharing mechanisms

An industry representative commented that cybercrime is a macroeconomic threat. Risks are increasing with the wider availability of AI and the faster movement of money through instant payments. Mastercard has invested \$10 billion in fraud prevention technologies and global data-sharing mechanisms and recently acquired Recorded Future, a company that focuses on monitoring and preventing threats. Mastercard's global scale and perspective is an asset because knowledge of types of fraud from different parts of the world can be used to prevent fraud in Europe. Public-private cooperation via forums such as Mastercard's Brussels-based cyber resilience centre will be extremely valuable.

4. Instantaneity, value-added services and innovation are redefining the future of payments

4.1 Accelerating the adoption of instant payments as a new standard

The Chair noted that fast-emerging initiatives across the European Union include the deployment of point of interaction (POI) solutions based on instant payments and the digital euro. Instant payment-based payment instruments are closer to deployment than the digital euro, but their market share has yet to grow significantly.

A central bank official stated that a deeper Single Euro Payments Area (SEPA) ecosystem, as stated as one of the core objectives in the French national retail payments strategy, will enable the deployment of instant payments

An official commented that Spain has become an important global player in the arena of instant payments thanks to the collective efforts of the banking sector to develop Bizum. Work is now ongoing on interoperability with other countries, such as Portugal and Italy, to develop a European approach.

A central bank official reported that BLIK accounted for 50% of ecommerce transactions in Poland in 2024, a dramatic increase from 10% in 2020. BLIK started as a joint venture of six large Polish banks, which provided a critical mass of clients from the very beginning. The multifunctional capabilities of BLIK, including ecommerce transactions, POS payments and convenient P2P instant payments using mobile phone numbers cater to the needs of modern consumers. A smooth user experience is a priority. Robust security measures, such as single use six-digit codes and the confirmation of each transaction in a banking application, address consumer concerns around fraud and safeguard the integrity of electronic payment systems.

An industry representative indicated that instant payments are expected to grow globally from 275 billion transactions in 2023 to 575 billion by 2028. Instant payment solutions are clearly addressing a need. Digital wallets are increasing in popularity with consumers in Europe. In addition to the digital giants, such as Google, PayPal and Apple, domestic champions in Europe, such as Swish and BLIK, are also active in this area.

4.2 Creating value beyond the transaction

An industry representative commented that, in the context of an intensely competitive marketplace, the success of digital wallets will depend on offering value-added services such as loyalty programmes and ticketing.

An industry representative explained that Wero supports a wide range of use cases including peer to peer (P2P), ecommerce, point-of-sale, recurring and conditional payments, as well as value-added services. The aim is to create a pan-European solution that meets the needs of European consumers and merchants.

4.3 Making the digital euro a catalyst for business model innovation

The Chair remarked that the digital euro, which is still in development, is expected to play a major role in the future payments landscape.

An official shared that Germany views the digital euro as a complement to, rather than a replacement for, cash. Given the relatively high usage of cash in Germany, clear communication to emphasise this will be essential to ensure public acceptance and understanding of the digital euro's intended role within the monetary framework. Achieving effective privacy and preserving financial stability as well as wholesale use-cases are main considerations in Germany.

An industry representative welcomed the ECB's exploration of conditional payments within the digital euro project, which unlock novel business innovations.

An industry representative noted that there is a great deal of interest in CBDCs globally and in Europe. Some aspects of CBDCs could be groundbreaking, while other aspects are already addressed by current solutions. Mastercard is actively partnering with central banks to integrate secure technologies and ensure compatibility with existing rails.

Digital euro

1. Addressing strategic dependencies through a European digital currency

1.1 The digital euro as a tool to reinforce EU strategic autonomy

The Chair observed that it is more necessary than ever for Europe to become aware of its structural weaknesses, vulnerabilities and strengths. The digital euro could be a powerful tool through which to address vulnerabilities, while fostering strength. This opportunity requires both public and private sector action.

A central bank official noted the inherent cost and risk in relying on Visa and Mastercard, American solutions, in a rapidly changing geopolitical context. In 13 euro area countries, there is sole reliance on international card schemes for in-shop payments. In recent times, the US appears to be rewriting the rules of international cooperation, with implications for the EU. This only increases the need for a European solution. A public representative added that the digital euro could be one answer to the question of European strategic autonomy.

An industry representative suggested that most, if not all, stakeholders would agree that Europe must increase its competitiveness, while reducing dependencies on providers and services outside of the continent. With regard to strategic autonomy, one has to bear in mind that the market share of Android and iOS in Europe. These providers could, in theory, decide to prohibit certain services, cutting off access to the digital euro through mobile applications. It is essential that all factors of the debate be considered in the round if we are discussing about strategic autonomy by way of implementing a digital euro.

1.2 Digital cash: ensuring continuity in times of disruption

A central bank official characterised opportunities in times of disruption to other electronic payment channels as an important practical feature of the digital euro. One should be able to transact in digital euro offline, as is currently possible with physical cash, providing an alternative when there is an issue with data connection or a power outage.

1.3 A complementary solution, not a dominating one

A central bank official clarified that Europe should not aim to dominate the payments market through the creation of a European solution in the future. The digital euro should be an alternative to existing solutions. A central bank official agreed that the digital euro represents an alternative. It should not be considered a substitute for cash or private sector solutions.

2. Clarifying the roles of public and private sectors in innovation

2.1 Public-private partnership: an enabling infrastructure, not a substitute

A central bank official stated that the digital euro is designed as a public-private partnership and should strengthen the whole ecosystem. A European Central Bank (ECB) report on the ecosystem would be published in May or June 2025. A central bank official concurred that the digital euro should be formed as a private-public partnership.

2.2 Private innovation must remain in the driver's seat

A public representative emphasised that central banks and politicians cannot be responsible for innovation, even in the short term. It is for the private sector to innovate and experiment. This domain is fast moving and some efforts may fail. The private sector must take the risk. The focus for the public sector should be on creating an environment conducive to and encouraging of the creation of proprietary technology by the European private sector. A pan-European solution covering points of sale, e-commerce and peer-to-peer currently does not exist. Public sector efforts should be directed towards this problem. It is in the interests of the continent at large in the short term, but also in terms of long-term competitiveness, to have the private sector in the driving seat, fostering innovation. Central banks are robust and resilient and have extensive knowledge, but they are not innovators.

An industry representative was also of the view that innovation can only come from the private sector. This is not a role for public authorities or the legislator. An industry representative agreed that innovation should be left to the market.

2.3 Public intervention is justified only when private solutions stall

A central bank official contended that some kind of public intervention is required when private sector innovation is not happening at the pace expected or is not happening at all. Politicians can, if necessary, intervene with legislation, as in the case of instant payments.

An industry representative remarked that, regardless of its status as legal tender or not, the digital euro may still be unsuccessful. Intellectually and symbolically, it has a lot to offer, including in terms of strategy and sovereignty. However, it is consumers who will make the digital euro a success and, in practical terms, it offers little to address their needs. As it is designed today, it is nothing new. Unlike international card schemes, it cannot expand outside of Europe, because it would be managed by a central bank. The question of competitiveness remains open.

3. Enhancing competitiveness through convergence and cooperation

3.1 Building scale: Wero as a model for pan-European solutions

An industry representative highlighted that, in summer 2024, P2P was delivered in Germany, Belgium and France. There are now 39.5 million customers on Wero. In autumn 2025, the e-commerce solution will be delivered, with the next goals point of sale, QR codes and near field communication (NFC) in an effort to blend divergent national payment systems into one coherent system. In 2026, iDEAL will merge with Wero. The latter has largely addressed the issue of national solutions lagging behind. The opportunity has been taken up by some countries and this represents a significant step forward for banks, which historically have not invested in payments.

3.2 Avoiding fragmentation: integrating the digital euro into the existing ecosystem

An industry representative underlined that the digital euro must be part of the payment ecosystem, rather than in competition with it. A central bank official noted that the ECB is working with market stakeholders to determine how a digital euro would fit into the current ecosystem.

3.3 Caution on unintended consequences and market distortions

An industry representative identified a deficiency in the current draft legislation, which creates an unlevel playing field in favour of the digital euro. The digital euro is made legal tender, while its price is artificially lowered to ensure that it is cheaper than other means of payment.

An industry representative commented that the current legislation also aids US companies, making it possible for market participants such as PayPal to move into point of sale with the digital euro. The legislation implies that banks with an existing pan-European solution will have to cease investment in their current payment systems, instead spending time, effort and resources in implementing the digital euro, which may not be preferable to the customer. European taxpayers' money cannot be used to implement a system that makes the likes of Mastercard and Visa stronger, because they can use the digital euro for free.

A public representative noted that the digital euro has within it associated costs and unintended consequences for financial stability, stress and long-term innovation. There are trade-offs to be made. The Chair suggested that, while many of the unintended consequences are already recognised by stakeholders, there remains work to do to effectively address them.

4. Increasing public support and understanding

4.1 Addressing the awareness gap across member states

A central bank official outlined the awareness gap between member states. A survey by Deutsche Bundesbank in April 2024 revealed that 50% of Germans are open to using the digital euro as an additional payment option. However, only 41% were aware of its existence. In Ireland, a November 2023 survey by BearingPoint showed that 40% of respondents were unaware of the digital euro. Despite this, 50% of respondents viewed the introduction of the digital euro alongside traditional currency as beneficial. Willingness to use the digital euro varies between age groups.

In November 2024, a Central Bank of Malta survey indicated that 85% of respondents were unaware of the digital euro, though 50% supported its introduction and nearly 75% would consider using it. An Ipsos survey, also in 2024, demonstrated that, in almost all countries, more than half of the population would be likely to try the digital euro.

4.2 Consumer choice must be preserved

A central bank official reported that the decline in the use of cash has levelled off since the Covid period. Consumers nevertheless continue to turn to electronic means of payment. The consumer has a choice and this cannot be forced.

4.3 A strong brand and European identity are essential

A central bank official indicated that more public education is required if the digital euro is to be a success. A strong branding strategy, reinforcing its European identity, will also be beneficial. The Central Bank of Cyprus and its peers in the euro area, including the Euro Retail Payments Board (ERPB), are already making efforts to educate the public and take feedback. This forms part of the Central Bank of Cyprus's euro retail payments strategy.

5. Looking ahead: vision for 2030

5.1 A seamless, pan-European payment system for all

An industry representative considered the ideal payment market of 2030 to be one in which customers and clients have a solution that can be used everywhere, both domestically and internationally. One of the reasons why Austria continues to retain two international service providers is because these solutions can be used everywhere, without a thought. Ease of use is for the customer a key concern.

An industry representative expressed a preference for a European payment solution that would combine with

US players only where required outside of the continent. Inside Europe in 2030, there should be an easier, faster and more effective European solution. The existing, helpful standards for the Single Euro Payments Area (SEPA) and instant payment can be used. Nothing new is required in this regard.

A central bank official suggested that, by 2030, there could be a single, seamless European payment option available across Europe to all consumers. There is no need for competition between private and public offerings. The digital euro would provide an infrastructure within which private sector solutions can be built, as innovation continues to stem from private sector initiatives. A public representative was of the opinion that consumers should have a pan-European means of payment for point of sale, e-commerce and peer-to-peer at their disposal, with the private sector playing a primary role in terms of innovation. In this way, innovation can be continuous and sustained, rather than a one-off effort that is frozen for another 30 years.

An industry representative added that, by 2030, banks and PSPs could help achieve European sovereignty by competing with international market competitors, rather than with the regulator or the supervisor. A central bank official conveyed a hope that the world would be more stable at this time, facilitating a focus on important issues like the creation of a viable digital euro solution.

The Chair perceived there to be questions remaining to be answered and challenges to be addressed. It is clear that cooperation, collaboration and maintaining a dialogue will be key moving forward.

5.2 The digital euro as a stable platform enabling continuous innovation

An industry representative noted that the threats to European monetary sovereignty posed by dollar-based stablecoins are best addressed through regulatory measures. This issue is unrelated to the digital euro in the payments space, where private European solutions are the preferred path forward. A central bank official observed that the digital euro will not in itself be the innovation. It will provide a platform upon which innovation by the private sector can be fostered. It must be designed such that European payment providers remain at the core of payment services for consumers and merchants. One, coherent standard will make it easier to facilitate payments outside of Europe.

A central bank official added that any such European solution should have the potential to extend outside of Europe and must be interoperable, in order to address the cross-border payments issue.

Sessions

V

EU AND GLOBAL SUSTAINABILITY AGENDA

- Combining decarbonation and competitiveness 97
- Simplifying the EU sustainability agenda 99
- Energy transition policies 102
- CSRD implementation 105
- SFDR review 108

Combining decarbonisation and competitiveness

1. The climate transition is unavoidable but must be economically viable

1.1 Climate risks are greater than geopolitical instabilities and require long-term vision

A public representative highlighted that the costs of climate change are 10 times the yearly costs of COVID-19, which is unaffordable for countries and regions globally. The consequences of ignoring this will be dire. The investment environment demands certainty, a long-term perspective and ambition, whatever happens in Russia, Ukraine or the USA. Progress in other fields must not be delayed because of the important focus on the war in Ukraine and increased defence needs. The long-term perspective must not be lost. If the scientists and politicians are not aligned, the scientists should be believed.

1.2 Transition technologies exist and their industrial deployment remains fragile

The Chair noted that the global transition to a low-carbon economy faces significant headwinds, as highlighted by setbacks in prominent green industries. The bankruptcy of Northvolt and the postponement of Airbus's flagship hydrogen plane programme represent significant disruptions in the sector.

An official observed that some investment fatigue has been noted in the corporates in the last 24 months, for example in hydrogen projects and the car industry.

1.3 Europe's competitiveness depends on its resource efficiency and innovation capacity

A public representative advised that Europe should focus on intelligence, education and capacity to innovate. Leverage of private investment into innovations and businesses is still limited due to a lack of concerted action. Resource efficiency is another priority. Even without considering the environment, planetary boundaries constrain Europe's ability to access resources. Being able to create the same well-being, better profit for businesses and the same economic growth with a tenth of the resources will be hugely beneficial. With its limited resources, Europe needs to be intelligent and agile. Competitiveness will be impossible without a green deal and a clean industrial transition.

A market expert stated that decarbonisation is an enormous market that will have a very rapid expansion in the next 10 years. However, competence, skills and education can be lacking.

2. Market incentives and carbon pricing are key, but require balance and credibility

2.1 The Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading System (ETS) are crucial tools but must avoid distorting production chains

A policymaker commented that European companies are concerned about the impact of the carbon price on their competitiveness with the rest of the world. CBAM is a mechanism that makes it possible to maintain a price level in Europe that reflects carbon. Companies making investment decisions will have the benefit of knowing the price of carbon, ensuring a closer alignment between investment decisions of private companies and the most socially effective decision.

A market expert noted that the CBAM is currently being tested and is expected to be released in 2026. The carbon price will be imposed on specific sectors, such as steel, aluminium and fertilisers. Mechanical industries firms in Europe, particularly car makers, are aware that the carbon tax does not cover the whole value chain or semi-finished products.

An official stated that CBAM supports domestic firms and increases their competitiveness, as their competitors from third countries have to adjust. The Omnibus proposal from the Commission is welcomed, especially the de minimis threshold, which will assist companies that produce and export smaller amounts of goods. Despite this good beginning, the regulatory gap still needs to be addressed.

2.2 Carbon price signals are necessary but must be stable and transparent

A market expert observed that there is a price discrepancy between wind power and nuclear power, with wind power currently costing around €180 per megawatt and nuclear energy between €60 and €100. Until this difference is resolved, an entrepreneur that needs electricity will be in a difficult position and there will be a lack of emerging projects. A market is available, but entrepreneurs are still awaiting clarity around the long-term price of carbon or energy.

2.3 Tax policy and depreciation rules need to be reformed to support green investment

A policymaker noted that the Draghi report concludes that an additional 3% or 4% of gross domestic product (GDP) in investment will be needed for the green transition. The EU budget is 1% of GDP. Private investment is 20% of GDP. The tax system will not incentivise investment unless the depreciation rules are

reviewed and changed. The depreciation rules are more relevant than the corporate income tax rate.

3. Financial institutions must drive transition, but regulation must enable, not hinder

3.1 Private finance needs incentives, risk sharing and regulatory clarity

An industry representative explained that blended finance can mobilise capital to markets and projects that are very difficult to reach and where private sector participants are not comfortable with the risk. Blended finance can fill a gap. The current commitment of €120 billion annually in multilateral development bank (MDB) financing is 60% more than previously. However, the multiplier for deploying private capital on the basis of development finance remains low. Emerging market economies are starting from a different position and may have 2060 targets instead of 2050 targets.

An industry representative advised that investment appetite must be increased in both the financial sector and non-financial corporates. Investments require predictability and long term certainty. Blended finance is a very important tool for the financial sector.

A market expert emphasised that remuneration of risk, whether at the level of the institution, pension funds, local or regional funds or individual borrower, must be adequate in order to attract investment.

3.2 Overregulation risks undermining investment appetite and transition outcomes

An industry representative highlighted two issues with the EU rulebook: overreliance on sectors that are already green and an overwhelming amount of detail that can be counterproductive. Pricing instruments could be significantly more effective than heavy reporting burdens. The first part of the Omnibus package and simplification agenda will cause some friction for financial institutions, with a discrepancy between the requirements imposed on financial institutions and those imposed on non-financial corporates.

3.3 Consistent prudential frameworks and expanded MDB involvement are needed for global impact

An industry representative stated that the consistency of the prudential perspective must be improved. A global emerging markets database provides financial

institutions with information about default and recovery rates of some transactions, but the data needs to be more granular. Expanding the list of MDBs and development financing institutions that are eligible for specific risk treatment would be helpful.

4. Industrial strategy and public support are essential to unlock private capital

4.1 Strategic public funding and EU-level collaboration are catalysts

An official shared that Groupe Caisse des Dépôts has provided €150 million of sub debt to a €2 billion gigafactory producing low-carbon electric car batteries in the north of France. This project also received financing from the EIB and financial support from the European Union. This European collaboration was essential for the project's advancement. Groupe Caisse des Dépôts provides equity and quasi-equity financing in conjunction with its role as national implementing partner for the European Commission through the Alternative Fuels Infrastructure Facility (AFIF) under the Connecting Europe Facility (CEF).

4.2 Energy mix uncertainty and infrastructure bottlenecks limit project viability

A market expert observed that there are still uncertainties around the price of energy. In France, there is competition between renewables and nuclear. The government is trying to pass a 15-year programme for energy by decree. There is enormous pressure from lobbyists and industrialists to install extremely large offshore windmills, but there are only 10 ships in the world that are able to transport the material needed. A floating windmill project is currently exploring ways to reduce the price of wind energy, but this project is still only in the test stages.

4.3 Innovation capacity, skills and local project readiness are major bottlenecks

An official reported that it remains a challenging endeavour to raise financing for small modular reactors in nuclear power.

A market expert noted that the capacity of innovation can be improved by encouraging venture capital or encouraging universities to industrialise their research, particularly at the local level for small projects.

Simplifying the EU sustainability agenda

1. Introduction by the Chair

The Chair opened the panel by commenting on the importance of the topic. Some have had a tendency to oversimplify the idea of simplification. The panel presents an opportunity for public authorities and business representatives from different markets, with different perspectives, to debate this in the context of the EU sustainability framework and omnibus directive proposal. At the European level and worldwide, current efforts, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) encourage disclosure on issues not taken into consideration in many companies' business models. For a long time, businesses have used capital and human resources without thinking of the impact on and dependencies from nature and the climate.

2. Views on the omnibus package

An official characterised the omnibus package as a stepping stone and part of the European Commission's new approach, which focuses on simplification, coherence and speed. Where there is political will, the EU can move quickly and effectively. Many actors might have seen the debate on the simplification of the corporate sustainability reporting directive (CSRD) coming, given the reports of past years on EU competitiveness and how it might be improved. One criticism of the EU's sustainability framework is that it increases companies' compliance costs, burdening the value chain.

In Latvia, the sustainability framework has been transposed, meaning that, if changes are made, a review will be required. There is a tension between complexity and comprehensiveness. Simplifying the framework could make it more accessible, particularly for smaller companies with limited resource. On the other hand, simplification may exclude part of the reporting chain, reducing the volume of useful data available. There is a continuing debate around standardisation and how the EU might help companies adopt the framework. In the current geopolitical context, it is also vital to reference the EU's defensive capacity. An aligned sustainability taxonomy might incentivise private sector investment into defence initiatives.

The Chair highlighted that Austria is yet to transpose the sustainability framework, perhaps suggesting that the European Commission should focus on developing regulations (that are directly applicable), rather than issuing directives (that require to be transposed in each Member state). An official noted that, despite lack of transposition in Austria, the directive remains applicable. The first wave of Austrian companies have reported under the European Sustainability Reporting Standards (ESRS), but ongoing negotiations have

complicated the situation. Politicians are reluctant to transpose directives and frameworks that may no longer be viable.

The journey towards the CSRD has been fraught with challenges, starting with the non-financial reporting directive (NFRD), within which various flaws were identified. The CSRD was intended to be an evolution of NFRD but, since then, there have been headwinds. The European Commission sought to address this, following consultation with the European Financial Reporting Advisory Group (EFRAG), though downsizing the volume of datapoints and changing the thresholds for small and medium-sized enterprises (SMEs). Fewer companies are required to report under ESRS and the development of sector-specific standards has been paused.

These efforts were insufficient, resulting in the omnibus directive proposal, which is a mess. The first wave of companies have reported under ESRS. The second wave of companies are preparing to report at significant cost. Now, the discussion centres around 'stopping the clock', with the entirety of the CSRD reopened for consideration. Those in the first wave are unsure they will remain in scope when the debate concludes. They will likely be required to apply different standards in future. Effective regulation must be aligned with a strategy. At the moment, the EU's strategy remains unclear. If sustainability is the goal, regulation must be evidence-based. The European Commission's impact assessment of the omnibus proposal is worth reading for everyone who relies on science.

The timing of the CSRD was also wrong from the start. Putting in place the sustainable finance disclosure regulation (SFDR) ahead of the CSRD was unwise. Coherence with complementary legislation and financial sector practice is vital if the sustainability framework is to succeed. Stability is needed for business.

An official agreed on the importance of stability. The German Federal Ministry of Finance welcomes the omnibus package and 'stop the clock' proposal. The latter makes clear that second wave companies will not be required to apply the ESRS. In the interim, the European Commission, Parliament and Council can formulate simpler, consistent rules.

If the EU's goal is to achieve a green deal, channelling funds into the green transition of companies, money and resource should not be wasted on reporting standards and increasing companies' regulatory and compliance burdens. Money must be invested in the green transition itself. The CSRD and corporate sustainability due diligence directive (CSDDD) should be simplified and made consistent with other international standards.

There are various examples to demonstrate the CSRD's inefficiency. The ESRS consists of 12 standards, 150 EFRAG questions and answers, 40 pages of European Commission frequently asked questions and 100 further pages of guidance. This is neither pragmatic or simple.

The CSRD also does not achieve its ambition of having companies report the most material risks. For example, for a cement company, the water-intensive production process is a material concern. According to the current ESRS framework, the company is obliged to collect data and report on the water consumption of the entire group, including in the restrooms of all office buildings. This is complex and does not contribute to the CSRD's goal.

The additional time allowed by the 'stop the clock' proposal will facilitate the simplification of reporting requirements, making it more practical for companies to comply and easier for stakeholders, including civil society, to understand the material risk related to a company's business model. The current taxonomy reporting obligations are also a duplication of the CSRD standard. The green asset ratio was designed to steer businesses towards a green transition, but is ineffective. Most companies and banks, including development banks and the European Investment Bank (EIB), have a ratio of less than 1%.

The Chair observed that, in years past, stakeholders discussing sustainability emphasised the need for reliable and comparable data. As data reporting standards have been adopted, the same stakeholders request changes to reduce the burden. Meanwhile, the practical implications of climate change are becoming known. This is both an ecology and business concern. An industry representative stated that the reporting framework must be revised. It is essential that all relevant actors acknowledge that the context has changed. Green regulation should align with a strategy of fostering sustainability, integrating climate considerations into companies' everyday operations.

Santander has seen the benefit of CSRD reporting since 2023. It allows a level of comparability with peers not previously possible in terms of materiality, signalling and the information provided. However, the company's sustainability statement is double the length of its financial report. Sustainability reporting requirements multiply risk management disclosure requirements by four. This is impractical in the long term. There must be a focus on meaningful disclosures that truly inform decision making. Significant staff time is devoted to monitoring measures such as the green asset ratio, which are not useful in discussions with internal teams or external stakeholders.

Another demonstrative example requires the company to capture information about the emissions of each vehicle it finances, as well as factors like tyre rolling noise before tagging as 'green' any vehicle for which it is responsible. Such information is not available and impedes the firm's other greening work. The taxonomy is needed, but does not usefully define significant contributions, minimum safeguards and non-significant harm, leading to inefficient allocation of resources. It is not the case that transparency will foster financial flows and transition activities. Demand is lacking because there is no convincing business case. Transparency is only part of the solution. The EU must instead seek to put into action a competitive, clean green industry deal.

An industry representative highlighted that SMBC's European operation, headquartered in Frankfurt, has

prepared in anticipation of meeting CSRD requirements. The bank was surprised to see CSRD not adopted in Germany, but continued to assume that some reporting will be required. The bank is also working to meet the capital requirements regulation 3 (CRR 3), while its Japanese head office has adopted the International Sustainability Standards Board (ISSB) framework under the Sustainability Standards Board of Japan (SSBJ). In North America, it will comply with Californian emissions and disclosure regulation. In combination, this represents a significant volume of sustainability disclosure regulation. SMBC therefore welcomes the spirit of the omnibus proposal and the speed at which the EU seeks to address the challenges identified.

There remains an overlap between CRR 3 and CSRD in terms of qualitative disclosure around governance structure, climate risk and risk management practices. The investment required on the part of non-EU headquartered banks to prepare assurance-ready disclosure is significant. Non-European Sustainability Reporting Standards (NESRS) continue to apply to SMBC's head office. Alignment and harmonisation of sustainability standards are particularly key for international players.

An industry representative remarked that Poland implemented the CSRD in December 2024. The regulation is comprehensive and has some logic, having been prepared and developed over many years. However, Deloitte's clients have a different view. Reporting is only a tool and not the goal itself. The question is whether the objective of achieving net zero by 2050 will be retained through the simplification exercise. No impact reports have been produced to underpin the proposal of amendments. The evidence-based approach taken to the CSRD has not been replicated.

First wave companies understood the importance of the new requirements. There has been more pushback from second wave companies that are less familiar with corporate reporting standards. This implies a need for further education and a reduction in information asymmetry. Regulators and consultants have not explained the regulation in a way that is accepted by all companies and this has been worsened by the current geopolitical context. Stakeholders are focused on the short-term objectives of national, regional and continental defence in a situation of high uncertainty.

The Chair suggested that the quantum of the burden represented by the EU's sustainability framework is a matter of perspective. Those acknowledging the significant risk posed to the planet may find it worthwhile to make financial and cultural investments into these efforts. There is a risk that the shifting majorities of the European Parliament might lead to the continent making a step back in terms of the green transition.

3. Priorities for the legislative process of the omnibus package

An official underscored the significant progress already made. It is vital, going forward, that there is consistency

across all three reporting waves, such that the data obtained remains accessible. There might also be a beneficial discussion to be held around materiality thresholds. There has been no impact assessment undertaken to determine if thresholds should be set at the same level for all industries. The Chair remarked that some battles ongoing behind the scenes have nothing to do with simplification. Shifting thresholds will mean that some countries are excluded, due to the differing nature of EU economies.

An industry representative advised that the pragmatic elements of the current proposal should be preserved, given that there is an extensive negotiation process still to come. It is logic, for example, to move the scope of the CSRD into tier 1, as this could be feasibly managed by businesses. The removal of the mandate to develop sector-specific standards might also be sensible, given the current interest in simplification. The 'do no significant harm' criteria should be simplified.

The CSRD also refers specifically to the international 1.5 degree target. The scientific evidence makes clear that this is "unrealistic" in the context of national plans. The Chair characterised a focus on pragmatism as unwise in the context of a global climate catastrophe. Action is required. An industry representative agreed that action is required. However, regulation requiring companies to have 1.5 degree target-aligned transition plans when not all countries, including some in Europe, have national transition plans (NTPs) is unrealistic.

An official emphasised that it is not a matter of the EU giving up on its sustainability goal, but rather of how the EU and its companies might make best use of resources. Companies and financial sector institutions are devoting significant resource to the reporting of CO₂ emissions, rather than efforts to bring such emissions down. It is furthermore essential that European societies at large continue to accept the need for, and resulting burden of, reporting requirements. Efficient reporting requirements would be acceptable to wave one companies, SMEs and society more broadly. For SMEs, the administrative burden of the existing CSRD is around 1 billion, as calculated as part of the legislative proposal brought before the German Parliament.

The Chair reported a recent conversation with a representative of a large European insurer, who claimed that the additional cost of non-financial reporting represented only 6% of the overall cost of reporting. Efforts to increase transparency cannot be given up in service of such limited savings. Placing an unnecessary burden on companies should of course be avoided, but investment for the green transition will not come from the money saved by reducing reporting requirements. An official clarified that this is not her argument. Any burden placed on EU companies should be in service of the overall sustainability goal and limited in scope, given the challenging situation Europe faces in terms of international competitiveness.

An official confirmed that calculations have been made, and impact assessments carried out in the Austrian case, which would be released publicly at the appropriate time. Participants must be frank in admitting that regulatory reporting is always a burden, but can be necessary to

achieve a specific aim. Given the geopolitical circumstances, in some circles the sustainability goal has been deprioritised. Sustainability must either be pursued in a proportionate way across the piece or deprioritised altogether.

Sustainability is the way forward for the EU, particularly given that the continent is dependent on fossil fuels sourced from elsewhere. There must be investment and innovation in this space, while companies more closely consider their environmental impact. Sustainability does not relate only to the environment, but also to society, which is becoming a global concern. If environmental and social sustainability are European values, they should be defended through the key levers of the CSDDD and the carbon border adjustment mechanism (CBAM).

An industry representative cited SMBC's continued commitment to transparency and sustainability, which formed part of the bank's social value creation strategy. Achieving a reasonable green asset ratio this requires obtaining a level of documentation from clients that is often not available. A simplified and more principles-based 'do no significant harm' criteria would be more meaningful and require less effort from real economy actors and financiers.

There is a need to consider nature. Nature and climate are interlinked. There might also be a benefit in the EU prioritising high impact sectors, such as power and energy, in an effort to better focus the application of companies' resources. SMBC would furthermore welcome a consideration of the NESRS within discussions on ESRS and the simplification of CSRD.

An industry representative questioned how the EU can effectively decarbonise without a starting point underpinned by coherent data and consistent reporting. Companies and financial institutions struggle most to obtain data on climate change impacts. The concerns and interests of wider society must also be taken into consideration. The EU faces significant challenges, particularly in terms of its defence and the ongoing war in Ukraine. It is understandable that some are more focused on pressing, short-term concerns to this end. This argument does not stand, however, in relation to competitiveness. If Europe is to effectively compete, the price of energy must be lowered.

4. Conclusion

The Chair summarised that the EU seeks to meet a challenging goal. In the past, companies did not consider the geopolitical or environmental impacts of their business model. The sustainability objective cannot be abandoned. The logic underpinning financial disclosures, in terms of transparency in the interest of consumers and investors, can be applied to the EU's sustainability frameworks. Participants must acknowledge that some actors can promote "simplification" in bad faith, speaking against transparency in favour of continually profiting from polluting, short-termist behaviours. This cannot be accepted in a society where resources are already scarce. Both environmental concerns and the EU's defence capacity must be prioritised if societal resilience is to be increased.

Energy transition policies

1. Investment divergence and the risk of a fragmented transition: rebalancing capital towards emerging technologies

1.1 Scalable technologies attract the bulk of investment but mask vulnerabilities

An industry representative stated that there is a 'two-speed' transition, whereby investments are predominantly funnelled into scalable and commercially viable technologies, such as renewable energy sources like solar and wind, power grids capable of integrating these sources, and advanced energy storage solutions. Collectively, these areas attracted approximately \$1.9 trillion of last year's investment, showcasing a robust year-on-year growth of around 15% between 2023 and 2024. These sectors should therefore not generate undue concern due to their positive outlook and traction in the market.

Conversely, there is an alarming trend pertaining particularly to emerging technologies, such as carbon capture, usage and storage (CCUS), hydrogen and nuclear power advancements. These areas experienced notable setbacks, with investment in such technologies decreasing by 23% over the same timeframe.

1.2 Geopolitical divergence exacerbates regional imbalances

An industry representative highlighted that there are regional discrepancies. The EU remains the second-largest point of investment globally for clean energy investments, after China, which currently accounts for over 40%. However, the EU itself witnessed a contraction of 7% in investment between 2023 and 2024, painting a concerning picture when juxtaposed against the positive trends seen globally, where clean energy investments grew by 25%, and in China where growth was 20%.

An industry representative added that there are elevated costs and disruptions across the global supply chain, because the ecosystem is highly interconnected, and green energy is highly dependent on global trade. China, for example, is a significant producer of clean technology components. The prospects for the energy transition are therefore gloomier at a global level.

1.3 The EU's stable policy compass faces external headwinds

A policymaker commented that the European Green Deal has demonstrated considerable stability, despite facing multiple global crises, including the COVID-19 pandemic, Russia's invasion of Ukraine and the weaponisation of energy supplies, remaining a central guiding principle for future policies.

2. Policy fragmentation and regulatory volatility: towards coherent, predictable frameworks

2.1 Fragmented EU energy and capital markets hinder deployment of transition capital

A policy-maker emphasised that to address the energy concerns, as covered by the Clean Industrial Deal (CID) and the Action Plan for Affordable Energy, there is a need for increased investment in modernised grids, an expansion of renewable energy sources, ensuring interconnected energy markets that resolve the fragmentation that exists in Europe, while also streamlining permitting procedures to accelerate project development, and incentivisation schemes requiring active involvement from member states, particularly concerning taxation and levies within the energy system.

2.2 Volatile regulation and conflicting policy signals erode investor confidence

An industry representative warned that financial institutions face an uncertain policy landscape. The US has shifted its stance significantly. More than 20 US states have passed at least one anti-environmental, social and governance (ESG) policy, and earlier in the year US Securities and Exchange Commission (SEC) decided to halt defence against all lawsuits targeting the only climate disclosure rule in the country.

A public representative argued that the public sector should not be investing in fossil fuels, and should set long-term regulatory stability to encourage private investment, as frequent policy revisions are detrimental to investor confidence and hinder project development.

2.3 Transition plans and sector-specific pathways are structuring tools

An industry representative noted that transition plans are key tools used by both financial institutions and corporates to assess progress towards goals, evaluate risks, and identify business opportunities. This area is rapidly evolving, with progress reliant on that interconnectedness between, and the interdependence of, banks and their customers. The Chair agreed about the importance of transition plans as a tool for supervisors to address climate and nature-related risks within the banking and insurance sectors.

A policymaker stated that the CID calls for structured dialogue with sectors that want to engage in developing sectoral transition pathways to help evaluate the credibility of companies' commitments. These plans will not be complete solutions, but the process of dialogue within sectors can foster shared understanding of industry-specific challenges, including technological barriers.

3. Financing constraints and investment gaps: unlocking scalable, risk-tolerant capital

3.1 Institutional investment potential remains untapped due to insufficient incentives

A public representative detailed that although the fundamental problem of climate change is well understood, and both the necessary technologies and substantial financial resources are demonstrably available, with approximately \$100 trillion in global investment markets, only 2-4% is currently directed towards sustainable investments, and there is a critical lack of transparent and reliable information, which hinders appropriate allocation of capital.

An industry representative added that financial institutions, driven by fiduciary duties, require policy support, reliability, predictability, and economic incentives to increase investment in clean energy.

3.2 Public finance must catalyse, not substitute, private capital

A public representative emphasised that there should be bonds for private and retail investors, and this should form part of member states' investment plans. The Commission should be contributing at least €40 billion.

3.3 Flexible, long-term instruments required to manage price and demand volatility.

An official stated that, from a financial perspective, despite an overall decrease in electricity prices, which is partially attributable to renewable energy, price volatility remains a concern. Investors are interested in these long-term investments to expand capacity and find technological solutions for interconnections, but uncertainty is a barrier. Financial institutions require flexibility in financing arrangements to manage that volatility, because a decrease in prices means a decrease in revenues.

4. The role of financial institutions: from passive observers to active enablers

4.1 Banks and corporates must co-evolve through integrated transition plans

An industry representative explained that banks can channel capital through various tools, offering financial solutions and incentivising transitions with products like energy transition loans. Supporting the energy transition of corporates, the banks' customers, also presents an excellent business opportunity. A symbiotic relationship exists between banks and their customers, as a bank's own transition is dependent on its customers' transformations, given that 95% of a bank's carbon footprint stems from financed and invested emissions.

Another industry representative explained that in order to improve the quality of engagement with customers, its institution is trying to present the industry's vision to realize both economic growth and a decarbonized society based on government's strategy.

4.2 Data fragmentation and reporting overload threaten efficiency

A public representative provided the example of UPM Ten, a big forest company in Finland, which uses six different reporting schemes on a regular basis, depending on the investor and what they demand. That only adds to the administrative burden.

Despite the setbacks with the Omnibus, efforts must continue towards its implementation, with the aim being a system akin to accounting standards, in which CO2 emissions are assessed alongside return on investment or debt levels under International Financial Reporting Standards (IFRS).

4.3 Japan's experience illustrates effective public-private collaboration

An industry representative detailed that, in May 2021, the Japanese government, particularly the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI) and the Ministry of Finance, issued guidelines on climate transition finance. These led to the development of nine sector-specific roadmaps, covering electric power, oil, gas, iron, steel, cement, chemicals, pulp and paper, shipping, and aviation. These roadmaps have significantly assisted the financial industry in evaluating whether a transition strategy aligns with the principles of transition finance.

5. Strategic coordination and global cooperation: avoiding competitive disarmament

5.1 The CID as a unifying industrial and climate strategy

A policymaker highlighted that the CID focuses on renewing and bolstering the competitiveness of European industries through strategic investment in clean technology and comprehensive decarbonisation of production processes, with energy prices identified as a key competitiveness challenge that requires focused attention.

Financing mechanisms are also a crucial part of the CID, which seeks to target European funds more effectively to maximise their catalytic impact, utilising innovative instruments such as new guarantees provided by the European Investment Bank to de-risk investments, and a proposed industrial decarbonisation bank to further support industry in its transition efforts.

5.2 International partnerships and value chain resilience are vital

A policymaker noted that robust international cooperation is another pillar to highlight. Europe

cannot be successful in its competitiveness and decarbonisation aims without ensuring it has resilient value chains, aiding in accelerating the global transition towards sustainability.

5.3 The political economy of transition: tackling lobbying and inertia

A public representative stated politicians, both those supportive and unsupportive of the green transition, should be contacted. They are being lobbied currently by fossil fuel industries, carbon capture and storage (CCS), steel and others, which is a major issue. Through such lobbying, Europe is tempted to support industries best described as the walking dead, which is an even greater challenge because they also conduct the most extensive and effective lobbying.

CSRD implementation

The Chair initiated the panel discussion, framing it within a critical moment for the European Union characterised by initial compliance with new sustainability reporting regulations, with companies' first reports being submitted, and the simultaneous consideration of the omnibus proposal. The first part of the session focuses on the outcomes and challenges, and the second looks at routes to progress.

1. Outcomes and challenges of CSRD implementation

An industry representative affirmed that there is awareness of the usefulness of shared standards and methods for environmental issues. There are several lessons from the implementation of the Corporate Sustainability Reporting Directive (CSRD) that should be highlighted. Firstly, it has placed sustainability at very high levels in banks' governance, as well as in dialogues our customers. Secondly, the double materiality matrix offers a novel perspective on impact measurement. However, there were significant challenges encountered during implementation, primarily stemming from the compressed timeframe. Methodological difficulties were also identified, particularly in applying standards to banking operations. For example, the positioning on 'nature' presented practical hurdles, as, although it can be straightforward for a manufacturer, it is more challenging to apply for a bank. The granularity of the exercise, exceeding 1,200 data points that are often derived from extrapolations, posed a further obstacle, compounded by a lack of sector-specific guidance.

An industry representative highlighted that their firm produced a substantial 175-page document under CSRD following an 18-month preparation period. The company identified materiality across nine of the 10 European Sustainability Reporting Standards (ESRS), resulting in 800 qualitative and quantitative indicators. The report's length allows for potential redundancy, but it has value as a comprehensive overview of the firm's sustainability policies and actions. In the future, only artificial intelligence tools like Copilot and ChatGPT will likely read and assess such enormous documents.

The CSRD report bridges a critical gap between traditional financial performance metrics and broader extra-financial considerations, including the demonstration of how extra-financial performance was built. It has also encouraged internal momentum through collaborative efforts across subsidiaries and headquarters. The CSRD report can be characterised not as a communication tool for journalists or executives but as a foundational document demonstrating companies' approaches to extra-financial performance.

A regulator emphasised that CSRD reporting forms an integral part of a broader regulatory framework encompassing sustainability initiatives within the EU that

have elevated the prominence of sustainability discussions at all organisational levels. From that perspective, a great deal has been achieved. CSRD is one of the important building blocks for the input to the Sustainable Finance Disclosure Regulation (SFDR) reporting. The taxonomy is another part of the package.

One indication is the importance of carrying out impact assessments as regulations are developed to ensure cost-benefit effectiveness and optimise the framework's design. Initial reviews of the first batches of CSRD reports confirm difficulties experienced by companies, including the large volume of information involved and inconsistencies in reporting across organisations, hindering comparability, which is a crucial objective for effective sustainability assessments. Building this level of detailed regulation within a short timeframe inevitably leads to iterative adjustments and refinements, and the level of granularity is something that will be considered.

The Chair observed that the ambition is to achieve parity between sustainability and financial reporting, noting a current limitation with the absence of aggregated performance measurements for sustainability reporting comparable to traditional financial statements. To have parity there is a need for a reliable level of data. Simplification is a crucial next step, leveraging lessons learned from the initial wave of reports while maintaining data reliability.

A regulator emphasised that currently there is only the anecdotal evidence of a few reports, with the majority due by the end of April. Initial reviews of CSRD reports indicate lengths exceeding 300 pages for banking institutions, demonstrating the scale of implementation and the need for continued refinement. A major achievement of CSRD lies in establishing standardised reporting that enables meaningful comparative analysis for sustainability information. Integrating sustainability information into mandatory management reports that are therefore subject to audit is important, as that thereby elevates the status of the information and aligns it with financial disclosures.

Significant challenges arise from implementing a large and detailed regulatory framework, and one result is a steep learning curve for all stakeholders and ongoing adjustments as rules evolve. While the regulations are complex, there is a significant learning opportunity for all involved. The importance of fostering a commitment to transition plans should be emphasised, as that provides valuable information for investors.

An official noted that the International Sustainability Standards Board (ISSB) pays careful attention to the reports being produced under ESRS and in compliance with the CSRD, given the significant interoperability between the ISSB standards and ESRS, particularly in the crucial area of climate-related disclosures. Initial reports compliant with ISSB standards are anticipated later in the year. The challenges encountered within the European context are relevant to broader international implementation efforts. A dedicated transition

implementation group actively assesses preparer needs and identifies potential adaptations to standards that could support stakeholders globally.

The move from the voluntary to mandatory reporting is highly significant. There is recognition from both the standard setting side and the regulatory side that the path to full implementation involves an iterative journey rather than immediate perfection. It is also important to allow preparers to have peer-to-peer learning opportunities to facilitate continuous improvement over time.

2. Simplification and the ways to progress

The Chair highlighted that EFRAG received a mandate to substantially simplify ESRS 1. That will most likely involve the volume of data points required, which has been somewhat overwhelming.

A regulator asserted that simplification efforts should fundamentally prioritise information essential for investors when assessing sustainability profiles, because the Green Deal is about channelling investment into sustainable assets and for that the investor's perspective should be prioritised. It is good to cut the information down to what investors really need, so it would be sensible to directly engage with investor groups. A general matter of importance is that reduced reporting information necessitates heightened assurance. Retaining limited assurance is not a promising approach, because less information should mean increased reliance on the quality of the relevant information, therefore hold on to reasonable assurance.

Significantly narrowing the scope of CSRD would have implications for other regulations like the Capital Requirements Directive (CRD) in banking, or in insurance for Solvency II. Reducing the data points available would impact risk management capabilities, transition planning efforts, and the detection of greenwashing practices. In such areas there would be a need to rely on other sources of information. Voluntary reporting standards could be supplementary data source, but they were created for a very different purpose, so it remains to be seen whether they will be applied.

The Chair referred to a statement made by Commissioner Albuquerque during the press conference at which the omnibus was presented. The 80-20 rule applies to the GDP amount descope, and the expectation is that the most important companies falling outside the mandatory scope would nonetheless voluntarily report. The inclusion of the mid-cap category is welcome, because it is difficult to establish standards applicable to both multinational corporations and smaller entities with 251 employees. A regulator expressed cautious optimism regarding widespread voluntary adoption, but acknowledged that outcomes remain uncertain.

A regulator emphasised that there is extensive uncertainty about what the coming requirements will be, given the question of how to change the regulation has been opened up, and companies need to address that. There will still be demand for some of the information in question, and it is

essential that the family of regulations work together. Data is also needed to be compliant with the SFDR principal adverse indicators. Given changes to the CSRD and the level at which reporting occurs for particular matters, there may also have to be changes elsewhere in the system. Some voluntary standards will be in scope, but they will need to meet the requirements from those using the information, such as credit institutions or asset managers. There will be a reduction in visibility. The number of companies in Denmark reporting under the CSRD, for example, is expected to reduce from 94 to 15, which will result in less transparency around these issues. That returns to the question about the assurance needed.

The Chair then delved into specific concerns regarding report length. The original drafting of the standards had aimed to create data flows for SFDR and Pillar 3 requirements. The integration of taxonomy-related reporting within existing reports was intended as a placeholder to avoid creating an additional taxonomy-related report, but it contributes to overall report length.

A regulator stated that there should be consideration of the entire ecosystem of reporting requirements, but it should also be remembered that the investors are the users and some of the information is there for risk management. The SFDR review should at least factor in what is being reviewed, to ensure that there is coherence, as it is essential.

The Chair highlighted discrepancies inherent in aggregating greenhouse gas emissions data, with scopes 1 and 2 on one side and scope 3 being a very different prospect. There is a far better interpretation of the greenhouse gas emissions when deep diving on own operations and scope 2, while scope 3 involves estimations to a much greater extent.

An industry representative commented that the successful implementation of the CSRD is crucial for maintaining European sovereignty in the areas of climate action, diversity and inclusion. There are six specific key areas demanding simplification within the current framework. Firstly, the content of existing standards has to be simplified to eliminate numerous redundancies, and there is a need to identify and resolve ambiguities in interpretation. Secondly, regarding sector-specific guidance, there should be a shift towards broader, more general guidance. Overly specific requirements often lead to an influx of requests for attention to be paid to highly particular points. Instead, there should be guidance that facilitates comparability without imposing additional prescriptions, ensuring consistent evaluation of key matters.

Scope 3 is a particularly challenging area for achieving consistent and comparable measurement across financial institutions and insured emissions. There are significant variations in methodologies employed by different preparers, alongside concerns regarding transparency on asset funds. Inconsistencies arise from differing approaches to calculating upstream versus downstream impacts within the value chain. An example to illustrate this point is related to the automotive industry. It can be asked how emissions should be attributed across companies involved in vehicle manufacturing, component supply and infrastructure provision. There is potential for double-counting or incomplete accounting of emissions,

For instance, only the impact of building a car could be considered and not its subsequent use, or there could just be focus on upstream activities while neglecting downstream effects. This area has not matured, and there is a need for simplification and additional guidance.

Furthermore, the current requirement to report approximately 800 indicators is excessively burdensome, so options could be explored to reduce that number by as much as 75%, as such a reduction would not necessarily compromise essential information but rather would sharpen the focus on truly material features. Transitioning towards limited assurance engagements for auditors is something to support, as that will be sufficient currently, though that may change in the future. The practical utility of the taxonomy is questionable, but nonetheless resources are consumed for its production and publication. Maintaining the taxonomy serves primarily to create additional work, though many will want to keep it to avoid adopting another framework that is not useful.

An industry representative emphasised the fundamental role of banks and insurers within the broader economic landscape, highlighting their function as collectors of savings, financiers of economic activity, and providers of insurance coverage to households, small and medium-sized enterprises (SMEs), and larger companies. There is a common stake to support the economy's transition towards a lower carbon and more sustainable model. The principle of double materiality should be maintained, and dialogue with stakeholders, including customers, should continue to be integrated. Raising awareness, providing clear explanations, and engaging in strategic dialogues with SMEs, companies, and households regarding adaptation and mitigation strategies is vitally important.

Regarding CSRD specifically, reporting should be reduced, particularly concerning certain data points. EFRAG recently launched a questionnaire to gather feedback on this issue, and the results from that will be monitored. Standards should be harmonised, but a pragmatic approach should also be taken by questioning the efficiency of regulations such as 'do no significant harm' (DNSH) and certain Joint Assessment Requirements (JARs), as they may not always align with economic realities. The question should be whether they are still efficient, and, if not, what has to change going forward to have a sustainable economy. There is agreement about the necessity of reducing carbon emissions and about simplifying regulations, but throughout that the main purpose is to prioritise serving the economy and its stakeholders.

An official noted that considerable attention is being paid to the omnibus process. There are opportunities for enhanced interoperability between European standards and international frameworks. However, there are associated risks due to oversimplification and increasing complexity as a result. Excessive simplification could hinder European companies' ability to meet their international reporting, and there is ongoing engagement between the ISSB, EFRAG and the European Commission to address these concerns.

The ISSB's standards are always intentionally designed as a global baseline, allowing jurisdictions to exceed those requirements based on specific public policy goals while

maintaining international consistency, thereby enabling alignment with European principles while maintaining flexibility. Sector standards and guidance will be key for the simplification process, and both preparers and investors find them to be useful to understand disclosure requirements in a particular industry or sector, and to help guide the reporting.

Industry-specific considerations are fundamentally embedded within the ISSB standards, drawing upon the work of the Sustainability Accounting Standards Board (SASB), which is also incorporated as a transitional provision within ESRS and has been utilised by many European companies in past reporting cycles. The industry piece is embedded within the standards. The ISSB will continue to engage with EFRAG and the European Commission, and opportunities to enhance interoperability between the international and European standards will be taken.

3. Closing statements

A regulator expressed a desire for a revised framework applicable in the long term, emphasising coherence with the broader "family of financial regulations".

An official reiterated the opportunity presented by increased interoperability and practicality in meeting reporting requirements both within Europe and internationally, while acknowledging the potential risks associated with simplification efforts.

A regulator emphasised the importance of data quality and materiality in achieving meaningful outcomes, suggesting that focusing on these aspects would be crucial for ensuring effective sustainability reporting.

An industry representative reaffirmed the commitment to supporting simplification efforts and contributing to the success of the CSRD, highlighting the broader impact there is on the financial sector, consumers, the planet and society as a whole.

An industry representative concluded by reiterating the commitment to the transition to a sustainable, low-carbon economy, advocating for reduced reporting burdens and a more pragmatic regulatory approach in financing and insurance.

The Chair summarised that materiality remains paramount, emphasising the need for reliable data as a foundation for informed management and investment decisions, while also acknowledging the importance of transparent stakeholder relationships for fostering long-term value creation. Achieving ambitious goals often necessitates iterative improvement rather than immediate perfection.

SFDR review

The Chair welcomed attendees and introduced the panel on the Sustainable Finance Disclosures Regulation (SFDR) review. The Commission is also looking at the SFDR framework, which has been operational since March 2021 and broadly well-received by stakeholders. Criticism is being addressed. A review started in January 2023, including two public consultations, a number of workshops with the industry, and meetings with stakeholders, supervisors and representatives of civil society. All stakeholders have already been asked to contribute, but the debate is still open.

A provisional conclusion has been reached. The main elements and the main objectives of the framework are still valid. There is more transparency, particularly when it comes to sustainability reporting and sustainability-related information in general, but some aspects can be improved. This includes the Article 8 and Article 9 issues, which have been used as de facto labels without being conceived as labels. They therefore do not provide the necessary criteria that need to accompany a label. The exercise is separate from the Omnibus Directive proposals that are already in play and that are going to be imminently negotiated by the Council and the Parliament. Thought will be needed about how to link the two workstreams.

1. Assessment of the implementation of SFDR

A consumer representative stated that the SFDR has played an important role in paving the way to the sustainable finance framework, but it has also raised awareness about the issues in the investment universe. As the sustainable framework has expanded, it has become clear that the disclosure regime that was established has its limits. At the time, a significant amount of flexibility was left to define the key concepts that SFDR has, such as the concept of sustainable investment and consideration of principal adverse impacts. That led to the situation where asset managers published disclosures on the same issues, but in an incomparable way, which caused many misleading statements.

A problematic issue is the fact that SFDR is aimed at establishing a disclosure regime, but it has effectively mutated to a labelling regime. The absence of transition products in SFDR has also become problematic, because it has led to inconsistent practices. Some asset managers or product manufacturers will state that they can invest in any sector or industry with the justification that such investments support transition, despite the fact that there is no credible baseline to verify transition efforts. The current product disclosures largely focus on disclosing sustainability characteristics and do not

speak about reporting the actual adverse impacts of the products. This puts a significant burden on sustainable products and leaves an unlevel playing field for the remainder.

There are also many legislative inconsistencies which need to be resolved beyond just revising SFDR to address the aforementioned issues: Simultaneous alignment of the other substantial elements of the sustainable finance framework, such as fund naming rules, Packaged Retail and Insurance-based Investment Products (PRIIPs), and the consideration of sustainability preferences in the Markets in Financial Instruments Directive (MiFID) and the Insurance Distribution Directive (IDD) is needed to ensure a consistent framework.

The framework needs to be simplified so that retail investors better understand it. Transparency is needed, in order to allow investors to understand the sustainability level of the products and allow retail investors to express their sustainability preferences in an understandable way. The framework potentially needs to be tailored to impact-driven investments, which have largely been left unconsidered. The current discussions on the Omnibus Directive will have a significant impact on the functioning of SFDR, because the availability of data, namely on taxonomy and alignment of economic activities might be hampered.

An official acknowledged the context of Germany currently operating under a caretaker government. The coalition agreement has just been announced, but the SFDR review is not specifically mentioned in the 150-page document. The SFDR was an important first step, but several shortcomings have been identified. The first question is what is provided with the current text, how it is applied in practice, and whether the information that is contained is what investors need, particularly retail investors. There are significant doubts that it does. The second question is around how it interacts with the distribution rules in terms of MiFID and IDD, and whether it is coherent and consistent.

The regulation is currently misused as a label for Articles 8 and 9 which deviates from its original intent. It is likely that Article 8 is too complex, and it is quite diverse in terms of what the investors can read out of it. It is therefore very difficult for retail investors to digest it and to make investment decisions based on the information.

A regulator remarked that focusing solely on potential improvements overlooks the positive changes brought about by the SFDR regulation. The SFDR has dramatically changed market dynamics by effectively creating incentives for asset managers to incorporate sustainability risks into their investment strategies, thereby increasing market transparency. The implementation of the SFDR has shown that, depending on the data source referenced, up to 60% of assets under management are now linked to Article 8 and

Article 9 classifications, which is encouraging. However, though improvements are necessary, maintaining the fundamental principles of the regulation remains paramount, which is to allow investors to take informed decisions and contribute to transforming the productive models towards more sustainable models.

2. Recommended improvements

An official stated that there could be a creation of a simplified labelling system that categorises sustainable investments clearly and understandably, in order to benefit retail investors. This would involve establishing definitive categories that could aid clarity in assessing products. There is an imperative to fostering investments in transition financing; a framework could be created to facilitate and encourage transition focused investments, while avoiding excessively strict criteria that could hinder flexibility.

The risk of greenwashing needs to be addressed, but it is vital not to hamper the financing of transition and of the green economy. The question of a global investment horizon of the products is about disclosure, so it is potentially not ideal to solely rely on European rules and standards like the taxonomy. SFDR needs to apply to products that can be sold or distributed globally. Customer engagement is also needed in the regulatory process. Customer testing can help regulators design frameworks that are genuinely effective and comprehensible for retail investors.

A regulator highlighted that there are three lines of improvement. The first is the categories. An evolution from the ambiguous labelling of Articles 8 and 9 is needed into more definitive categories with clear definitions. These could include a specific sustainable category, a transition category, and a broader environmental, social, and governance (ESG) base category. Simplified, easy to-understand categories will undoubtedly aid both asset managers and investors.

The second area of emphasis is consistency across various regulatory frameworks dealing with sustainability in the EU, which is a critical factor for effective implementation. The third area is the need for simplification, specifically regarding retail investors' easier access to sustainable fund options, which currently often entail cumbersome questionnaires that can act as barriers for potential investors.

An industry representative agreed that the SFDR has contributed to the transition to a more sustainable economy, though there is room for improvement. Enhancing the existing Article 8 and Article 9 classifications could be beneficial rather than moving towards entirely new categories, which could introduce additional complexity into the regulatory landscape. The first condition is to put the customers and clients at the core of the new framework. The new categories will only be successful if they help to send a clear message to customers about where their money goes. The new categories should also be a simple and clear description of what each product invests in.

The second point is about what the product does not invest in, so there must be a clear view on how selection is made for each category. There is a strong need to review the sustainable preferences that are currently defined under MiFID and IDD. Existing criteria in terms of taxonomy, sustainable investment and consideration of principal adverse impacts needs to be removed and replaced with the aforementioned categories and a simple description of the categories.

Overly prescriptive criteria could lead to a situation where certain products no longer qualify for categorisation, consequently diminishing the effectiveness and credibility of the overall framework. There is a delicate balance between sufficient ambition and achievable realism, so there is a necessity of ensuring that the new sustainable categories will not indiscriminately encompass all products not captured in the transition categories, as that will dilute the intended objectives of the SFDR.

An industry representative highlighted four key considerations for ensuring the success of the SFDR 2.0 review from the perspective of a benchmark and data provider. The framework should be adaptable to all investment strategies, with particular emphasis on passive investment approaches. Existing regulatory frameworks often overlook unique characteristics of benchmarks, which result in complexities and confusion regarding compliance and implementation. It is essential to conduct thorough testing of the criteria proposed within the regulation to gauge their actual impact on real investment portfolios. While there appears to be consensus on the general criteria, a focus on understanding the thresholds for these criteria will be critical to the successful implementation of the SFDR.

There is also a need for an agile and flexible framework. Ongoing communication with industry stakeholders will be crucial for addressing emerging questions and challenges. A centralised coordinating body could be established within the EU, such as the European Securities and Markets Authority (ESMA) or the European Commission, to streamline the communication process and allow for a cohesive regulatory environment. There is also the necessity to ensure consistency with the requirements set forth by the Corporate Sustainability Reporting Directive (CSRD) to create a cohesive framework that endeavours to maximise the quality and comparability of available data. Aligning the SFDR with the CSRD will help ensure that the information provided across different regulations is complementary rather than conflicting.

A consumer representative expressed support for changing the SFDR regime to become a product labelling regime. However, the disclosure regime for all products should remain, as it is essential to provide retail investors with that information. It is also vital to not only put the burden on manufacturers that sell sustainable products. Three distinct categories are needed. A sustainability focused category is mandatory, which will capture the products that are already sustainable and respect the minimum requirements in terms of taxonomy alignment. There is a question

around what will happen if the CSRD omnibus comes in and there are fewer disclosures on taxonomy alignment, which will push more focus on defining what sustainable investment is.

There is also the possibility of having a flexible adjusting threshold for the sustainability level of products as the economy transforms and the market changes.

The second product category is transition focused, the absence of which has been a problem with SFDR. It would be useful to focus the transition category on giving the product manufacturers the obligation of means, rather than obligation of results. The category will be linked to actual actions that asset managers can take to facilitate sustainable transformations. A debate can take place around whether it should be called 'transition' or 'improving', the latter following the example of the UK SRD.

The third category, impact-focused investments, would cater to investors prioritising social or environmental impact. This category will require clarity and transparency regarding how impacts would be assessed.

One additional category could be a harmful product category, which will effectively allow consumers to avoid investments linked to detrimental activities, while also accommodating exclusions within other product categories.

3. The UK's scheme around voluntary labelling of funds

A regulator acknowledged that the UK has established a voluntary labelling system for funds, which aims to simplify the consumer's understanding of sustainable products. Through extensive consumer tests, it became evident that the public prefers simple and clear labels over complex gradations of categorisation. There are parallels to supermarket practices, where products like eggs are simply labelled as caged, free range or organic, rather than categorising them with complex numerical systems.

Equally, through extensive testing, consumers have expressed a desire for labels that straightforwardly convey the sustainability outcomes of a fund. Funds should inform consumers about their investment outcomes in terms that are easily digestible, rather than relying on complicated financial jargon. Fund documentation should succinctly distil essential information, demonstrating that consumers comprehend the information conveyed, regardless of the length or complexity of the material provided.

In regard to stewardship, there is an importance of asset managers proactively demonstrating their commitment to sustainability. Stewards of capital should be accountable for the investments they make and how these investments support sustainable practices. Robust anti-greenwashing rules are necessary to protect consumers from misleading claims regarding fund sustainability. Consumers often

seek diversified investment options that still have a positive impact, rather than a stringent pursuit of only 'perfect' funds. The UK has expressed a commitment to fostering a landscape conducive to sustainability, while at the same time maintaining flexibility and choice for consumers.

4. The Omnibus package and consistency with SFDR

An official recognised the significance of the Omnibus package and stressed its critical role in achieving robust reforms. There is an appreciation for the Commission's efforts in the tabled proposals. The Omnibus package is imperative in ensuring that sustainable finance does not devolve into mere compliance exercises. The objective should be to develop a framework that is well utilised by corporates, which must be able to effectively apply the regulations in practice.

There is optimism regarding the ongoing discussions in the Council concerning sustainable finance. The agreement for the 'stop the clock' mechanism will delay the implementation of new reporting and due diligence requirements, providing more time for deliberations about the substantive proposals put forth by the Commission. While negotiations will be delicate, they are necessary to arrive at effective and responsive measures.

A regulator concurred around the significance of the Omnibus proposal as a necessary initiative aimed at simplification. Simplification has to be prioritised in order to ensure a practical closure regime that genuinely promotes sustainability, rather than adding burdensome layers of compliance. The hope is that the political discussions will be more ambitious when considering the scope of the legislation, as reducing it too much will create gaps in the availability of critical sustainability information from significant portions of the economy.

The range of companies required to comply with the legislation needs to be expanded, but without overwhelming smaller entities with excessive burdens. Sustainability disclosure must be relevant across various segments of the market, ensuring that smaller firms can participate meaningfully in corporate sustainability initiatives while keeping the principles of transparency intact.

An industry representative stated that their company is in favour of simplification, which it has supported for a significant period of time. However, simplification does not necessarily mean a large descope. What is most important is a simplification of the European Sustainability Reporting Standards (ESRS) and the number of data points that corporates will have to publish. All the data points are being examined to identify the ones that are relevant and useful from an investor perspective, and to remove all the information that does not have added value.

The next step is to examine other companies. It could make sense to make a distinction between companies

that have more than 250 employees, and ones that have fewer than 250 employees, for which disclosure should be voluntary and optional. For companies with between 250 and 1,000 employees there can potentially be simplification of the ESRS, with 40 or 50 data points. For bigger companies, there could be between 140 and 150 data points. Companies not publishing information on extra financial matters is not positive, because all stakeholders need this information. If companies want to be visible, then they have to produce this information. It is vital to achieve the right balance between two potentially opposite objectives.

The last point is the concern that reporting on taxonomy will potentially become optional, so derogation might be needed. Making taxonomy reporting optional could undermine the consistency of information available to investors, leaving questions surrounding the reliability of data across the industry.

The Chair highlighted that the comments made show how everything is interlinked in the area of the sustainable finance framework, and how important it is to ensure consistency.

A regulator stated that discussions around sustainability should pivot back to fundamental principles, which is a perspective grounded in consumer needs rather than regulatory complexities, especially given the plethora of existing taxonomies globally. Consumer understanding of what a fund does in terms of sustainability is vital, as well as the importance of clear communication. Consumers often seek out straightforward, well-defined explanations, rather than overly detailed technical specifications.

The sentiments that were shared earlier about the necessity for clear labelling in the market are pertinent. Asset managers must proactively clarify what sustainability metrics they employ and how they gauge their investments' impacts. There needs to be

transparency in the communication of these factors to lay audiences, because simplistic communication can significantly enhance consumer confidence and trust in sustainability related products.

Stewardship is also a key issue. Asset managers have a responsibility to act decisively if they encounter inadequate reporting from their portfolio companies. Investors should feel empowered to scrutinise the sustainability narratives and the performance of companies that they have invested in.

An industry representative stated that establishing alignment and interoperability between the UK and EU frameworks is indispensable to avoiding fragmentation within the market. Many firms operate within both regulatory jurisdictions, meaning that differing approaches will invariably lead to compliance complexities and inflated costs. An aligned regulatory stance greatly benefits corporates, regulators, and investors alike by ensuring a competitive environment. The EU should consider adopting successful aspects of the UK's regulatory framework for sustainability as a model. Aligning the two systems will facilitate seamless operations for firms and minimise the compliance burden, while delivering clarity to investors at the same time.

The Chair concluded the session by expressing gratitude for the insightful contributions made by all panellists, recognising the complexity and interlinkage of the discussions surrounding sustainability finance regulation. He reiterated the European Union's commitment to the objectives outlined in the Green Deal, ensuring that the framework for sustainable finance remains a priority within regulatory agendas. The work on enhancing the SFDR and related frameworks will be ongoing and will necessitate further discussions in future panels.

Sessions

VI

SIU FUTURE STEPS

- **Building an effective SIU: key dynamics** 113
- **SIU next steps** 116
- **EU capital markets fragmentation** 120
- **Securitisation in the EU** 124
- **Asset management and the SIU** 128
- **Increasing retail investment** 131
- **Long term retail investment products** 135
- **T+1 settlement: next steps and impacts on SIU** 139
- **EU clearing competitiveness and resilience** 143

Building an effective SIU: key dynamics

1. Objectives of a successful SIU

1.1 Main objectives of the Savings and Investments Union (SIU) initiative

An industry speaker stated that the SIU should aim to make Europe a global hub of financial liquidity across asset classes, capable of attracting major IPOs and listings. This requires efficient, cost-effective infrastructure, including interoperable post-trading systems, and appropriate incentives for retail investor participation in the capital markets. A diverse base of market participants is also essential, including banks, insurers, and specialised firms like market makers, with specialisation encouraged over generalisation. Finally, the sector must attract more talent from European universities by promoting a more positive image of finance as a vital part of society.

An official suggested that for the SIU to be considered successful, risks must be effectively managed so that citizens and firms can access adequate financing and hedge against risk. However, this is difficult to assess quantitatively. Furthermore, the success of the SIU cannot be measured by capital market indicators alone, as developing markets is not an end in itself. Broader economic outcomes also matter, such as the ability to provide private equity and venture capital funding for start-ups, an area where Europe still lags significantly behind the US. The Commission and Council have developed a set of indicators to track capital market development, which will feature in an annual reporting to the Eurogroup. The key challenge, however, is distinguishing the impact of policy decisions from natural market developments.

An industry speaker considered that the top priority for the SIU is mobilising risk capital from institutional and retail investors. The ultimate measure of the SIU's success should be Europe's ability to grow and scale companies, and to allow start-ups and high-growth companies, especially in the tech sector, to thrive in Europe. An official agreed that the success of the SIU will lie in improving financing for innovation and the broader European economy.

1.2 Comparison with the US market

The chair asked whether comparisons with the US market are helpful for defining objectives and priorities for the SIU.

An industry speaker noted that, while comparisons with the US market can be useful for identifying gaps, they can also be misleading because the EU is different from the US. While there is a single market in some respects, the EU comprises 27 different jurisdictions, each with their own legal, tax and regulatory framework, which has a fundamental impact on day-to-day market realities.

Another industry speaker agreed that direct comparisons between EU and US markets are difficult, as Europe is structurally different, with diverse jurisdictions, cultures, market structures and market access models. The US capital market presents a mixed picture. It is strong in building deep and diverse pools of risk capital through its 401(k) pension system and vibrant venture capital sector, and in enabling corporate access to markets. It also benefits from a strong culture of entrepreneurial, founder-led innovation. However, certain US practices, such as OTC or bilateral retail order trading and payment for order flow, are not desirable for a healthy capital market.

2. Opportunities and challenges of the SIU

Several speakers highlighted the opportunities of Europe in the current geopolitical environment to attract investment. An industry speaker observed that in the current geopolitical environment, Europe has a unique opportunity to attract a larger share of global investments by positioning itself as a reliable, credible, efficient, and investor-friendly jurisdiction. SIU is the right framework for achieving this and must adopt a global perspective to attract international capital.

Some key challenges facing the SIU were also identified.

A regulator emphasised that the main obstacle to a successful SIU is the complexity of Europe's market structure, regulation, and institutional setup, which hampers competitiveness and results in sub-optimal outcomes. The fragmentation of the securities value chain, with 27 CSDs and 14 CCPs, limits market depth, liquidity, and efficiency. This is compounded by divergent legal frameworks, including insolvency laws. Regulation has become overly complex due to political compromises, and streamlining is needed with a clearer focus on original policy goals. Some on-going initiatives, such as the Retail Investment Strategy (RIS), should be reviewed to ensure they meet their objectives, such as enhancing the market for retail investors, with a simpler set of measures. Institutional reform is also necessary to reduce complexity in rulemaking and supervision. The multiplication of supervisory agencies creates inefficiencies through multiple interfaces and overlaps, highlighting the need for a more streamlined supervisory framework.

An industry speaker agreed that simplification is essential for attracting investors, but noted that there must also be attractive returns considering the risks taken. While Europe has striven to reduce risk exposure for investors, this is not necessarily aligned with investor expectations. Many investors are aware of the need to diversify risk and seek attractive returns. They also understand that a risk-free financial environment does not exist.

3. Priorities for an effective SIU

3.1 Enhancing the supervisory approach to European capital markets

The chair asked how important more centralised or unified supervision is for the growth of capital markets.

An official stated that supervision must be part of the agenda for EU capital market integration, as it is essential for both competitiveness and financial stability. A clear path is needed towards more unified supervision of capital markets. Although ESMA plays a key role in promoting supervisory convergence, differences in how EU regulations are implemented at national level persist. While colleges of supervisors are useful, they cannot fully address market fragmentation, and reporting practices also continue to vary. More unified supervision would provide a more comprehensive view of the risks posed by individual financial actors. Implementing such changes is challenging due to the current institutional framework and diverse national supervisory traditions, but progress is necessary. Initial steps could focus on cross-border and systemic institutions, as well as sectors like crypto, where cross-border players dominate. Revising ESMA's governance is also required to support this evolution.

A regulator noted that, while supervision alone does not create markets, fragmented supervision raises compliance costs and facilitates regulatory arbitrage. Greater convergence in supervisory practices is needed, particularly in a digitalised environment with passporting options. This can be achieved either through centralisation or by improving consistency across member states via coordination efforts. The appropriate approach depends on the sector and the type of entity. For large, systemically important cross-border entities such as CCPs, centralised supervision is a viable option, provided issues such as fiscal responsibility in the event of failure and clear allocation of supervisory roles are addressed. However, centralisation must not lead to higher costs or lower efficiency; in some cases, centralised models have proven more expensive than decentralised ones. Therefore, convergence without full centralisation should also be explored. Existing governance frameworks could be strengthened to enforce convergence across supervisory authorities more effectively, complementing existing soft coordination mechanisms.

3.2 Regulatory priorities (securisation, market infrastructures, legal barriers, retail participation)

An industry speaker welcomed the priority given to securitisation in the SIU Strategy, highlighting its potential to support the financing of the EU economy. To develop securitisation in the EU, the investor base must be broadened by attracting non-bank investors such as insurance companies, which would require revisiting the prudential treatment of securitisation under Solvency II. A more principles-based approach to due diligence and transparency requirements, along with templated disclosure for plain-vanilla products, could further support the development of the securitization market. A second priority is to boost retail investor participation to increase market size and liquidity, which calls for national measures such as tax incentives. Legal barriers,

particularly differences in insolvency law across member states, must also be addressed to develop cross-border securities markets. This issue is also relevant for securitisation, as legal fragmentation creates uncertainty, hampering scale. Finally, technologies like DLT can support further integration of EU securities markets, especially in the post-trading area, where greater efficiency is needed given the multiplicity of market infrastructures.

A second industry speaker stated that there needs to be more focus on infrastructure in the next steps of the SIU, in order to ensure seamless front-to-back transaction execution on a large scale. This will benefit both institutional and retail investors by providing greater efficiency and stability. While strong regulation and technical expertise in Europe provide a sound starting point for achieving this, market participants must collaborate across the value chain to streamline processes and enhance the liquidity of European financial markets.

A third industry speaker emphasised that improving interoperability and connectivity between infrastructures is more important than reducing their number. Post-trade fragmentation requires careful analysis. Although many CSDs operate in the EU, two groups account for approximately 90% of settlement activity. A number of market-driven solutions have been developed over the years to enhance integration, and this progress should continue. In the settlement space, common technical platforms already connect multiple markets, and in fixed-income markets there are truly pan-European and international CSDs that act as hubs for a significant part of the market. However, fragmentation persists in equity markets. The fixed-income model could guide equity market integration, with the development of pan-European hubs offering similar connectivity and interoperability. DLT also holds potential for post-trade processes, but action is needed now to avoid reproducing a new fragmentation in the digital space. Policy enablers should also be considered for supporting intra-group integration and the mutualisation of operations and platforms. Finally, consistent supervisory approaches and methodologies are essential to ensure effective compliance with the EU rulebook.

A fourth industry speaker agreed that the number of infrastructures is not the only factor to consider. The main European trading and post-trading infrastructures are highly efficient and competitive.

An official considered that removing legal, fiscal, and accounting barriers is essential to developing cross-border capital markets in Europe. Legal obstacles include divergent corporate laws, particularly for listed companies, as well as differences in insolvency and securities laws. These politically sensitive issues have only been superficially addressed, but without legal harmonisation, further integration or consolidation of post-trading infrastructures will have limited effect. The lack of progress on legal harmonisation also poses risks to investor protection. The Hague Securities Convention, intended to clarify the applicable law for cross-border securities holdings, has not entered into force due to insufficient ratification. This creates persistent legal uncertainties and vulnerabilities in the custody chain. In the event of a custodian failure, unresolved ambiguities

could undermine investor claims, though this risk remains untested. This example underscores the critical need for harmonisation to ensure both the effectiveness and the safety of European capital markets.

3.3 Importance of the Banking Union for the SIU

An industry speaker, responding to a question from the chair on the relevance of the Banking Union (BU) for the SIU, emphasised that the two are not separate initiatives but two integral components of a unified European financial market. As banks continue to play a central role in financing the EU economy and as intermediaries for capital market activities, they must be fully involved in building more integrated financial markets. An integrated BU would moreover reduce market fragmentation and enhance resilience. There is a risk that the momentum behind the SIU could sideline the BU due to the latter's slow progress, but both initiatives must advance in tandem. Moving forward on both fronts simultaneously during the current political cycle would strengthen the appeal of the EU's financial system, support the cross-border integration of financial markets, and bolster the trust of financial services consumers across the EU.

4. Approach for making effective progress on the SIU

4.1 A novel approach with shared responsibility between the EU and Member States

A policy-maker stated that the SIU cannot be built from Brussels alone. Progress on SIU must be driven at both the EU and national levels. It requires a strong partnership and shared responsibility between EU institutions and Member States, and it requires buy-in from all stakeholders. The SIU Communication, published in March 2025, acknowledges the essential role of Member States in advancing reforms both individually but also in a coordinated manner. This is the case especially in areas where EU competence is limited, such as taxation and pensions. Now is the time to take decisive steps and, through close cooperation, turn the SIU into a concrete reality, building on previous CMU efforts.

An official considered that the SIU Strategy sets out a clear agenda, and that the strong momentum behind the SIU must be capitalised on. However, concrete progress requires political will at the level of the member states. Member states must respond with ambitious proposals and a willingness to compromise. Timing is also essential and differences in views between the EU and member states, as well as between the member states themselves, must be reconciled through focused negotiation.

An industry speaker agreed that the right elements are now in place to move SIU forward: a coherent plan, regulatory clarity, and clear political commitment. The emphasis must now be put on implementation.

4.2 Member states' role and EU level coordination

The chair noted that many key elements for the SIU are mostly in the hands of member states, including pensions, tax incentives, and financial literacy and asked how an

adequate combination of EU and national actions, as proposed in the SIU Strategy, could be implemented.

A regulator emphasised that moving towards greater market integration requires abandoning some national specificities. These two aspects must be considered together. For the initiative to be successful, member states must engage in the collective process of building the SIU and simplifying regulation.

An official remarked that member state actions in areas where they retain primary responsibility, such as taxation and pension systems, must be subject to monitoring at EU level. The annual reporting to the Eurogroup, to be prepared by the Commission and the Council, will serve as a key tool to track capital market development across the EU and assess progress towards the goals of the SIU.

An industry speaker stressed that Sweden demonstrates what determined national action can achieve. Over time, it has built a vibrant capital market with the highest listing activity in Europe, a success shaped by years of experimentation. Key factors include the effective mobilisation of risk capital, particularly via pension funds and gradually refined ISK investment accounts, as well as strong financial literacy and widespread investment experience among the population. Sweden shows that coalitions of the willing can drive real progress when supported by a suitable European regulatory framework and effective supervision. It also illustrates that a sophisticated capital market can develop within a national context in Europe. However, cross-border capital flows remain a major challenge in the Nordic and Baltic region. Although regional liquidity aggregation would offer clear benefits, it is still held back by limited market linkages.

5. Wrap up

A policy-maker noted that the panellists had highlighted many of the key elements needed for a successful SIU. Given the complexity of the issues and tight deadlines, decisive action must be taken now. Barriers at the market infrastructure level must be clearly identified and addressed through targeted solutions, and the Commission will soon seek detailed input on how to address them. Supporting the growth of EU scale-ups and improving access to risk capital remain a key priority. The Banking Union must also progress in parallel with the SIU, as an integrated EU banking sector is essential for the development of capital markets across the EU. Supervision must become more consistent and convergent, with EU-level solutions considered where appropriate. It is also vital to ensure incentives for retail investment are in place, though harmonising tax incentives is not necessarily required, as national models can be effective. Persistent legal fragmentation in insolvency, company law, and accounting remains a major challenge. On the technology front, Europe must accelerate efforts to ensure interoperability and avoid fragmented platforms. A coordinated approach across all these areas is essential to deliver a functional SIU.

SIU next steps

1. A strong momentum and sense of urgency around the SIU initiative

An official emphasised that the goal of the Savings and Investments Union (SIU) is to channel European savings into productive investments to support the long-term development of the EU economy and improve wealth prospects, offering a stable path for future growth. Encouraging EU citizens to invest more within the Union is essential to achieving these goals; otherwise, external actors may benefit from Europe's savings.

A regulator emphasised the urgency of implementing the SIU, in light of the EU's pressing productivity and competitiveness challenges highlighted in the Draghi and Letta reports in particular. The current political momentum around the SIU and the will to progress are a reason for optimism and must be seized to advance this initiative.

An industry speaker agreed that there is now a stronger sense of urgency, and a clearer, shared ambition compared to previous CMU efforts. The key challenge however lies in execution, which requires openness and courage not only from the European Commission but also from the Member States.

Another industry speaker noted that while a key challenge is turning the SIU's findings and recommendations into concrete action, the initiative marks real progress by opening up new growth opportunities through strategic public spending not seen in years. There is strong agreement that capital markets must play a greater role, as banks alone cannot meet all financing needs. To enable large-scale investment in priority areas such as the green and digital transitions and defence, the SIU must help mobilise long-term savings and remove regulatory barriers. Programmes like the ReArm Europe plan, aimed at boosting defence investment, illustrate the type of strategic spending that will require deeper capital markets and greater private investment. This may also lead to more effective incentives, including improved tax and regulatory measures to attract private capital. The renewed sense of unity within the EU around these initiatives offers a shared path to strengthen European capital markets.

2. Key priorities of the SIU Strategy

2.1 Key areas of focus for the development of EU capital markets

The panellists highlighted key areas on which they recommended the SIU focus in the next stage of the initiative.

An industry speaker emphasised that a competitive and resilient European economy requires strong, liquid capital markets, but fragmentation remains a major barrier. Multiple post-trading infrastructures create inefficiencies and raise costs and inconsistent national legislations, especially tax incentives, insolvency regimes and securities laws add further complexity. Supervisory approaches also vary, often involving overlapping layers. Tackling this fragmentation is essential. There is also the need to shift from a protective approach to savers toward actively encouraging their engagement in capital markets. While developing deep capital markets is a long-term challenge, some targeted measures could yield near-term benefits. These include extending TARGET2 Securities operating hours to reduce dependence on US dollar payments and improve settlement and margin call processes, as well as streamlining reporting obligations, which are currently more burdensome in the EU than in the US, despite lower market activity.

An official acknowledged that eliminating barriers to cross-border investment and achieving greater harmonisation of the EU rulebook are important long-term objectives for the EU. However, they are insufficient to encourage retail investor participation. Other measures are needed to enhance financial literacy and promote an equity culture, so that investors are encouraged to take measured risks. EU capital markets should also be made more attractive by improving the competitiveness of EU firms and by simplifying and clarifying regulation to reduce the regulatory burden. High returns can be achieved without investing outside the EU, given the strong diversity of geographies and sectors present in the Union. However, local market ecosystems must be allowed to develop and the access to a variety of national markets must be maintained, without excessive centralisation. The SIU can contribute to achieving these goals by offering guidance, incentives and opportunities to exchange best practice in areas such as taxation, equity investment, insolvency regimes and pension systems. The official also welcomed the SIU's proposals to develop long-term investment and securitisation measures to help banks transfer risks and recycle capital into new lending.

An industry speaker emphasised the importance of developing capital-backed Pillar 3 pension schemes, which could appeal to consumers and deserve more support from the regulatory framework. Currently, only a small proportion of Europeans have pensions with significant exposure to capital markets. Although stimulating European economic growth is a commendable objective, the industry speaker cautioned against restricting pension investments to Europe, as this would contradict the principles of capital markets. Investors must be free to seek opportunities globally. Given Europe's own strong

investment potential, protectionist policies are unnecessary.

Another industry speaker agreed that pension products need to be enhanced, for example by including a degree of capitalisation in all three pillars of the pension system. More broadly, the availability of adequate long-term investment products is a key driver for encouraging savings to be invested in the European economy. Proposals initiated during the previous European political cycle to adjust fiscal processes in order to attract more retail and institutional investment into the EU should also be implemented. These include the DEBRA (Debt-Equity Bias Reduction Allowance) and FASTER (Faster and Safer Tax Relief of Excess Withholding Taxes) Directives.

An official also highlighted the importance of developing supplementary pensions. Efforts are underway at domestic level notably in Germany, where the coalition agreement includes the mission to enhance the tax-aided third-pillar pension system.

A regulator identified three key priorities: securitisation, investor participation and supervision. Securitisation offers significant potential for the European economy. In a financial system that relies heavily on bank lending, securitisation can free up capital, thereby increasing lending capacity. This is particularly important in the context of tightening prudential requirements. Securitisation also reinforces the link between banks and capital markets by enabling the transfer of credit risk to investors and the creation of tradable instruments. The second priority, investor participation, is strongly dependent on national drivers such as tax policy and pension systems, which must be adapted at member state level. Although supervision alone cannot build capital markets, a more integrated supervisory approach is essential for their development and should be part of the broader policy discussion.

An industry speaker noted that, in terms of investor protection, frameworks must tolerate some degree of risk while ensuring that appropriate safety nets are in place, given that risk is an inherent part of investment. The role of banks as intermediaries in capital markets must also be adequately taken into account in banking regulatory and supervisory frameworks.

A regulator stated that in the case of Cyprus, where SMEs form the core of the economy and bank lending has declined since the country's banking crisis, improving SME access to finance is a key priority. Beyond the measures outlined in the SIU Strategy, such as securitisation, mobilising private capital and combining public and private money, technology should also be leveraged. DLT platforms could enable SMEs to issue tokenised bonds accessible to institutional investors. One such platform, backed by the European Commission and developed collaboratively across several member states, could play a significant role in unlocking capital for SMEs.

2.2 Focus on a more limited set of key priorities

Some panellists argued that the SIU should focus on a more limited set of key priorities likely to have a real impact on EU citizens and the EU economy.

A regulator suggested that the wide-ranging set of measures proposed in the March 2025 SIU Strategy need to be further assessed and prioritised based on impact and feasibility, given the number of actions involved and the ambitious timeline. In the area of supervision, for instance, centralising the supervision of systemic and cross-border infrastructures could be beneficial, but such a change requires time and a significant involvement of member states. Similarly, the reforms proposed in pensions, taxation, and regulatory simplification make sense, but must be sequenced appropriately.

As a positive example of what coordinated reform can achieve, the regulator pointed to the Recovery and Resilience Facility, where clear goals, deadlines and conditionality have led many Member States to deliver tangible progress, demonstrating that, with strong coordination and commitment, ambitious initiatives like the SIU can succeed.

3. SIU approach

3.1 A combination of bottom-up and top-down approaches

The chair highlighted that the SIU Strategy places a new emphasis on encouraging an active engagement of Member States in the initiative. The strategy presents the SIU as a joint EU-national endeavour, with EU institutions and Member States sharing responsibility for its development. Member States are expected to implement national measures that complement EU-level actions, as identified by the Eurogroup, with Commission support where it adds value. The strategy also encourages concerted initiatives by groups of Member States willing to move further and faster, provided they remain inclusive and aligned with EU priorities. To monitor progress, SIU implementation will be linked to the European Semester and reflected in country specific recommendations. Finally, the approach is guided by common principles of simplification, burden reduction and digitalisation.

An official advocated a hybrid model, combining common EU policy frameworks with national-level flexibility. The pragmatic, bottom-up approach proposed in the SIU Strategy offers a better prospect of success than the traditional implementation of uniform plans for the entire Union, as it allows for solutions that are more closely aligned with specific market needs. In addition, with technology expected to play an increasing role in shaping the future of capital markets, a more flexible and responsive approach will be essential to keep pace with innovation. In this context, SIU efforts should focus on improving coordination of national initiatives and removing key barriers, rather than pursuing full regulatory harmonisation. Coordination is both more feasible and faster to achieve.

An industry speaker emphasized that all stakeholders, including industry, must be meaningfully involved in shaping regulation, with genuine opportunities to contribute expertise to help the Commission design

more targeted and effective measures. This is the rationale behind combining top-down and bottom-up approaches. The Spanish government's Competitiveness Labs, a sandbox model used to test new integration measures, is an example of approach that can be used in this context. Such mechanisms can provide the Commission with better insights and practical tools to identify friction points and craft more effective regulation.

A second industry speaker agreed that active engagement from all actors and effective cooperation are needed to move SIU forward. The mindset also needs changing, with a focus on delivering collectively results that may be beneficial for the whole market, rather than striving for individual benefits that may undermine shared objectives.

A third industry speaker added that all stakeholders, including the financial industry, should take part in identifying and promoting the key priorities for the SIU, helping to ensure it is a collective effort that enhances both its effectiveness and legitimacy.

A regulator reflected on the tension between bottom-up approaches that build on local specificities and more unified top-down approaches to supervision. While a unified approach appears necessary to address level playing field concerns, national specificities still justify maintaining a degree of domestic-level supervision. This is particularly relevant in areas shaped by cultural and fiscal differences and where domestic rules are significant, such as customer protection. However, in other domains, a more centralised approach, underpinned by a streamlined rulebook, may prove more effective. The current complexity of the rulebook mainly stems from efforts to close potential regulatory loopholes that could give rise to unfair competition between jurisdictions. In attempting to ensure a level playing field, these efforts sometimes artificially eliminate national specificities through uniform requirements. Greater centralisation in the exercise of supervision and decision-making could allow for a simplified rulebook, as it would be enforced in a consistent way, and, at the same time, more flexibility to accommodate legitimate local specificities in a coordinated manner.

Another regulator supported a combination of top-down and bottom-up approaches, with flexibility to reflect the diversity of national capital markets. Regarding supervision, George Theocharides argued that while centralisation, for instance through ESMA, makes sense for systemic and cross-border market infrastructures such as CCPs, CSDs, and large trading venues, local expertise remains essential for many other market segments. In addition, assigning all supervisory responsibilities to a single entity could create overly complex and time-consuming processes.

The chair stated that regardless of whether a bottom-up or top-down approach is taken, the ultimate goal should be to reduce market fragmentation. National specificities are a reality, but should be addressed when they hinder efficiency. Citing the Draghi report, John Berrigan noted that divergent supervisory practices create barriers to integration and may be

most effectively tackled through single supervision, although this is not the only possible solution. Striking the right balance remains essential. Moreover, effective coordination is difficult to achieve without regulation. In its absence, coordination relies on non-binding recommendations with no formal follow-up mechanism, raising questions about the effectiveness of a bottom-up approach driven solely by Member State initiative, with no underlying regulation.

3.2 The benefit of exchanging best practices

An official emphasized the importance of sharing successful national practices for developing capital markets across the EU. Past discussions on insolvency regimes have shown the value of this approach. There are many successful examples in the Union to build on. Notable examples include initiatives in Germany and France combining private and institutional capital to support venture capital and private equity investment, as well as pension systems in Sweden and the Netherlands that have successfully integrated capital market investments. In Sweden, this has led to 50% of household assets being held in shares and investment funds and a capital market 1.7 times larger than the EU average relative to GDP. The Commission can play a key role in identifying and promoting effective national models and ensuring their coordinated expansion across the Union, while Member States must integrate them into their systems and provide suitable incentives. A regulator concurred that there is much value in learning from best practices, which the Commission could help coordinate and promote across member states.

The chair agreed that exchanging best practices is essential but noted that while identifying interesting practices is often straightforward, determining which practice is truly the best and ensuring its broad adoption is more challenging.

3.3 Simplifying regulation and improving the policy-making process

An official welcomed simplification efforts at the EU level such as the Omnibus package proposals. Similar reforms are underway at the domestic level in certain Member States. For example, Germany is endeavouring to eliminate national-level barriers wherever possible, cutting red tape and streamlining reporting obligations.

Another official agreed that simplifying regulation as proposed in the three Omnibus packages is essential. The burden of transposing European legislation must also be reduced.

An industry speaker emphasised that the Commission must allow sufficient time to assess SIU proposals thoroughly, especially considering current geopolitical pressures. Rushing measures risks undermining their long-term economic impact. Rather than continually adding new regulation, the focus should be on developing smarter, more effective rules. Previous CMU efforts were often marked by quick fixes and implementation delays. Current initiatives, such as the Omnibus simplification, should prompt a more

thoughtful and collaborative approach, giving industry the space to highlight practical frictions and help shape better outcomes under the SIU.

Another industry speaker added that supervisory and prudential barriers should be reviewed and streamlined to focus on safety and soundness, without adding unnecessary complexity. In addition, regulation should not stifle innovation; instead, it should evolve to foster growth, for example through sandbox-style approaches. Regulation must also be tailored to specific products. Different approaches are required for bonds, equities, venture offerings, and for fintech-type products, such as digital assets. A one-size-fits-all regulatory model would indeed fail to capture the range of opportunities offered by these different instruments.

4. SIU branding and narrative

Several panellists welcomed the rebranding of the CMU as the SIU. An industry speaker considered, however, that "Savings and Investment Union" may be confusing as it puts undue emphasis on savings rather than focusing on investment and engagement with capital markets.

An industry speaker added that beyond the name of the initiative, clear and accessible communication is essential to ensure citizens understand its purpose and to build trust. The messaging must make clear that the SIU is designed to benefit individuals, such as by helping them prepare for retirement, not to serve the interests of financial institutions. Communication should aim to change retail investors' current perception of capital markets, which are often seen as complex, risky, or inaccessible. To counter this perception, the role of capital markets in building long-term wealth must be more strongly emphasised. While markets involve risk and volatility, they remain the only sustainable path to

long-term financial security, provided that sufficient investor protection is in place. One challenge however is that at present, it is unclear whether this vision is fully supported and accepted by all policymakers and political decision-makers.

Two panellists noted that a key improvement with the SIU is that it is framed as a means to achieve broader policy objectives, such as a more effective capital allocation to the real economy, rather than as an end in itself, as the CMU was often perceived. This change in the political mindset around the initiative gives the SIU a greater chance of success.

The chair agreed that the SIU should be viewed as a driver of market reform, but noted that the CMU was never intended by the Commission to be an end in itself. If it was perceived as such, this reflects a shortcoming in the way its objectives were communicated. The goal was not to create a "Union" per se, but to provide the tools to further develop and integrate capital markets across Europe.

5. Wrap up

The chair summarised that the SIU appears to have stronger prospects than the CMU, due both to current momentum behind the initiative and its balanced combination of bottom-up and top-down approaches. This hybrid method is a novel feature that will require careful coordination. While the SIU Strategy outlines the main areas of focus, measures will need to be adapted to market realities. Finally, the initiative's title and narrative are important in helping to communicate the core economic rationale of linking savings to productive investment for the benefit of both individuals and the wider EU economy.

EU capital markets fragmentation

1. Current level of fragmentation

An industry speaker stated that fragmentation in EU capital markets should be assessed through both an institutional and retail perspective and also at the trading and post-trading levels. For institutional equity trading, the European landscape is relatively efficient when compared with the US: fewer lit and dark order books, fewer internalising brokers. Trading securities across the whole EU requires using additional lit books of domestic exchanges but that does not increase complexity significantly due to the fact that many of them operate on common technology. In terms of institutional post-trade, the direction of progress is positive also. There is a solid level of interoperability at the clearing level for equities with 75% of the equities market benefiting from full CCP interoperability, and a further 20% has partial interoperability, with only 5% lacking such functionality. The objective should be to achieve full interoperability. The CSD space is also improving with the investor CSD model¹ within T2S and CSDR. Much work remains to be done, but significant investments are being made by the larger CSD groups.

Retail markets are more problematic in terms of fragmentation, the industry speaker stressed. National markets are not connected to the same extent, and they vary significantly in terms of trading model, with different levels of on-exchange trading and internalisation and internalisation taking different forms across jurisdictions. This patchwork limits market efficiency and retail investor access.

A second industry speaker considered that EU capital markets are disproportionately fragmented. At the post-trading level, outstanding issues from the Giovannini barriers, including diverging national securities laws, insolvency regimes and withholding tax processes need addressing. Although three CSDs handle 95% of volume, the existence of 28 CSDs in Europe maintains inefficiencies.

On trading, the industry speaker challenged the previous speaker's optimistic view by highlighting that there are over 500 trading and execution venues across asset classes in Europe. This level of fragmentation has remained largely unchanged over the last two decades, despite efforts to unify the capital markets framework, and it is further exacerbated by an uneven regulatory landscape between lit and dark trading segments. The main issue is not the level playing field between entities, since exchanges now operate MTFs and offer a variety of trading mechanisms beyond their central limit order books, including RFQs, auctions and iceberg orders. Rather, the issue lies in the disparities between the rules governing the different

market segments. For example, the rules applicable to cash equity exchanges, such as volume caps and reference price waivers, are not directly comparable to the rules governing systematic internalisers. This undermines the capacity of exchanges to drive greater market efficiency through the consolidation of trading activity across venues.

The industry speaker also suggested that the original objectives that underpinned the first iterations of MiFID and other capital market regulations need to be revisited with a stronger focus on strengthening the overall competitiveness of the EU capital market and increasing its capacity to attract innovative companies to list in the EU.

A third industry speaker noted that although three CSDs handle the bulk of settlement operations in the EU, the persistence of a large number of national CSDs imposes unnecessary costs on investors. The speaker also highlighted key differences between the EU and US capital market landscapes. While both jurisdictions host a large number of trading venues, the US benefits from a single consolidated tape per asset class, as well as a single infrastructure provider for clearing and settlement services. Moreover, in the US, securities are traded across all venues, whereas in the EU there is limited competition between domestic venues, both for listings and for secondary trading. Some pan-European MTFs compete in the secondary market, but national exchanges generally do not. Although there has been some consolidation and technical integration at the exchange level in the EU, order books, pools of liquidity, and market data pricing remain fragmented. As a result, market participants are yet to fully benefit from this integration.

A fourth industry speaker further illustrated the fragmentation of retail markets. The retail capital market environment is focused more at present on protecting investors than on fostering investment, leading to a fragmented market, as customer protection measures tend to be implemented differently at national level. Moreover, when tax incentives exist e.g. for investment accounts, there are often constraints to invest all or part of the portfolio in the home country and these products are not portable, creating home bias.

An official highlighted the persistent fragmentation of EU capital market supervision. While the single rulebook has been strengthened, national differences in interpretation and supervision undermine uniformity. Supervisory convergence efforts coordinated by ESMA, through colleges, peer reviews and common guidelines, have helped to make progress, but there is still a need to interact with multiple national authorities.

1. The investor CSD model allows a central securities depository (CSD) in one EU country to offer settlement services for securities issued in another country, facilitating cross-border settlement within the T2S platform and supporting CSDR objectives for market integration.

2. Impact of fragmentation

The chair noted that the fragmentation of EU capital markets is a persistent issue that limits the benefits from the single market. The latest SIU Strategy communication quotes IMF figures evaluating internal market barriers as imposing a de facto tariff exceeding 100%, which represents a huge cost to the European economy. One of the main objectives of the Savings and Investments Union (SIU) initiative is to reduce fragmentation in the EU capital markets.

An industry speaker emphasised that market fragmentation issues are also highly relevant to consider in light of evolving geopolitical dynamics. Recent volatility and the US threats to significantly increase tariffs underscore the urgency of deeper integration within the EU and completing the SIU to ensure the funding of the EU economy.

An official stated that although progress has been made under previous Capital Markets Union (CMU) action plans, fragmentation continues to impose high costs and inefficiencies. Investing in the EU is more expensive and complex than in other regions due to the requirement for investors to use multiple intermediaries to access the market and navigate various tax, legal, and reporting systems. The need to interact with multiple supervisory authorities also increases the compliance burden and administrative costs for financial institutions, reducing opportunities to build scale, for example in the asset management sector. This raises costs and reduces returns for retail investors. Fragmentation also increases financial stability risks due to the absence of consolidated supervisory views on cross-border institutions.

An industry speaker noted that the fragmentation of the retail market reduces returns for retail investors. This, combined with a lack of financial education and excessive risk aversion, means that the majority of savings are channelled into low-yielding vehicles, such as bank deposits and savings accounts. This creates an equity financing gap for corporates — especially young, innovative firms — that cannot be financed by bank loans.

The industry speaker also highlighted the impact of fragmentation on corporates. The net cost of IPOs in Europe is nearly double that in the US, and the complex, fragmented regulatory landscape makes delisting and the execution of squeeze-outs of minority shareholders more difficult. The lack of harmonisation in takeover regimes also contributes to legal arbitrage, which undermines investor protection and transparency. A more consistent framework would facilitate cross-border transactions and reduce uncertainty for international investors.

An official agreed that fragmentation is a fact in Europe and has significant impact, notably in terms of fees. However, this impact varies by country. In many CEE region countries, for example, local SMEs, the backbone of the economy and drivers of innovation, rely primarily on domestic or regional financing. While the broader benefits of capital market integration at

the EU level are acknowledged, it is unclear whether a more unified trading or post-trading system would be relevant for the region's SMEs. National markets continue to play a critical role, especially in catering to the needs of smaller enterprises, and there is still room for them to grow.

3. Measures to further integrate EU capital markets

3.1 Trading integration

An industry speaker stated that there are opportunities for further integration in the trading space, as part of a comprehensive response to fragmentation that must address transparency, post-trading infrastructure, and trading venues. Deeper integration across these different areas would foster more attractive, resilient and liquid markets creating greater opportunities to optimize capital formation and allocation. The ongoing implementation of consolidated tapes for equities and bonds in the EU is a critical step forward in particular to enhance transparency and deliver better quality information to investors, though the latter tape still requires improved data timeliness.

Another industry speaker suggested that a greater harmonization of trading rules for given market segments is needed, notably regarding the transparency and waiver regimes, to level the playing field and reduce the current complexity. Only by aligning rules across all execution venues can a complete liquidity picture be achieved, supporting investor trust and market depth.

3.2 Post-trading integration

An industry speaker stated that further rationalising and consolidating post-trade remains essential, as redundant infrastructure creates inefficiencies and higher costs for investors and issuers. This requires greater interoperability of infrastructures with open access rules. To capture scale efficiencies what is needed is an optimisation of the post-trade infrastructure for each asset class, rather than a full consolidation, as the optimal model may be different for each asset class. This consolidation should be market-driven. What needs to be done from a policy perspective is to remove the explicit and implicit barriers that prevent further market integration and consolidation.

An official noted that consolidation must be distinguished from defragmentation. Consolidation is a market-driven process when it makes economic sense, whereas defragmentation is a policy objective focusing on eliminating obstacles that hinder integration and creating the conditions for further consolidation to be possible.

An industry speaker was in favour of maintaining healthy competition in the European CCP and CSD spaces, rather than aiming for a high degree of consolidation, as competition fosters innovation. Integration can be enhanced through interoperability,

lifting post-trading legal barriers and developing participation in T2S. Member states have an important role to play in this regard. All of them should participate in T2S, which is not the case at present, and T2S usage should also be incentivised with fee rebates.

The 28th regime could also potentially be used on a voluntary basis to overcome legal fragmentation, the industry speaker suggested, bypassing entrenched national obstacles in tax, insolvency and securities law. Starting at the issuer level, such a regime could gradually gain traction, but it should remain optional.

An official observed that despite being fragmented, the EU's post-trade system performed in a reliable way, even during stress periods. Further integration is however necessary. Harmonising security, tax and insolvency laws remains key, though this is a long-term endeavour. In the interim, market-driven integration should be pursued, building on the T2S platform and increasing the number of participants on the platform.

Another official suggested that the transition to T+1 settlement could potentially lead to greater efficiency and innovation in the post-trading market and to the development of competitive post-trading services in a more effective way in the short term than a further centralisation of the market infrastructure.

An industry speaker agreed that T+1 settlement can be an important driver of efficiency in the post-trade area. The decision to transition to T+1 settlement by 2027, aligning EU and UK timelines, is a positive step.

3.3 Role of technology

An official stated that technology can also play a key role in fostering integration in the post-trading market, particularly in the context of the implementation of a wholesale central bank digital currency (CBDC) at the Eurosystem level. A trial phase involving 60 participants was completed at the end of 2024 to test solutions for settling tokenised asset transactions. Three bridging solutions between tokenised assets and TARGET Services were tested, along with a tokenised central bank money solution.

The next step is to develop a viable solution for settling DLT-based transactions. The Eurosystem will follow a two-step roadmap, with further details expected by June. The goal is to unlock the potential of tokenised asset markets in Europe and enhance post-trade competitiveness. The first step aims to consolidate the best features of the three bridge solutions into a single interoperability layer linking DLT platforms with existing TARGET Services, enabling safe and efficient settlement in central bank money. The longer-term objective is to implement direct central bank money settlement on DLT platforms.

3.4 Further unification of supervision

An official emphasised that cross-border supervision is an area where targeted reform could be beneficial and that deserves further assessment. The benefits of supervisory convergence are already widely acknowledged, and many stakeholders, including the

European Council, the ECB, ESMA, and the European Commission, have recognised the need for more unified supervision of certain capital market activities, although this is not viewed as a silver bullet. The objective is not to introduce radical changes, but to consider further centralising supervision where it is justified, particularly for large cross-border or systemic entities, such as major market infrastructures, pan-European asset managers, or large cryptoasset service providers.

Moving towards more centralised supervision would not imply transferring all supervisory authority to the current ESMA structure overnight. New mandates, additional resources, and probably also a revised governance model would be required. While supervisory standards and common doctrines should be defined at the EU level, ESMA's governance must be adapted to enable decision-making on systemic institutions on a case-by-case basis. An AMLA-style executive board could potentially be introduced to handle such cases. In parallel, interactions between the EU and national supervisory authorities must be appropriately structured. Establishing joint supervisory teams combining ESMA and national authorities, similar to the approach taken in the SSM and AMLA, appears to be the most effective way to foster cooperation.

4. Measures to increase retail investment

4.1 Enhancing financial literacy and long-term investment product offering

An industry speaker stressed the importance of directing Europe's vast pool of retail savings, currently held mainly in bank and savings accounts, towards more productive investments. A longer-term investment horizon is also needed. One proposed solution is to enhance the interoperability of existing private pension products, allowing them to be more easily transferred across borders within the EU and thereby improving portability. This approach appears more pragmatic than attempting to impose a single European pension product, such as the PEPP, on all Member States. More broadly, reforms are needed to expand funded pensions in Europe. Currently, 62% of the continent's funded pension assets are concentrated in just three countries, while demographic trends are deteriorating. With the dependency ratio worsening, fewer working-age citizens are supporting a growing number of retirees. Creating sustainable, funded pension schemes is becoming increasingly urgent to ensure adequate retirement savings. Financial education is another structural challenge to address. A recent OECD study found that just over half of respondents could correctly answer basic financial literacy questions. This knowledge gap hampers the development of a long-term investment culture.

An official noted that developing retail participation is a long-term effort that may span several generations, given the widespread risk aversion and limited financial literacy among many European investors. The Czech

Republic has implemented a national financial education strategy. While the effects have been positive, challenges remain. Younger investors often show a preference for crypto assets over traditional securities, reflecting evolving attitudes toward investment. A flexible long-term investment product label, covering a range of instruments such as shares, bonds, and investment funds, and supported by tax incentives, has also been introduced, with encouraging uptake so far.

Another official observed that certain Eurosystem central banks, such as the Bundesbank, have long engaged in financial education initiatives, including with programmes to integrate the subject into school curricula. However, progress has been slow due to competing educational priorities. For financial education to advance meaningfully, it must become a political priority.

An industry speaker agreed that increasing financial literacy to mobilise retail savings into more productive investments is necessary, but it is a long-term endeavour, as it depends on broader cultural and educational shifts. Ease of access to adequate financial products is also an important factor. Tax-incentivised accounts for long-term retirement savings can play a critical role in encouraging retail participation.

4.2 Adapting trading models to retail specificities

An industry speaker stressed that, in addition to financial literacy and access to suitable products, retail investors must have confidence that they are treated fairly when participating in securities markets. Achieving this requires the development of trading systems—both on and off exchange—that are designed to serve the needs of retail investors in an effective way. Given that retail orders are typically smaller and not strategically timed, retail investors are less likely to possess insider information or move market prices. This makes their trades less risky for liquidity providers, allowing for more competitive pricing. Trading models should recognise these characteristics and ensure that retail investors benefit from fair, transparent and efficient market outcomes.

A second industry speaker suggested that the EU should eventually build a harmonised model for retail trading execution centred around public markets. The EU should not replicate the US market with OTC and

public markets running in parallel, where OTC trading surpassed on-exchange volumes for the first time in 2024, with 52% of volumes. Although pricing may be fair at present, excessive reliance on OTC trading risks weakening price discovery. Obligations should also be introduced for intermediaries to interact with public prices for retail flows, while maintaining a level regulatory playing field between exchanges and alternative venues. Such a model would enhance transparency and liquidity, making the market more diverse, competitive and attractive and would benefit retail investors as well all market stakeholders – market infrastructures, liquidity providers and banks – allowing them to focus on their core activities.

The first speaker cautioned against misinterpreting US data on off-exchange trading. While it is often cited that over 50% of trades happen off-exchange, that figure refers to trading volumes. When measured by the value of trades, the proportion is closer to 40%, and much of it is in fact driven by institutional, not retail, activity.

5. Wrap up

The chair summarised that there was a broad consensus within the panel that EU capital markets remain insufficiently integrated. Long-standing issues, such as legal and fiscal barriers, as well as the need to strengthen pensions and improve tax process harmonisation, must be addressed. Addressing these challenges requires decisive action from all stakeholders: EU authorities must provide a consistent regulatory framework and market standards, Member States must complete necessary reforms at the domestic level to eliminate legal barriers, and industry must support innovation and engage in closer cooperation. The objective in terms of policy is not to force consolidation, but to remove the obstacles to further market consolidation and integration and foster interoperability across market infrastructures. With the current momentum surrounding the SIU initiative, the EU must also look ahead, embracing technological change and anticipating geopolitical shifts in order to build capital markets fit for the future and able to support the European economy.

Securitisation in the EU

1. Addressing regulatory complexity and costs in European securitisation

1.1 Streamlining due diligence and disclosure requirements

The Chair observed that the targeted consultation launched by the European Commission in late 2024 aims to assess the functioning of the securitisation framework, which is targeted at supporting the capital markets union (CMU). The findings indicated a very strong demand for increased securitisation in Europe. Most market participants expressed that the securitisation framework was overly complex and costly, leading to undue burdens in terms of due diligence and disclosure, coupled with punitive prudential frameworks affecting banks and insurers.

An industry representative stated that their company is a long-term global investor in securitisation. Work has been done around the deltas between asset classes in the US and EU; there is around a €1 trillion opportunity for financing and securitisation in the EU by fixing some of the issues.

An industry representative explained that banks are supportive of the improvements relating to the simplification of due diligence, the streamlining of disclosure requirements, and changes to the prudential standards, but by themselves these will not be sufficient, and more needs to be done. There needs to be more urgency to move towards a pan-European market. A greater alignment of the securitisation framework with the broader regulation of financial instruments would be helpful. Insolvency law also needs to be reformed, with a move towards a common insolvency framework. The Savings and Investments Union (SIU) project could provide necessary impetus.

A regulator noted that the Commission's survey was timely, but there were challenges in garnering participation because of the burdensome transparency rules and excessive transaction costs involved in securitisation processes. Given the inaccessibility of securitisation in the region, Estonia turned to covered bonds, leading it to harmonise regulations across the Baltic states based on the EU directive. While the initiative has been a success, there is a necessity to review existing securitisation rules to lower administrative burdens and reassess prudential treatments, including due diligence and transparency standards.

A public representative added that there is also a need to resolve structural fragmentation within the EU's financial landscape, as Europe essentially functions with 27 separate capital markets. To prevent further fragmentation, targeted actions must be taken, not only on securitisation, but also in synchronising

broader market functions. Solvency laws and supervisory practices are focus areas. Reforms to the securitisation framework should extend beyond adjustments in prudential regulation. It is also important to increase transparency and improve due diligence.

The Chair stated that there is widespread agreement that more needs to be done in reducing red tape; the same can be done on reporting frameworks. However, it is difficult to think of an institution or person who has lost money on European securitised products during the last 30 years. All the money that has been lost has been on American instruments.

An industry representative highlighted that there is no difference in the due diligence that their company conducts when it invests in the US, Australia, Europe or the UK. EU securitisation changes how their company documents how that due diligence occurs. The company is already regulated in the EU by Undertakings for the Collective Investment in Transferable Securities (UCITS), the Alternative Investment Fund Managers Directive (AIFMD) and the Institutions for Occupational Retirement Provision (IORP) Directive. However, the current regulations often increase costs and crowd out smaller managers. Additional data acquisition does not inherently equate to more meaningful information, so a targeted approach to transparency is needed that does not overwhelm the market.

A regulator observed that the three key issues are prudential, transparency and due diligence. There needs to be a move away from punitive measures on securitisation, and towards a neutral stance. There also needs to be uniform treatment. There are doubts around non-simple, transparent and standardised (STS) securitisation, because it is more difficult for small companies to access. It is also important not to over-regulate public securitisation; EU law works, with the Markets in Financial Instruments Directive (MiFID), the Markets in Financial Instruments Regulation (MiFIR), prospectuses, and a transparency framework. The market needs to work on private securitisations.

1.2 Revisiting Prudential Frameworks for Banks and Insurers

An industry representative explained that banks issue securitisation for various reasons, but primarily to address increasing capital requirements mandated by European regulation. Current regulations impose multiple new buffers and ever inflated methods for calculating risk-weighted assets, with the completion of Basel III being the latest consideration. Inspections and model reviews from the Single Supervisory Mechanism (SSM) continuously introduce layers of conservatism, thereby raising capital requirements further. To tackle escalating capital demands, banks increase capital through retained earnings annually,

yet this is detrimental to the economy. Between 2014 and 2024, over 90% of retained earnings from all banks under SSM supervision were used to bolster capital ratios rather than to increase operational activity. Securitization is the only way to reduce risks hence risk weighted assets without curbing business.

A regulator stated that supervisors do not have the intent to punish with capital requirements. Supervisors do evidence-based, data-driven analysis. A 2022 assessment of insurance investments in securitisation concluded there was no rationale for lowering capital requirements based on the available data.

An industry representative noted that standards are trying to be levelled out, not weakened. Europe is missing a senior lender from the insurance space; it is therefore much more expensive to form securitisation capital, which is impairing the demand side. Internal models are masking that. Some of the insurance companies that have them are not advocating for that, as the internal models are very expensive, hard to maintain and hard to. It is therefore reducing what should otherwise be a larger demand. There is a lack of alignment between natural partners in the industry as a result of internal models.

A regulator added that the main regulatory challenge facing EU securitisation is its high operational costs, compounded by overly punitive and poorly calibrated prudential rules for banks and insurers. The EU's transparency and due diligence requirements are often viewed as costly and overly burdensome, with frequent overlaps and duplications that further increase the costs. There are also concerns regarding the risk-sensitivity of the prudential rules for banks and insurers.

An industry representative stated that there is a desire for banks to increase their securitisation activity, noting their capacity based on existing underlying assets. However, they are constrained by the excessively punitive capital treatment applied to retained tranches, complicating their decision to issue more. Banks weigh the revenue losses against risk-weighted asset savings during securitisation opportunities. The current capital treatment impedes potential transactions.

A regulator observed that unfunded guarantees from monoline insurers were a significant part of the problem in the previous crisis, which goes back to the context of funded versus unfunded guarantees. In particular unfunded synthetic securitisations, if allowed, will lead to an increase in systemic risk, counterparty default risk as well as policy holder risk. The latter because insurance supervisors can not identify the actual risks in the portfolio's when these products are there.

1.3 Combining transparency and reduced operational costs

An industry representative stated that the provision of loan-level data through the European Central Bank (ECB) and other European Securities and Markets Authority (ESMA) templates has brought a significant amount of standardisation in terms of the quality and the quantity of data, which their company has used in

order to appraise the risk factors, understand the credit risk drivers, and obtain insights around the comparatives between markets.

The European securitisation market has performed extremely well, particularly on the investment-grade side, when compared to corporate bonds since 2008. It is a good opportunity to think about the calibration that is currently in place, and whether it is appropriate when looking across other sectors around whether that is to do with the due diligence/disclosure side or the prudential side.

An industry representative highlighted that the market view is that there is €140 billion of issuance. If collateralised loan obligations (CLOs) are removed, which are non-STs, as well as UK securitisation, the EU placed securitisation total is between €40 billion and €45 billion. That is the size of the Australian securitisation market, which is about 10% of EU GDP. Despite the encouraging signs of a pick-up in issuance, the market is very far from anything that was seen before the global financial crisis (GFC). For the economies of Japan, the US and Australia, the market is going back to GFC levels, with a much better credit quality, and much better structured and more enhanced rated tranches. A great amount is desired from the European securitisation market.

2. Comparative analysis and market evolution

2.1 Lessons from global markets: US, Japan, and Australia

The Chair stated that the EU can be compared to Japan, as both jurisdictions have imposed stringent regulations after the post-global financial crisis. However, unlike the EU, Japan has lifted such burdens, which has led to significant growth in its securitisation market. The question is whether the EU can adopt similar modifications to enhance its own landscape.

An industry representative noted that the CLOs market is of special importance, and this market has seen growth in the US, but in Europe the market has lagged, with only a around \$50 billion in issuance last year. In contrast, total CLO issuance in the US market reached around \$200 billion.

2.2 Current state and evolution of the European securitisation market

The Chair stated that securitisation is a key instrument, not only for bank capital management, but also for risk sharing across the financial system. Given the current circumstances, it has a critical role in providing funding for transformations in Europe, but it remains underused in the EU compared to jurisdictions such as the US, Canada, Japan and Australia.

Insurance is an important sector. The issue with covered bonds is that it is purely a refinancing instrument and does not provide any money for risk sharing, trenching and rotation of banks' balance

sheets, so it will probably not solve anything in terms of additional capacity or financing investments.

An industry representative highlighted that the European securitisation market has gradually recovered after the pandemic, yet issuance levels have not significantly increased compared to pre pandemic figures. There is often a discrepancy in the reported size of the European securitisation market, which is frequently cited around €400 billion annually. However, it is difficult to reconcile this figure with actual market conditions. Public placements of European true sale securitisation is estimated at about €140 billion to €150 billion annually, but around €60 billion to €80 billion of that is retained and never enters the market, thus does not represent active market participation. The effective outstanding market size might therefore only be around €200 billion.

An industry representative added that it is essential to appreciate the underlying factors contributing to the underdevelopment of the market in Europe, and to reliance on more traditional funding mechanisms. There are historical, cultural and structural reasons for Europe's lower securitisation activity, including a prolonged low interest-rate environment where securitisation was less essential for funding. There is a successful covered bond market in Europe, although it has limitations compared to securitisation in terms of the range of financing opportunities it offers. An emphasis needs to be placed on the fragmented nature of the European markets, as securitisation is generally confined to six or seven member states.

An industry representative stated that securitisation is a key aspect of growing the European economy. Growth requires credit formation. Europe is heavily reliant on banks, which is unique to other economies. More credit formation is needed to create growth; securitisation is a part of that. Banks want securitisation to transfer risk and manage their risk-weighted asset (RWA) calculation.

2.3 Diversification and performance of securitisation assets

An industry representative noted that there is a structural diversification in securitisation in the current market. There is an expanding asset-backed securities (ABS) market in the US, which virtually covers the real economy. In the US, data centres, solar, fibre and digital infrastructure have doubled since 2020. Stronger structures and improved performance have been seen since the GFC, as well as risk mitigation and significant amounts of regulatory reform that have eliminated the products that contributed to the GFC. There has also been performance of investment-grade tranches relative to other asset classes through every cycle.

An industry representative stated that residential mortgage-backed securities (RMBS) make up nearly half of all outstanding securitisation, predominantly situated in the UK. Furthermore, the collateralised debt obligation (CDO) and CLO markets represent around 20% of outstanding securitisation, but other variations like consumer and auto asset-backed securities remain relatively minor. Attention needs to

be drawn to the small scale and severe fragmentation in the markets, mainly due to the accessibility of underlying collateral along national borders.

An industry representative explained that securitisation provides vital diversification and is another tool in credit portfolio construction. The predominance of fixed income is either sovereign or corporate risk. Securitisation provides banks with an ability to invest in the real economy, whether it is consumer, commercial, digital assets or the energy transition. During liquidity crises such as the recent gilt crisis, securitisation assets were readily convertible into cash, thereby demonstrating their value as liquidity tools. There is a significance of securitisation for economic growth and the ability to diversify funding sources beyond traditional bank dependence, which, in turn, creates financial system stability.

3. Strategic initiatives and policy recommendations

3.1 Pan-European market integration and harmonisation

An industry representative proposed a collaborative approach similar to the success of the Eurobond market, suggesting that establishing a pan-European securitisation platform could enhance the overall functionality and appeal of the securitisation market.

The Chair noted that if securitisation eventually occurs throughout the whole EU, then the idea of an agency needs to be rediscussed. That agency has already been developed in the US, Japan, Canada and Australia, and seems to work.

3.2 Innovative solutions and technological advancements

An industry representative highlighted the various repository systems such as the European DataWarehouse. Their company now has access to a wealth of data that has benefitted from standardisation. In the past, some countries had provided default and recovery data, and others had just provided loss data. However, not all data is used for appraisal of risk factors. Their company uses loan-by-loan data from commercial and residential mortgages, as well as from SMEs. For most of the consumer sectors it uses portfolio stratification. Now is an ideal time to scale back on resource expenditure tied to unnecessary data demands, while ensuring the focus remains on valid and essential information.

3.3 Building consensus and stakeholder engagement

A regulator reiterated the importance of creating a regulatory framework that is clear, predictable, and proportionate to risk. It would bolster efforts to rebuild the securitisation landscape in the EU as stakeholders are more likely to support a regime they understand and that reflects the actual complexity and risk profile of their activities.

A public representative highlighted the necessity for all stakeholders to express their views openly and engage in thorough dialogues surrounding necessary regulatory adjustments, emphasising the path forward beyond merely reducing administrative burdens resulting from the EU legislation. Most of the problems in the financial markets are related to the low level of consolidation of the single market and the national barriers imposed by Member States.

An industry representative stated that the stigma associated with securitisation must be removed, as it is primarily a political construct instead of an operational flaw. Sweeping, holistic reforms are needed for meaningful progress, based on a comprehensive understanding of the risks involved.

4. Future outlook and key measures for growth

Measures to advocate for securitisation growth

An industry representative reiterated the emphasis on acknowledging that the nature of the assets involved in securitisation has evolved markedly since the crisis, signalling the need for corresponding adjustments of disclosure requirements in the sector.

A regulator encouraged participants to engage beyond the general discussions of supply and demand and advocated for direct dialogues between the supply side and the broader insurance industry to identify genuine market demand parameters required for a successful uptake of securitisation opportunities.

An industry representative advocated for a simultaneous comprehensive reform approach to securitisation rather than incremental changes, cautioning against potential setbacks from failed attempts in prior years. There is an urgent need to avoid a repeat of past difficulties.

Asset management and the SIU

1. Asset management trends and opportunities

1.1 Trends of the EU asset management sector

A regulator observed that the asset management industry in Europe has shown growth in recent years in terms of assets under management and the number of market participants. There is a growing trend towards passive investment and exchange-traded-funds (ETFs), due to their cost-efficiency and simplicity, which the European asset management industry should take advantage of. More EU-based ETFs should be developed, particularly in the area of listed SMEs supported by benchmarks adapted to these firms.

An industry representative stated that despite significant volatility in financial markets recently, the European asset management market is attractive to international investors due to its stable and predictable policy framework. ETFs are experiencing strong success, and active ETFs are a particularly promising area of the market.

Another industry representative observed that the ETF sector illustrates the opportunities of the asset management sector. With approximately \$2.4 trillion of assets invested in European ETFs, \$500 billion of which has been invested in the last three years, these funds have contributed to democratising investment by offering the same product, performance and pricing across all investor types, from institutional to retail investors in a transparent way.

1.2 Role of asset management in the SIU

An industry representative welcomed the Commission's focus on savings and investments with the SIU initiative, as investment is essential to European competitiveness and growth. Asset managers are committed to helping European savers participate more actively in capital markets.

Another industry representative shared the importance for the European economy of promoting long-term savings and investor participation in capital markets and agreed that asset managers can play a key role in developing European capital markets, facilitating investor market access and ensuring that savers' money is appropriately invested. As professional investors in the market, asset managers can play an important countercyclical role, particularly during periods of volatility, buying undersold and underappreciated assets. They also help investors stay engaged in the market and avoid emotional reactions to short-term market downturns.

A regulator agreed that asset managers are a key enabler of the SIU, as they can contribute to effectively channelling savings into productive and strategic investments.

2. Main challenges

An industry representative highlighted that four key investment gaps need to be addressed in Europe. These are: a pension gap; a capital markets gap, as a significant share of household savings, estimated at €10 trillion, is held in bank and savings accounts; an investment gap, particularly in relation to the financing needs of the green and digital transitions as well as defence; and a financial culture gap, with many investors lacking the confidence to engage in capital markets.

The other panellists emphasised the challenges faced by the European asset management industry in terms of fragmentation.

A regulator observed that the industry could improve its efficiency and performance. The scale of the industry needs to be increased; while 60% of assets are held by European firms, the sector is fragmented with many small players, especially compared to the US. Greater consolidation would reduce costs, increase competitiveness, and enable European asset managers to offer investors a broader range of products, as well as allowing them to focus more on specific sectors such as SMEs, and European digitalisation and sustainability projects.

An industry representative stated that the fragmentation of the European regulatory framework and the frequency of regulatory changes are further challenges that the industry is facing. While regulatory changes can be necessary and beneficial to investors, the costs that they incur must be taken into account. These are direct costs of adapting to new rules, but also opportunity costs, as they may divert resources from efforts to innovate and improve efficiency.

A regulator further detailed the challenges posed by the regulatory framework in terms of complexity and fragmentation. The legal framework is complex due to layered legislation over time, including the UCITS and AIFMD directives, and various product-specific regulations. This complexity leads to unclear provisions and divergent interpretations, notably regarding eligible UCITS assets. In addition, rules need to be further harmonised, especially in areas outside the harmonised EU framework such as fee structures and the legal form required for funds investing in illiquid assets. National approaches differ in those areas, hindering integration. There are also divergent supervisory approaches stemming from these national approaches, which limit the scalability and cross-border development of larger management companies. Tax fragmentation is a further issue that must be addressed, otherwise efforts to further integrate the asset management sector as part of the SIU initiative will remain incomplete.

An industry representative agreed that further supervisory convergence and a more harmonised regulatory framework would be beneficial at the EU

level, as it would allow management companies to increase their scale, become more competitive and offer investors optimised pricing. Ideally there should also be greater harmonisation at the international level, but progress is unlikely in the short to medium term, given the current geopolitical climate.

3. Policy priorities

3.1 Review of EU fund frameworks

An industry representative emphasised that the UCITS framework is globally recognised as the gold standard and provides a solid base for developing additional investment vehicles, such as active ETFs and ELTIFs. It is important not to unnecessarily overhaul well functioning frameworks like UCITS, or to rush to conclusions about newer products such as ELTIFs, which require time to gain market acceptance and maturity. Continued innovation, particularly in alternative investment areas, is vital to foster growth and competitiveness. ELTIFs are a promising new vehicle, not only for investors but also from a societal perspective, as they are designed to support long term investments in infrastructure, real estate and innovative businesses. Such a dedicated vehicle is needed for illiquid assets that cannot be included in UCITS funds.

Through future policy work, regulators should ensure that regulations are clear and simple, and that the consequences of regulation are well thought through to anticipate potential unintended consequences, the industry speaker stressed. It is important to learn from past experiences in this regard, for example, efforts in the UK to change the provision of financial advice, which have resulted in the undesirable outcome that a significant proportion of the population in the UK currently receives no financial advice and keeps most of their money in cash savings. This may not be in their best financial interests in the long-term.

Another industry representative added that preserving stable, clear and predictable regulatory frameworks is essential. Rather than introducing new retail investment products, as was suggested in some Capital Markets Union (CMU) reports, the focus should be on making better use of existing frameworks. The UCITS directive is recognised as a global success and the AIFMD and ELTIF regimes already offer a broad range of investment opportunities to meet investor demand supported by a robust and well designed framework.

A regulator observed that while UCITS is an outstanding success at the international level, some other asset management products launched in Europe have not achieved the same traction. It is expected that the reviews of the ELTIF, AIFMD, and UCITS frameworks will yield positive outcomes, although time will be needed for them to take full effect. These reviews introduce two important novelties: a stronger focus on directing funding to SMEs, and the provision of more effective liquidity management tools, which is relevant in current market circumstances.

Further improvements to the existing frameworks could be considered, the regulator suggested. First, the asset

management regulatory framework could be further streamlined into a simpler, more unified and consistent rulebook, which would close existing gaps and limit national discretion. This includes better aligning the UCITS and AIFMD directives. Secondly, a harmonised regime could be established for alternative investment fund (AIF) products in addition to AIF management companies. Thirdly, the review of the UCITS eligible assets directive could be an opportunity to create a less complex sub-category of UCITS products that would be more widely accessible to retail investors and possibly subject to lighter advice requirements, thereby encouraging a wider transfer of savings into investment products.

An industry representative underlined the importance of maintaining and protecting the UCITS brand, along with clear disclosure and product simplification. However, even well-designed, transparent products such as UCITS can experience significant volatility, which is why investors must have access to advice to better understand the context of the markets and the characteristics of the products they are investing in.

There is growing interest in private markets, the industry speaker noted. While ELTIFs are suitable for private assets and UCITS are suitable for listed companies, there is currently a gap for hybrid products. Investing separately in a UCITS and an ELTIF misses the benefits of an integrated asset allocation within a single wrapper product. Adapting ELTIF structures to accommodate hybrid solutions that combine public and private assets more effectively could be considered in a future review of the ELTIF framework.

A regulator added that the EU is a global leader in sustainable finance, but more could be done to attract foreign investors by simplifying the existing frameworks.

3.2 Investor protection and information

An industry representative emphasised that investor protection measures must be balanced, taking into account the long-term risk of failing to invest, particularly given inflation's long-term erosion of purchasing power. Educating investors on the hidden risks of not investing is vital. It is also important to focus on the value of investments, not just costs, and to ensure that products provide adequate and proportionate value to the risks they pose.

An industry representative agreed that communication about investment risks needs to be balanced, otherwise customers will continue to save money on banking and savings accounts. There are risks of not investing in the capital markets due to inflation-induced purchasing power erosion. Long-term data shows that global equities have significantly outperformed inflation over time, while inflation has consistently eroded the value of idle cash. In addition, while there may be regular market downturns, these are generally short-lived and can be mitigated through diversification of assets. Over the last thirty years, a globally diversified equity portfolio would have recouped 80% of every market downturn within a two-year period. Risks can also be significantly mitigated by diversification. Excessively focusing communication on the risk of losing capital when investing can be misleading

if not framed appropriately. A key challenge in terms of communication is finding an adequate balance between investor protection and encouraging long-term investment behaviour that involves some degree of risk.

3.3 Investment accounts and private pensions

An industry representative suggested that while refinements to the existing fund frameworks remain possible, the most significant added value for clients currently lies in developing tax efficient savings plans based on these frameworks. Digital ETF savings plans, which are easy to set up and attractive to young investors due to their digital access and ability to foster investment in a diversified portfolio of products, have been particularly successful in Germany. Currently estimated at 10.8 million accounts, with an expected expansion to 32 million by 2028 and €650 billion in assets, these plans have strong potential to shift part of the €10 trillion held in bank accounts into the capital markets. Their appeal lies in their simplicity, digital interface and clear communication. This model could be further expanded across Europe.

A second industry representative agreed that savings and investment accounts can help to address the current investment gaps in the EU. Considering global best practices, this requires adequate incentives to attract investors and create a regular investment stream into the European economy, while also avoiding overly restrictive rules on eligible investments in savings accounts, as investors need flexibility to achieve the best returns. Occupational pensions supported by auto-enrolment mechanisms and lifecycle funds that match risk and return over a period of time for investors can also play an important role.

A third industry speaker concurred that investors must be free to determine where to invest, and asset managers should offer products that provide the best risk-adjusted returns. Tax incentives also play an important role in encouraging people to save and invest. In the UK, for example, the Individual Savings Account (ISA) regime is an effective model that uses tax incentives to encourage people to save for the long-term.

A regulator also backed the creation of savings and investment accounts that would be simple, attractive and ideally tax incentivised. There is a need for tax harmonisation to support cross-border investment, which could potentially be achieved under the 28th regime proposed in the SIU Strategy.

3.4 Regulatory harmonisation and supervisory convergence

A regulator suggested that supervisory convergence should be further enhanced at EU level to make it easier for management companies to build scale in the EU. In addition, applications of a 28th regime should be explored, as this can help to bypass the political challenges of harmonising legal aspects such as corporate and insolvency laws and taxation, which contribute to fragmenting EU capital markets. Enhanced cooperation among member states should also be pursued to deepen market integration. Spain has set up a Competitiveness Lab with a few other member states to

test initiatives to further develop capital markets, such as the development of credit rating systems for SMEs and new standardised investment products.

A regulator agreed that supervisory mechanisms could be improved through clearer mandates and legal structures for supervisory colleges.

4. Role of technology

An industry representative observed that technology can significantly improve access to financial products and help investors to understand them better. Digital platforms such as neo-banks have simplified the onboarding process, improved user experience, and made products and services more accessible. Digital tools can also be used to provide investors with better information and empower them to make more informed decisions, in a more effective way than the current investor protection measures, which may focus too much on risks and discourage investment. Simplicity is also needed in the access to investment funds. One of the reasons why crypto is so popular at present, despite the risks, is that it is easily accessible.

Another industry representative agreed that digital platforms can be very effective in attracting new investors, getting people more comfortable with investing, and helping them to achieve greater diversification of their investments.

A regulator noted that digital platforms are playing an essential role for engaging younger generations and meeting their expectations in terms of services and products offered and ease of access. Digital solutions can therefore contribute over time to achieving the policy goals defined in the SIU.

5. Conclusion

The Chair summarised that the discussion demonstrated the strong potential for asset management to play a larger role within the SIU, benefitting European savers and the wider economy. A broad consensus was reached around the importance of simplification, access, digitalisation, and thoughtful regulation. The regulatory framework must be simplified, although this can be quite complex to achieve. In addition, simplification does not mean deregulation. There is also a need for greater simplicity in the access to products and for investors to continue to benefit from a sufficient level of advice. The upcoming trilogues on the retail investment strategy (RIS) will provide a crucial test for many of these ideas.

Increasing retail investment

1. Retail investment trends and challenges

1.1 Importance of retail investment for the EU economy

A public representative emphasised that the current geopolitical changes highlight the urgent need for Europe to regain autonomy and strengthen its economic and financial position. This necessity has been highlighted in many recent reports, including the Draghi and Letta reports. Although Europe's economy has significant growth potential, with a population larger than that of the US, it is significantly less competitive. Up to €8 trillion could additionally be injected into the economy to bridge this competitiveness gap if citizens were empowered to invest. The Retail Investment Strategy (RIS) must reflect this urgency and support the broader goal of establishing a Savings and Investments Union (SIU) to fund economic growth within the EU.

An investor representative agreed that increasing retail investment and channelling the €10 trillion currently lying idle in bank accounts into investments is crucial for strengthening the European economy and society.

The Chair added that increasing retail investment is not only a financial necessity for the European economy, but also a matter of financial democracy, with retail investors too often being excluded from the market at present.

1.2 Trends and challenges to overcome

The Chair noted that retail investment is expanding in Europe. This growth is being driven by a new generation of investors who are being empowered by digital platforms that offer easier and cheaper access to markets. However, this shift presents challenges, as many new investors lack the necessary knowledge to safely navigate financial markets. There is a need for more active participation from retail investors across Europe, but safety and investor information must be preserved.

Research by the OECD in countries such as France and Portugal highlights that investors are increasingly self-directed and influenced by social media. They are often drawn to high-risk products, which is not necessarily an issue as long as the rewards are proportional. They are also more vulnerable to online scams and fraud. These risks are exacerbated by alarmingly low levels of financial literacy, with surveys revealing widespread misunderstanding of basic concepts such as return on investment and dividends. Enhancing financial culture is essential to achieving the objectives of the SIU, as informed and confident investors are key to financing the economy in a sustainable and impactful way.

An investor representative stressed that according to the Draghi and Letta reports and a number of recent reports on the Capital Markets Union (CMU), the main factors deterring retail investment are high costs, insufficient net returns, complexity, and the perception that the financial system is not sufficiently customer-oriented. European citizens are increasingly aware of the pension gap and the importance of long-term investment, and many would prefer to invest in the European economy and infrastructure close to home. However, the consistent underperformance of European investments compared to those in the US, notably due to high investment costs, remains a significant obstacle for many of them.

A regulator noted that the latest Eurobarometer survey, which is conducted yearly by EIOPA among a large group of European citizens, showed that high product costs and poor performance are major barriers to investment in insurance-based investment products (IBIPs), as is the difficulty investors have in understanding the products. Only 45% of respondents perceived value in these products, indicating a significant trust gap. While EIOPA's own assessments show that the proportion of valuable products on the market is higher, this investor perception must be improved.

An industry representative highlighted the results of a recent survey of 36,000 investors across Europe, which showed encouraging trends, with an increase of 11 million new investors since 2022 (approximately +11%), particularly among 25-to-44-year-olds and women. However, these trends differ significantly across member states. In addition, barriers to investment persist. One barrier is the perception among savers that they do not have enough money to invest. Many believe that they require a minimum of €8,000 to begin investing, which suggests a lack of awareness regarding the range of low-entry investment options available. It is important to promote small, accessible investment opportunities and the fact that investments can be built up over time without risking large sums of money. A second barrier is the lack of knowledge about investing.

The Chair observed that data on the French market showed similar results with many young people who started to invest during the pandemic.

2. Update on the RIS proposal

2.1 The need for simplification of the RIS proposal

A public representative stated that the RIS proposal will not be removed. While the initial RIS proposal was not fully adequate, there is now a broad agreement among the co-legislators on the improvements required. The RIS framework must be simplified and better aligned with the SIU objectives. Three main priorities for simplification were identified at the outset

of the trilogue negotiations: simplifying value-for-money rules through a peer-grouping approach; enhancing disclosure requirements under the MiFID and IDD directives to remove redundancies and focus on essential information; and improving the consumer journey to facilitate market access for retail investors with targeted refinements to MiFID and IDD requirements.

An investor representative considered that although the initial proposal fell short of expectations, the RIS still brought hope for progress and could be helpful in simplifying the investment process for retail investors, e.g. by fixing the PRIIPs KID. The RIS includes some constructive elements, such as its aim to enhance value-for-money, transparency on cost and inducements and provides an opportunity to fix the PRIIPs KID (re-instating the past performance and getting rid of future performance scenarios)

A regulator stressed that the main concern with the RIS proposal is its complexity. While each element of the proposal makes sense individually, combining them creates a complex framework that may ultimately deter retail investors. In particular, a more efficient and less burdensome approach must be found for value-for-money assessments, so that supervisors and investors are provided with relevant information without processes becoming overly complicated. This will enhance retail investor trust and engagement.

Another regulator agreed that simplifying the investment journey can lead to better matches between clients' needs and financial products and that retail investor requirements need to be simplified to increase their level of engagement. EIOPA's mystery shopping studies indeed show that a longer and more elaborate sales process does not necessarily improve client outcomes.

An industry representative emphasised the importance of adaptation in addition to simplification. The RIS must be able to adapt to ongoing changes in the market such as digitalisation and the increasing impact of social media. It must also facilitate the use of technology to make investment products more accessible and transparent. The RIS must therefore strike a balance between innovation, simplification and safety to ensure that financial products remain clear, accessible and safe and that processes can adapt to the new digital environment.

2.2 Improvement of value for money and information requirements

An investor representative was favourable to the adoption of value-for-money measures and supported the Council's approach of introducing a structured methodology to assess the value-for-money of investment products based on objective quality and cost criteria. However, the speaker was concerned that the peer-grouping method proposed in the RIS could mislead investors by comparing inefficient products sold in Europe. Transparency regarding costs and incentives is also essential to enable investors to make informed decisions. In this regard, the proposals of both the Parliament and the Council to simplify the Packaged Retail and Insurance-based Investment

Products (PRIIPs) Key Information Document (KID) are welcome. The KID should focus on past performance compared to benchmarks, and unhelpful future performance scenarios should be removed. The requirement to clearly identify inducement-free products is also positive.

A regulator welcomed the proposals on value-for-money, a concept on which EIOPA has been working for several years. EIOPA has developed a methodology for assessing value-for-money, mainly through product-sensitive benchmarks. The aim is to support supervisory action and remove outlier products from the market. Ideally, this should be done pre-emptively, addressing issues before products reach the market, in order to improve outcomes for retail investors. However, concerns have been raised that the peer-grouping approach proposed under the RIS could create a dual system, complicating supervision and imposing additional costs. A European-level benchmarking system managed by the European Supervisory Authorities (ESAs) would be preferable.

An industry representative noted that the benchmarking approach, if adequately designed, could contribute to achieving a more coherent regulatory framework across financial sectors with more consistent requirements between securities and insurance-based products, for instance.

Another industry representative stressed that retail investment policies must focus on meaningful outcomes, such as encouraging market participation, long-term holding of investments, and cost-conscious investing. This should lead to a two-tier framework. Complex products should have full disclosures and rules preventing sales to certain types of clients, and simpler, meaningful products should be more widely accessible with minimal barriers. Excessive disclosure and benchmarking requirements for simpler products could deter retail participation, rather than protect investors.

3. Priorities for developing retail investment beyond the RIS

3.1 Main actions needed beyond the RIS to foster retail investment

The Chair noted that further targeted action is required in the areas of financial literacy, advice, and product information, beyond the RIS measures. Additionally, digital tools must be employed more effectively to encourage retail engagement.

An industry representative emphasised that tax regimes also play a key role. Cross border market fragmentation within the EU, which is primarily caused by divergent tax regimes, must be addressed, as it increases costs and inefficiencies and reduces the addressable market in Europe for cross-border investors. Taxes differ across Europe for similar retail products such as exchange traded funds (ETFs), and there are local specificities for pension and tax-incentivised products. Harmonising tax treatment

across products and countries is essential to building a simple, understandable, and efficient retail investment environment in Europe, which would lower costs and encourage greater participation. The Chair added that tax treatments differ across the EU even for the simplest products such as shares and bonds, which is an obstacle to retail investment.

An investor representative warned that certain new ideas, such as the assumption that retail investment in crypto-assets could spur investment in traditional assets, should be approached with caution, given the lack of supporting evidence. In order to increase retail participation in capital markets effectively, efforts should focus on replicating and expanding proven models such as Sweden's Investment Savings Account (ISK). This initiative has succeeded in streamlining processes with investor-friendly features such as automatic tax declarations, encouraging widespread adoption. Today, around 40% of Swedes hold an ISK and actively invest, integrating investment decisions into their daily lives. Therefore, enhancing simplicity and accessibility is essential to meaningfully boost retail investment in capital markets.

3.2 Financial and digital literacy

A regulator stated that evidence, such as a study conducted in Germany in 2023, shows a clear link between financial literacy and retail participation in capital markets. In Portugal, a comprehensive financial education programme was set up in 2011, involving the three supervisory authorities in partnership with the Ministry of Education and industry associations. The programme was designed to reach all segments of the population. This programme has led to positive micro-level initiatives and has developed greater awareness among citizens of their limited understanding of investment issues. However, survey results indicate that financial literacy in Portugal remains weak overall, particularly with regard to knowledge of core financial concepts.

Rather than creating a new strategy, the Portuguese supervisors have chosen to work on developing a methodology to assess the effectiveness of their action, which is expected to happen under the Technical Support Instrument (TSI) EU programme.

According to the speaker, financial literacy initiatives should be a structured, compulsory part of the school curriculum. Secondly, the lack of financial literacy should not be an excuse to delay the implementation of other key measures for capital markets development: these actions must be developed alongside other measures and incentives to encourage retail investors to participate in the market, since financial literacy also grows through direct engagement with financial services and experience of investing.

An industry speaker agreed that financial literacy should be included in school programmes and also be improved throughout adult life. Potential investors also need regular financial nudges and health checks to encourage them to take their first steps and invest regularly.

The Chair noted that in Asia, financial literacy is part of the school curriculum. In the EU, an OECD/EU

Commission competency framework has been recently developed, that details what should be taught in schools and how it should be taught for children and youths between the age of 5 and 18. Three age clusters were identified. An adult competency framework has also been recently produced by the OECD and the European Commission.

An investor representative observed that while increasing financial literacy is important, given that many European savers have limited knowledge of capital markets, it is not a panacea. For example, a study by the Central Bank of Ireland shows limited correlation between financial literacy and proactive investment behaviour.

An industry representative emphasised that in Italy, bridging the digital divide and improving financial awareness are viewed as closely-linked objectives, as people must acquire digital skills to enhance their financial literacy and navigate investment platforms and AI-powered advisory tools. Moving beyond basic financial education towards building a genuine risk culture is also vital.

A public representative agreed that digitalisation and financial literacy are central to achieving the SIU. People must have the adequate knowledge and tools to seize investment opportunities. Digital innovation offers opportunities, such as the possibility for more interactive KIDs and for comparison tools, as proposed in the RIS, but it also exposes consumers to new risks like unscrupulous influencers potentially operating across borders, exploiting unregulated spaces to promote risky investments like crypto assets. The RIS introduces rules to better supervise these actors and practices.

Knowledge can also empower investors and reduce inequalities among them. The experience of the Nordic countries shows that lifelong engagement with investment decisions, for example related to pension schemes, builds more informed and confident investors. Financial literacy actions need to be embedded across all stages of life, such as in schools, workplaces, and families, in order to build a practical investment culture. Policy-makers and regulators, both at the EU and national level, have a role to play in this space. The establishment of a public forum to facilitate the exchange of best practices between public and private stakeholders proposed in the RIS is essential for fostering such an investment culture across Europe.

An industry representative stated that beyond financial education, behavioural aspects must be considered. Boosting retail investment requires targeting primarily affluent individuals who currently hold large amounts of idle savings. These investors are typically around 57 years old, and not from the younger generations. Two key behavioural biases must be overcome. First, many investors of this generation underestimate their life expectancy and therefore their investment horizon, mistakenly assuming they cannot invest with a long-term perspective. Second, they often lack a holistic view of their entire portfolio, focusing only on new investments while ignoring existing holdings such as savings and capital-guaranteed products. As a result,

they assess risk at the individual product level rather than across their overall portfolio, which leads to an excessive preference for low-risk assets like bonds. Tackling these behavioural barriers is crucial to effectively mobilise the €10 trillion currently held in bank deposits in the EU.

3.3 Improving the advice framework to support financial planning

An industry representative suggested a more proportionate approach to MiFID advice requirements to facilitate the development of standardised digital financial planning solutions that could meet the needs of many retail investors better than comprehensive portfolio advice. Investment advice is essential for retail investors, but current services remain rooted in an outdated, in-person model that is poorly suited to today's digital reality, where visits to bank branches are rare. Rather than conducting exhaustive suitability checks for every product, advice should focus on helping clients articulate their financial goals and delivering streamlined, accessible planning solutions. Such innovation would empower savers more and promote wider market participation.

An industry representative agreed that digital tools can be effective, but they should be complemented by human advisory services at branches, offering

empathetic and more personalised support. In addition, many customers tend to trust digital bots, making it essential that they know how to use these tools effectively.

The industry representative added that services must be adapted to the needs of different age groups and levels of digital readiness. Older customers tend to prefer low-risk, income-generating products, and in-person contact, whereas younger investors are generally more open to risk and digital channels. Digital innovation can also help to achieve more precise customer profiling and adjust the level of service with continuous feedback, provided this is done in a transparent way.

4. Conclusion

The Chair concluded that the panel had demonstrated the complex balance needed between regulation, innovation, financial literacy, and market engagement. Achieving a safer, more rewarding environment for retail investors with improved information and financial knowledge is essential for boosting savings mobilisation and building a stronger European economy.

Long term retail investment products

1. Current trends and best practices in the EU retail investment market

The Chair explained that although more young investors have entered the market recently, the level of retail investment in the EU remains lower than in the UK or the US. EU household investments in market instruments are worth around 100% of GDP, compared to almost 150% in the UK and 300% in the US. There are also strong differences between EU countries, but the strong results of some member states, such as Sweden and Denmark, demonstrate that improvement is possible.

A regulator stated that the diversity of national situations complicates the efforts to increase retail investment participation across the EU. The percentage of total financial assets held in bank deposits ranges from 20% in Denmark to 80% in Greece. The differences in national tax regimes and pension frameworks also incentivise different investment behaviours, with a focus on sovereign debt in Eastern Europe and Italy, pension funds in the Netherlands and life insurance products in France for example. While the landscape is diverse, one common EU wide issue is the excessive proportion of household savings being held in low yielding savings accounts instead of invested in the capital markets.

A second regulator described the current retail investment landscape in France. The financial wealth of French households is concentrated in low risk liquid products such as deposits and euro denominated life insurance. This conservative behaviour is partly explained by the high proportion of wealth held in real estate, which amounts to around 85% of median household wealth and results in limited capital market participation. Younger investors seem more willing to engage with financial markets, particularly via digital channels, which is positive. They also tend to invest in a more autonomous way than the rest of the population.

A third regulator explained that Denmark's retail investment success is grounded in long term structural commitments. The solution to driving more retail investment is to set the right framework conditions and allow participation to grow gradually. The Danish model, which is mainly based on the pension system, was developed through labour market agreements allowing the system to grow organically and sustainably, rather than through legislation and the creation of specific pension products. Initially modest contribution rates of around 5% to 6% of wages have grown to around 18% today. Trust has been central to this evolution. Employees have accepted lower wages in exchange for pension contributions in the future because they believed the money would be well managed and accessible upon retirement. Denmark's fully funded pension model, coupled with a prudent person principle that prioritises the long-term security of retirees, helped cement this trust. Auto-enrolment has also played a role.

An official observed that several other member states have successfully encouraged long term retail investment. The Netherlands have also successfully developed a strong pension system and Sweden's success is mainly founded on its ISK investment account.

2. The main challenges hindering long term retail investment

2.1 Structural challenges

The Chair emphasised that structural inefficiencies in the European investment landscape have resulted in higher product costs, which has had a negative impact on retail investors. The EU has over 35,000 UCITS funds, averaging \$0.4 billion in size, whereas the US has just 7,000 mutual funds averaging \$2.7 billion in size. This fragmentation increases costs, resulting in a 0.4% price premium compared to equivalent US products. Although this difference seems relatively small, it compounds over time.

An industry speaker challenged the idea that investment fund costs are a major issue in the European market, pointing out that active European UCITS funds are cheaper than their US equivalents. The use of asset-weighted cost figures disadvantages European funds due to their relatively small size, but the simple average cost of UCITS funds is in fact lower than that of US mutual funds: 1.04%, compared to 1.09% for US mutual funds. Additionally, prices for active UCITS equity funds have fallen by 6% over the last five years, despite high inflation. Furthermore, the European asset management landscape is highly competitive. There is strong product innovation and intense competition, with even the largest firms holding modest market shares. The issue limiting the development of retail investment is not the products themselves, but the environment in which they are used, which needs improvement. The underdevelopment of private pensions limits the level of long-term investment in the EU. A lack of awareness about long-term investment issues and limited financial literacy are further issues.

An official agreed that the structure of EU pension systems contributes to the under development of the capital markets. While 401(k) pensions play a key role in the US, most EU pension systems rely more on Pillar 1 state pensions, with Pillar 2 and 3 occupational and private pensions playing a relatively limited role, except in certain member states.

2.2 Financial literacy and behavioural challenges

A regulator stressed that weak investor engagement is correlated with the low level of EU financial literacy. There is also a strong degree of aversion to financial risk among a large part of the population, although the increasing number of people making potentially risky

investments in cryptocurrency shows that this picture is evolving.

An official agreed that the significant financial literacy gap of retail investors, even with respect to basic concepts such as compound interest, is hindering capital market investment. In addition, risk appetite, understanding and investment behaviour differ significantly by age group, socioeconomic background and also by country, due to cultural factors. In Ireland, for example, there is a long-standing preference for real estate despite past housing crises. Further assessment is also needed to understand the apparent contradiction between Europeans' risk aversion and the enthusiasm of many savers for investing in high risk cryptoassets.

An industry speaker concurred that the lack of awareness and financial culture in the EU is a major obstacle to long term investment. In France, for instance, young investors are predominantly investing in both ETFs and crypto, which hints at a degree of savings misallocation.

2.3 Tax incentives

A market expert noted that taxation also acts as a barrier to investment. In France, tax incentives favour liquid fixed income products in an excessive way. As a result, while Sweden's ISK covers 36% of the population, the French equivalent, the PEA, is only used by 10% of households.

An industry representative agreed that the lack of appropriate tax incentives is a major barrier. Incentives should focus more on long term investment in capital market instruments invested in specific geographies and sectors.

An official added that the persistent debt equity bias in most EU tax regimes for the issuance of securities must also be addressed, as it continues to hinder the development of corporate equity financing.

3. Policy objectives and approach for developing long term retail investment

3.1 Rationale for developing long term retail investment

A market expert highlighted the scale of the challenge facing long-term investment in Europe. To meet the needs of the green and digital transitions and stimulate sustainable growth, Europe must boost investment by up to €1 trillion per year. Given the limited capacity of public budgets and bank lending, a significant increase in equity and capital market financing is essential. While European households hold approximately €35 trillion in financial assets, the majority is concentrated in bank deposits and guaranteed products, rather than being channelled into long-term productive investments.

An official noted the potential challenge in reconciling the objective of encouraging retail investment in the capital market to achieve higher long-term returns, with the objective of channelling funds into the real economy. The Chair agreed with this comment, noting that

investors mostly seek to generate return on their investments rather than finance the economy, and therefore require diversification of their investments.

A regulator suggested that these two objectives could be reconciled by ensuring that policies and efforts to unlock retail savings to fund the European economy adopt an investor-centric approach that aligns with the long-term interests of savers. This approach must cover the entire investment journey, from initial contact to final investment decisions, and address the incentives and barriers that currently discourage retail participation.

Another regulator agreed that investor interests should be at the forefront of any policy actions. Europe's macroeconomic objectives are perfectly valid, but they are abstract concepts for investors. Investors must first be convinced of the merits of investing. Regulation should empower individuals to invest in their own best interests rather than channelling them into predefined product categories, particularly as digital tools enable more autonomous investment behaviour.

3.2 Proposed policy objectives and approach

A market expert suggested that stimulating long term investment in Europe requires a pragmatic, decentralised and iterative approach, rather than an additional EU level regulatory initiative. A coalition of willing member states and other actors should seek to develop common practices likely to foster long term investment. The Pan European Personal Pension Product (PEPP), which was an attempt to create a new European product has failed because it is too complex, trying to accommodate too many different stakeholder requests. Instead, Europe should build on the most effective national models, such as Sweden's ISK account or the Dutch and Danish pension systems and further develop them at European level. The same is true for tax incentives. Tax harmonisation is not a realistic objective, but member states could commit to ensuring that their national tax frameworks incentivise long term investment vehicles in a more consistent way.

A regulator agreed that it would be effective for the EU to take a bottom up approach, building on successful domestic products and tailoring them to national tax systems and cultural preferences. An official concurred that member states must learn from each other's experiences and capitalise on the existing products and best practices across the EU to adapt them across varying European market contexts. There are no easy fixes to the situation of retail investment, due to its cultural nature and the variety of tax incentives and market structures across Europe.

A second regulator acknowledged that the development of greater long term retail investment will require changes that go beyond the remit of EU policy, particularly in relation to national pension and tax systems. However, the EU regulatory framework should also be revisited to ensure that existing investor protection measures and distribution rules are not imposing excessive burdens. Retail investment products must also be simple, accessible and cost effective.

A third regulator welcomed the idea of exporting the Danish pension model to the rest of Europe. The two key factors contributing to the success of the Danish model

are trust and cost. Trust is particularly important for long-term investment products that use auto enrolment. Pension savers must be confident that their money will be managed in their best interests over many decades. Cost is also a highly important issue in the long term. Investors take on the risk and should not lose a large proportion of their returns to fees that are compounded over many years. Supervisors can play a key role in establishing benchmarks and encouraging providers to offer products at more competitive prices.

An industry speaker considered that fostering long term retail investment will require combining different solutions. Although there are many successful European examples to build on, variations in national circumstances and demographics make it difficult to define a unique solution. Different types of investment channels also need to be considered, such as direct digital channels, traditional advised channels, and indirect channels like insurance-based products and private pensions, as they all play different roles in attracting greater retail investment. Indirect channels, for example, can be more effective in encouraging novice investors to invest. Solutions must leverage these different channels and drivers.

Another industry representative agreed that developing the European capital markets will require the involvement of all financial providers and the leveraging of all available distribution channels and products.

4. Proposed policy actions

4.1 Strengthening the long term investment product offering at the EU level

Several speakers considered that the existing EU product frameworks are sufficient to support long term investment in the capital markets and that creating new product categories is not necessary.

An industry representative observed that the failure of the PEPP demonstrates the challenge of creating a single product for all European savers, given the diversity of market conditions and investor needs¹. A more effective strategy would be to ensure that the right incentives are in place to foster long term investment in existing products and adapting them, if needed, with targeted adjustments to align them with long term investment goals. Best practices across the EU, such as Germany's tax incentives and the Nordic pension models, should serve as guidance for this approach.

A second industry speaker agreed that existing product structures are broadly sufficient, although improvements are needed in the wider environment, particularly in terms of incentives and overall investor experience. Market conditions tend to have a more significant impact on long term investor engagement than the products.

A third industry speaker emphasised that UCITS funds are well suited for long term investment: they are simple, low cost and offer a wide variety of investment strategies. It is essential to preserve these characteristics and not re-open the UCITS Eligible Assets Directive.

A market expert suggested that given the diversity of market and tax situations across the EU, the most realistic product level measure to stimulate long term investment would be to establish a European label that promotes successful national products and ensures that best performing products are available in all member states. This label would apply to investment products that meet the following key principles: a long term investment horizon, no permanent capital guarantee, tax incentives for long-term investment and a focus on European assets. These products also need to be simple and easily accessible to retail investors. To support this approach, member states should ensure that labelled products are subject to the most favourable national tax treatment. An industry speaker agreed that a European label for long term investment products would be a constructive step forward. Such a label could support greater long-term investment in existing products such as UCITSs and ELTIFs without the need to develop entirely new products.

Finally, a regulator proposed the creation of a pan EU fund comparator, which would improve transparency and help investors make informed comparisons between the features, costs and returns of different funds.

4.2 Developing pension products and investment accounts

An industry speaker suggested that mechanisms such as pension auto enrolment and employee savings schemes can serve as effective gateways to capital markets.

Another industry speaker agreed that pensions are a more inclusive entry point than individual savings plans, which often require a higher level of financial literacy. Auto enrolment into workplace pension schemes is proven to build trust and promote inclusion in an effective way. While encouraging long term commitment is essential, investors must also retain the option to withdraw funds under certain conditions, as this flexibility supports long term engagement. Incorporating less liquid assets such as private equity and infrastructure into long term investment products is also important.

An official noted that Ireland is gradually introducing auto enrolment for pillar 2 occupational pensions, combining employee, employer and State contributions. As 30% of the workforce lacks a private pension, the primary aim of the reform is to improve retirement income adequacy, though it should also have positive spill over effects for the economy.

4.3 Improving financial education and tax incentives

A market expert emphasised the importance of improving financial education and fostering an equity

1. Several other issues with the PEPP were highlighted by the panellists. An industry speaker noted that the PEPP framework contains constraints related to double taxation, dual national compartments and a burdensome suitability process. Another industry speaker emphasised that the fee cap has contributed to the limited uptake of the PEPP.

culture across Europe. Such efforts must however leverage national specificities and best practices; in some countries, employer schemes are quite developed and may be effective in strengthening investor experience, while in others, different tools may be more suitable. Additionally, member states should commit to ensuring that national tax incentives target long-term investment vehicles and offer the most favourable tax treatment to labelled products.

An industry representative concurred that financial literacy plays an important role in incentivising long term investment. Beyond general education on basic financial concepts, savers need to understand the implications of the different types of products they can invest in. A second industry speaker added that a harmonisation of tax incentives would be beneficial. An official cautioned however that tax incentives should focus on optimising investor returns rather than prescribing the location or nature of investments.

4.4 Simplifying the investment process

A market expert stressed the importance of simplifying the investment process for retail investors. The current procedures for equity investment are cumbersome and much more complex than the procedures for investing in crypto. This complexity deters retail participation in the capital markets and must be addressed urgently. A regulator agreed that the investment journey must be streamlined for retail investors. Regulation should also support a more level playing field between traditional and crypto assets. A regulator added that due to MiFID and IDD requirements, advisors are increasingly reluctant to promote higher risk long term savings products.

An industry speaker agreed that overly complex compliance requirements and advice processes may discourage broader retail participation, especially in direct savings products. Another industry speaker concurred that the complexity of the investor journey is a potential obstacle to retail investment and hoped that this issue will be taken into account in the discussions around the proposed Retail Investment Strategy (RIS).

4.5 Leveraging technology

An industry speaker observed that technology has a key role to play in fostering retail investment. Technology can enhance transparency through better reporting, which allows investors to monitor their investments. The development of the appropriate technological infrastructure to do this will require effective public private partnerships.

An official noted that the regulatory framework should take account of the latest trends in digitalisation. Some digital developments can have ambivalent effects, however. While real time dashboards enhance transparency and empower investors, they can promote short termism by drawing attention to market volatility. There is also a general need for simplification of the regulatory framework.

A regulator observed that digital distribution channels can increase efficiency and reduce costs indirectly via competitive pressure in a more effective way than regulation alone. To remain relevant, regulation must adapt to evolving distribution models and digital trends. Distribution rules should reflect the growing trend of investor autonomy with the development of digital channels, which suggests that a new balance between empowerment and protection is needed. The emergence of cryptoassets must also be taken into account, ensuring a level playing field between cryptoassets and traditional securities.

5. Wrap up

The Chair summarised the discussion, highlighting the importance of considering long term investment from the perspective of the investor and focusing on simplicity, trust and new technologies. Employers can also play a pivotal role in encouraging investment participation. While the impact of costs is debateable, it is vital to ensure value for money. These changes will require long term effort. The Danish pension system, for example, was set up 60 years ago. There was a consensus among the panellists that there is no need for any new European products; instead, the approach should be bottom up and country led and should build on existing best practices at member state level.

T+1 settlement: next steps and impacts on SIU

1. Roadmap for T+1 settlement implementation and next steps

1.1 Approach to the implementation of T+1 in the EU securities market

The chair stated that ESMA published a report in November 2024 recommending a move to T+1 settlement by 11 October 2027. Following this, ESMA, in collaboration with DG FISMA of the European Commission and the ECB Directorate-General for Market Infrastructure and Payments, issued a joint statement announcing the creation of a governance structure to prepare for this transition. An overarching governance framework was established in January 2025: the T+1 Coordination Committee. This committee aims to ensure effective coordination between the public authorities and the industry, represented by the T+1 Industry Committee, to align efforts around the implementation of T+1. Achieving this objective will require a strong public-private partnership and close coordination with the UK and Switzerland, which are also moving towards T+1 settlement in parallel in the same timeframe.

An industry representative noted that the T+1 Industry Committee is responsible for coordinating the industry's efforts to prepare for the transition to a T+1 settlement cycle. Its objective is to ensure that this process is carried out in an inclusive, open, and transparent manner, taking into account the differing levels of readiness among market participants, particularly regarding automation and standardisation. The committee facilitates dialogue across the industry to identify key challenges, promote best practices, and support operational alignment. Close cooperation between the industry and public authorities managed through the T+1 Coordination Committee, is essential to achieving a balanced approach between market-led and regulatory-driven actions. Particular attention is being paid to ensuring consistency between the EU, UK, and Swiss initiatives, notably through the participation of members of the UK Accelerated Settlement Taskforce in EU technical workstreams. Cross-border challenges faced by stakeholders outside the European time zone will also be taken into consideration.

An industry speaker pointed out that the legal and regulatory technical workstream, one of the T+1 workstreams responsible for providing technical advice to support the successful implementation of the T+1 transition, is addressing three key issues in a horizontal manner: national specificities, the potential exemption for securities financing transactions (SFTs), and the temporary suspension of cash penalties. National specificities, due to the fragmentation of the EU market, add complexity. A two-step approach is

being pursued: first, identifying national specificities through dialogue with local trade associations and industry bodies; second, assessing whether regulatory adaptations are necessary to align these specificities with the T+1 transition. Regarding SFTs, which play a key role in meeting market participants' funding needs, their non-standard settlement cycles may require a potential exemption from the T+1 requirement at the Level 1 of the Central Securities Depositories Regulation (CSDR). Lastly, the workstream is assessing options for a temporary suspension of cash penalties during the period surrounding the implementation of T+1 in October 2027, in order to support a smooth transition.

1.2 Progress made and next steps in the EU

The chair explained that in February 2025, the European Commission published a legislative proposal to amend the CSDR, providing additional legal certainty for the transition to T+1 settlement. The proposal is closely aligned with ESMA's recommendations. The Level 1 negotiations are expected to progress swiftly, as there appears to be broad consensus on the objectives of the move to T+1. The primary challenges ahead are not legislative but operational and technical. Market participants will need to collaborate closely to develop practical solutions for adapting complex processes to the shorter settlement timeframe. To support this work, ESMA launched a public consultation in February 2025 on potential amendments to the Level 2 regulatory technical standards under CSDR. This consultation, which closed on 14 April 2025, aims to address the necessary changes to facilitate the move to T+1. ESMA plans to submit its final report and draft technical standards to the European Commission by October 2025.

An industry representative noted that several markets have already moved to T+1, including the US and Canada (since May 2024), and India (since January 2023). The UK and Switzerland are aligned with the EU.

To prepare for implementation in the EU, and following the establishment of the governance structure, technical workstreams are assessing the current state of play, identifying critical challenges posed by the transition to T+1, and developing targeted recommendations across key areas such as trading, settlement, and matching. The objective is to deliver a first set of high-level recommendations by June, addressing key barriers to a successful T+1 transition. This will form the basis of an implementation roadmap. A public consultation will follow, with the second half of the year dedicated to defining best practices and expected behaviours to support adoption of the recommendations.

The immediate priority is to define the new T+1 operational timetable across all workstreams. Coordination with the ECB is ongoing, given that

revised cut-off times will have implications for TARGET2-Securities (T2S). Regulatory aspects are also being examined, including a potential exemption for SFTs and the application of cash penalties during the transition, for which greater clarity is needed. Furthermore, discussions have emerged on possible amendments to the Settlement Finality Directive (SFD), aimed at mitigating pre-settlement risks and facilitating the earlier submission of settlement instructions.

A regulator agreed that while the 2027 deadline may seem remote, many issues remain to be addressed, as EU markets differ significantly, creating urgency for all stakeholders to start preparing to meet the deadline. Good progress is being made at EU level with the CSDR amendments, on-going ESMA consultations and the setting up of the governance structure. National efforts are also progressing. In the Netherlands for instance, an advisory committee has identified national specificities that could affect the transition to T+1 settlement. Approximately 90% of these issues already have solutions at the EU level. However, certain areas remain challenging, such as corporate actions, repos, and securities lending transactions, which still require attention. Nonetheless, EU-level solutions should be achievable in many cases.

1.3 Approach in the UK

An official stated that the T+1 project in the UK is being led primarily by the industry, with strong support from public authorities. The UK Accelerated Settlement Taskforce recently published a report on the implementation of T+1, which has been endorsed by the UK Government.

The US experience provides valuable lessons that firms in both the UK and EU must consider. Now is the time for firms to secure the necessary resources, develop robust implementation plans, and further automate their processes. While the smooth transition in the US is encouraging, there should be no complacency. The European market has specific features that require careful consideration, even for firms that have already undergone the change in the US. A tailored approach is therefore essential. Collaboration is also critical at the European level. The UK and EU industry taskforces are working closely together, and this cooperation is expected to continue and deepen. Regulatory aspects are being addressed in parallel through mechanisms such as the EU-UK Financial Regulatory Forum. Issues like the exemption for SFTs, as well as other regulatory calibrations, must be managed in a coordinated manner.

In the UK, the focus is also on fostering market-led innovation to drive future efficiencies. A key initiative is the launch of a Digital Securities Sandbox: an adaptable legal framework that allows firms to test and develop new infrastructures for trading and settling digital securities ahead of integration into the permanent regulatory regime. Eight firms are currently participating in the sandbox, under the oversight of the Bank of England and the Financial Conduct Authority. The UK is also advancing innovation in the public sector, including the planned issuance of digital

sovereign debt and ongoing work by the Bank of England to modernise payment systems through experimentation with digital payment rails. These initiatives have the potential to transform market operations in the medium term, and there is an opportunity for the UK and EU to collaborate on such projects to support more efficient and integrated European markets.

1.4 Enhancing settlement in FX markets

An industry speaker emphasised that the transition to T+1 settlement should be considered from a global perspective. While the acceleration of the settlement cycle is primarily driven by securities markets, it raises the question of whether similar changes should apply to other segments, particularly the foreign exchange (FX) market, where the standard spot settlement remains T+2.

The FX industry is currently focusing on enhancing flexibility in settlement arrangements, rather than shortening the cycle, in order to align them better with the needs and structure of the FX market. Options under consideration include atomic bilateral settlement of all trades or multi-batch settlements, which is close to T+0, as opposed to the current standard of a single end-of-day batch settlement. Assessments indicate that a multi-batch settlement model is a promising approach to improve efficiency and mitigate pressures arising from the move to T+1 in securities markets. This model could serve as a practical alternative to shortening the FX settlement cycle, which faces inherent challenges due to global time zone differences and the wide diversity of currency characteristics.

2. Expected impact of the move to T+1 settlement

The chair noted that the move to T+1 settlement is expected to bring significant benefits for European markets in terms of efficiency, competitiveness and resilience and is a necessary step to align the EU with international developments.

While panellists acknowledged these potential benefits, several of them highlighted the upfront investments that are required to automate and standardize processes, as well as the complexities of the European securities market, where fragmentation and many national specificities persist, despite the common CSDR regulatory framework.

An industry speaker stressed that while the T+1 transition will be a costly and time-consuming project in the short term, over the long term it should drive a standardisation and harmonisation of operational post-trading processes and help reduce costs for financial market infrastructures (FMIs) and intermediaries, contributing to enhance the competitiveness of EU capital markets. T+1 may also act as a catalyst for wider EU initiatives such as the Savings and Investment Union (SIU) and spur broader standardisation efforts in areas like shareholder rights

and tax procedures, supporting overall market integration. The move to T+1 may also contribute to enhancing competition between FMIs, as they adopt more common standards.

Another industry speaker emphasized that the move to T+1 requires upfront investment in post-trade automation, particularly in the block and allocation process used by the buy side. Modernising back-office operations is essential, as in many institutions investment in this area has traditionally been deprioritised in favour of front-office enhancements. The transition to T+1 provides an opportunity to eliminate outdated legacy practices and advance digital transformation, laying the groundwork for longer-term innovations such as tokenisation. The transition to T+1 in the US led to a 25–30% reduction in margin requirements, corresponding to a \$3 billion clearing fund decrease. This freed up significant liquidity that can be reinvested in the market. Similar benefits in Europe could support the region's growth agenda in the SIU context. The recent US market volatility episodes also tested the resilience of the infrastructure with T+1 settlement and showed that the US system was able to successfully handle record trading volumes with no significant settlement failures or margin issues.

A regulator agreed that the T+1 transition is essential for the efficiency of European markets and may also enhance liquidity and reduce collateral needs. While the move to T+1 will require upfront investments, there should be a significant cost reduction in the longer term due to automation. The shift to T+1 should also facilitate the further digitalisation of post-trading systems. Aligning EU settlement practices with major markets such as the US is also necessary to support market functioning. Ultimately, these efforts to modernize European markets and make them more efficient will reinforce their attractiveness and contribute to building trust in European markets, which is fundamental for encouraging participation from both institutional and retail investors. The regulator also stressed that the move to T+1 will contribute to reducing overall market risk and limit the collateral exposure associated with transactions.

Another regulator highlighted that the move to T+1 will have a broad impact across the industry on intermediaries of different sizes and FMIs. IT investment remains a critical priority, particularly in areas where manual processes are still used. The adoption of straight-through processing (STP) should also be accelerated as widely as possible within the Union. While the necessary investments in terms of automation are significant in the short term and moving to T+1 is a substantial undertaking, the long-term benefits in terms of market efficiency and robustness of the post-trading system are expected to outweigh the initial costs. This will increase the attractiveness of EU capital markets and strengthen the resilience of the financial system.

An industry representative indicated that a flexible approach was proposed to address national specificities, with a high-level rather than a prescriptive approach that stakeholders will be asked to adhere to. The industry representative summarised that there is a

broad consensus on the benefits of moving to T+1. Although the project is highly technical and focused on the settlement area, its benefits will extend beyond greater market competitiveness and resilience, contributing to positioning the EU as an attractive destination for global investors and achieving the objectives of the SIU. The project also demonstrates the value of public-private cooperation and of close cooperation between EU and UK counterparts which may be extended to other parts of the financial market.

An official added that the T+1 project is also considered to be essential for the UK, due to its capacity to modernise and enhance the efficiency of capital market activities. While adequate preparation and execution are essential, the transition to T+1 can deliver significant efficiency gains over the medium term, as shown by the first results obtained in the US. Looking ahead, the changes needed for the transition to T+1 will facilitate significant evolutions in the securities market structure such as tokenization and broader digitalization which are likely to happen over the next 10 to 20 years, although the precise trajectory remains uncertain.

3. Conditions of a successful implementation of T+1 settlement

3.1 Lessons from the US T+1 implementation

An industry speaker emphasised that, although the European and US markets are structurally different, the EU and the UK have already adopted many key insights from the US's transition to T+1. These include the necessity of conducting a comprehensive evaluation of the potential impact of shifting to T+1, as well as assessing the implications across the entire post-trade cycle, from execution to settlement. This will enable the creation of a clear, step-by-step roadmap for industry stakeholders.

Operational readiness is an important aspect to consider beyond the regulatory framework. This involves laying out a playbook to guide T+1 preparations for different types of firms and a framework to test their readiness and identify areas of improvement. Tabletop exercises simulating disruptions - such as system outages, market volatility or cut-off extensions - have proven effective in the US to make rapid decisions. Such simulations are also included in the European agenda. Automation is also key to a successful T+1 transition. The seamless operation of US markets during recent stress events was due to firms' significant investment in automation. A recent survey indicated that 90% of US firms had automated their systems, avoiding the need for additional manual staff to implement T+1 settlement.

The chair agreed that automation and implementing testing scenarios are essential elements that must be included in the EU T+1 workplan.

3.2 Key conditions of success for the EU T+1 implementation

A regulator highlighted three priorities to guide the transition to T+1: cooperation, consultation, and cost.

Cooperation is essential at both national and EU levels to meet deadlines and achieve key milestones. ESMA's roadmap defines specific targets that national competent authorities (NCAs) must deliver on, requiring them to establish internal timelines aligned with these objectives. Consultation is equally important for identifying potential obstacles and addressing national specificities, particularly those related to local market infrastructures and transaction processes. Consultation is also needed to develop tailored solutions that reflect local requirements while also considering the needs of international participants. Public consultations are currently being conducted by NCAs in coordination with ESMA's ongoing Level 2 review. Finally, clarifying and quantifying the overall costs of the T+1 transition is also critical. This includes assessing the financial impact of system upgrades and operational adjustments across the entire chain. Such cost analysis will enable NCAs to better support stakeholders in adopting the necessary automation and technological improvements, while also monitoring the overall progress of implementation.

An industry speaker stressed the importance of considering the impact of T+1 on all stakeholders in the financial ecosystem, including those indirectly affected. Effective communication and engagement with market participants across jurisdictions is essential to anticipate constraints and identify potential bottlenecks, such as those caused by time zone differences, and to address them proactively.

The shift to T+1 in the US securities market had broad implications for the foreign exchange (FX) ecosystem, as around 20% of US securities and 17% of US equities are held by non-US investors. Because of time zone

differences, EU-based investors have much less time to mobilise the required currency to fund US securities transactions when settlement occurs on a T+1 basis. This created concerns that investors might be forced to execute and settle related FX trades on a same-day (T+0) basis to meet the tighter timeline. This issue is particularly relevant given that all FX transactions settle at 6pm US time, which is midnight CET. Although FX-related settlements account for less than 1% of total transaction value in the US, and even less in the EU, disruptions in this area could still pose operational risks to the wider financial system.

A regulator underlined the value of transparency in managing the T+1 transition process, to enable the public and private sectors to better understand each other's challenges and work towards common solutions. EU-wide approaches are also needed where possible to effectively address these challenges.

An industry representative agreed that transparency is essential. Entities unable to comply with the recommendations for technical reasons will be expected to explain the underlying issues and outline how they intend to resolve them. Ultimately, the entire ecosystem will be expected to comply with the new T+1 framework.

The chair summarised that automation and cooperation are key enablers of a successful transition to T+1 settlement. Transparent communication, both between the public and private sectors and across the broader financial ecosystem, is also essential to effectively address challenges in a context where all stakeholders are working towards a common goal.

EU clearing competitiveness and resilience

1. Implementation of EMIR 3

1.1 EMIR 3 objectives and conditions of success

The chair recalled the main goals of EMIR 3, which are to mitigate the risk of the EU's excessive exposure to systemic third-country CCPs and to enhance the resilience, competitiveness and efficiency of EU clearing services. Achieving these objectives simultaneously can be quite complex.

An industry speaker noted that while EMIR 3 aims to reduce excessive reliance on systemic non-EU CCPs, this objective must be achieved without limiting the ability of EU firms to access global markets in general. Striking the right balance is essential. The success of EMIR 3 will also depend on its ability to preserve trust in the EU clearing ecosystem, a key asset, particularly in today's volatile geopolitical context. A proportionate and holistic implementation approach should guide the next phase of EMIR 3, ensuring that the needs of the broader clearing ecosystem, including market infrastructures, clearing members, end-users, and technology providers, are considered. It is also important that the different CCPs operating on EU markets are treated consistently under the new framework.

The chair underlined the importance of the establishment of the Joint Monitoring Mechanism (JMM), involving amongst other public bodies ESMA, the ECB and the ESRB, which in addition to taking a holistic view on the stability of the clearing ecosystem, is also tasked with monitoring the implementation and the effectiveness of EMIR 3's critical provisions. An effective implementation of EMIR 3 will also require sufficient supervisory resources, notably on the part of ESMA.

An official agreed that the implementation of EMIR 3 should be guided by proportionality and cost-efficiency objectives and will require effective supervision. European CCPs must also continue to invest in improving the quality and breadth of their services.

An industry speaker welcomed EMIR 3 as a continuation of the EU's leadership in setting high standards for clearing. Maintaining strategic ambition and ensuring that the EU remains a global benchmark in clearing policy and regulation is essential.

1.2 Active account requirement (AAR)

The chair observed that the AAR is the measure that has attracted most attention during the debates around the Level 1 EMIR 3 proposal. ESMA issued a consultation paper on this at the end of 2024, which drew extensive feedback, now being incorporated into the final draft of the regulatory technical standards (RTS) due by the end of June.

An official stated that the AAR, aiming to develop

autonomous EU clearing capacity for systemically important products, is a welcome measure. In addition to encouraging the redirection of clearing activity towards EU CCPs, active accounts will also function as operational backstops, ensuring that EU market participants can maintain uninterrupted clearing operations via EU CCPs if needed. Testing obligations and stress testing will reinforce the operational readiness of these accounts. The representativeness obligation will moreover ensure that active accounts hold a meaningful share of a firm's overall clearing activity. The current draft RTS applies the AAR provision as ambitiously as possible within the constraints of the Level 1 legislation (EMIR 3). There are already encouraging signs that the AAR can support the growth of EU clearing capacity, as some market participants appear willing to go beyond the minimum requirements.

The official noted that in line with the AAR review clause, the JMM is expected to deliver a report that will evaluate the effectiveness of the measure and potentially propose adjustments or complementary actions, for example in terms of calibration or exemptions. This review will require analytical work to assess the differential impact of the AAR across various categories of market participants and sub-segments of the market.

An industry speaker highlighted that a market-led initiative launched by a major EU CCP ahead of EMIR 3 helped support participants in preparing for the AAR and contributed to a more balanced market with reduced offshore risk. This initiative has reached a market share of around 20% in OTC interest rate derivatives. Since the AAR phase-in began, about 35% of clients have activated accounts, which is an encouraging sign for future market engagement. Three refinements to the Level 2 AAR RTS are necessary however. First, the current 85% exemption threshold should be lowered to incentivise smaller firms to shift clearing voluntarily; a more phased approach with lower starting thresholds could better encourage broader participation. Second, the requirement for an initial formal simulation of clearing transferability should be replaced by a self-assessment to reduce operational burdens, particularly in stressed scenarios. Third, annual stress tests should be conducted centrally by CCPs and reported directly to supervisors to avoid inefficient entity-level reporting chains.

A second industry speaker noted that, beyond operational and compliance considerations, two higher-level issues should inform the calibration of the AAR. First, the structure of the euro interest rate swaps (IRS) market, in which EU firms represent only about a quarter of total volumes, means that the AAR could limit their access to global euro-denominated

markets. Second, the evolving supervisory landscape must be taken into account: under EMIR 3, ESMA will play a stronger role in the recovery and resolution planning of Tier 2 CCPs, including in coordination with the Bank of England for non-EU CCPs. These developments also raise important questions regarding the proportionality of the AAR.

A third industry speaker emphasised that the success of the AAR hinges on three conditions. First, it should apply only to new flows, not existing stocks. Second, reporting should be consolidated at the firm level, not at the subsidiary level, which would be too complex. Third, reporting obligations should be simplified, avoiding transaction-level granularity. Simplicity is key to a successful implementation of the AAR. This must also be taken into account in the supervision of this measure.

1.3 Streamlining of supervisory approval processes

The chair emphasised that the simplification of the approval processes for changes to risk models and extensions to the range of cleared products is a key focus of EMIR 3. The aim is to reduce time to market, which is crucial for maintaining competitiveness, and avoid regulatory arbitrage across the EU. This requires a careful balance between regulatory oversight and operational efficiency. More generally, regulators have taken note of the feedback received during the EMIR 3 consultation regarding the need for a simplification of verification measures and an improvement of reporting requirements.

A supervisor observed that the current approval process for authorisations and model changes is complex, involving in some cases multiple domestic authorities, several ESMA bodies and sometimes the authorities' board for approval. This certainly hinders time to market. EMIR 3 will improve the process by introducing a more pragmatic approach, but the success of this approach relies on certain preconditions being met. CCPs must submit more comprehensive and well-documented change requests to avoid iterative procedures. Supervisory assessments under EMIR 3 should also move beyond a strict legalistic approach and adopt a more risk-based approach. Rather than applying EMIR 3 article by article, supervisors should assess model changes holistically, considering overall risk, consistency, and potential financial stability implications.

An official agreed that it is important to ensure that the streamlining of supervisory processes does not lead to a checkbox approach and ready-made assessments, maintaining supervisory judgement.

An industry speaker stressed that there is a clear tension between the two objectives of ensuring a more consistent, EU-wide supervisory approach and maintaining fast, efficient approval processes to support market responsiveness. The current draft RTS under Article 49 leans strongly towards the first goal, but with limited simplification, making even routine changes subject to more formal procedures. For example, changes previously treated as business-as-usual could now require a process involving senior-

level sign-off and board-level certification. Although the length of this procedure is officially limited to ten days, this seems disproportionate, as a great deal of preparation will be needed in a compressed timeline. A more proportionate approach could preserve supervisory consistency while avoiding unnecessary complexity and burden for CCPs.

1.4 Margin transparency requirements

An official noted that margin model transparency requirements represent an important area of improvement introduced by EMIR 3. The current draft RTS are broadly consistent with international standards, such as those from IOSCO and CPMI. However, complying with these requirements may require substantial IT investments to support the generation and delivery of margin simulations. A more proportionate approach should be applied in this area also to avoid overburdening smaller firms.

An industry speaker was supportive of the margin transparency measures in EMIR3 and also the work of the international standard setting bodies in this area. These measures also align with US equity and government bond CCP's initiative to launch public value-at-risk calculators and cross-margining offerings, contributing to broader international consistency.

1.5 Data-driven supervision

An official highlighted that one of the key objectives of EMIR 3 is to enable more data-driven supervision of central clearing. While quantitative thresholds remain useful tools, they risk becoming outdated as market conditions evolve. To support forward-looking and dynamic oversight, supervisors will need access to timely and granular data capable of capturing market developments. The establishment of a centralised ESMA database, one of the main new features introduced by EMIR 3, is a step in this direction. However, its effectiveness will depend on the quality and consistency of reporting across the system. High data quality is essential to realise the full supervisory potential of this tool.

2. Key issues to address in the clearing space beyond EMIR 3

2.1 Resilience of the EU clearing ecosystem

The chair remarked that the recent significant market turbulence, triggered by the US administration's decision to raise tariffs, confirmed the robustness of financial market infrastructures, and of CCPs in particular. This is the result of strengthened CCP risk management, but also enhanced CCP regulation and supervision.

An industry speaker underlined that the volatility and volume increase observed during the recent macroeconomic events confirm the importance of continued vigilance and maintaining robust risk management at CCPs to ensure continued financial stability.

An official emphasised that liquidity risk is a key focus for central banks in the clearing space. The Eurosystem provides overnight settlement accounts, which also allow CCPs to hold overnight balances and offer a safer alternative to market-based placements. The ECB recently revised its remuneration policy for these accounts. Guarantee funds of EEA CCPs are now remunerated at the euro short-term rate (ESTR), while other non-monetary policy deposits earn ESTR minus 20 basis points, acknowledging the systemic role of these funds in supporting financial stability. Euro area CCPs may also access intraday credit from the Eurosystem to manage temporary liquidity mismatches during the day. For more severe market-wide stress scenarios where liquidity needs of euro area CCPs extend beyond intraday, the Eurosystem is reviewing its framework for overnight liquidity support¹.

A supervisor stressed that digital operational resilience, regarding ICT and third-party risks, is also a key element of the financial system's stability. The Digital Operational Resilience Act (DORA), which replaces previous sector-specific requirements, represents a significant step forward in digital risk mitigation. Supervisory attention to these issues is expected to intensify.

The supervisor also highlighted the implications of the development of cryptoassets for central clearing. Since the 2008 financial crisis, CCPs have taken on a more prominent role within the financial system and are increasingly expanding into new product areas, such as cryptoasset-linked derivatives. This trend presents new supervisory challenges, particularly in terms of data quality and the design of appropriate stress-testing scenarios. At the same time, the implementation of the Markets in Crypto-Assets Regulation (MiCA) is bringing changes that need to be addressed. New actors are entering the market, who may provide services similar to central clearing without being subject to equivalent regulatory standards. These developments underline the need for a broader, more holistic regulatory approach to safeguard financial stability as market structures and innovations continue to evolve. The chair observed that evolutions related to cryptoassets should ideally be addressed at the global level.

2.2 Supervisory framework of EU CCPs

The chair noted that recent reports on the future of the Capital Markets Union and in particular the Draghi and Letta reports, have called for a reassessment of the supervisory structure for financial market infrastructures and for exploring the relevance of more unified EU-level supervision. This perspective is also reflected in the Commission's SIU Strategy communication, which announces legislative proposals in 2025 to strengthen supervisory convergence tools and achieve more integrated supervision of capital markets.

An official stated that fully centralised CCP supervision in the EU remains an end goal rather than a starting point. Two main barriers currently prevent further centralisation. The first is fiscal responsibility: in the

event of a CCP failure, national fiscal authorities retain responsibility for any potential bailouts. The second is the fragmentation of EU financial markets, particularly in the sovereign bond space, where at least 28 distinct types of sovereign bonds exist across 27 Member States and the EU. This fragmentation creates operational and supervisory constraints for both CCPs and CSDs. Progress towards more efficient and centralised supervision can be made through enhanced supervisory cooperation, which already functions effectively via supervisory colleges, and through ESMA's existing mandate to promote convergence of supervisory practices. These instruments help maintain a level playing field across the EU. A further step, as proposed by the ECB Governing Council, could be to place the largest pan-European CCPs under the direct supervision of ESMA, in cooperation with national competent authorities (NCAs). This would enable a gradual movement toward more unified supervision while preserving the role of NCAs, which remains important due to the fiscal responsibilities involved.

An industry speaker emphasised that despite the detailed regulatory framework, supervision remains inconsistent in practice, leading to confusion among CCP users, especially those outside the EU, who expect uniform treatment under EMIR. While supervisory colleges exist and coordination is supported by ESMA's CCP Supervisory Committee, this has not fully resolved the fragmentation. The current fragmentation and complexity of CCP supervision in the EU undermines competitiveness, particularly for pan-European CCPs. EMIR 3 represents progress, but further steps are needed. Pan-European CCPs, such as those clearing the bulk of European government bonds in the EU at present, could benefit from being placed under the direct supervision of ESMA. The aim is not centralisation for its own sake, but rather to achieve a greater harmonisation and simplification of rules and of their oversight, while enhancing the efficiency and speed of authorization procedures. ESMA's experience in supervising UK-based CCPs could be leveraged to this end. However, effective EU-level supervision will require sufficient resources, and new funding models. Those in place in the UK, where CCPs finance their supervision, could be considered.

A greater unification of supervision at EU level would also help to address the current tensions between the goal of ensuring a level playing field across the EU and the need for time-to-market efficiency. The second objective requires simplifying the current multi-layered approval processes, which are too cumbersome and slow.

2.3 Further integration of EU clearing activities

The chair questioned whether fragmentation is a significant issue for CCPs to remain competitive in the global landscape, noting that at present 14 EU CCPs are authorised under EMIR and there is already a higher degree of concentration for certain products.

An industry speaker confirmed that the degree of

1. https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr250430_1~db4f08259e.en.html

fragmentation varies across market segments. The EU market structure for derivatives and commodities is not meaningfully fragmented. For cash equities, interoperability and open access between CCPs have existed for many years, allowing participants to choose where to clear trades. However, the key question is whether interoperability has met market demand. In some cases, investor take-up for alternative CCPs has been limited. Competition among CCPs is currently driven more by product innovation and customer service than by interoperability. In addition, imposing artificial interoperability links may have unintended negative consequences in terms of hampering innovation at a time when technological developments, such as DLT, are expected to progressively reshape market infrastructure. Maintaining an interoperable system between a traditional infrastructure and one operating on DLT may not be feasible. Consolidation in the EU via M&A also faces challenges under the current competition rules. The DG COMP framework is not fully aligned with the vision of DG FISMA for a more integrated EU capital market, notably concerning the definition of the relevant market to consider in competition assessments.

Another industry speaker agreed that the market situation should be assessed by product category. Long-term interest rate derivatives and equity derivatives are well served by efficient EU-based CCPs. The same is true for Euro repo. However, for short-term interest rate and Euro interest rate swaps (IRS), the situation is different, as clearing is mostly handled by CCPs based outside the EU. Whether this is acceptable for the EU still needs clarifying. Cash equity CCPs are efficient but the clearing market is fragmented, posing challenges for smaller financial firms. While large players can manage fragmentation, the clients of smaller firms such as e-brokers suffer

from higher cross-border costs. This limits cross-border trading in Europe, as it is cheaper to trade on US exchanges. Consolidation of clearing by product offers netting and collateral savings but might increase systemic and cyber risks. A solution would be granting all CCPs access to central bank money. M&A-based consolidation is unlikely and remains more aspirational than realistic.

2.4 Implications of T+1 settlement in the clearing space

An industry speaker suggested that the implementation of T+1 settlement offers the EU an opportunity to optimise post-trade workflows. A large volume of securities eligible for central clearing remains uncleared. With T+1, processing workflows will need to be redesigned to enhance straight-through processing, potentially increasing the use of CCPs for eligible securities. Secondly, T+1 is expected to lead to a reduction in CCP margin contributions. In the US, its implementation 11 months ago resulted in a \$3 billion decrease in clearing fund requirements. Similar benefits are projected in the EU and the UK, with ESMA estimating savings of around €2.7 billion and the Bank of England projecting about £1 billion. This could reduce costs for clearing members and free up capital that could be reinvested to enhance efficiency and mitigate risks.

T+1 will also bring operational impacts. With less time to settle, CCPs will need to reconsider cut-off times and netting arrangements. European CCPs should view this transition as a strategic opportunity to innovate and improve processes, adapting them to evolving user demands.

Sessions

VII

FINANCIAL STABILITY AND SUSTAINABILITY RISKS

- NBFIs macroprudential challenges 148
- AML: progress and priorities 153
- Sustainability risks in the financial sector 157

NBFI macroprudential challenges

The Chair opened the discussion by indicating that it should move beyond non-bank financial intermediation (NBFI) in isolation to understand the integral role of NBFI within the broader financial sector. Potential interactions with NBFI should be identified to prevent it from becoming a narrowly defined area of expertise, divorced from broader systemic considerations.

Following the recent significant market movements, the message is cautiously positive, although this optimism will need to be tested in the coming days. It is possible that a financial player is sitting on huge losses. However, there have been limited redemptions and minimal use of liquidity management tools. There are positive inflows into Europe, supported by favourable exchange rate dynamics and European stock exchanges are performing well, in contrast to the challenges on Wall Street. The euro is strengthening, as are other European currencies.

There is a potential for risk propagation within the increasingly interconnected global financial system. A system-wide approach can address the limitations of segregated discussions focusing solely on banks or non-banks, where participants often lack cross-sectoral awareness that can aid in identifying the propagation of risk.

1. A system-wide approach to macroprudential policy

1.1 Gaining a comprehensive view of the financial ecosystem

1.1.1 Understanding NBFI exposures

An industry representative explained the multi-faceted nature of their firm's involvement with NBFI, highlighting its role not only as a wealth management and investment bank, but also as a global asset manager. In addition, NBFIs are funding providers for the firm, as well as clients. This interconnectedness underlines the firm's strong interest in financial stability and the appropriate management of risks arising from NBFI.

The expansion of NBFIs is an evolution of the financial system, and there are shifts in functional roles previously dominated by banks. Since 2010, there has been a 700% growth in private credit markets to more than 2.5 trillion. While this diversification of financial supply enhances resilience and supports economic growth, the expansion has simultaneously increased systemic linkages and introduced evolving financial risks.

The NBFI sector is very broad. It includes pension funds, insurers, and asset managers, as well as other types of players that are subject to various levels of regulation, both in terms of entity and activity and with different risk profiles. A tailored approach is needed, encompassing both prudential supervision and bank risk management, with a focus on a better understanding of systemic risks.

1.1.2 Market turmoil in August 2024 highlights complex NBFI-banks links

The Chair highlighted recent market movements, specifically fluctuations in German bond yields and the unwinding of US dollar-Japanese yen carry trades. A Central Bank official referred to the August turbulence and attributed it to a confluence of factors, including the unwinding of the US dollar-Japanese yen carry trade and the subsequent margin calls on equity derivatives positions held by NBFIs. Ample liquidity within NBFIs mitigated the immediate turbulence, so the episode was short-lived, but it nonetheless served as a sharp reminder of the need for a deep understanding of market structures, particularly the complex linkages between NBFIs and the banking sector.

Against this background, the Bank of Japan is conducting macro stress tests to assess the financial stability implications of NBFI dynamics and is actively working to incorporate these dynamics into its existing macro stress tests. For example, a severe scenario has been set up to determine what happens when there are large, simultaneous fund redemptions.

1.1.3 The resilience of European money market funds (MMFs) and the potential of tokenisation

An industry representative described the last few days as remarkably balanced, despite the significant upheaval elsewhere. European MMFs total €1.2-1.3 trillion. They have demonstrated their resilience through several unexpected stress tests in recent years, including the COVID-19 pandemic, the Russia-Ukraine conflict and the UK gilt market crisis. This stability can be attributed to the well-defined regulations on liquidity, diversification and quality requirements that have been implemented over the past nine years.

Tokenisation could further enhance the stability of MMFs and thus the stability of the financial system as a whole. In the UK liability-driven investment (LDI) situation, money was moving out of LDI accounts of MMFs, going to a clearing house and returning to MMFs. Tokenised funds would have significantly reduced the risk of disruption from this episode. However, despite the dramatic rise in interest rates, the situation was relatively well controlled. Overall, existing regulations are effective in maintaining fund stability.

1.1.4 Differences within the investment funds landscape are vital for effective macroprudential policies

An official explained that while corporate bond exchange-traded funds (ETFs) can stabilise markets during bank stress, mutual fund outflows may amplify financial vulnerabilities.

Recent BIS research examining the joint manifestation of financial stress at banks and investment funds reveals a nuanced relationship in which ETFs specialised in corporate bonds can act as stabilising forces during periods of high market pressure on banks, due to their business model, where in stressed conditions, authorized participants step in to limit discrepancies between the share price of the ETFs

and the value of their underlying portfolios. Furthermore – in contrast to MFs – it is standard practice to redeem bond ETF shares in exchange for securities, rather than cash. Conversely, outflows from corporate bond mutual funds can contribute to tightening market conditions when banks are already facing challenges. Recognising the differences within the investment fund landscape is crucial to informing effective macroprudential policy. Some of the characteristics of ETFs allow them to contribute to the mitigation of first-mover advantage and liquidity mismatch problems.

Research on private credit, which has experienced tremendous growth, has shown a growing trend towards attracting retail investors, which, while potentially beneficial in terms of matching assets and liabilities, also introduces new liquidity mismatches. Private credit funds have increased leverage and broadened their investor base towards retail investors, creating potential vulnerabilities.

1.2 Regulated and unregulated NBFIs

1.2.1 For regulated NBFIs, effective risk management starts with regulatory compliance

An industry representative emphasised that for regulated NBFIs with global reach that include legal entities in multiple jurisdictions, diverse asset investments and geographically dispersed investment activities, risk management begins with compliance. This gives regulators access to comprehensive information on the activities and positions of regulated entities across all operating regions. Enhanced supervision of unregulated NBFIs to address potential vulnerabilities and the implementation of system-wide exploratory scenarios, such as those undertaken by the Bank of England, are important to optimise risk mitigation within the financial system and protect customers.

Due to regulation, reports required for regulated NBFIs such as regulated asset management companies as well as regulated investment funds are produced for regulators, beginning with securities regulators, but also extending to national central banks within the eurozone. These security regulators receive information regarding positions, including on derivative over-the-counter (OTC) markets, specifying whether transactions are cleared or non-cleared. This process facilitates risk management while simultaneously providing regulators with access to comprehensive information concerning all activities undertaken by the organisation. Such transparency is vital not only for the company but also ultimately benefits clients through compliance and responsible behaviour.

1.2.2 Prioritising regulation and supervision of unregulated NBFIs and system-wide stress testing

A further consideration is that regulation carries the potential for sanctions. Regulators possess the authority to sanction regulated entities. The current concerns with NBFIs centre on the risk of concentration. To improve systemic stability, there are two complementary approaches. Regulators or policymakers could focus on enhancing understanding of the non-regulated NBFIs segments, thereby gaining insight into previously unknown players and activities. Secondly, mirroring the approach adopted by the Bank of England, a system-wide exploratory scenario can be implemented to comprehensively capture

overall market activity. Both strategies should complement each other in order to optimise risk reduction within the system, protecting not only the industry and clients from potential vulnerabilities.

1.2.3 The need for international oversight

An official highlighted an often overlooked aspect of the financial landscape is the substantial volume of FX swaps currently outstanding globally, estimated at USD 100 trillion. The largest and fastest-growing component of this market is the segment involving other financial institutions, which has tripled in size since 2009; these FX swaps are essential for facilitating cross-border hedging activities and providing funding mechanisms but often entail a mismatch in hedging maturities. They can also be used for borrowing purposes. This huge market shows extensive involvement of NBFIs and operates across international borders, precluding the possibility of isolated national supervision or monitoring.

US broker-dealers, together with their parent banks, play an important role as a major source of funding for hedge funds through repo markets and for internationally active asset managers and pension funds through FX swaps. Banks also contribute to this dynamic by extending lines of credit to hedge funds, thereby enabling the rapid reallocation of capital globally. The events of August last year provided a telling example of how even minor news stories can trigger significant market movements, although these movements were subsequently corrected within 24 hours. This episode highlighted the inherently international nature of these activities.

1.3 An integrated approach

1.3.1 Enhancing financial stability through system-side exercises

An industry representative stated that system-wide risk assessments help to understand second-order effects in market developments that are important for financial stability. Regulatory interventions should be targeted at the sources of identified risks rather than channelled through banks. There is a role for a targeted macroprudential approach to complement firm-specific risk assessments. The global nature of these risks should be emphasised, requiring international cooperation and coordination to address them effectively.

An official reminded the audience of the need for an integrated approach to understanding financial stability. This analysis should go beyond simply looking at banks and non-banks together. There should be a deeper understanding of the evolving linkages between different types of non-bank entities and their interactions with traditional banking institutions. The term 'NBFI' itself may be increasingly unhelpful, as the inherent heterogeneity within the sector, for example in terms of balance sheets and business models, often leads to ambiguous discussions. Linkages continue to change rapidly, making the need for a holistic view all the more urgent.

1.3.2 System-wide exploratory scenarios (SWES) and the need for a contingent non-bank repo facility

A Central Bank official reiterated the value of adopting a system-wide perspective to improve the monitoring of non-bank risks. Stress testing should look beyond

individual institutions to whole markets, focusing on how liquidity and leverage interact and combine to cause problems through correlations and concentrations in the market. Achieving this is challenging because it is behaviour that is being tested. The Bank of England's SWES aimed to test market behaviour by avoiding the static approach of typical stress tests, such as looking at the balance sheet and seeing how it would change based on changes in credit risk, for example, while avoiding questions about what institutions do and how those actions affect a market clearing price.

In order to test, rather than assume, the behaviours that would occur, it was necessary to have numerous market participants. The focus was on the most important markets for UK financial stability, so more than 50 entities across the gilt and corporate bond markets participated, including those not directly regulated by the Bank of England or the Financial Conduct Authority (FCA). The exercise simulated a global shock that exceeded any previously observed in terms of speed, breadth and persistence. This allowed an assessment of the risks emanating from non-banks to banks and vice versa and, crucially, how these behaviours combined to affect the gilt and corporate bond markets.

The results, published at the end of last year, indicated greater resilience within the non-bank sector compared with previous assessments, and this finding is supported by recent market stability. However, the exercise also revealed the location of sensitivities, including within repo funding, which have been identified as critical to maintaining the core functionality of the market. Significant discrepancies in market participants' expectations of repo availability and margin calls were uncovered, suggesting areas for industry improvement. For example, some expected margin calls to be nine times higher than they were, indicating that there is still work to be done.

The SWES proved valuable not only for stress testing markets, but also for informing policy development, identifying key data gaps and fostering a deeper understanding of systemic interdependencies.

The underlying assumption that drove the SWES initiative was that the balance between banks and non-banks had fundamentally shifted over the previous decade or more, creating a risk that the existing toolkit, which is primarily focused on providing liquidity to banks, might not be effectively recycled to the non-bank system in times of stress. The SWES confirmed this risk.

The resulting non-bank repo facility is initially available to pension funds, insurers and LDI funds, with applications being accepted from January. This contingent facility is designed to provide liquidity when needed without interfering with market forces; it would be activated in a stress event if repo markets became impaired, allowing participants to access funding without being forced to sell assets, thereby reducing the risk of broader market disruption. Such a backstop is important in a world where liquidity cannot be assumed to be recycled from central banks through banks to non-banks.

Following the UK LDI crisis in late 2022, entity-based leverage limits were introduced for LDI funds, taking advantage of the relatively simple business model and

associated risks to establish a threshold of resilience to gilt movements. More complex business models may not lend themselves as easily to such simple regulatory interventions.

1.3.3 Principles for designing a system-wide interaction of macro and micro policies at national and EU level

A regulator confirmed that a system-wide stress exercise is being developed in Paris, with significant inspiration from the Bank of England's SWES. The intention is to conduct a cooperative system-wide exercise involving banks, asset managers and insurance companies, with dialogue between the authorities and the industry both to design the scenario and to discuss its results.

The exercise is designed as a bottom-up process in which the authorities inject a shock into the financial system and observe how it propagates across different industry participants. This approach aims to identify critical pressure points and comprehensively map the intricate interconnections within the financial landscape.

A key objective is to identify areas where information is missing or incomplete. There are many known unknowns due to a lack of data, and there is fragmentation of data across different European authorities. There is a need for improved sharing mechanisms to facilitate more effective surveillance. There are significant data gaps and relevant information is not being collected, so a method for collecting it is needed.

A key element is the relationship between micro and macro. A dedicated financial stability group was set up to ensure a holistic approach to risk assessment. This team is central to the design of the stress test, drawing on experience from both micro and macro perspectives.

1.3.4 International cooperation

An official emphasised that the issues were fundamentally international in nature and therefore required a robust framework for global cooperation. There has been a significant increase in cross-border claims and liabilities between banks and NBFIs in recent years, particularly for US dollar claims and liabilities. In support of this observation, the Financial Stability Board's (FSB) report on NBFIs points to a corresponding increase in hedge fund exposures at the global level.

The Chair reported that 120-150 million data points are taken into the ESRB every night. Although a significant volume, there are still challenges in terms of data availability and data quality.

2. Balancing reduced reporting burden with need for comprehensive data

2.1 Challenges and stakes

2.1.1 Accessing and managing data

A Central Bank official reported that within Japan there are significant challenges in accessing data, especially for NBFIs operating outside Japan. The Bank of Japan is

seeking to supplement the results of macro stress tests with information from ongoing market intelligence activities. The Bank of England's SWES is impressive, particularly its game-theoretic approach and, crucially, the broad participation of major NBFIs in the exercise. There are considerable difficulties in replicating such a sophisticated system in a global context, but the SWES approach sheds valuable light on how best to address NBFIs issues in the future.

An industry representative suggested that the availability of data is not necessarily lacking but rather requires effective internal management within securities regulators or central banks. While external data sources are plentiful, the ability to process and derive meaningful insights from this information is paramount, so integrating the data with internal tools is essential, as well as standardising data reporting templates among securities regulators and among central banks at worldwide level (to make them fully manageable and useable for data sharing on a cross-sectoral and cross-border basis).

2.1.2 Fill the data gap

A Central Bank official emphasised that while there is extensive data on positions, there is a critical data gap on risk. SWES is designed to fill this gap by working with industry participants. It is the same data that private companies use to assess their risks, so it is not esoteric data that is being asked for. Through the SWES, it was identified that around a third of US basis trading was based on participants in the stress test, prompting further investigation into the potential impact of margin calls on US basis trading on the gilt market. The results showed a significantly larger impact than the same event within the gilt market itself, highlighting the importance of understanding cross-border spillovers and their systemic implications.

2.2 Ways forward

2.2.1 Improving coordination to prevent redundant and costly data requests

An industry representative explained that their organisation receives an abundance of data from a variety of sources. The industry is willing to provide all requested data to the national competent authority, but the expectation is that the information will then be shared with other relevant authorities without duplicating the submission process, particularly where there are repeated requests for the same data in slightly different formats. Such practices are costly, unnecessary and ultimately do not improve the effectiveness of regulatory oversight.

2.2.2 Pragmatic international cooperation to improve data sharing and oversight

A Central Bank official noted that Japan has been proactive in implementing the FSB's recommendations on repo data, providing full access to transactions conducted in Japan when a counterparty is located in its jurisdiction. However, cross-border transactions pose significant difficulties. For example, if a US-based NBFIs conducts a repo transaction using Japanese government bonds as collateral through a subsidiary in Japan, full data transparency is compromised. In such scenarios, while the transaction between the booking entity and the US subsidiary can be fully accessed,

access to data relating to transactions between the US-based NBFIs and a US booking entity is not possible.

Ideally, there would be universal implementation of the FSB recommendations and enhanced information sharing between jurisdictions, but if that is not practical, then a pragmatic approach should be taken. The nature of the data available needs to be understood. Then the public and private sectors, including NBFIs, need to work together.

2.2.3 Enhancing retail investor insight, cross-border data sharing, and reporting

A long-standing request has been for more detailed information on end investors in funds, particularly on the retail side, in order to better anticipate their risk management behaviour. It is hoped that the ongoing review of Undertakings for Collective Investment in Transferable Securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD) will streamline reporting requirements through constructive dialogue between industry stakeholders, regulators and central banks. There are concerns about cross-border data sharing between regulators and supervisors, which may require some standardisation of data. This issue has already been discussed by the European Securities and Markets Authority (ESMA) in relation to AIFMD data, as there is a mismatch in the format of data shared at EU level.

2.2.4 The call for new tools

A regulator emphasised that the data issue is fundamentally global in nature and transcends jurisdictional boundaries. While data sharing at the local and European level is generally adequate, challenges remain in terms of data ownership, operational systems and technical issues. International cooperation is crucial, particularly as a large proportion of NBFIs are non-regulated funds domiciled outside Europe and originate in the US. The FSB has a working group to address international cooperation, and at the European level, ESMA and the ESRB are addressing these issues.

Regarding governance, a high-level task force was established by the euro system last year to address NBFIs issues and to propose common measures, including data collection, stress testing and new tools for authorities. A key proposal was a liquidity management tool that could be used ex ante by national authorities in the event of a build-up of liquidity mismatches in a cohort of funds. In addition, ESMA could use the tool across the EU or to complement the actions of national supervisors, and the ESRB would be an advisor.

To move forward, there is a need to reorganise the macroprudential governance framework at the EU level. There are extensive discussions on extending the supervisory powers of ESMA. What is needed is not only tools, but also the right set-up to use these tools efficiently.

AML: progress and priorities

1. Building AMLA: Moving towards an effective and unified EU framework for anti money laundering (AML) and countering the financing of terrorism (CFT)

1.1 Defining and equipping AMLA will require swift organisational, technological and human investment

The Chair described how the short term objectives of the new Anti Money Laundering Authority (AMLA) can be classified into three categories. First, AMLA needs to address its operational needs. In practice, this means it will need to define its organisational structure and build up its governance framework and internal processes and procedures. In this context, AMLA's two priorities are to recruit staff and develop its IT systems, which are key success factors for any firm or institution. AMLA's second objective is to develop its capacity as a financial intelligence unit (FIU) coordinator and supervisor. AMLA will need to develop the right tools to achieve this objective. The European Banking Authority (EBA), the European Commission and national FIUs are currently developing key tools that AMLA will be able to adopt and implement. Many new tools will have to be developed. AMLA is attempting to deal with many different issues on a very tight schedule. Its work will require extensive collaboration with national authorities, EU partners and the private sector. AMLA's third and final objective is to build a European AML community. AMLA cannot operate alone. It is not simply an institution; it is the cornerstone of the European AML system. Fostering a culture of cooperation will be key to its success.

A regulator/supervisor agreed on the importance of recruitment and staff training. In the age of artificial intelligence (AI), it is particularly important to have competent people to make good use of such evolving tools. AMLA is seeking to recruit talented and dedicated people to staff its functions, but the system as a whole will only work if there are enough talented and dedicated people working in national authorities and in the private sector too. Dealing with quite a number of "known unknowns" at the intersection of regulation and implementation, particularly in the area of IT, poses another challenge and opportunity. Just take the example of regulating and setting up a centralized AML database to exchange relevant information efficiently and on a timely basis. Again, that challenge and opportunity is shared by supervisors and supervised entities alike as both sides need to start adjusting their systems without knowing at this stage how exactly. As a result, we need to get going soon and build in flexibility – so the system can adapt and improve over time thanks to feedback loops.

An industry speaker commented that the new AML requirements will require private sector entities to

conduct widespread staff training. The entire salesforce will need to understand the new rules and processes fully. When working on AML, it is important to apply the exact rules and processes. The practical details are what matter, not the principles.

An official added that national FIU staff need to be trained to use new technologies properly and to support AMLA's operational work.

1.2 Bi directional mobility and institutional cooperation

A regulator/supervisor explained that AMLA is providing many different learning opportunities for junior and senior staff. It is important to ensure that the overall AML ecosystem enables people to evolve and change. In banking regulation and supervision, there is now mobility in both directions between the European institutions and national supervisors, but there is also still some room for more mobility too. In the AML world, talent is now moving to Frankfurt because AMLA is attracting people. The development of the new AML system is also attracting people to work in national supervisory authorities. Once AMLA is fully operational, it will be beneficial for staff to be able to return to national authorities and contribute to the AML work at member state level. Facilitating mobility in both directions is the only way to foster a common supervisory culture across the Union. The staff working in national supervisory authorities are bringing national expertise to the European level. Ideally, this European expertise will be fed back at some point to national authorities. This is both a huge challenge and a huge opportunity. Creating this kind of bi directional mobility is key to reap benefits for the entire system.

1.3 Aligning AMLA with FIUs will require information exchange, robust tools and skilled people

An official emphasised that the main task for national FIUs is to gather information from reporting entities and other FIUs or international bodies, analyse it and then share the outcome of this analysis with the wider ecosystem. The FIUs will need to support and collaborate with AMLA. In both AMLA and national FIUs, there must be specialist staff focused on operational analysis who can collaborate with AMLA and other FIUs. The transition to the new AML/CFT system creates challenges around system integration, data management and training. With the increasing level of cyberthreats to data protection and systems infrastructure, IT security has become a particularly important priority. FIUs deal with highly sensitive financial information, which means their systems need to be able to analyse information securely. The new AML/CFT system will need to ensure that FIUs can securely exchange information with AMLA and counterpart bodies across the Union. The other key challenge is the application of the joint system for the next generation of FIUs. This system was implemented

at the beginning of this year and will be moved to AMLA in 2027. It will be a challenge for FIUs to adapt to the new system, the information that will be provided through it and the new technologies that will be implemented within it.

2. Turning complexity into opportunity: simplification and harmonisation as strategic levers

2.1 The benefits of harmonisation

An industry speaker highlighted the importance of understanding the exact division of responsibilities between the new central function and the national competent authorities (NCAs). Currently, French banks only deal with the Autorité de contrôle prudentiel et de résolution (ACPR). In the future, they will have to deal with the ACPR and AMLA. AMLA's ability to coordinate with NCAs will determine whether banks experience an additional layer of supervision. There must be fluid discussions and functioning between the centre and the periphery. If there is an increase in regulatory complexity, this will generate an additional regulatory burden for banks. Even though the outcome of the development of the new AML system is not clear in some areas of policy, it is vital to start to make progress and to be prepared to adapt. Without an effective feedback loop between the industry and supervisors, the different stakeholders will end up creating many different systems. The only way to foster efficiency and effectiveness is to create a single system.

An industry representative added that the establishment of AMLA is a real opportunity to bring both harmonisation and simplification to banks and other financial institutions with cross-border business models.

2.2 Simplification, not deregulation

An official stressed that reconciling the development of an effective and robust AML/CFT system and the urgent need for competitiveness and market efficiency is a significant challenge for NCAs and regulatory authorities, which will be required to adopt around 70 regulatory technical standards (RTSs). However, simplification is not an obstacle; it is the formula for success. 'Simplification' means simplified rules. It does not mean deregulation, as John Berrigan recently pointed out. The objective of simplification is to make the regime simpler but not less effective. To achieve this, the AML package will need to apply a risk based approach. The requirements must be proportional to the risk. To ensure there are no rules that are not justified by risk, there will need to be a focus on outcome rather than process. There should be no duplicative or overlapping reporting requirements. The private sector needs to be able to create streamlined AML processes. Indeed, banks and other financial institutions should be incentivised to use a risk based approach in their processes and to leverage new technologies.

It is important to ensure that the new AML/CFT framework is ambitious. By its very nature, the AML

package aims to support competitiveness while facilitating compliance. The aim is the system is to provide a safe environment for investment. There will be a 'one stop shop' for entities under direct supervision and the single rulebook should ensure consistent application of the rules. Effective AML and increased competitiveness are not mutually exclusive.

2.3 AMLA's new rulebook must be proportional and coordinated

A regulator noted that the current rulebook is based on the de Larosière report, which clearly made the case for much greater EU regulatory harmonisation. Over the last 15 years, the rulebook has been significantly expanded. In January 2022, it had reached 660 documents, 25,000 articles and 15,000 pages of text. Last year, Mario Draghi's report set out the need to rethink the regulatory framework. This triggered a process at the European Commission and European supervisory authorities (ESAs). In the Proportionality and Coordination Committee of the European Securities and Markets Authority (ESMA), work is underway to map the areas where simplification is possible and to change the EU's drafting culture to ensure that only truly necessary rules and technical standards are proposed. In this context, the development of AMLA is a golden opportunity. AMLA is currently drafting its rules. From a governance point of view, AMLA needs to have proportionality champions and a committee to ensure that proportionality is achieved through the drafting process. In addition, its working groups should seek to achieve simplification, burden reduction and proportionality. This is extremely important for AMLA because it will have to prepare more than 70 technical standards, which will be in addition to the already quite extensive single rulebook.

3. Leveraging technology and AI

3.1 Harnessing AI requires data standardisation, investment in skills and respect for data protection

A regulator stated that data fragmentation is a key obstacle to harnessing new technologies effectively. The data that needs to be analysed is held in many different institutions, such as banks, other financial institutions and government agencies. Gathering this data and assembling it in a single format will be a huge challenge. Each institution creates its own models and structures for its data. The standardisation of these models will give the data that exists much more value.

The other key challenge is around the need to keep pace with technological change. It is extremely difficult and expensive to develop technology on a continuous basis. As soon as one technology is operating, a new technology is on the market. It is worth remembering that the perpetrators of money laundering also use these new technologies. The requirement to keep pace with changes in technological development obliges banks and other financial institutions to ensure that their staff maintain a commensurately high level of skill. Both human resources and IT are crucial to any organisation's ability to reap the benefits of a new technology.

An industry speaker emphasised that the AML rules provide a legal basis for processing personal data without obtaining explicit consent, but the General Data Protection Regulation (GDPR) makes it clear that data usage must be minimised. Many new technologies, AI in particular, need to use a large amount of historical data. There is a clear conflict between these two sets of regulation.

3.2 AI can strengthen AML detection and efficiency but must be governed and explained

An industry speaker explained the potential efficiency benefits of AI models. AI can be used to classify or prioritise suspicious transaction reports (STRs) and suspicious activity reports (SARs) for analysis and can even be enabled to pre fill STRs and SARs with the relevant information. One of the key questions for supervisors will be around the extent to which a human being needs to intervene in the AML process. This debate will grow over the coming years as the use of AI tools increases. AI has been used in AML for over five years, but now an increasing number of use cases are being developed. The question around the need for human involvement in the process will grow in importance over the next few years. Ultimately, the use of AI will only be able to make AML activity more efficient if there is proper control and good governance.

An industry representative commented that AI can be used offensively and defensively to fight bad actors who are trying to infiltrate the system. The proactive deployment of AI can enable firms to make substantial improvements to customer ID verification and onboarding processes. As AML risks evolve, AI can be used to suggest new recommendations for rules and procedures to respond to changing demands. Because the criminal element is very good at using AI and digital technology, the use of AI will need to be a critical component of the approach employed by policymakers, regulators and industry players.

An industry speaker noted that the use of AI can make AML models more efficient and automation can speed up the analysis process. Ideally, this should both reduce staff cost and drive efficiency. In this regard, the public authorities need to understand that the private sector's main objective is not to reduce cost but to drive efficiency. These cost benefits are secondary to the gains in effectiveness.

A regulator/supervisor considered that the use of AI can enable firms to increase their detection rates and reduce the number of false positives, which acts as a reduction in cost. For supervisors, AI tools can improve anomaly and threat detection across entities, ideally across sectors and jurisdictions. The implementation of the EU's AML package is a time of significant policy change and innovation in detecting financial crime through private-to-private as well as private-to-public collaboration.

An official agreed that AI can enable all financial institutions to analyse data more effectively. FIUs receive an extremely large and increasing amount of data from reporting entities. The banking sector started using AI tools several years ago, which has contributed

to the growing number of STRs. This huge amount of data means it is even more necessary to create good systems for data analysis. IT tools can automate the processing and analysis of incoming STRs and SARs, allowing analysts to focus on complex and high priority cases. By analysing the high volume of STRs with AI, FIUs can identify emerging trends and typologies, which can then be shared with the reporting entities. The use of digital platforms should streamline the process for providing feedback to reporting entities. The development of generative AI also offers some new possibilities for FIUs. Fewer technical IT staff will be needed, if natural language interfaces can be used to interact with AI tools. These interfaces can enable staff to prepare useful prompts without needing an extensive knowledge of programming languages.

3.3 Public-private cooperation on AI needs clear rules and political support

An industry speaker added that firms need vocal support from the public authorities and clear guidance from AMLA in their implementation of AI technologies for AML purposes.

4. Information sharing as game-changer: making PFISs work

4.1 PFISs will break down silos and enhance STR quality

An official reflected that the European banking scandals of the past were not only caused by regulatory fragmentation but a lack of data exchange between the relevant stakeholders. The proposed new Partnerships for Information Sharing (PFISs) could be a game changer. They will increase the quality of STRs and enable law enforcement and FIUs to fight money laundering and terrorist financing more effectively.

A regulator/supervisor emphasised that the common theme of the AML package is collaboration, which in this context means collaborative analytics. On the data side, PFISs should enable a much greater level of data exchange between stakeholders. It is important to start working on operationalising the PFIS model immediately. The benefits are clear, but it will take time to reap them. In this regard, AMLA is a fantastic opportunity to join up the overall framework. Once there is a pilot model for PFISs, it can be expanded to the European level and made to work for all EU stakeholders.

4.2 Legal clarity and privacy guardrails

A regulator/supervisor added that the challenges in the development of the PFIS model mostly relate to business needs and GDPR issues. Privacy is an important topic in most member states. At both the national and European levels, the public sector needs to provide clear privacy guardrails to ensure that firms understand what they are permitted to do.

A regulator agreed that there are challenges around GDPR, data privacy and data protection. Data protection

can be a difficult obstacle to overcome. It is often the case that a reporting entity cannot provide data that is needed for AML purposes because it is protected. It is important to remember that there is a social dimension to this issue. Europeans do not want to feel like they are under surveillance. It is important to communicate the message that citizens have nothing to fear if they are not breaking the law.

4.3 TMNL: a blueprint for EU wide transaction monitoring

A regulator highlighted the example of a successful AML system from the Netherlands. The Dutch FIU and

the five biggest Dutch banks have created Transaction Monitoring Netherlands (TMNL). This system is a joint cooperation which anonymously monitors transaction data from all the participating institutions. An individual bank cannot understand the full picture. With the participation of all five banks and the FIU collating the data, TMNL provides a much more complete picture of bank transactions in the Netherlands. This example could be instructive in thinking about how to overcome the remaining barriers to effective transaction monitoring in Europe.

Sustainability risks in the financial sector

1. Addressing physical and transitional risks: the imperative for holistic and forward-looking approaches

The Chair highlighted that the financial landscape faces significant physical risks associated with climate change which have materialised rapidly through extreme weather events. These occurrences lead to property damage, operational disruptions and considerable financial losses globally, thereby posing significant risks to the financial sector.

Recent assessments released by the Network for Greening the Financial System (NGFS) provide significant insights into these challenges. Critical milestones are assessed at 2050 and 2100, and projections suggest that if current policies persist, there could be a loss of approximately 15 percentage points of GDP by 2050. Conversely, adherence to the objectives of the Paris Agreement could limit losses to around 7.5 percentage points of GDP by 2050.

While sustainable investment is on the rise, this growth remains inadequate to sufficiently address the extensive challenges faced by the financial sector.

1.1 Strengthening environmental, social and governance (ESG) adoption

An industry representative remarked that the realities of rising temperatures and shifting weather patterns unequivocally present significant financial risks that extend beyond mere environmental concerns. Financial institutions recalibrate strategies to manage these risks effectively while seizing sustainable opportunities arising from the changes. This proactive engagement entails integrating ESG criteria comprehensively into operational frameworks.

Motivations behind this integration aim to mitigate risks while identifying sustainable lending opportunities essential for long-term growth within an evolving financial environment. Institutional commitment to ESG strategies seeks to confront pressing global climate challenges while accurately measuring associated climate risks. The financial sector has witnessed substantial progress in adopting ESG strategies in recent years. Increasingly, the sector embraces its responsibilities and recognises the importance of fully engaging with sustainability issues.

Institutions prioritise the identification of both physical and transitional risks within their operations. Institutions employ various tools, including carbon emission forecasting models and commitments to carbon neutrality, but it is quite a challenge. There is also strong pressure from the regulator to focus on all these risks and not so much on the impact.

1.2 Embedding sustainability risks into traditional credit risk frameworks

An industry representative emphasised that integrating sustainability risks into traditional risk assessments has become crucial. Banks increasingly recognise the necessity of factoring in ESG criteria within existing frameworks while evaluating credit risk. This was the common message from the 2021 BCBS paper on the climate-related risk drivers and their transmission channels and the 2025 NGFS paper on the conceptual framework for nature-related financial risks. A critical focus centres on how sustainability risks impact creditworthiness. Discussions arise surrounding the potential need for adjustments to borrowers' classifications within internal rating systems.

Evaluations predominantly rely both on historical quantitative data and qualitative assessments to take into account the information not included in the historical observations. The need for qualitative assessment seems to be underappreciated.

1.3 Enhancing insurance models to tackle both attritional and catastrophic climate losses

An industry representative remarked that the insurance industry faces an increasingly intricate landscape demanding advanced methodologies for effective risk assessment. Traditional models must adapt to meet the complexities of the rapidly evolving environmental context. Insurers need to consider both natural hazards and human-induced factors, exemplified by pressures from outdated urban drainage systems. Ongoing trends toward higher urban density raise overall vulnerability, significantly increasing asset loss potential.

Inflationary pressures have further complicated predictions, resulting in elevated repair costs that insurance organisations must contend with. It is recognised that historical data alone will not suffice for predicting future risks. Increased attention must also be directed towards attritional losses, which are frequently overlooked compared to extreme events. Insurers must acknowledge that smaller losses possess the potential to substantially impact the industry.

Generali is undertaking a multi-faceted approach to enhance risk management capabilities. Collaboration with leading academic institutions strengthens capacities for climate modelling. By leveraging advancements in satellite technology and AI, Generali is improving its data analytics capabilities. Evolving products reflect shifting risk landscapes, and dynamic pricing adjustments mirror the outcomes of ongoing risk assessments. Collaborative efforts among stakeholders pave the way for meaningful change in an evolving regulatory landscape.

2. Overcoming data and measurement challenges: towards reliable and actionable ESG information

2.1 Promoting standardisation and relevance through the Corporate Sustainability Reporting Directive (CSRD)

An industry representative highlighted Omnibus as the biggest policy issue, while CSRD represents a major advancement in streamlining ESG data. CSRD helps shift the burden of data gathering from financial services to corporates and ensures comparability and quantification for investors.

While the CSRD may have overreached, approximately 300 data points are truly relevant under CSRD, and just 20 are necessary under the taxonomy framework. Reducing the number of companies under the directive's scope could negatively affect SME access to funding and the broader availability of ESG data. Investors need access to this data across the board. A lighter, phased approach could delay assurance requirements, while maintaining a base level of reporting from SMEs.

2.2 Developing qualitative and forward-looking risk assessments amidst data gaps

An industry representative emphasised that evaluations predominantly rely on qualitative assessments as comprehensive data predicting the future may not always be readily available. Qualitative approaches become paramount in forward-looking risk analyses, particularly in evaluating borrower resilience against evolving conditions. Additional risk factors require consideration, particularly those linked to natural disasters, such as earthquakes and tsunamis especially in some jurisdictions. These risks may present more significant threats to certain borrowers compared to broader climate change risks and thus necessitates a thoughtful examination of various risk types and their anticipated future implications.

This moment presents an opportunity for all institutions to reconsider priorities, contextualise sustainability risks and implement essential qualitative adjustments necessary for effective risk management. Despite ongoing challenges, implementing a proactive and holistic approach will fortify existing risk frameworks against potential disruptions

A central bank official remarked that the Bank of Japan does not have enough information on how carbon pricing affects revenue, nor on how capex on greening investment affects financial soundness. However, by comparing the results provided by banks, and using a bottom-up approach, it can gain some sense of what is going on. The Bank of Japan actually provides this feedback to participating banks, and in providing the feedback there is an opportunity to improve scenario analysis and then improve the existing risk management framework, promoting collaboration between private and public sectors.

2.3 Leveraging technology and academic partnerships to advance climate modelling

An industry representative explained that Generali collaborates with leading academic institutions, such as the Massachusetts Institute of Technology (MIT) and the University of Trieste, to strengthen climate modelling capabilities. Advancements in satellite technology and AI are leveraged to improve data analytics capabilities.

Fostering awareness through targeted educational campaigns for small-and medium-sized enterprises forms a fundamental component of Generali's strategy. Such initiatives are vital for enhancing climate preparedness across the client base. Developing comprehensive frameworks ensures the effective management of claims, thereby solidifying organisational defences against changing market environments.

3. Regulatory frameworks and market practices: ensuring credibility, coherence and predictability

3.1 Strengthening supervisory practices through international cooperation

A supervisory representative outlined that the IAIS has maintained a strong focus on addressing sustainability risks, with a considerable emphasis on climate-related challenges. Approval of the IAIS' application paper on supervision of climate-related risks in the insurance sector reinforces the organisation's continued commitment.

Extensive collaborative efforts among supervisors across the globe culminated in a commitment to clarifying effective approaches to integrate sustainability risks into supervisory frameworks.

The IAIS prioritises climate risk management, given that this can impact both the asset and liability sides of insurer balance sheets. International cooperation through global supervisory bodies is crucial, while multi-stakeholder cooperation is essential to deliver meaningful progress on climate-related risk management.

3.2 Supporting predictable and incentive-based policy frameworks for effective transition management

An industry representative remarked that proper incentives, particularly internalising environment-related externalities through taxation, are key. Continuity and predictability of policy are crucial. There needs to be a realisation that the financial services sector is not going to lead that process, and instead it will follow and support the real economy in moving. The focus should be on moving the economy to where it should be. Financial institutions should see themselves as policy takers rather than policy makers. A risk-based rather than a climate-centric approach is preferable.

3.3 Balancing ESG ambitions with economic viability and strategic resilience

An industry representative outlined that ESG strategies must be realistic, economically viable and responsive to market dynamics. Mitigation is as important as adaptation or loss prevention. Generali builds ESG strategies, balancing decarbonisation goals with sound asset allocation.

Generali also builds an ESG strategy that tries to adapt to the market conditions, defining asset allocation to account for both return and decarbonisation targets and also avoiding a concentration of physical and transitional risks. The ESG agenda is inherently inflationary, requiring policy support to make green investments financially attractive. There are three areas requiring targeted policy support: scaling mature technologies, expanding newer technology and funding R&D. Punitive regulations are counterproductive; targeted policy support is necessary.

4. Enhancing public-private collaboration: building a common understanding of climate risks

4.1 Facilitating bottom-up scenario analyses to improve risk management and develop platforms to share insights and best practices

A central bank official remarked that the Bank of Japan is using a bottom-up scenario analysis approach, in contrast to the EU's top-down Fit for 55 model, to gather detailed feedback and data from banks. Intensive discussions with banks help shed light on important operational issues. International platforms like energy fairs are a good place to share insights.

4.2 Empowering joint efforts to bridge protection gaps and foster resilience

An industry representative outlined that services, like alert or adaptation, support through the value chain. Generali then has its monitoring of portfolios, accumulation, limits in the risk appetite framework, and increasing the penetration to better diversify the portfolio and transfer the loss. The ECB and the European Insurance and Occupational Pensions Authority (EIOPA) did well with the latest paper, which has two legs. The loss prevention part has a very good effect because it is reducing the expected loss, making it more affordable, but it is coupled with promoting local resilience. Without that, the problem will not be solved.

A supervisory representative highlighted that the IAIS emphasises the need for public disclosure of material risks. Market conduct risks, such as greenwashing, require vigilant supervisory frameworks. The IAIS work also considers "outward" risks from the insurance sector to the broader financial system that supervisors need to monitor – specifically, whether insurance protection gaps arising from the increased frequency and severity of natural catastrophe events could spill over to, for example, the banking sector by impacting credit risk of commercial and residential property loan portfolios.

Exchanges of Views

The impact of current fiscal and economic divergence across the EU on the monetary union and the euro **1691**

Fernando Navarrete Rojas - MEP, ECON Committee, European Parliament

Markus Ferber - MEP, ECON Committee, European Parliament

Rimantas Šadžius - Minister of Finance of the Republic of Lithuania

Jérôme Grivet - Deputy Chief Executive Officer, Crédit Agricole S.A.

Jacques de Larosière - Honorary President, Eurofi

Strategic autonomy and competitiveness of EU financial players **165**

John Berrigan - Director General, DG FISMA, European Commission

Riccardo Barbieri - Director General of the Treasury, Ministry of Economy and Finance, Italy

Harald Waiglein - Director General, Economic Policy and Financial Markets, Federal Ministry of Finance, Austria

Odile Renaud-Basso - President, European Bank for Reconstruction and Development (EBRD)

Jean Lemierre - Chairman, BNP Paribas

Francesco Vanni d'Archirafi - Chairman of the Board, Euroclear S.A.

Conversation with Corentine Poilvet-Clediere **169**

Corentine Poilvet-Clediere - Chief Executive Officer, LCH SA

David Wright - President, EUROFI

Conversation with Chris Betz **172**

Chris Betz - Chief Information Security Officer, Amazon Web Services

David Wright - President, EUROFI



The impact of current fiscal and economic divergence across the EU on the monetary union and the euro

Fernando Navarrete Rojas - MEP, ECON Committee, European Parliament

Markus Ferber - MEP, ECON Committee, European Parliament

Rimantas Šadžius - Minister of Finance of the Republic of Lithuania

J r me Grivet - Deputy Chief Executive Officer, Cr dit Agricole S.A.

Jacques de Laros iere - Honorary President, Eurofi

Fernando Navarrete Rojas (Chair)

Fernando Navarrete Rojas welcomed attendees and introduced the panellists. The current situation facing the EU is unprecedented. The EU has been operating for nearly a decade without binding fiscal rules, which is a situation deemed entirely new and concerning. For some, fiscal rules may be seen as hindrances to achieving legitimate policy objectives, while others viewed them as integral to ensuring a stable and well-functioning monetary union. Fiscal rules as political constraints help maintain fiscal stability before market discipline is exercised, which can occur abruptly and harshly when it does. This has been seen with former UK Prime Minister Liz Truss and President Donald Trump, which suggests that the eurozone is similarly susceptible to immediate market reactions if fiscal governance falls short. Recent sacrifices made for speed in fiscal decision-making have potentially destabilised the economic vessel.

Fernando Navarrete Rojas asked panellists to share their insights on the possible consequences of economic divergences among key EU countries relating to public debt.

Markus Ferber

Markus Ferber stated that it is difficult to answer the question succinctly; there can be a very negative impact if everything goes wrong, and it can be not as

crucial if everything goes well. There is an importance of proactive fiscal governance, which is linked to the saying, 'You should fix the roof while the sun is shining,' which emphasises fixing problems while conditions are favourable. However, during recent economically favourable years, necessary repairs to fiscal frameworks have been neglected, leaving the eurozone ill-prepared for current pressures. Eurofi is taking place in Poland, which borders Ukraine, meaning it is very close to a potential threat in the form of Russia.

However, the rules at the end of the last legislative period have been improved. The Commission has gained significant tools to negotiate with member states about establishing mid-term paths to reduce debt levels. The hope is that these tools will be applied judiciously, particularly under the stormy conditions the eurozone is facing. There is concern regarding the lack of fiscal space available to address emerging challenges, particularly those surrounding increased defence spending.

Markus Ferber concluded by noting his role as rapporteur on the significant legislative file, and acknowledging the ongoing discussions about the national escape clause and its implications on fiscal governance.

J r me Grivet

J r me Grivet highlighted that structural divergence should normally not occur in a monetary union. There

could be some temporary divergence if a specific situation arises in a specific country, but from a structural point of view it is important for eurozone members to be much more aligned in terms of fiscal trajectory. The initial objective of the eurozone was to encourage convergence among participating countries, even those with historically lax fiscal discipline. However, there is regret that actual fiscal divergences have been exacerbated by the existence of the euro; as a result of the eurozone and the fact that France belongs to the eurozone, France has been able to have more fiscal divergence than would have been the case if it had kept the franc, which can be viewed as a problem.

From the perspective of a bank, the situation France currently faces is concerning, but it is not an area of immediate danger. French banks are very well managed, and hold sovereign bonds from the eurozone and France. They are very robust from a solvency point of view and a liquidity point of view. However, persistent fiscal imbalances could lead to adverse effects on the French economy. Emphasis needs to be placed on the importance of pursuing clear-cut reforms to align budgetary and economic trajectories. While this will take time, achieving a more sustainable fiscal framework will ultimately benefit both fiscal governance and economic health.

Jacques de Larosière

Jacques de Larosière expressed agreement with the previous speakers, stressing that continuing with mounting governmental debt, particularly seen in countries like France, is unsustainable. Unaddressed fiscal challenges could culminate in a financial crisis. The OECD's 2025 report on global debt highlights that much of the accumulated governmental debt has financed current expenditures, rather than generating future returns. Ongoing deficits characterised by military expenditure could exacerbate the situation, as such expenses typically do not yield returns for the economy.

An argument can be made for reinstating the fiscal standards set forth in the Maastricht Treaty, namely the 3% deficit and 60% public debt to GDP limits, as those are rational measures essential for ensuring a credible monetary union. If the EU continues down the path of ignoring these principles and exempting military expenditures from fiscal calculations, then it risks creating an enormous debt burden that offers no returns, which could threaten the fundamental viability of the EU's economic framework. The validity of the economic and monetary union is now at stake, and the threat is extremely grave.

Rimantas Šadžius

Rimantas Šadžius noted that, despite differing political affiliations, it is important to preserve the economic and monetary union (EMU)'s integrity. Lithuania has been in the eurozone for 10 years, but excessive divergence among member states had been a concern even prior to accession. Significant challenges have been faced by Lithuania during the financial crisis, where the eurozone's common bond markets initially seemed to operate uniformly across member states.

In 2008, Lithuania had a very small public debt, of around 15% to 16% of GDP. When the financial crisis hit, all eurozone countries were seen by the markets equally in terms of risk. Every country in the eurozone borrowed almost at the same rate, which was reasonably low. It increased due to the financial crisis. Lithuanian borrowing cost reached 23% in 2009, because there was no other choice. It was clear that fewer problems would have been seen inside the eurozone.

The situation has changed later as excessive differences remain in public debts, deficits and interest rates. The crisis revealed that market perceptions varied significantly by country. The internal structure of the eurozone, EMU has changed, as well as the market assessment of the validity of the EMU.

It is a fact that, despite high public debts and increasing public debts overall and on average, in the long term it is possible for sovereign debts to be financed at quite reasonable low yields. It is likely that the prolonged period of negative and zero interest rates had an influence, but it is also due to the instruments that have been established, such as the European Stability Mechanism, the Banking Union, the Single Supervisory Mechanism (SSM), and the Single Resolution Mechanism. The one outlier is deposit insurance, which has remained at the same stage for 12 years.

Rimantas Šadžius concluded by highlighting that questions remain about the current relevance of the Maastricht criteria, given market dynamics that seem to tolerate higher levels of debt than envisaged. However, the points made by Jacques de Larosière are correct: there should not be an exemption for military expenditure from fiscal accountability. There also needs to be a focus on debt sustainability within national budgets.

Fernando Navarrete Rojas

Fernando Navarrete Rojas asked panellists to provide their views on what the long-term solutions would be to finance structurally higher defence-related public

expenditure. A separate question is whether the current fiscal framework is fit for purpose, and whether there is a case for more European joint action and joint financing in the area of defence.

Jacques de Larosière

Jacques de Larosière noted that the situation could be manageable in the short term, as the markets are still amenable and eager to finance the deficits which are growing in the eurozone. However, the job of politicians and parliaments is to look at the longer horizon. When looking at the longer horizon, a point will be reached when the markets will react if the bad habits that have been exacerbated in recent past years continue to be maintained. A failure to monitor long-term fiscal sustainability constitutes negligence and could provoke an unavoidable market reaction.

The markets are fragile, especially in the current political context of the United States. The Fed has reduced its quantitative tightening because it is afraid of a lack of liquidity in the government bonds market. It has reduced the pinching of liquidity in the market because it is conscious and concerned about a transition between possessing these titles in the central bank and shifting them to the private sector. If they are moved to the private sector, which is tightening, the private sector needs to be willing to buy them. If the private sector is less willing to buy them then a liquidity trap could be entered into, leading to interest rates that can become uncontrolled.

A monetary union can only be stable if there is a common will to participate in disciplinary action, but there is currently no disciplinary action at all. The union cannot last if there is no modicum of collaboration.

Markus Ferber

Markus Ferber stated that defence spending referred to expenditures that are consumed, not expenditures that are invested in. When governments buy things like tanks, fighters, jets, artillery and ammunition, it does little to lift the potential growth of an economy. That is why debt financing is not the best option at a national level or an international level. However, there are still some possibilities where European cooperation can create a benefit for member states in reducing costs, because they are not being scaled up. Every member state has its own weapons systems, which makes it very expensive for the taxpayer, the state and the public budget. Those possibilities should be used more. If there is a better way to do things inside the EU than external countries such as Canada, the UK and South Korea should be invited into a coalition of the willing.

On the other hand, four years is close. The first time Germany tried to use the rules, they were misused, which was discussed with the responsible Commissioner. When the Covid pandemic hit, countries started with the general escape clause, not the national escape clause, as it was a threat to all of Europe. The general escape clause was activated, and the €100 billion Support to mitigate Unemployment Risks in an Emergency (SURE) programme was subsequently created. The EU also had the Recovery and Resilience Facility (RRF), but, five years on, the question remains as to what additional growth has been seen from that.

The RRF was also linked with investments and demands of member states to deliver. There is room for improvement, which is why there is a significant concern that the same thing is happening again. Debts are debts, whether they are on a European level or a national level. Consumptive expenditures should not be financed by debts in general.

Jérôme Grivet

Jérôme Grivet highlighted that there are two ways of looking at the issue of how to finance additional defence spending. The first is a way that has garnered significant public debate in France, which is how to finance the providers such as the weapons companies. The most important issue is how to finance the public spending that should be engaged in passing purchase orders to the weapon companies. Adding up new deficits is not a good idea, even if it is provided by an escape mechanism. Europe already has a debt level that is too high, as well as interest charges that are too high.

It is possible to raise additional taxes but doing that in France will definitely jeopardise the growth and the economy. Choices amongst public priorities must be made. It is obvious that one of the very important choices France has to make is to engage into real pension reforms, because working longer and putting some money in pension funds would definitely be good for the budget as well as for the economy. That will be the most relevant way of trying to find the margin of manoeuvre to finance additional expenditure for Europe's common defence. As long as weapons companies have purchase orders well budgeted by their only client, there will be no difficulty for banks and investors to provide them with the additional capital and loans they may need.

Rimantas Šadžius

Rimantas Šadžius agreed that some negative aspects can be corrected. Military spending is mostly consumptive, but it is unlikely that that can be changed.

One problem is that there is no true market for these issues. There is no true market for ammunition, howitzers or tanks. Collective spending and collective purchases is probably the only way that can currently be done to try to push down the prices. Some issues should be bought collectively, such as air defence systems, as it makes no sense for different countries to have different systems.

A crucial, excessive divergence is the level of defence expenditure in the budgets of different countries. Historically defence spending has been measured as a percentage of GDP. But when talking about expenditure in nominal terms we see much greater divergences. For example, 0.1% of GDP of Germany is equal to 5% of GDP of Lithuania. Lithuania has no other choice, but to allocate such financing for defence, because it is on the front line.

We need a collective response and collaborative action. To finance needs like a collective air defence system we need an additional EU-level instruments or EU level fiscal capacity, mobilising resources in proportionate way, as it is done with the European budget, or a European Stability Mechanism (ESM). Different options

are available, and it is up to the member states to determine what the best solution is.

Rimantas Šadžius concluded by noting that there are five or six papers on how to create an additional financing mechanism or armament bank in Europe with the participation of different countries, including third countries like the UK, Norway, as well as the US. There are different options, but to keep the smallest EU member states, who border Russia, safe, we need some kind of the EU-level fiscal capacity that has been previously mentioned.

Fernando Navarrete Rojas (Chair)

Fernando Navarrete Rojas acknowledged that discussions around defence entail significant realities that must be confronted. He appreciated the insights provided by the panellists, and emphasised the critical nature of the topics addressed, encouraging further dialogue on valid fiscal strategies to ensure the stability of the monetary union in light of current challenges.



Strategic autonomy and competitiveness of EU financial players

John Berrigan - Director General, DG FISMA, European Commission

Riccardo Barbieri - Director General of the Treasury, Ministry of Economy and Finance, Italy

Harald Waiglein - Director General, Economic Policy and Financial Markets, Federal Ministry of Finance, Austria

Odile Renaud-Basso - President, European Bank for Reconstruction and Development (EBRD)

Jean Lemierre - Chairman, BNP Paribas

Francesco Vanni d'Archirafi - Chairman of the Board, Euroclear S.A.

John Berrigan (Chair)

John Berrigan introduced the topic of the panel discussion, strategic autonomy. One could argue that strategic autonomy can only be defined in its absence, much like financial stability. The focus of the panel was on whether the EU should consider the banking and financial sector as strategic and whether policy action, including but not limited to regulatory policy, is needed.

Jean Lemierre

Jean Lemierre explained that the financial sector is indeed strategic. Activities are financed by savings, which are closely linked to growth, through private sector activities and the needs of governments, such as energy transition, technology and defence. The question should not be whether the financial sector itself is strategic, but whether the financial sector is doing the necessary work in line with countries strategy. Banks finance 75% of the economy in Europe where there is a lot of savings. More could be done.

The question is how to unlock this Europe's potential. It could be achieved by opening channels through securitisation, private credit, listed equity and private equity. An economy is well financed through different competing channels that are safe and well regulated. This is how the American economy is financed. To deliver this, European players are needed. The improvement and consolidation of large institutions over the last 20 years is to be welcomed. A level playing field is crucial for global markets. Strategic autonomy is based on diversity and competitiveness.

Francesco Vanni d'Archirafi

Francesco Vanni d'Archirafi said that the financial sector is strategic and this is understandable when you read about the immense financial needs of Europe today. A strong banking system and stronger capital markets are fundamental to financing projects that are important for Europe, such as the green transition, the digital transition, energy independence and defence. Second, having European champions with global ambitions, or global champions anchored in the financial sector in Europe, is crucial to strengthen Europe's strategic autonomy, economic resilience and competitiveness, as a strong financial sector at home is key to strength on the global stage.

The financial market infrastructure in Europe today contributes significantly to Europe's competitiveness and strategic autonomy. Europe is home to two leading international central securities depositories (ICSDs), Euroclear and Clearstream, which mediate global debt markets. Together they hold 84% of all securities in all CSDs in Europe. Euroclear is not only the largest CSD in the EU, but also the largest and most active CSD in the world in terms of the value of transactions processed, as noted by the Bundesbank in a recent report. The settlement volume of Euroclear's ICSD was 750 trillion euros in 2023 and if we take the Euroclear Group, settlement volumes reached €1.1 quadrillion last year. This is equivalent to annual European GDP settled every six days or global GDP settled every month.

ICSDs are used as gateways for global investors to access global capital markets. A Chinese investor who

wants to buy a bond in Latin America is likely to use either Euroclear or Clearstream. Among others, three key benefits that CSDs bring to the European cause are support for cross-border transactions, support for the international role of the euro and strong network effects.

John Berrigan

John Berrigan summed up by saying that the sector is clearly strategic, and perhaps even more so now in the context of a less certain global financial order. While neither speaker had taken the opportunity to explain what the public policy action could help to manage the situation, they had agreed that the financial sector looks a little more strategic now than it did even a week ago. John Berrigan asked Harald Waiglein how to deal with the issue of strategic autonomy.

Harald Waiglein

Harald Waiglein noted that while there is agreement on the strategic nature of the financial sector, the question of whether it deserves special protection is not an easy one. In order to have a successful Capital Markets Union (CMU) in Europe, it should be well integrated into the global financial system, because autonomy cannot extend to isolating European capital markets from other major capital markets. Recent events have shown that the only thing that has changed is that it cannot be assumed that other actors are always rational. There may be bad faith or irrational behaviour, and this has to be taken into account when managing the risk of certain dependencies on other actors.

Austria was the first country to sign a contract with Gazprom in the 1960s, and for 50 years this was seen as a very secure source of cheap energy. It was thought that dependence was a two-way street. Austria got the gas, but for Russia it was 10% of its GDP. Russia would not risk that lightly, and that calculation was correct as long as there were rational actors around the table. But when someone uses something as a weapon for a motive that is not economically rational, that calculation changes. This should be taken into account when managing the risk of dependence on third countries. Dependence should only go so far, and there should always be alternatives to fall back on.

John Berrigan

John Berrigan agreed that strategic autonomy is not about self-reliance, but about having options and choosing to make decisions rather than having to make them. Strategic autonomy is about continuing to engage with the rest of the world but on safe and sound terms, rather than disengaging.

Riccardo Barbieri

Riccardo Barbieri commented that it is important to think about strategic autonomy, but the current situation is one of risks and opportunities. The change in the US stance is a bigger shock than Brexit, but there are some similarities in that a political process can have major economic and financial implications. Brexit was not only a risk, but also a financial opportunity. Europe was able to benefit from that opportunity only partially. London is still the preeminent financial centre in our time zone.

The importance of the financial sector should be recognised. It channels resources to the non-financial sector, but it is also an important activity in its own right. It can be a major source of employment. For many years, the centre of European finance has been in London, not in the capitals of continental Europe. We need to look at what can encourage greater activity on the continent.

What characterises major financial institutions is franchise, people, motivation and constant innovation and creativity. This is not something that is easily created. Over the years, some European investment banks have had a measure of success. But others have declined or failed. The ingredients of success are not easy to replicate. Europe now has a potential opportunity in the face of the 'trade war,' which could be something worse and more ominous.

The CMU has been discussed for a long time. There is a broader issue of how labour markets work, how people are motivated, how they are rewarded and the culture of risk-taking. It is unclear whether all this can be done through regulation. It is important to note that sometimes simplifying something can make it more complicated. The CMU is now called the Savings and Investment Union (SIU).

Efforts must be made to find a better combination between competitiveness and the social model and inclusion policies, which are important and should continue to characterise European countries, economies and societies.

At the same time, Europe needs to change more fundamentally if it is to compete globally. All countries want the International Monetary Fund (IMF) to continue to do its job, with its current approach and the broader mandate it has been given in recent years. The US is watching and may take a position over time, but at the moment it is in a holding pattern because many people have not yet been appointed. There is a sense that the world is looking for leadership and that is where the potential is today.

John Berrigan

John Berrigan agreed that Europe should not simply judge its financial sector performance against the performance of the United States, but the financial sector in Europe can do better relative to its own potential. Odile Renaud-Basso was asked for her views.

Odile Renaud-Basso

Odile Renaud-Basso highlighted an example where some countries in the EU that were close to the war in Ukraine are now struggling to access funding. There is still an impact on access to finance because the US saw the whole area as a war zone without looking at the nuances and pulled out. You can see this in private equity and other markets, and it gives a sense of what strategic autonomy means and the consequences of an external shock because of the dependence on external elements.

Financial innovation is very important in the strategic dimension. There is a huge innovation gap in Europe. Europe struggles to scale up and bring its strength in new technologies in line with its overall economic weight. This is partly due to cultural factors as well as funding challenges and is a key strategic dimension.

It is important to consider whether strategic autonomy is discussed at the European level or at the national level. Countries often see capital markets, capital infrastructure and the banking sector as strategic at the national level. There is a great deal of tension between progress on strategic autonomy at the European level and progress at the national level.

Fragmentation is one of the barriers. Europe is global, but there is still some fragmentation and political reality. It is important for countries to have their own stock exchange, their own CSD, their own infrastructure, but it is important to think about financial strategic autonomy at the European level. There needs to be progress on EU integration. There are many things that can be done in terms of cooperation between countries, such as improving liquidity, improving market access to reach a critical mass of companies, IPOs and market activity. Cooperation at the regional level within the EU makes a lot of sense.

The EBRD has worked extensively with the Baltic countries to come together and develop a common regime for covered bonds and market activity, which has been very successful in increasing liquidity and visibility in the region. The EBRD is currently in discussions with the stock exchanges of seven countries and the market infrastructure to establish some kind of link, cooperation, common instruments and common tools.

This is a step towards better integration at the EU level.

John Berrigan

John Berrigan observed that the world is moving towards a system of competing regional blocs. There is no single member state in the EU or country in Europe that can be strategically autonomous in such a context. There are two steps. The first is to convince member states that capital markets are good, and the second is to convince member states that a common capital market is much better.

Jean Lemierre

Jean Lemierre said that the notion of strategic autonomy has substance. During Covid, the European constituency was given full priority by European banks. Financial institutions have a role to play for the people of Europe.

Competition is key. This is not a debate about protectionism. But we need a level playing field. Supervisors and regulators in the EU Commission have to take this into account. This is difficult today because there is a part of the world where deregulation has become the goal. It is the Commission's job to fine-tune what needs to be done, otherwise Europe may lose ground. There should be a fair, honest dialogue on these very difficult issues, because while Europe wants to be safe, it must be able to compete.

There should be efficiency in mobilising Europe's long-term savings. Some of it has to be better used for Europe, especially in equity and lending to long term projects in an efficient way. It is unfortunate when European start-ups ask to move to New York to raise money because Europe does not offer them the equity they need to grow. When this happens, the substance and talent of Europe are transferred

Francesco Vanni d'Archirafi

Francesco Vanni d'Archirafi noted that there is a consensus that Europe needs to move forward urgently, but there is no "magic bullet". It will take time and cannot be solved in a few weeks. It is important to understand that the two European ICSDs are not a problem but rather huge European assets that should be preserved and leveraged as they will enable some of the things mentioned in this panel

Jean Lemierre

Jean Lemierre stressed that all the comments made during the discussion were not against anyone, but for

Europe. A capital market should be created for Europe, not against anyone.

Riccardo Barbieri

Riccardo Barbieri said that the debate about the SIU should not be detached from funding needs and investment opportunities. Europe has very large financing needs for sustainable-mobility infrastructure and for the environmental transition. For the success of the SIU initiative, it is important to set up working groups on issues on which there is greater scope to find a solution.

Harald Waiglein

Harald Waiglein asked whether strategic autonomy was also a question of not being too dependent on debt financing in the sovereign and corporate sectors.

John Berrigan

John Berrigan commented that this question could be saved for a future panel.

Odile Renaud-Basso

Odile Renaud-Basso said that one of the challenges is to make progress. There needs to be a clear political goal. CMU was very difficult. When you have a goal, it is

easy to understand that what needs to be done is more difficult and there should be a political impetus. Recent developments in the US could provide that impetus.

John Berrigan

John Berrigan summed up by saying that the financial sector is obviously strategic, but the question is how to make it autonomous. Autonomy does not mean self-reliance, means continued engagement with the rest of the world. Europe wants to build its own financial sector but is not against international competition. . Finding the balance between resilience, security and openness is difficult.

The financial sector is not the only one where this has to be discussed. There is sometimes a sense in this debate that as long as the financial sector is stable, everything else will be fine, but that is not the case. Financial stability is a necessary but not a sufficient condition for sustainable growth. The sector is very important, but its importance should not be exaggerated.



Conversation with Corentine Poilvet-Clediere

Corentine Poilvet-Clediere - Chief Executive Officer, LCH SA

David Wright - President, EUROFI

David Wright

Thank you very much, Didier. It is a real pleasure to welcome Corentine here today. The last time we met, I referred to Hotel California, saying that once you enter this world, you never leave. As Didier mentioned, you are the CEO of LCH SA and Head of the LSE Group in France. I also know from your background that you have studied and worked in the United States, in London, and of course across Europe. You bring with you extensive experience in capital markets — indeed, in many of the world's major financial centres.

When considering Europe's competitiveness, what would you say are the key priorities that come to mind from your perspective?

Corentine Poilvet-Clediere

Good afternoon, everyone, and thank you, David, for the question.

I will take a very practical, private-sector perspective, which is likely the colour we want to introduce here. When I think about competitiveness, I consider the EU's attractiveness — both for domestic capital and for investment from outside the Union. Attractiveness matters because it protects us and enables us to finance ourselves.

Why do we need to do this? Because sovereignty cannot exist without proper financial underpinning. Grand political ambitions without adequate funding are hollow. And I would even argue, there is no room for pessimistic leadership if we wish to succeed.

If Europe is serious about fulfilling its ambitions in education, healthcare, climate, and infrastructure, it

must accept that none of these goals come cheap. We need to align our economic frameworks with our political ambitions within the next two to three years. I will repeat this: build the economics to match our politics. This alignment will not occur by chance.

How do we channel the necessary capital? And why must we do it? As you know, David, I am very outcome-oriented. We are attempting to sustain a value system — and unless we finance it properly, it simply may not survive. That is the level of urgency we are facing.

Commissioner Albuquerque quite rightly mentioned the existing capital within the Union — citizens' savings, which amount to around 15%. We need to ensure that it is attractive and meaningful for individuals to direct their savings into European companies and projects. This must be a combination of profitable investments, potentially linked to pension and retirement schemes, and appropriate incentives. Financial literacy is also key here. Again, we must align the economics with our politics.

My main concern, especially from the perspective of running international businesses, is how to attract non-European capital — and that depends on scale. Foreign investors are drawn to scale. They recognise that the EU, as a single market, represents 22% of global GDP, compared to 25% for the United States — not vastly different. Yet in practice, investors do not experience that scale in Europe, and we all know the reasons for that, as you have discussed at length.

So, we must deliver scale. For me, the key focus should be eliminating cross-border barriers and implementing a consistent, sector-specific playbook. In some cases, this may require a single supervisor; in others, perhaps not. But if it takes five years to establish one, we have

missed the point. What we need is a single, unified framework per sector to enable genuine competition. We also need to allow for European-level debt issuance for strategic sectors such as energy and defence — and to enable some degree of market consolidation.

This is not easy, but we must operate at the appropriate scale. Mergers and acquisitions should be allowed. That, in essence, is how I see the path forward.

David Wright

You are very close to market developments and to the sentiment among financial players. Are you seeing a positive shift in Europe in this regard? Do you think the priorities outlined by the Commissioner for the Savings and Investment Union are the correct ones? Is anything missing? Are you feeling optimistic at this critical geopolitical juncture?

Corentine Poilvet-Clediere

There is momentum. I will say something slightly controversial: no one disagrees with simplification or with the need for competitiveness. My humble experience, as someone in the private sector who is tasked with getting things done, is that you need key performance indicators.

We all agree on the direction — and it is clearly visible. The title "Savings and Investment Union" alone expresses the intention: to mobilise savings and convert them into productive investment. I welcome that. But in practice, we may still be relying on traditional, legacy processes that, while individually sound, are collectively too slow.

What I would suggest is a shift in approach — just as I would do in my own organisation. What does success look like in one year? Where do we want to be in one, two, or three years? Likely no further than that, because as you rightly said, David, the world is changing rapidly, and even three years feels long.

Let me offer a few KPIs: global market share of key sectors for European firms; the number of start-ups that successfully scale up; and the level of direct foreign investment into the Union.

Why do I emphasise this? Because I worry that we may inadvertently place all responsibility on the European Commission. While I truly appreciate what the Commissioner has said, the Commission has a defined toolkit — it is rule-based, and it is not sufficient alone. Broader engagement, particularly from the private sector, is vital to make the Savings and Investment Union a reality.

From experience, I have never accomplished anything substantial without first defining a short-term plan, establishing clear objectives, and linking them to measurable KPIs. You then monitor these quarterly or monthly — however frequently makes sense — and benchmark progress with stakeholders. That sort of rigour is essential. I do not yet see that aspect fully present — not necessarily because it is the Commission's job, but because we, as a community, need to build it. Otherwise, it remains a matter of wishful thinking.

David Wright

That is music to my ears, Corentine. I believe that having a robust system for measuring progress, clear timelines, and a defined final objective is the right approach. Jacques Delors always spoke of 1992 — nothing else — and that date became embedded in everyone's mind as the moment when the job had to be completed. Personally, I appreciate your emphasis on a rigorous delivery process. Let us turn to infrastructure.

Many believe Europe has too many fragmented systems and infrastructure. Do you think market consolidation is necessary? How important is it to foster a European dimension to financial infrastructure?

Corentine Poilvet-Clediere

It is certainly one of the hot topics of the moment. I will return to my usual approach — focusing on outcomes. What are we trying to achieve with consolidation?

Ideally, we want to provide high-quality services at a scale that makes sense for both pan-European and international players who wish to operate within the Union. That should be our shared objective.

To deliver higher quality service, we need competition — which means firms must face one another on equal terms. That can only happen if they operate under the same playbook. Without this, they are not genuinely competing; they are playing in parallel arenas.

Does this imply the need for a single supervisor? Not necessarily. That is not the goal. The real goal is to establish a truly level playing field that fosters competitive tension, which in turn improves service quality.

Not every firm needs to be pan-European or global. But we need enough of them to generate competition. Is there an ideal number of players? Not really. However, I can say this: having only one provider is never ideal for clients, while having twelve equity market providers clearly dilutes the competitive dynamic. Whether the

number is four, five, or six, the point is to foster the right conditions for productive friction.

As quality rises, Financial Market Infrastructures (FMIs) will recognise the need to become larger and more diversified across asset classes. That is where resilience comes from.

Recent market events prove the point. If you operate purely in equities and are overly concentrated in one sector, you will experience a turbulent ride. But if your FMI spans equities, commodities, derivatives, fixed income, and more, you are far more stable.

Larger, more diversified FMIs are more resilient and can channel greater volumes of both European and international capital into key projects.

Another issue is our historical development of national silos, driven by local exchanges and clearing houses. This creates opacity: it is often unclear whether an FMI is profitable in its own right, as it is tied to the larger exchange group. That becomes a problem when you seek M&A opportunities, because you need to know whether you are acquiring a viable business.

Ironically, this siloed structure could be one of the greatest obstacles to market-driven consolidation.

David Wright

So, in summary, we must create a level playing field and a market environment that allows competitive forces to thrive. That competition, along with clustering effects, will enhance efficiency.

Turning to new technologies — the LSE is clearly exploring innovations in trading, clearing, and settlement, including AI and cloud computing. Which of these technologies do you see as the most promising for the Group?

Corentine Poilvet-Clediere

Interestingly, these technologies are converging. Our merger with Refinitiv six years ago was driven by the belief that the financial markets of the future would be fundamentally underpinned by broad, deep, accessible, and reliable data. Financial markets, by nature, also generate high-value data.

So, we decided to combine those worlds — and as a result, we now possess an incredibly rich and broad dataset. The challenge is how to harness it: how to filter, interrogate, and make it meaningful.

This is where artificial intelligence comes in. Across the Group, we have numerous use cases. But the most tangible value so far has emerged in data discovery — AI helping us surface what matters from a vast ocean of information.

What I find most encouraging — and I say this as a natural sceptic — is that the quality of AI's output improves in proportion to the sophistication of the questions asked.

This is cause for optimism. AI does not replace human thought; rather, it rewards better, more precise thinking. It is like driving a high-performance car: the better the driver, the better the performance.

When used purposefully, AI has immense potential — and that aligns with the risk culture we must develop.

AI is here to stay. We must embrace it wisely — not naively. Build your use cases, learn to control the technology, and integrate it into your value chain. For instance, we have established responsible AI standards, including auditable data from multiple sources, to uphold the ethical standards we wish to see.

Avoiding AI is avoiding reality.

And speaking of AI, we must also discuss cloud infrastructure. There is no AI without cloud. Unfortunately, this is where the EU faces a challenge. While we are keeping pace with AI, we are arguably lagging behind in cloud infrastructure.

This is partly due to divergent sovereignty requirements among Member States, which prevents the creation of a unified market. Without such a market, service providers lack strong business incentives to invest.

As a result, many parts of our industry are already behind in cloud adoption — which risks making us obsolete.

We must confront this head-on.

David Wright

Corentine, it has been a pleasure having you here. I am glad I mentioned Hotel California, as our next meeting will be in Copenhagen — please book your ticket! Thank you once again for your thoughtful remarks, and also to the LSE Group for your continued support of Eurofi. We greatly appreciate it.

Corentine Poilvet-Clediere

Thank you, David. It was a pleasure.



Conversation with Chris Betz

Chris Betz - Chief Information Security Officer, Amazon Web Services

David Wright - President, EUROFI

David Wright

A very warm welcome to Chris Betz, Chief Information Security Officer at AWS. Chris, we are deeply grateful for your generous support of Eurofi. Today, we will touch on the current geopolitical context, explore how AWS supports its clients, and discuss key themes around cyber resilience, particularly the early impact of the Digital Operational Resilience Act (DORA).

Chris, your recent figures for Q4 were strikingly strong. Given the current geopolitical climate, how are you approaching your business in Europe today?

Chris Betz

That's the key question, David, and thank you for the kind invitation. It is a pleasure to be here. I have really enjoyed engaging in a series of open and insightful discussions over the past few days, meeting both familiar and new faces here at Eurofi.

From Amazon's perspective, our commitment to Europe runs deep. We have invested over €180 billion in the region and currently employ more than 200,000 people across Europe. So yes, our roots here are significant.

AWS operates eight regions across over twenty European countries, and the local talent is exceptional. One of the things I appreciate most at AWS is our truly global approach—not just in service delivery, but also in technology development. Europe plays a major role here, particularly in cybersecurity and engineering.

For instance, Amazon Linux—our core operating system used by many customers—is developed here in Europe. I'm in daily contact with senior leaders based across

the continent. So, as we navigate what I would call market turbulence, I remain deeply committed to our European presence. Our future investments amount to tens of billions of euros, encompassing new facilities, data centres, and talent hubs. I am genuinely optimistic about Europe's future and determined to remain a strong, reliable partner for European businesses and governments during these uncertain times.

David Wright

That is very encouraging, Chris—good news for Europe indeed. Could you tell us more about how AWS is helping its vast customer base innovate and optimise their operations? I am thinking particularly about cloud computing, artificial intelligence, generative AI, and advanced security tools. What's the bigger picture?

Chris Betz

I used to think technology was advancing quickly when I was younger—but every day, it seems to accelerate even more. The critical element for us is enabling people to harness new technologies—not just to use them, but to trust them.

Having worked in banking as a head of security, I know that trust is at the heart of financial services. You must not only be trustworthy, you must earn trust. As we push innovation forward, it is essential to embed that trust into every layer of our systems.

That is where cloud technology shines. It offers a secure, reliable, and trusted foundation for innovation. Take our AWS Marketplace, for example. We strongly believe in offering choice. Through this platform, tens of thousands of companies can provide their services

directly to customers via AWS. These services are easy to adopt, can run on-premises, and often come from well-known European brands.

There are more than 7,900 EU-based solutions available in our marketplace alone. This ability to connect global customers with tailored, local solutions is a powerful enabler of innovation.

David Wright

Let us talk about cyber resilience. From a global perspective, what can Europe learn from best practices elsewhere? Are we on the right path?

Chris Betz

Cyber resilience cannot be tackled in isolation. It is a global issue—threats are international and so must be the response. We need cooperation between tech providers, regulators, and financial institutions to ensure secure financial services.

I find the direction of DORA very encouraging. It aims to create consistency across Europe, which is essential for competitiveness, speed to market, and innovation. But for DORA to truly succeed, regulators and supervisors must be equipped with the right tools to adapt and respond.

Globally, I admire regulatory frameworks that are simplified and process focused. With today's pace of technological change—and the evolving nature of cyber threats—static, point-in-time checks are insufficient. Institutions must be able to identify, prioritise, and respond to risks in real time. That agility will be the key differentiator between those that succeed and those that fall behind.

David Wright

Could you name a few countries that are leading the way here? Where should Europe be looking for inspiration?

Chris Betz

No single country has it all figured out. However, I see great innovation coming from Singapore and MAS. DORA holds immense promise too, and Europe has the advantage of drawing on the strengths of its 27 member states.

The US also offers valuable lessons. My advice to the EU would be to continue scanning the globe, identifying the best ideas, and integrating them into European

frameworks. There's so much to gain from a global perspective.

David Wright

You have mentioned DORA—what early lessons should we draw from it, both in terms of compliance and supervision? Is it progressing as hoped?

Chris Betz

We are still at an early stage. My team and I are engaging with hundreds of financial institutions across Europe. Many are still exploring how to implement DORA without disrupting their operations.

My biggest takeaway so far is that compliance alone will not be enough. Threats are evolving too quickly. We need compliance to be a living, breathing process.

The institutions that are building such dynamic frameworks are adapting faster to DORA and are already preparing for emerging threats not yet covered by the regulation. They will be better positioned in the long term.

David Wright

AWS operates in a highly competitive market in Europe. Do you expect it to become even more so?

Chris Betz

Absolutely—and that is a good thing. Competition starts with listening closely to our customers, understanding their specific challenges and strengths, and helping them succeed.

Take generative AI as an example. Our Bedrock platform hosts several generative AI models because we believe in offering choice. Two of the nine models currently on Bedrock originate in Europe. We are proud to support them and help bring their innovation to customers around the globe including in Asia, the US, and here in Europe.

We will keep identifying the best technologies worldwide and making them accessible to our European customers—so they, in turn, can bring their best to the global stage.

David Wright

Chris, as you will soon discover, Eurofi always runs short on time! We could continue this conversation for quite a while. What's striking about AWS is the scale and

speed of its growth—it's astonishing. I hope it's a driving force for productivity not just in finance, but across the European economy. I'd like to invite your closing thoughts on that.

Chris Betz

When I look at technologies like generative AI and their capacity to enhance effectiveness and efficiency, I am excited about the possibilities. Some organisations are already leveraging these tools brilliantly.

Of course, there are risks malicious actors are also becoming more efficient but overall, I am inspired by how individuals and businesses are innovating with technology. The future holds enormous promise.

David Wright

Thank you so much for joining us, Chris. We look forward to seeing you again in Copenhagen.

Speeches

Andrzej Domański - Minister of Finance, Poland <i>Opening remarks</i>	178
Jurand Drop - Undersecretary of State - Ministry of Finance, Poland <i>Gala Dinner Keynote Speech</i>	180
Marta Kightley - First Deputy Governor - Narodowy Bank Polski <i>Speech</i>	182
Maria Luís Albuquerque - Commissioner for Financial Services and the Savings and Investments Union, European Commission <i>Speech</i>	185
Valdis Dombrovskis - Commissioner for Economy and Productivity; Implementation and Simplification, European Commission <i>Speech</i>	188
Aurore Lalucq - Chair & MEP, ECON Committee, European Parliament <i>Safeguarding the EU financial, banking and monetary sovereignty</i>	191
Éric Lombard - Minister of the Economy, Finance and Industrial and Digital Sovereignty, France <i>Speech</i>	193
Jörg Kukies - Federal Minister of Finance, Germany <i>The path for a stronger EU economy: Structural reforms, Simplification and Savings and Investments Union</i>	195

Klaas Knot - President - De Nederlandsche Bank <i>Stating the obvious - a central bankers perspective on resilience in times of uncertainty</i>	197
François Villeroy de Galhau - Governor, Banque de France <i>A European approach to simplification: avoiding three misconceptions, and suggesting concrete milestones</i>	199
Sam Woods - Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority, Bank of England <i>EU-UK regulatory cooperation, competitiveness and growth</i>	202
Jean-Paul Servais - Chairman, Financial Services and Markets Authority, Belgium <i>Towards a pragmatic SIU approach to the benefit of all EU member states</i>	204
Shigeru Ariizumi - Vice Minister for International Affairs, Financial Services Agency, Japan <i>Wrap up on SIU priorities and next steps</i>	206
Bernard Mensah - President of International, Bank of America <i>Speech</i>	208
David Wright - President, EUROFI <i>Speech</i>	210



Andrzej Domański

Minister of Finance, Poland

Opening remarks

Ladies and gentlemen, it is my great pleasure to open the Eurofi conference. Each Presidency of the Council offers a unique opportunity for financial market participants, regulators and policy makers to come together to exchange ideas. This time we meet in Warsaw, a city of remarkable transformation and a symbol of Europe's resilience and ambition. We gather today against the backdrop of significant political, economic and security pressures. In particular, the recent escalation of trade measures by the US has brought renewed uncertainty into global markets and volatility not seen since the dark Covid days. We see equity markets plummeting, oil and copper prices falling, investment banks cutting their GDP forecasts and, recently, yields on US Treasuries rising. This is deeply concerning. Let's be clear: Europe did not start this.

Having said that, Europe is prepared for a well-thought response that will serve European citizens and European companies. We must respond with unity and ambition, but let me say that, in these challenging times, we do need to focus on Europe itself. Above all, we must focus on strengthening our competitiveness and ensuring our collective security, because we must navigate the global volatility while maintaining our focus on growth and security. We must not let the challenge hinder Europe's ambitions. Free trade is much more than an economic principle. It is a path to opportunity, innovation and lasting prosperity. Let us never

forget that free trade brought billions of people out of poverty.

Poland stands as an excellent example of the benefits of joining the EU and opening to free trade. Since joining the European Union in 2004, our GDP more than doubled and our share in intra-EU exports almost tripled. Today, Poland is once again at the forefront of European growth. In 2024, our economy expanded by almost 3%. This year, we expect GDP to grow by close to 4%. This performance is no coincidence. We are fostering a robust business culture, encouraging private investment and strengthening Polish competitiveness.

Yet this progress comes at a time of growing global volatility. A renewed wave of protectionism, fragile global supply chains and the risk of trade wars threaten the stability we built together. These external risks are intensified by internal challenges, from demographic shifts and defence imperatives to the pressing demands of digital and energy transformation. Together, they require bold and united action.

Ladies and gentlemen, we meet, I strongly believe, at a very pivotal moment. Europe has experienced a political awakening in previous months. Now, an economic awakening is beginning to emerge. We also see it in short-term indicators. In Poland, the PMI index once again scored above the 50-point barrier. This is the third month of improvement and the highest level in three years. Also, PMI data across the euro area has

improved. In Germany, Europe's largest economy, sentiment is rising. Now is the time to close the gap with the global competitors. Europe must seize this momentum to enhance its competitiveness, strategic autonomy and, crucially, its economic and geopolitical security.

Of course, needless to say, the evolving trade relationship between the EU and the United States, including higher tariffs, remains a major source of uncertainty for current forecasts. One of our key priorities should be mobilising capital for Europe's future growth. We all know that the problem is not lack of savings or capital among Europeans. The money is there. Europeans have saved nearly €10 trillion, much of it held in low-yield bank deposits. Yet companies across Europe, especially small and mid-caps, continue to face difficulties in accessing the financing they need due to fragmented and underdeveloped capital markets.

This affects the entire innovation pipeline. Early-stage firms and technology pioneers, including possible future unicorns, often struggle to secure the funding needed to scale up their R&D efforts. Too many of these companies prefer — and choose — to list in New York instead of Frankfurt, Paris, Milan or, even better, Warsaw. It is a shame. We must change course. We need to channel European savings into European ideas, into European R&D, into European future. That means building a genuine equity

culture across the continent and putting our capital to work — here, at home, in Europe.

Achieving this will require bold structural reforms at both the EU and member states' levels. Investment needs in the EU are estimated at up to €800 billion annually until 2030, reflecting rising demands in defence, the energy transition and, of course, innovation. Meeting these needs will require not only public financing but also greater mobilisation of both retail and institutional capital. Yet European capital markets continue to face several significant challenges that hinder their development and global competitiveness. A major issue is market fragmentation, stemming from divergent national regulations and supervisory practices, which create barriers to cross-border investment. This complexity discourages both investors and issuers, limiting the potential for scale and integration.

Thus, our Presidency fully supports the European Commission's initiative to establish a savings and investment union. This ambition offers a blueprint for building deep capital markets in member states. Deeper, efficient capital markets will unlock investment drive and empower citizens to invest in their future.

Ladies and gentlemen, we also need deeper capital-based pension systems and incentives for long-term savings that will be able to back innovative European companies. The development of second and third pillar pension systems will not only provide security for our citizens in retirement but also channel long-term capital into productive investments. Institutional investors, such as pension funds and insurers, should be given the tools and regulatory certainty they need to take a more active role in supporting equities and alternative asset classes. Retail investors must also feel confident in participating in capital markets. That means simplifying disclosure requirements, enhancing financial literacy and creating a digital-first, user-friendly investor environment.

We want to foster this true equity culture in Europe, one where citizens feel empowered to invest in our own future.

Proven structural and fiscal frameworks from the most advanced European capital markets, including those in the Nordic countries, can serve as a valuable model. We also need stronger private markets, underpinned by dynamic venture and private equity ecosystems. In Poland, we are moving forward with the so-called Innovate PL initiative, aimed at increasing the availability of both public and private capital for VC and private equity funds. This programme is based on the French experience, the so-called Tibi plan. In parallel, we must actively encourage the listing of high-growth firms on public markets and work to reduce the costs associated with going public. A vibrant IPO market signals confidence, and it is our shared responsibility to strengthen that confidence through coherent long-term policy.

We must not only mobilise capital. We also need to facilitate its flow and ensure its effective allocation. Today, overregulation is among the greatest barriers to Europe's competitiveness and resilience. We need simpler, more predictable rules and a regulatory environment that actively supports investments and entrepreneurship. Europe must become an economic superpower — not just a regulatory one. I am encouraged to see the first tangible results of our simplification agenda. We have secured agreement on the Stop the Clock proposals for sustainability reporting, advanced work on the Omnibus package, and placed competitiveness and simplification at the very heart of each ECOFIN agenda. We have also intensified work on the PSD3 package to ensure modern, secure and innovative payment services. Fighting financial fraud, especially social engineering scams, is a key part of that effort.

Ladies and gentlemen, with geopolitical landscape changes, I also believe that we need a truly European payment system. We

are making progress on the EU bank crisis and deposit insurance reform. Though complex, we have reached a balanced Council position that improves our ability to manage failing banks and protects taxpayers. Many thanks to my deputies for their hard work over those regulations. We also look forward to the Commission's proposal on securitisation, which — once published, hopefully very soon — should be treated as a priority for the Polish Presidency. That is a very important topic.

Ladies and gentlemen, Europe's future depends on our ability to think strategically, act decisively and stand united in the face of growing challenges. We must simplify, invest and safeguard what we have built together. Security is no longer a background issue. It is the foundation of prosperity. Economic growth, strong capital markets and a dynamic innovation ecosystem all rely on it. This is why, during the ECOFIN, we will allocate a lot of time to discuss how to finance growing defence needs in Europe. Europe must take more responsibility for its own security. The awakening time is now, and I am really glad that more and more European countries finally understand that it is on us to defend ourselves.

Our financial system is resilient, our institutional capability and our European community of 450 million citizens is ready to shape the next chapter of Europe's success. In today's interconnected world, Europe must take greater responsibility for shaping international economic stability. Let this conference serve not only as a forum for discussion, but also as a catalyst for resilience, investment and innovation. Let us remember that our priority is to uphold free and rules-based trade, along with European solidarity and unity.

While you are here, I hope you will take a moment to explore Warsaw: a magnificent city where history, progress and the European spirit meet, because the future of Europe will not be written for us. It will be written by us, together. Thank you.



Jurand Drop

Undersecretary of State - Ministry of Finance, Poland

Gala Dinner Keynote Speech

Ladies and Gentlemen, it is my pleasure to welcome you at the Eurofi Gala Dinner, which for years has been a good debate venue for all relevant stakeholders of the European financial world.

In Europe, we do have a lot to discuss, given the volatile geopolitical and economic situation. We are waking up each morning and checking the news. In this environment, a cool head and a well calculated response is what should lead our European reactions to the current situation.

Well, we are in Europe. For the last couple of decades our hallmark has been stability. It allowed us to live a prosperous life. A good life, especially as we compare our situation to other regions. Even if in financial markets we usually compare ourselves to some more developed regions, it is only now that we will see the advantages of our position.

Being from Poland, I must add that this is stability in a free market economy. Before 1989, in Poland and a few other current EU members states, as well as in countries outside the EU, we had one of a different kind – the stability of a centrally commanded economy. This economic system failed, and we can testify to that. There was no financial system in communism, which was perhaps one of the reasons why it failed, but I assure you there would not be a job for you in that system. We are in a free market economy now. Our wealth has been enabled to a great extent by the underlying architecture of European

economies based on free markets, on the single market in the EU, and other freedoms.

Let me now say some unscripted words. We should now appreciate our political system in the EU, which is usually said to be slow, inefficient, and creating some burdensome solutions. As I am running trilogues during the Polish presidency, I can testify that it is a long process in terms of getting any legislative act done. We were very often critical about this system, but it provides for stability. Nobody in the EU would be able to turn around the whole political landscape overnight. This stability is very important, because it is what the financial system needs. This is our comparative advantage in Europe.

Here I would like to reiterate what my boss, minister of finance Andrzej Domański, highlighted in his opening speech: "Free trade is more than an economic principle — it is a path to opportunity, innovation, and lasting prosperity. Free trade brought up billions of people out of poverty". Therefore, we need now less emotion, and more focus on economic growth. Our discussions need to be translated into action. Many European leaders, including in my government, understand the current momentum in terms of a European awakening – or a kind of European renaissance. Only history will tell, but it is giving us now a good kick, and we have to find the way ahead and capture opportunities.

From the perspective of the

financial world, there are two areas that need our immediate attention: simplification of rules and equity culture.

First, removing unnecessary burden from companies' shoulders will give them more space and resources to focus on value creation. This however has to be done in an orderly manner. We have to simplify what's unnecessary and change our approach to law-making so that is more result-oriented rather than prescriptive. But we have to do it using our minds, not chainsaws.

In the context of 27 Member States, with their variety of financial habits and economic structures, one-size solutions do not always work. A single market requires convergence of practices and a working level of standardization to guarantee frictionless economy. Yet, EU-wide policy frameworks have to be balanced with national-level flexibility.

This approach is also relevant in the second area, that is in the area of European capital markets. Europeans have to be nudged to invest. We need to create conditions for greater investment in the real economy. In that respect, long-term saving products, adjusted to national needs, offer a much-needed solutions to channel households' savings to productive investments and address the growing pension gap in the EU's ageing society.

While changing the course of policies in Europe, we have to

steer clear of unstable waters. The response to all geopolitical and economic challenges should not derail our financial and fiscal stability. Only economically strong nations can have a strong impact on how their citizens and companies fare. I would like to emphasise from the bottom of my heart, given my current position, that soundness determines the Ministry of Finance's actions, while we take care of financial stability in cooperation with all institutions in Poland.

Ladies and gentlemen, I would like to conclude with the words of a well-known song by the famous Polish poet and singer Wojciech Młynarski, which symbolized an attitude in the difficult times of communism. The main line in the song that we used to sing was "Let's do our job properly". This is what I wish for all of us.

Welcome to Warsaw, and thank you for coming here.

Thank you, Eurofi.



Marta Kightley

First Deputy Governor - Narodowy Bank Polski

Speech

Ladies and gentlemen, it is my pleasure to welcome you to the last day of the Eurofi seminar, which has already inspired a lot of discussions behind the scenes.

Yesterday, the concept of savings and investments union was on the agenda. It goes without saying that we need to reinforce the capital market as a pillar of the financial system in Europe, which is complementary to banks. The ample savings of our citizens should be channelled in the most efficient way to finance the economy, including innovations, the energy sector, and last but not least, the European defence industry. In this journey, we should be ambitious and optimistic, but also realistic and pragmatic.

Today, I would like to look at the savings and investments union through the lens of Poland, a country highly dependent on banks, where the capital market is relatively small. Please take a note that these are my own views rather than the official views of Narodowy Bank Polski. To begin with, I will say a few words on the European financial landscape. When designing the savings and investments union, we should recognise the structural differences among Member States. Countries vary by the level of citizens' wealth and by the size and development of their financial sectors.

The level of household wealth is, in my opinion, one of the most important factors determining the prospects of capital market development. The wealthier we

are, the more opportunities we have to diversify our financial assets and the more prone we are to take riskier investments. In the same vein, households with a low level of savings use them for current needs. For them, cash and a bank account are the most convenient, liquid and secure form of asset allocation.

This brings me to the second difference, that the size of financial systems in the EU Member States is very diverse. While the average level of financial system assets in the eurozone is almost five times its GDP, in Poland, Czechia and Hungary it hovers around 120 to 160% of GDP. There is no doubt that the benefits of the savings and investments union may be most obvious in the largest EU financial centres. Economies with smaller dependence on the capital market will have a larger gap to close and may see fewer advantages in the short run. However, all Member States should be mindful of the benefits that would spill over to all jurisdictions. The investments in the EU would be higher and thus so would be the economic growth of the union and individual Member States.

The current diversity will probably affect the level of enthusiasm and backing of individual countries for the savings and investment project. Thus, it should be acknowledged and duly addressed during the implementation process to ensure desired support of Member States.

Ladies and gentlemen, having discussed the European

landscape, let me now focus on Poland through the lens of the previously mentioned structural preconditions. I would also like to mention some positive experiences with capital market development in Poland. We are definitely not a financial centre. The shortcomings of the European financial market, identified in the Draghi and the Letta reports, are clearly visible in Poland and even as through a magnifying glass. The financial assets of Polish households comprise 90% of GDP compared with more than 200% in the EU as a whole and reaching as much as 365% in Denmark, for instance. Almost 52% of household financial assets are kept in cash or bank deposits. The EU average is 31%, when as previously mentioned, in Denmark it is 13%. Also the Polish financial system is not large. Its assets are around 120% of GDP.

Banks dominate in Poland, covering almost 75% of financial sector assets, but the loans to deposit ratio is only about 65%. The volume of loans to the non-financial sector amounts to 33% of GDP, of which for corporations it is just 11% of GDP. Such an overhang of savings in the form of deposits might be used more effectively for the benefit of the real economy. However, this would require stronger demand for corporate credit as enterprises, especially small and medium-sized enterprises (SMEs), finance their investments and working capital mainly from retained profits. Weak demand for external funding suggests that we need to encourage enterprises to use

leverage to boost their economic potential. The equity market is also relatively small, even if it is the largest in our region, with 768 companies listed. The capitalisation of the Warsaw Stock Exchange reaches 40% of GDP. Despite a relatively small financial system, Poland has well developed market infrastructure. We have built our domestic central securities depository and the central clearing counterparty (CCP) from scratch.

Ladies and gentlemen, against this backdrop of the Polish financial landscape, let me share with you my initial views on some of the savings and investments union proposals. I will present them through three dimensions, the supply of capital, demand for capital and infrastructure of the capital market and supervision.

Let me start with the supply of capital, about which I will cover four topics.

The first topic concerns the idea of enhancing the harmonised framework for securitisation. It seems to be needed and beneficial, particularly to the largest banks and markets experiencing capital constraints. In Poland, the development of securitisation is not essential to improve supply of financing, as banks are very well capitalised and have ample deposits. Nevertheless, development of responsible securitisation in Europe will help to finance the real economy across the continent. In the long run, it may also be beneficial for Poland, especially when demand for external financing gradually arises in the future.

The second topic concerns tax incentives to invigorate the supply of long term savings. Again, the effectiveness of this measure will mostly depend on household wealth in a given jurisdiction, but financial incentives for longer term investment should also be contemplated. Having said that, let me share Poland's positive experience. Many years ago we already introduced some tax incentives to foster investment in private pension savings schemes, and that policy proved

to be effective. Even if the size of the savings is still not large, the private pillar of the pension system in Poland is gaining in importance.

Tax incentives do not work without supply of long-term savings and pension products. Easy access to long-term investment and pension instruments, which are simple to understand and cheap, is crucial to encourage EU citizens to invest in the capital market. Our experience with these types of savings programs in Poland proves that automatic enrolment is the most effective mechanism. For example, five years ago we introduced the employee capital plans. They accumulated 30% of all voluntary retirement savings, with the participation of over 30% of the eligible labour force.

Third, I have also mentioned that investing in various instruments must not be expensive. The long term rate of return received by individual investors depends significantly on the price they pay to financial intermediaries. Here we have much to do, as the average cost of retail investment funds in the EU is higher than in the US, approximately even by 60%. We need to implement carrots and sticks for intermediaries to reduce their fees. Polish asset management companies are very, very profitable. The return on equity in 2024 amounted to 43%. In Poland, we have taken measures to reduce the management fees, but it is clearly not enough.

Finally, on the EU level, the savings and investments unions should address the cross border diversity and complexity of tax regimes, as well as corporate and insolvency laws, as they impede the free flow of funds across jurisdictions. One example is harmonisation of the calculation and payment of capital gains taxes, regardless of whether the origin of profits is domestic or foreign. Also, the diversity of civil codes and corporate laws makes it difficult to understand how much of the investment could be reclaimed in the case of issuer's default. The harmonisation of law across the EU is in the interest of

all Member States, regardless of their wealth.

Let me move to the demand for capital. As I mentioned, Polish enterprises do not rely much on external funding. Their propensity to use equity and debt instruments is tiny. That means that we lack demand for capital.

The savings and investments union advocates for easy access to the capital market for SMEs and startups, but the question is how to do this. The EU regulations already provide for simplified requirements and procedures for SMEs entering the capital market. In Poland, the dedicated floor for SMEs has existed on the stock exchange for years, but activity on this market is small. It may suggest that the SMEs sector needs to be nudged to make use of the market financing. One such incentive could be to limit tax preferences for debt versus equity, or even to treat dividends paid to shareholders as a tax deductible cost, as it is the case with interest on debt.

The final dimension on my views of the savings and investments union is market infrastructure and supervision. If we want to have a single capital market in the EU, we need to eliminate barriers for cross border trading and post trading infrastructure. The existing 28 central securities depositories and 14 CCPs seem to be too much for one single capital market. However, the complete consolidation of market infrastructure could also entail some risks. Securities depositories and CCPs are systemically important. Their merger into a single EU entity could bring risks related to concentration. Especially, cyber risks should be mentioned here. The current inefficiencies related to the multiplicity of post trade infrastructure entities could be solved, as noted in the Commission communication, by enhancing the interoperability, interconnection and efficiency of EU trading and post trading infrastructures.

We should also be pragmatic and take into consideration the fact that consolidation would limit

the role of local stock exchanges and infrastructure. Many Member States, including Poland, created stock markets from the ground up during the political and economic transformation, and the local capital market is an important symbol of their economic success. That is why I would suggest leaving consolidation to market forces. Regulatory incentives and – at least – the lack of supervisory obstacles could be helpful. In Europe we already have a very good example of bottom up consolidation in the case of Euronext. Some kind of close cooperation among local stock exchanges may also be a solution.

Lastly, let me refer to supervision. Harmonisation, as proposed in the European Commission communication, would indeed be a step in the right direction. The equal supervisory treatment of financial institutions, irrespective of their nationality, will create a European level playing field. It will help to avoid both regulatory arbitrage and gold plating. The convergence of regulatory and supervisory practices will also contribute to the removal of barriers for a bottom up consolidation of markets across borders, including stock markets. As a result, the elimination of excessive requirements may bring benefits of scale and synergies, like reduction of transaction costs and better access to investment products.

I agree with the view that harmonisation does not require a single supervisor and can, in principle, be achieved for a true convergence of national supervisory practices. Such an approach to supervision reform in the EU will be better perceived by most Member States. The efficient framework may assume harmonised and shared supervision where a central body and local supervision entities are involved.

Ladies and gentlemen, let me conclude. I have mentioned the differences among EU Member States, but I do not want to raise concerns about the savings and investments union's successful implementation. Quite to the

contrary, I strongly believe that Europe is ready for mobilisation and determined to complete this project. We must increase the competitiveness of our economy for the benefit of all citizens. As market conditions in our countries differ, we should use different tools and incentives to gain the trust and support of all Member States. To this end, we should start with activating market led forces using a variety of incentives. The best approach is to give a due role for Member States led actions, as it was indicated in the Commission communication.

Finally, let me repeat what I said in the beginning, that optimism is as much needed as pragmatism. The savings and investments union will certainly substantially increase the role of the capital market, and it is our goal. However, Europe will remain dependent on banks, and to this end, simplification of rules and requirements will be needed in the banking industry as well. While planning for the savings and investments union, let us keep in mind that our capital and banking markets should be reinforced in tandem. Thank you very much.



Maria Luís Albuquerque

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

Speech

Good afternoon, everyone.

Many thanks to Eurofi for inviting me to speak to you today. These events gather a very broad audience and allow insightful discussions. I trust we share a common goal – to make our markets more efficient and resilient, and to bring wealth and growth to European citizens and businesses.

In these last few weeks, the Commission has been translating the priorities for our Union, amid complex and challenging circumstances.

We are being ambitious, clear, and we are committed to deliver. First and foremost, to deliver on our Single Market, our main strength, and our anchor and compass for sustainable and sustained growth.

For long we have been complacent, we have been settling for less. We have endured – and even reinforced – persisting barriers that hurt us all, even if some have an immediate gain. Not anymore.

As the current circumstances well show, we cannot afford not to have a true Single Market for financial services. The Savings and Investments Union we presented just a few weeks ago is an instrument, an enabler, for growth and competitiveness. And it reinforces our resilience to shocks such as the one we are observing.

The main goal of this strategy is to boost the European economy as we increase household wealth

among Europeans. That is the end goal – but there is a lot of work to do to actually get there.

Many of you here today will be key enablers of the Savings and Investments Union – it is important that you are aware that this cannot happen without your buy-in.

So, before I go into the details, I urge you to think about the role you can play in driving change across our markets – for the benefit of all Europeans.

We are living through trying times, where the geopolitical context is constantly changing, and we are being confronted with challenges that we had not anticipated.

History shows that during times of stress Europe has come together and moved forward. On that, allow me to emphasise what President von der Leyen said in response to the recent US tariffs:

“Europe has everything it needs to make it through this storm... If you take on one of us, you take on all of us. So we will stand together and stand up for each other. Our unity is our strength”.

It is important that we remember these words of strength, and it is important that we apply them actively to all our European endeavours.

We want a more competitive, green, digital, and fair Europe – where citizens can build wealth and companies can grow, innovate, and create jobs.

We also want a more secure

Europe. We are facing an extraordinary threat to our security. And the EU needs to mobilise Europe's immense resources and productive power to strengthen its defence.

This cannot be achieved with public investment alone; we must ensure that the defence sector has the best possible access to private finance.

But without economic growth, our goals will remain out of reach. And this is what I would like to speak to you about today – our plan for a Savings and Investments Union that fosters citizen's wealth and economic competitiveness.

Europeans are among the world's best savers, yet most of them do not have an effective way of channelling that capital in a productive way. Instead, over 10 trillion euros sit in low-yield deposits while businesses face urgent financing needs.

Recently we've been watching how financial markets have been impacted by the US announcements, and stocks and indices have dipped.

But our strategy is not about quick wins on the capital market, we want EU citizens to see investing as a viable way to grow their wealth in the long term.

Despite Europe's abundance of innovators, obstacles to securing investment within the Union are driving entrepreneurs to look for opportunities in other markets.

The Savings and Investments

Union seeks to bridge this gap, especially in key areas like digital innovation, climate transition, and defence.

To unlock financing, we must expand our investor base, making retail investment, notably, more attractive through adequate protections, fairer access, and better long-term opportunities, including for retirement savings. A competitive and integrated financial sector will lower costs and increase choice, ensuring savings can be turned into productive investments.

Our strategy has four pillars, covering citizens and savings, investment and financing, integration and scale, and efficient supervision.

Under the heading of citizens and savings, we will take action to make investing in the EU easier and more beneficial for our citizens.

To do this, we need to empower Europeans with the right tools so that, voluntarily and independently, they can make the choices that best suit their investment goals. We will present a financial literacy strategy to make sure that our citizens know how to make their money work for them, with a clear understanding of the risks and advantages of their investment. There are some good examples in Europe we can learn from.

We will be drawing on those best practices to create a savings and investments account blueprint for all Europeans to benefit from, also looking at tax incentives.

Pensions are also an important part of our plan and are key to boosting investment in Europe, and to provide quality retirement for citizens. We will present a recommendation to promote auto-enrolment in occupational pension schemes, and we will review our existing pension legislations to make them more attractive and efficient.

We will also incentivise Member States to work on developing their own supplementary pension sectors. There are already good practices in Europe with very

positive outcomes for citizens, but for many Member States that is still not the case.

On investment and financing, we will be working to make it easier for companies to access diversified sources of finance, including cross-border.

For example, we aim to bring institutional investors more into play for our European companies, including through venture capital, private equity, and infrastructure investments.

This means looking at the prudential treatment of insurers' and banks' long-term investments in equity, and how investments in equity of pension funds can be in line with the prudent person principle.

We will also revise the legislation on European Venture Capital Funds label. This will help to facilitate equity financing for our high tech and innovative companies.

And we will review the EU rules on securitisation, including prudential requirements for banks and insurers, as this will free up lending capacity in banks, allowing investors to diversify exposures to new asset classes and, in effect, better support companies with financing needs.

Differences in national taxation procedures can create administrative burden and barriers to crossborder investment, so this is also something that we will also look at.

Looking now at integration and scale: we must ensure that our markets operate efficiently and remain resilient to shocks.

Too often, European firms are unable to enjoy the scale and synergies of the Single Market, and this is a huge competitive disadvantage for the EU.

Some market players are satisfied with the status quo and Europe's fragmented capital markets - whether in trading infrastructure, post-trading and asset management.

But it is important to remember

that the benefits of a single market are larger than the sum of its parts. I see a vast potential for European citizens and companies from deeper market integration, and you can count on me to stand firm against those who seek to block our path.

We will be bringing bold proposals to break down barriers that hold back cross border operations of market infrastructures, asset management, and fund distribution. Barriers exist in various forms: economic, legal, technical, operational, behavioural, and supervisory. We will be leaving no stone unturned.

This will help financial players scale across the EU and lower costs for businesses and citizens alike.

On supervision, while we look for more efficiencies, we will not sacrifice the integrity of our capital markets. Strong supervision ensures our stable base to work from.

What we need is simple on the surface: we need to ensure equal treatment for all financial market actors, wherever they operate in the EU. Of course, when you dig a little deeper, you see that this will need a lot of work, and a lot of buy-in from Member States and national and EU supervisors.

We have a single rulebook, but national authorities often apply rules differently. Again, this can be down to some authorities' legitimate concerns about the financial system's safety. Still, in quite a few others, it is protectionist behaviour.

I truly believe that we don't necessarily need a single supervisor in each sector of finance. In some areas we simply need better supervision - better supervisory convergence and joined-up attitude of all the authorities involved. And we need to get rid of divergent national practices that fragment the market.

In some other cases, typically where regulatory integration is more advanced, EU-level supervision is the right approach. That's why for a few eligible

sectors we will propose legislation to unify oversight and bring key supervisory tasks to the EU level.

The Savings and Investments Union is a sector agnostic tool to boost European competitiveness, though I would like to highlight how it can impact specific strategically important sectors that are key to Europe's immediate needs. I am thinking of the defence sector.

Europe is facing an extraordinary threat to its security. But we have what it takes to address it heads on.

The defence sector is a clear priority, as highlighted in the ReArm Europe plan. That requires a clear pipeline of projects and clear public funding signals. The Commission's White Paper on Defence gives us these signals.

We have to unlock access to private finance for these companies, and banks and institutional investors must also consider investing in the defence sector.

Some are already shifting that way. A number of asset managers have recently reviewed their exclusion policies to allow for the inclusion of conventional weapons and we have the first ETF tracking the European defence sector. Attractive valuations are incentivising Dutch pension funds to invest in defence companies. And some political parties in Norway are considering allowing the national oil sovereign fund to go in that direction.

There is a growing shift in mindset on defence investing. The current reality is that defence is a critical public good – now more than ever. And there is a clear business case for investing in defence, investing in our collective security.

And as we all know, defence and space are at the cutting-edge of innovation, contributing decisively to other European priorities as well.

The Commission clarified that the EU's sustainable finance framework is fully consistent with the EU's efforts to enhance the defence industry's access to

finance and investment.

The Savings and Investments Union will also help ensure that all companies in the defence sector, from established players to innovative newcomers, have greater access to funding opportunities.

Better than anyone else, you, the industry, can understand the advantages of a deep, competitive, efficient, single market for financial services. A single market where you can operate across borders, where portfolios are diversified and where you can see direct impacts of your investments in European growth. A Single Market where your clients are located anywhere in Europe and are confident to invest across the borders.

You can also recognise the benefits of seamless market infrastructures, robust and interconnected, where procedures are simple.

And you can recognise the advantages of a single supervision and of a single legal framework that guarantee a true level playing field.

The Savings and Investments Union aims to achieve on all those fronts. It is up to us in the Commission, to the Member States, to the European Parliament and to you, the industry, to live up to that task. And to ensure our Single Market is indeed single.

Thank you.



Valdis Dombrovskis

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

Speech

Ladies and gentlemen, thank you to Eurofi for inviting me to this spring's edition of your conference.

It is an honour for me to join you in Warsaw today to share my views on how and why the European Commission is committed to preserving and enhancing Europe's competitiveness at this pivotal moment.

Allow me to begin with the bigger picture.

The world is rapidly changing before our eyes, in ways we have not seen since most, if not all of us in this room, can remember.

We are all witnessing dramatic shifts in the geopolitical landscape.

For decades, economic integration, trade liberalisation and cross-border production have been drivers of economic growth and prosperity.

Today, globalisation, and the very foundations of global trade, are facing their most significant challenge of the modern era: President Trump's universal tariffs on almost the whole world.

Europe did not start this confrontation.

Europe does not want this confrontation.

The EU is committed to constructive negotiations with the US to achieve frictionless and mutually beneficial trade.

We have already offered zero-for-zero tariffs for industrial goods in

the belief that this represents a good deal for both us and the US.

In this sense, we welcome yesterday's announcement from President Trump to give a 90 day pause to a part of reciprocal tariffs.

However, the 10% reciprocal tariffs remain in place, and they still represent a blow to the global economy.

Tariffs are taxes that only hurt businesses and consumers.

That's why the European Union has shown restraint.

Yesterday, EU countries approved a limited set of retaliatory tariffs on US goods as a proportionate response to the US's steel and aluminium tariffs.

However, we will now put these countermeasures on hold for 90 days to give negotiations a chance.

All options remain on the table.

If negotiations are not satisfactory, these countermeasures will come into effect.

Our preparatory work on further countermeasures continues.

But, of course, this is not our first choice.

Bettering our relationship would be logical against the background of the deep and longstanding transatlantic trade relationship, worth €1.6 trillion in 2023, the largest trading relationship in the world.

The past days have shown that financial markets apparently

agree with this analysis.

Investors have shown confusion and concern, with massive selloffs in the US, Asia and Europe, and volatility indexes spiking to levels not seen since the early days of the COVID-19 pandemic.

The decision to pause reciprocal tariffs is also an important step towards stabilising the global economy.

So once again – we say to the US – there is no need to hurt your economy and ours.

There is no need to hurt the global economy.

We are ready to negotiate a mutually acceptable outcome.

At the same time, the EU will double down in investing in its own strength.

Firstly, our Single Market: Europe's catalyst of growth.

Deepening our Single Market and further reducing barriers is long overdue.

Scale matters.

So, we have to act now to tear down remaining barriers to build a Single Market that goes big.

We intend to do so.

A more integrated Single Market is also crucial to encourage our innovative companies to stay and scale-up in Europe.

Second, we will continue to diversify our trade with other partners in order to strengthen our economic competitiveness and security.

Here, we have a unique advantage.

The EU is a reliable and predictable trading partner that honours its commitments.

And we offer access to the largest market in the world, home to 450 million consumers.

The EU already has trade agreements in place with 76 countries.

We have recently finalised negotiations for a groundbreaking EU-Mercosur partnership agreement, concluded negotiations on a modernised Global Agreement with Mexico and deepened and expanded the EU-Switzerland relationship.

We continue negotiations with India, Thailand, The Philippines, Indonesia and others.

The EU's trade agreements can act as platforms for enhanced cooperation for pursuing our values and interests.

They are the basis for engagement with important markets and countries around the world.

We will build on strengthening our trading network and further leverage win-win partnerships across the world.

Third, we will re-ignite Europe's economic dynamism by investing in a broader competitiveness agenda.

The adversity that we face right now provides a strong impetus for the EU to act more decisively.

We know that the EU project has been shaped from crisis to crisis.

Never let a good crisis go to waste, as the saying goes.

This is why the Commission has prioritised:

- investing in innovation,
- reducing energy prices,
- increasing access to finance,
- improving skills, and securing critical raw materials, to name a few priorities.

The Competitiveness Compass, issued in January, details all of these aspects and more.

This sets out a strategic roadmap

aimed at restoring Europe's dynamism and enhancing economic growth.

Cutting red tape through simplification is a central component of the Competitiveness Compass and the Commission's broader strategy to build a more competitive Europe.

As Commissioner for Implementation and Simplification, I am responsible for coordinating the Commission's work on this important agenda.

The past five years were a period of intense regulatory activity.

This has generated a large and still expanding regulatory burden.

As we now take stock, we see that this accumulation of rules, and their increased complexity, have become problems in themselves.

Simplification is about making sure that our rules help deliver – rather than impede – the achievement of our economic, social, environmental and security goals.

It is about achieving those goals more efficiently, in a smarter and less burdensome way.

Our overall objective is clear: reducing bureaucracy to facilitate more innovation and investment in order to safeguard our long-term prosperity and security.

Today, regulation is seen by more than 60% of EU companies as an obstacle to investment.

55% of SMEs flag regulatory obstacles and administrative burdens as their greatest challenge.

This is simply unacceptable.

These businesses are Europe's economic engine.

They are the ones who innovate, invest and create jobs.

Overwhelming them with a huge volume of regulatory demands serves to freeze innovation, deter investment and put jobs at risk.

In other words, our economic engine is stuttering because we are preventing it from working as it should.

This in turn makes our citizens less prosperous and undermines our ability to achieve our economic, social and environmental goals.

We cannot hope to successfully compete in a perilous world with one hand behind our backs.

While the challenge is great, the level of our ambition is equal to it.

EUROSTAT has approximated the baseline of overall recurring administrative costs for companies and administrations in the EU at €150 billion annually.

We have set out ambitious targets reducing those administrative costs: reducing them by 25% for all companies and 35% for SMEs.

This translates into cutting roughly €37.5 billion in annual administrative costs by the end of this Commission's mandate.

We have already presented the first two proposals to simplify EU rules in the fields of sustainability reporting, sustainability due-diligence, taxonomy and public investments.

Briefly, these packages provide for:

- "stop-the-clock" proposals to delay the application of the Corporate Sustainability Reporting Directive (CSRD) for companies that have not started reporting yet and delaying the transposition and application of the Corporate Sustainability Due Diligence Directive (CSDDD).
- freeing around 80% of companies currently under the scope of the CSRD from very burdensome reporting requirements.
- making Taxonomy reporting more proportionate by limiting mandatory reporting only to very large companies and simplify reporting tables for all.
- bringing more clarity into the due diligence obligations that companies must apply at different levels, and fostering their continued engagement to bring about improvements in value chains.

- a major simplification to the Carbon Border Adjustment Mechanism (CBAM) to exempt from obligations approximately 182,000 or 90% of importers, most of which are SMEs.

When fully adopted, these proposals will bring – at a conservative estimate – €6.3 billion in annual savings to businesses.

But this is just the start.

We will continue our efforts across every policy area throughout the five years ahead.

My role as Commissioner for Implementation and Simplification necessarily involves intensive engagement with representatives from businesses – large and small – industry, and the corporate world.

We have been listening – seeking their views on what real changes can make a real difference on the ground for people and businesses.

That is why I welcomed the opportunity to be here today to engage with representatives from the financial sector.

Finally, a word on the digital euro project.

Europe needs to be at the forefront of embracing the digital age and making the most of all the opportunities that it offers.

Our monetary system, with its common currency at its heart, must also adapt to a digitalised future.

The digital euro will play an important role in modernising and securing the resilience of EU payments market.

It will safeguard the important role of public money in our society and be an engine for competition and innovation in the European payments market and the wider economy while preserving citizens' privacy.

Recent developments in current more complex, conflictual world have also underline the urgency of making progress on the introduction of the digital euro.

The digital euro can be an important pillar in strengthening

the EU's strategic autonomy by increasing the euro's resilience vis-à-vis other currencies, payment systems, third country Central Bank Denominated Currencies and "stablecoins" not denominated in euro.

We simply cannot afford to cede technological control over the EU's economy entirely to others.

The European Commission's proposals on the establishment of the digital euro are currently under discussion in the Council and the Parliament.

I am hopeful, especially given the impetus that current global developments are providing, that we

can make important progress on the digital euro in the months ahead.

To conclude, ladies and gentlemen, now is the time for action.

I am convinced that Europe will rise to meet the challenges ahead, as we have done in the past.

We will seize this opportunity to build a stronger and more competitive Europe.

The work has already begun.

We are determined to see it through to the end.

Thank you.



Aurore Lalucq

Chair & MEP, Committee on Economic and Monetary Affairs - European Parliament

Safeguarding the EU financial, banking and monetary sovereignty

Thank you very much for your invitation. I truly appreciate it. I once learned from Jamie Galbraith that it's best to begin a speech with a joke — but given the current context, that proves rather difficult. We are facing an unprecedented situation. For the first time in our shared history, the United States can no longer be regarded as a reliable ally. Donald Trump is calling into question the very foundations of the American system: democracy, security, and trust in its economy and currency. It is a sobering reality for all of us — but one we must face. As European leaders, we are called upon to act with courage and resolve to safeguard our democracy, our economy, and our financial independence. We will do whatever is necessary to protect European citizens in these uncertain and challenging times.

In the face of a trade war and erratic political decisions that are destabilising our economies, we are responding with strength, unity, and proportionality. We remain calm, focused, and refuse to give in to the false promises of economic and financial populism — which often paints a picture of a brighter future, but ultimately leaves behind little more than ruin.

The good news is that Europe possesses considerable strengths. Among them is the size and consistency of our internal market, which serves as a powerful tool for negotiation or retaliation. Major American tech firms cannot survive without access to the European market. More importantly, we are a union of democracies governed by the rule of law. Our regulations not only protect our

citizens, but also our businesses — and we will continue to uphold them. In today's context, there is no need to explain why such respect for rules and stability is essential to inspire confidence among individuals and investors. Trust is vital when it comes to long-term investment.

Since we are gathered here today at Eurofi, allow me to share a few thoughts on our financial sovereignty. It rests on three essential pillars: our savings, our banking system, and our currency. First, in terms of savings, this is both one of Europe's greatest strengths and, paradoxically, a vulnerability we must address — especially if we are to make major investments in rearming Europe and supporting strategic industries, in particular the green transition and the creation of digital champions.

Meeting these challenges will require public investment in key sectors, particularly those most at risk. However, private capital must also play a role. There are substantial resources available, which could be harnessed by mobilising and leveraging European savings. Every year, nearly €300 billion is invested outside the EU, mostly in the United States. It is no longer acceptable to allow such capital to drain away while the Trump administration actively seeks to undermine our industries and businesses.

Channelling European savings back into the European economy is a matter of economic and political sovereignty. The Savings and Investment Union — now supported by all political groups in the European Parliament — aims to meet this need. But we must go further

and adopt policies that make Europe the most attractive destination for private investment. This includes the creation of new European financial instruments, which must take into account not only social considerations, but also the geographical allocation of investment.

We must also reduce the cost of investing in Europe by achieving economies of scale and better integrating our financial infrastructure. While tax harmonisation and insolvency reform are worthwhile long-term goals, we need immediate, pragmatic solutions. Urgent action is required to make the European Union as appealing as the United States, particularly by simplifying and harmonising the rules governing access to our markets.

The second pillar of our sovereignty lies in the resilience and stability of our banking system. This system is our first line of defence against external shocks. But stability must never be taken for granted — especially in times of geopolitical turbulence and economic uncertainty. Over the past decade, European banks have proven remarkably resilient. Many of you here have strengthened your capital bases, adapted to stricter regulations, and helped preserve financial stability. Yet we remain vulnerable to unforeseen events. Let us remember Minsky's paradox of tranquillity — it is during times of calm that crises often emerge.

Faced with growing instability fuelled by the US administration, we must continue reinforcing our banking and financial systems without compromising on regulatory and prudential requirements. Completing

the Banking Union is essential. Fully implementing the Basel III standards will help reduce the likelihood of bank failures and ensure that, should a failure occur, it does not jeopardise the broader financial system.

What some may view as a short-term burden is in fact an investment in long-term stability and resilience. I often hear calls for deregulation or a level playing field with the US. But I must ask: what kind of level playing field are we speaking of, when the Trump administration changes its stance from hour to hour? Deregulation is not the answer — simplification is. Deregulation does not foster growth; it paves the way for crises and recessions.

Along the same lines, I must reiterate my concerns regarding crypto-assets and stablecoins. While the EU has acted to regulate what was essentially a Wild West, we must maintain our vigilance and guard against the risks and abuses that persist in this sector. The Markets in Crypto-Assets (MiCA) framework is not open to interpretation. This is not just a financial stability issue; it is a matter of monetary sovereignty. The US administration views these instruments as Trojan horses, intended to undermine the euro on European soil.

These developments pose a direct challenge to our sovereignty. We must therefore offer a credible, stable, and democratic alternative. At the heart of that alternative lies our currency — the euro. Yet in too many areas, we remain dependent on American firms, infrastructure, technology, and networks. Some question the need for a digital euro. I understand the concerns voiced by parts of the business community and some citizens — they are legitimate.

But frankly, some arguments are hard to grasp and should not be entertained. The European Central Bank has weathered many storms in the past and has consistently fulfilled its mandate of maintaining price stability. Now is not the time to doubt the independence and credibility of such an essential institution. The reality is that digital payments — through cards and mobile devices — have, for the first time, overtaken cash as the primary method of payment.

As digital transactions increase

and the use of cash declines, we risk disrupting the delicate balance between commercial and central bank money — a balance that underpins our monetary system. Let me be clear: no one is proposing the elimination of cash. We are simply acknowledging reality. When we speak of the balance between private and public money, we are not calling for the exclusion of the private sector. The digital euro is not intended as a threat to private banks. Quite the contrary — their participation is crucial to its success.

We need your engagement in this decisive moment. We welcome recent initiatives by private actors, which must be acknowledged — but there is still a long way to go. Integrating the digital euro into a broader European effort is essential for building a sovereign, innovative, and resilient financial system. It is time to mobilise and ensure the success of this project. It is time to break free from the misinformation surrounding it. The digital euro is simply digital cash. It is not a vehicle for eliminating cash. It is not a surveillance tool for the ECB. We are not a Big Brother society. We are a union of robust markets, sound money, and forward-looking innovation.

Because ultimately, innovation, regulation, and financial stability are not ends in themselves — they are instruments for a higher purpose: preserving our sovereignty and upholding our shared values. These include our collective ability to respond to the challenges that threaten our peace and our future.

Finally, we must also address the financing of our borders and defence. Initiatives such as Readiness 2030 and the Security Action for Europe (SAFE) are crucial. But with €650 billion of the expected €800 billion coming from national budgets, our approach remains incomplete. For highly indebted countries, relying on the escape clause of the Stability and Growth Pact is not a viable solution — it does nothing to alter the fundamentals of their public finances. Moreover, allowing each Member State to invest according to its means risks exacerbating existing divisions in defence capabilities across Europe.

We must therefore act and identify European-level mechanisms

to finance our defence. The most effective and rapid option would be to activate the European Stability Mechanism. This would allow for swift access to funding — delivering billions of euros without worsening the fiscal positions of already heavily indebted Member States. And I say this as a Frenchwoman, fully aware of what that means.

Let me end on a more political note. Across the Atlantic, many — both those facing hardship and the affluent — placed their hopes in Donald Trump. Some believed he would be good for business, that he would lower their taxes, or that he wouldn't actually carry out his programme. Some even thought of him as a modern-day Margaret Thatcher. Now, many of them are losing money — and many are fearful.

As European leaders, we are acting swiftly and decisively to ensure a strong and united EU response. But you — the economic and financial actors of Europe — also have a role to play. Now more than ever, we need a form of economic patriotism. Now is the time to invest in the European economy, and to stand on the right side of history. To invest in an economy and a political union that can be trusted.

There may be no “liberation day” in Europe — but what we can offer are decades of stability, productivity, and mutual respect. That may sound dull to some. But those who have experimented with populism are now losing money — and not enjoying themselves. They forgot a simple truth: political stability, the rule of law, and trust are key to sound investment. If you are looking for a safe harbour, remember this — stability is beautiful, democracy is beautiful, and Europe is beautiful.

Europe is even more beautiful under a Polish Presidency — and that is how I would like to close. It has been a true pleasure to have the Polish Presidency guiding us through these difficult times. We have seen dedicated leadership, and I would especially like to thank Minister Andrzej Domański and Jurand Drop for their personal commitment to advancing the EU agenda and placing financial issues in a broader context. Thank you — and I invite everyone to applaud their efforts.



Éric Lombard

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

Speech

Seul le prononcé fait foi

Ladies and gentlemen, dear David, Mr Chairman, dear Didier – thank you for your kind words. Mr Governor, Monsieur François Villeroy de Galhau, dear Jörg – thank you for your remarks, which reflect the growing convergence between our two countries. Who would have imagined, just a few years ago, the German Finance Minister discussing increased public debt and defence spending, while the French Finance Minister – myself – would be regularly speaking about the *Schuldenbremse*? That, indeed, is my role these days – though not, of course, here today. I would also like to warmly acknowledge Jacques de Larosière, a founding member of this group, with whom I've had the pleasure of working for over 33 years. It is a real pleasure to speak to you ahead of what will be a crucial ECOFIN meeting. Jörg has already clearly set out the challenges ahead, and I shall not repeat them here.

I take this opportunity to thank the Polish Presidency of the Council, and in particular our colleague Andrzej Domanski, for the outstanding work achieved over the past few months. Their contribution has been both vital and impressive. I offer them my sincere congratulations – which I shall also extend in person later today – at a time when we are contending with the impact of US tariffs, the challenge of defense financing, and an ambitious timetable for the Savings and Investment Union.

Amid rising geopolitical tensions and financial turbulence, there is one encouraging development: the EU has begun to pivot towards a set of new strategic priorities. This is unquestionably positive. We now have the Competitiveness Compass, the EU Clean Industrial Deal, and the first simplification packages – all of which, as Jörg mentioned, move us in the right direction. They reflect a long-overdue commitment to greater European strategic and economic autonomy. I would like to commend the European Commission, the European Parliament, and the Council for their swift and effective adoption of the so called "Stop the Clock" proposal within the Omnibus package. The Commission has also shared its vision for the SIU. I welcome these developments, which pave the way for a bold agenda to strengthen our capital markets. Europe urgently needs to restore its competitiveness in financing, while ensuring both financial and technological autonomy from the US and China.

Building on Jörg's remarks about the SIU, I see two immediate priorities. The first is securitisation. Didier, you mentioned it as I arrived – and rightly so. This reform is long overdue. Although our European securitisation market has historically been safe, the post-financial crisis prudential framework has stifled its recovery. As a result, we have been unable to fully harness this tool to finance the green and digital transitions. Europe remains overly

reliant on third-country actors for its financing. I therefore call on the Commission to propose bold legislative action, including adjustments to the prudential framework for both banks and insurers. This would allow the securitisation market to function smoothly, while safeguarding financial stability – a point I stress as a former banker who knows how crucial this market truly is.

The second priority is supervision. Europe can no longer afford a fragmented supervisory framework. This fragmentation imposes unnecessary costs on market participants, weakens the competitiveness of European players, and leads to suboptimal allocation of our savings. While improved coordination among national supervisors is helpful, it is insufficient. At the same time, central supervision may not be appropriate for all financial institutions. A pragmatic way forward would be to entrust the European Securities and Markets Authority (ESMA) with oversight of systemic market infrastructure – dear Stéphane Boujnah – as well as major asset managers and crypto-asset providers, while leaving supervision of smaller entities to national authorities.

The third issue is the use of European savings. Simply put, European savings must be redirected to finance the European economy and European businesses. We have for too long contributed excessively to the growth of the American economy. In today's world, we

must pursue a more balanced approach to investment flows. It is crucial that we explore the creation of a European savings label. In my view, a label would prove far more effective than a harmonised product, which I believe is unlikely to succeed. The European Competitiveness Lab, launched by our colleague Carlos Cuerpo, offers the ideal forum for advancing this strategic initiative.

Within this broader context, let me share a few thoughts on the competitiveness of the EU banking sector. European regulators must avoid putting our financial institutions at a disadvantage compared to their global counterparts. This involves, for example, creating a simpler and more stable banking framework to reduce administrative burdens on the industry. More importantly, it requires ensuring that European banking rules offer a level playing field with other jurisdictions – especially with regard to the implementation of the Basel standards. Today, one major obstacle to bank competitiveness in Europe is market fragmentation. This takes many forms, but a key issue is how liquidity and capital rules are applied to cross-border banking groups – particularly in the absence of full recognition of the banking union.

I was discussing this earlier with former colleagues. In my view, the fragmentation dates back to the financial crisis of 2008–2009. Before that, liquidity moved freely between countries. That flow stopped after the crisis. We now need to find a way, with appropriate safeguards, to return to greater cross-border flexibility. At present, fragmentation prevents banking groups from deploying their resources efficiently at European level and from reaping true economies of scale. Reducing this fragmentation and boosting the competitiveness of European banks must be a top priority. I am convinced that the constructive, ambitious approach applied to the simplification package will be essential to achieving swift progress on both the SIU and banking competitiveness.

This same mindset must also shape the current regulatory proposals. One source of concern is the uncertainty around how other jurisdictions will implement the Basel standards. I suspect you know which partners I am referring to. If our friends decide not to adopt the Basel III endgame, this could seriously undermine international cooperation and fair competition. We must be ready to react. Our first step should be to adapt quickly to any regulatory rollback, particularly with respect to the market risk framework – the Fundamental Review of the Trading Book (FRTB), which governs areas at the heart of global competition.

The recently launched consultation sets out several options. These must be thoroughly evaluated in light of the plans currently being pursued by the UK and US administrations. In this context, I believe the wisest course is to delay FRTB implementation by one year, until 2027. This would give us time to assess our partners' intentions, to design appropriate adjustments to the FRTB that preserve a level playing field and our sovereignty, while also ensuring financial system resilience.

Another important topic is competitiveness and simplification in the context of the Financial Data Access Regulation (FiDA). We must consider the cost implications of its complexity, the potential impact on our competitiveness, and the risks for European consumers.

As for the retail investment strategy, its key objective is to foster greater participation by individual investors in financial markets. To achieve this, two key improvements are needed. First, we must drastically simplify the proposed investor tests – and here again, dear Jörg, I share your view that simplification is the word of the moment. Second, we need a clear and pragmatic definition of the "value for money" principle.

In conclusion, Europe has shown remarkable resilience in recent years – and, I would say, in recent

weeks as well. Let us maintain and step up our collective efforts. Since the change in administration in Washington, Europe has increasingly acted as a united team. The solidarity among member states is a powerful asset that we must continue to build on. We must respond to events, yes, but more importantly, we must take the lead. Europe needs to stay the course and chart its own path. We must act boldly to enhance our competitiveness and secure our strategic autonomy. President Macron has been emphasizing this message for eight years now, and I am pleased to see it gaining widespread support across the continent. Europe must remain an industrial power, a trusted and reliable commercial partner – especially crucial in today's world – and the first climate-neutral continent.

We bear a huge responsibility to define and implement an ambitious programme that will allow the European Union to fulfil its role as an economic powerhouse and a pillar of stability. Thank you for your attention.



Jörg Kukies

Federal Minister of Finance, Germany

The path for a stronger EU economy: Structural reforms, Simplification and Savings and Investments Union

It is, of course, a real pleasure to be here at Eurofi. As you mentioned, I have attended this forum on numerous occasions. During my time at the German Federal Chancellery, I took a short break from these events, but it is truly good to be back—especially at such a crucial moment for Europe. We are facing a period marked by considerable economic uncertainty, driven by a range of ongoing developments, many of which I am sure we will explore in depth today.

Europe's investment needs are immense. The Draghi Report highlighted the requirement for approximately €800 billion in additional annual investment. What better forum than Eurofi to discuss how to bring together the public and private components of that funding?

So, what is Germany's contribution? As you know, we have made significant announcements, underpinned by constitutional changes aimed at facilitating increased investment in defence and infrastructure. Just this week, we presented our coalition agreement, and I would like to highlight a few key points that are particularly relevant to the European debate.

I want to emphasise the importance of our recent investment decisions in the areas of defence and infrastructure. This programme will exceed €1 trillion over the coming years. In terms of defence, we have deliberately avoided setting a fixed amount for our commitment to NATO's

European pillar. Instead, in Eurofi terms, we are treating it as a call option on what is required for Europe's defence spending. That means we will allocate 1% of GDP from our core budget, and any spending above this threshold will be exempt from our national debt rules. As a result, the German Chancellor attending the NATO summit will have full fiscal flexibility to agree on whatever funding is necessary to bolster Europe's defence.

This is a deliberate and significant signal: for us, fiscal constraints must not limit our contribution. What matters is what is needed militarily. In this area, Europe has undeniably lagged behind. It was only after the *Zeitenwende*, prompted by Russia's invasion of Ukraine, that we met NATO's 2% spending target. Years of underinvestment have left a backlog of needs in equipment, infrastructure and broader military investment. It is imperative that we catch up and address this shortfall.

We are working on multiple fronts. On the one hand, we are investing in traditional defence capabilities such as tanks, ships, and submarines, as well as munitions and broader defence technology. On the other, infrastructure is a major priority.

Last week, in my capacity as Chair of the KfW Supervisory Board, we announced that KfW is now open to financing defence-related projects aligned with NATO objectives. Furthermore, KfW Capital has revised its investment

rules to allow the financing of defence tech companies under the €10 billion Future Fund. This includes support for venture capitalists across Europe investing in this sector. This move is aligned with similar efforts by the European Investment Bank (EIB) and the European Investment Fund (EIF), and with the wider financial community.

Industry now increasingly sees defence as a strategic customer base. While governments will provide considerable funding, the private sector must play a leading role in making the necessary investments. Our goal is to become a reliable, long-term customer that supports the development of a strong European defence industry through consistent demand and firm commitments.

Infrastructure is the other major focus. Our €500 billion infrastructure fund will be deployed over the next 12 years, targeting roads, bridges, railways, airports, digital networks, and healthcare facilities. We have adopted a broad definition of infrastructure that also includes climate-related investments.

The constitutional changes required to implement this programme have been completed with overwhelming support from both houses of the German Parliament. The next step is to translate these changes into specific legislation and budget allocations. This process is currently underway.

This brings me to our coalition agreement. As we move from constitutional reform to concrete measures, we must ensure that the necessary budgetary steps are taken. My colleagues in Berlin are now engaged in detailed budget negotiations to enable timely implementation.

A key element of the coalition agreement is to stimulate economic growth, which is vital to ensuring the affordability of these investments. Financial markets have made it clear that their concern is not whether we can access funding, but at what cost. Germany's borrowing costs will largely depend on our willingness to pursue structural reforms that enhance competitiveness and growth potential.

Germany's potential growth rate has declined from 1.5% to 0.5% over the past two decades. This must change. Credit rating agencies have affirmed our AAA status, but they have also warned that weak growth is a major long-term risk. Weak growth is also a risk in relation to our compliance with the European Stability and Growth Pact, which now places greater emphasis on expenditure and debt sustainability.

The shift from national to European constraints means that increasing our potential growth is essential. Budgetary discipline is necessary, but fostering higher growth is even more crucial. It enables us to align with the European fiscal framework while financing transformative investments.

Our close cooperation with France is essential in this regard. I am very pleased with the strong coordination we have established with Eric and other French colleagues. Together, we are pushing the competitiveness agenda forward, including the Capital Markets Union, the Savings and Investments Union, and other initiatives that are gaining momentum in Brussels.

We have already seen progress with the omnibus package to simplify sustainability reporting. The Council and Parliament have overwhelmingly supported

these measures, and the next two years will be crucial for refining the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

Our aim is to streamline sustainability reporting, reduce duplications, and enhance coherence between the standards of the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG). The current system requires reporting of up to a thousand data points, many of which are unnecessary. We must simplify this framework significantly.

We have been less successful in the area of taxonomy reporting. I have frequently asked for a convincing explanation of the green asset ratio and have yet to receive one. Our position is clear: if a metric remains unclear, it should be scrapped. Unfortunately, the European Commission disagrees and is considering further changes that risk increasing complexity. We believe that existing sustainability reporting requirements are sufficient and that the taxonomy's reporting obligations, including the green asset ratio, should be removed.

On the issue of competitiveness, banking regulation must also be approached with caution. We should resist calls, particularly from the United States, for aggressive deregulation. Our financial system is robust, but further layers of regulation—especially concerning the Fundamental Review of the Trading Book and the Net Stable Funding Ratio—could have unintended consequences. For example, they may incentivise the relocation of government bond trading outside Europe.

Lastly, on trade policy: After a rocky period, recent developments have been more positive. The EU is right to keep the door open to negotiations, to propose tariff reductions—even down to zero—while making it clear that it is prepared to respond with countermeasures if necessary.

This balanced approach is welcome.

Europe must also expand its global trade engagement. If the United States takes a more protectionist stance, the EU should pursue closer ties with countries such as Indonesia and India. Just yesterday, the Prime Minister of Kuwait reminded me of the ongoing free trade negotiations between the Gulf Cooperation Council and the EU.

Reducing global trade barriers may increase pressure on the US to follow suit. Financial markets have consistently responded positively to tariff reductions and negatively to trade tensions. The German Government firmly believes that now is the right time for the EU to push for greater openness in global trade.

Thank you very much, and I look forward to hearing Eric's speech.



Klaas Knot

President - De Nederlandsche Bank

Stating the obvious - a central bankers perspective on resilience in times of uncertainty

Sometimes it is a central banker's job to say things that are already completely obvious to everyone. 'The economy is recovering.' 'Inflation is running slightly above target.' That type of statement.

In the same vein, I think it will not come as a total surprise to you when I say that we live in times of elevated uncertainty. In the almost 14 years since I became governor of the Dutch central bank, we have experienced unprecedented shocks. I am thinking in particular of the European sovereign debt crisis, the COVID pandemic, and the Russian invasion of Ukraine. In the background, the climate crisis continues to worsen. And over the past few months, the world has once again turned upside down for us Europeans.

People generally don't like uncertainty, but economists go even further. They hate it. They do like risk. Risk can be identified, and it can be quantified. Well, not always, but most of the time. They can model it, they can price it, they can hedge it. They love to model it.

For a long time, economists tended to solve the uncertainty problem by assuming it away. A lot of classical macroeconomic models assume that the probability distribution of future states of the world is known by agents.

But those strong assumptions about states of knowledge and cognition have not always been part of the economics profession. As early as 1921, Frank Knight published his book on optimal choice under fundamental uncertainty. And in the work of Keynes, Friedman and Hayek, imperfect information has a prominent place.

Over the last two decades, uncertainty and imperfect information have become more prominent in economic research.

Thanks to this, today we know a lot about optimal decision making under uncertainty. One of the things we know is that in a world of risk and rational expectations, the optimal response to complexity is detailed and fine-tuned. But under uncertainty, that logic is reversed. Complex environments often call for simple decision rules. That is because such rules are more robust to unexpected changes.

That insight may be highly relevant in today's world. If we ever had the illusion that the world behaved like our economic models, now is the time to say goodbye to that illusion. Unforeseen events have always happened, but in the current global economic and political climate, it is as if the news headlines are screaming at us: expect the unexpected! It reminds me of that famous quote by Harold Macmillan. When asked, as Britain's new prime minister, what would determine his government's course, he replied with: "Events, dear boy, events."

What does that mean for central banks, regulators and financial institutions? For us, the current state of the world is more or less a given. Creating and solving global political problems is not part of our remit. But what we can and must do is make sure the financial system is resilient enough to withstand the shocks that may come. Uncertain times ask for robust policies.

For financial institutions, the primary answer to uncertainty has always been capital. For expected losses, banks hold provisions. For unexpected losses, they hold capital.

The financial crisis of 2008 made it clear that banks needed higher buffers to shield themselves against unexpected

events. The strengthening of capital buffers after the great financial crisis served us well. Most notably, during the pandemic. Thanks to stronger buffers, banks were able to absorb losses and continue extending credit when the economy took a hit as a result of the lockdowns. In many countries, the presence of stronger buffers also allowed for capital to be released when needed most.

Stronger buffers and a more resilient banking sector continue to serve us well. Especially now in these times of fundamental uncertainty. A resilient financial sector can help the economy to withstand shocks from trade barriers and geopolitical events.

But our work to make the banking sector more resilient is not yet complete. For one thing, the final Basel III standards, that are meant to repair key weaknesses in banking regulation, still need to be implemented in many jurisdictions. In the meantime, the banking turmoil of two years ago was a reminder that bank failures are not a thing of the past. So there is still work to be done for banks, regulators and supervisors.

Against that background, in some countries there is a call for simplification of banking rules. I understand where this is coming from and I have some sympathy for it. As I said, simple rules may to some extent be an appropriate response to complexity and fundamental uncertainty in the financial system. And holding capital is in principle a simple way to deal with a complex and uncertain world. But the methods by which regulatory capital is calibrated nowadays have themselves become very complex.

I am in favour of simplification if warranted. But keep in mind here that simple rules are less risk-sensitive and thus more constraining. That's the trade-off. You want simpler rules? Sure, but those rules are then calibrated at a more prudent level. That is the logic behind the leverage ratio. That is also the logic behind the standardised approach.

Most importantly, we should be careful not to confuse simplification with deregulation. Deregulation means effectively lowering buffers by relaxing the rules. That would increase both vulnerability in the banking system and the likelihood of financial crises. That would be a big mistake.

Many in the banking sector view regulation as a constraint, something that limits profitability and imposes undue costs. But it's just the other way around. Prudential rules are not an obstacle to growth, they are an enabler of sustainable, long-term growth. Banks with strong capital positions and sound liquidity management are better positioned to extend and rollover credit, invest in new technologies and finance large scale projects. Strong banking rules are not a liability, they are an asset. Especially in uncertain times. And this is why we should fully implement Basel III in Europe. Even if other countries delay its implementation.

Next to bolstering bank buffers, we should further strengthen the European internal market. Especially in times of high uncertainty, a robust EU internal market serves as a first line of defence against external shocks. The IMF has recently estimated that by reducing the barriers to our internal market to levels comparable to those in the US, the EU could increase its productivity by almost 7 percentage points. By reducing our reliance on other regions we can cushion the impact of trade restrictions. And research shows time and time again that a deep internal market remains the EU's most effective tool for promoting a resilient and innovative economic and financial system.

An essential part of strengthening the internal market is further integrating Europe's fragmented financial markets. With the recent launch of the Savings and Investment Union, the European Commission is turning this objective into a concrete strategy. I think the Commission's proposals to integrate and enlarge our capital markets

by supporting retail participation, including through pension savings, are a very good idea. That also goes for the proposals to centralise certain types of capital market supervision and address structural barriers against consolidation.

The SIU strategy gives Member States more responsibility for developing Europe's capital markets, in particular in the more complex areas of taxation, insolvency and pensions. Member States themselves had asked for a more bottom-up approach, and the Commission listened. Now it is up to Member States to live up to their commitments and come up with national initiatives, including the removal of existing national barriers.

Another step we can take to strengthen Europe is to introduce a digital euro. As you know, central banks and legislators are investigating the possibility of issuing a digital euro alongside cash to complement the existing commercial means of payment. This is important because the use of cash at points of sale is declining, meaning our reliance on commercial, electronic payment solutions is increasing. However, this does not contribute to our strategic autonomy, as commercial payments systems are still very much dependent on non-European parties. A digital euro will ensure that everyone in the euro area retains access to a simple, universally accepted, secure and reliable means of payment under all circumstances, in addition to existing payment options.

These uncertain times ask for more European cooperation. But that does not mean we should be turning our back on the rest of the world. On the contrary, we must continue to speak out for the benefits of multilateralism. We must continue to support the institutions that form its very pillars, like the IMF, the Basel Committee, and the FSB. And we must continue to cooperate with others who are willing to safeguard international standards, for example in financial regulation.

Multilateralism is enlightened self-interest. It's transactional, but in a smart way. It's not always the easiest way, but in the long term it is the best way. That is the lesson we learned in post-war Europe.

This is my last speech at Eurofi as central bank governor and as FSB chair. My term as president of the Dutch

central banks ends on July 1st. Those of you who had the patience to listen to my contributions over the years, typically on the Friday morning slot, know that I am a believer in buffers, buffers, buffers, to deal with the twists and turns of financial fate.

After the global financial crisis that was considered a no-brainer. But as the memory of that crisis fades in the rearview mirror and international relations become more strained, we risk entering a regulatory race to the bottom. A race that would be quite dangerous for financial stability. Financial stability is easily taken for granted, but that would be a mistake. It reminds me a bit of that Joni Mitchell song Big Yellow Taxi: 'You don't know what you've got till it's gone.' It's a song about the environment, and the threat of ecological disaster, but it's equally applicable to financial stability. Let's remind ourselves what we've got, and let's protect it. That amounts to stating the obvious, but sometimes that is a central banker's job.



François Villeroy de Galhau,

Governor - Banque de France

A European approach to simplification: avoiding three misconceptions, and suggesting concrete milestones

Ladies and Gentlemen,

I am pleased to attend this Eurofi Summit here in Warsaw – the birthplace of Marie Skłodowska-Curie, renowned French-Polish scientist and two-time Nobel laureate. A great European as well, currently among the shortlisted personalities to appear on future euro banknotes. Let me start with one strong belief on Europe, which is our common safe haven. In this newly chaotic world, we have an absolute duty and a unique opportunity to enhance our economic power, which means accelerating on at least two positive solutions: (i) to build a digital euro to anchor our monetary sovereignty, in partnership with commercial banks, (ii) **to have now** a comprehensive legislative package put forward by the Commission to integrate more the Single market and the Savings and Investments Union, following the Draghi and Letta Reports. On both fronts, waiting in tetany or stupefaction would be lethal, and speed is of the essence: let us act faster and further.

Coming back to science, financial stability and banking regulation must likewise be built on rigour – but also on clarity. In times of heightened uncertainty, we must not lose sight of the fundamental “why” that underpins our regulatory architecture.

I will first elaborate on three misconceptions and one rightful takeaway for simplification (I), before suggesting a few concrete milestones to go down the road (II).

1. Three misconceptions and a rightful takeaway for simplification

1.1 First misconception: we need US-like deregulation

The first misconception would be to follow the path of deregulation. Today, a strong wind is blowing from across the Atlantic with a dangerous temptation to forget the lessons of the 2008 global banking crisis.

Deregulation would sow the seeds of future financial crises, still more at a time when crypto-assets and the growing role of non-bank financial intermediaries (NBFIs) are expanding the perimeter of systemic risk. Let me be clear, in case anyone here is still tempted to emulate the “example” set by M. Trump’s team: it would be a huge mistake. The Trump administration is heading down the wrong path with its economic and financial agenda – and

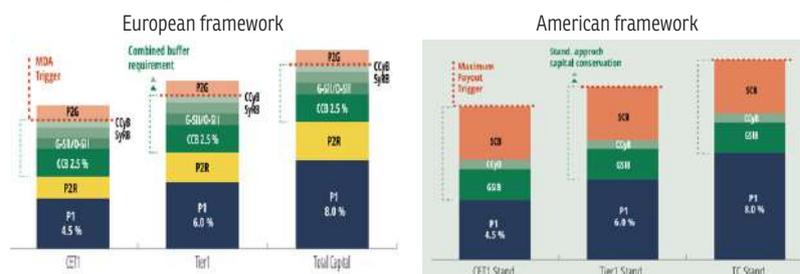
the severe financial instability triggered after April 2nd is a clear demonstration thereof. We shouldn’t and we won’t enter a race to the bottom.

1.2 Second misconception: nothing should change in Europe

The second misconception, conversely, would be that nothing should change – that even modest adjustments would inevitably open the door to broader deregulation and bow to “banking sector lobbying”. This fear is unfounded: European regulators and supervisors are competent enough to know where to adjust, and where to stand firm. A decade after its inception, the Banking Union has become strong enough to acknowledge that there is room for possible improvement.

Over the years, a growing number of requirements, guidelines and technical layers have been added to the framework.

BANKING PRUDENTIAL REQUIREMENTS ARE NUMEROUS IN EUROPE
Comparing banking prudential requirements: the case of the capital requirements



Source : EBA « stacking orders and capital buffers » rapport (2024).

Notes : 1) Capital requirements related to going-concern solvency (excluding gone-concern MREL/TLAC requirements);

2) The charts aim to reflect requirements for large banks. The size of each requirement layer in the charts is illustrative and does not reflect actual rates (e.g., the CCyB exists in the US but is currently set at 0%).

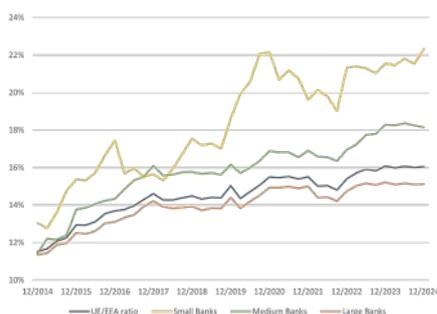
This is not simply the result of bureaucratic blindness that is all too easily vilified: the different European authorities are doing their job competently and conscientiously. But in Europe at least, there are structural causes. First, there is an accumulation of international, European and national standards, with the constant temptation to add more. Each country also wants to keep its previous rules, making it difficult to lighten the burden. There are also numerous bodies in charge – the SSM with its microprudential role, the ECB and the European Systemic Risk Board (ESRB) with their macroprudential role, the SRM for resolution, European agencies including the European Banking Authority (EBA) for banks, and various national authorities.

1.3 Third misconception: we should still add requirements on European banks

The weakness of this European architecture is that no single authority is truly responsible for taking a holistic view on the appropriate level of capital. And there is possibly an assumption that more capital is always better, regardless of context or calibration. This dynamic is often driven by siloed optimisation: each authority, acting with the best of intentions, introduces additional layers of safeguards. Such “local” optimisation can lead to a suboptimal race to the top.

But the reality is that European banks as a whole do not lack capital or liquidity. On the contrary, over the past decade, the average CET1 ratio of European banks has increased from 12.5% to 16.1%.

EUROPEAN BANKS' BALANCE SHEETS ARE ROBUST
CET1 ratio fully loaded



Source : Source: EBA Risk Dashboard ; Banque de France.

Their resilience has been repeatedly tested and confirmed – recently through the 2023 stress testing exercises, which are credible, and well-recognised by markets, based on a very severe scenario, corresponding to a drop in the GDP approximately twice as strong as during the Great Recession. Moreover, the current 2025 exercise will anchor this credibility, as it is based on a narrative of worsening geopolitical tensions, with large, negative, and persistent trade and confidence shocks.

1.4 A rightful takeaway: we need a European approach to simplification

These three misconceptions lead us to a more grounded conclusion: the need for a European approach to simplification that is firm on objectives, but more nimble in design. The difference from deregulation is threefold:

First, we stick to the **fundamental objectives**: financial stability must remain paramount. The cost of banking crises is too high¹ to be treated lightly. The same holds true for climate change, which is no longer a distant risk but an economic reality.² One word about the objective of **competitiveness**: it is important for the industry, and rightly so; but there is a hierarchy of objectives. Just as in monetary policy, price stability is the primary objective, preceding growth support, financial stability must remain our primary objective. Insofar it is ensured, we should indeed support competitiveness.

Second, we stick to the **international standards**: Basel 3 for the banks, FSB guidelines for non-banks and cryptos. Most jurisdictions implement them: the new US unilateralism is the exception, and cannot become the rule.

Third, simplification is about **diminishing complexity**, and not necessarily diminishing requirements. We must examine how rules

interact, how they are applied, and whether their combined and holistic effect truly serves their intended purpose. This applies to both regulation and supervision. Simplification is not a softening of our ambition but a way to make it more effective.

2. Going down the road of simplification: concrete milestones

Let me in this spirit lay down a few concrete milestones towards a European simplification.

2.1 Short term: supervision and reporting – including ESG

In the short term, there are opportunities to reduce the administrative burden for banks and competent authorities. On supervision, we welcome the SSM's “SREP of tomorrow” initiative and the work on reporting simplification. They are important steps forward, and they must now be fully delivered and enhanced. In parallel, the EBA has launched concrete efforts to rationalise Level 2 and 3 texts, as well as reporting requirements, with practical actions to be taken by the end of 2025. I also welcome the Commission's decision to bring forward to 2026 the report on the state of the banking system in the single market, with a focus on competitiveness.

On **ESG reporting**, the Omnibus directive's direction of travel is encouraging. The reduction in reporting burden is welcome – but we can finetune the right balance, especially on CSRD. In particular, for mid-sized companies (from 250 to 1,000 employees) an appropriate reporting framework is still to be defined. Moreover, the upcoming streamlining of the first set of ERS standards prepared by EFRAG should still contain the most necessary data to address climate-related financial risks, such as information regarding entities' transition plan. Indeed, we strongly support the development of credible transition plans for financial institutions. In this regard, achieving consistency between CSRD and CSDDD is a major step forward. The deferral of sectoral rules at this stage is, in my view, a sensible and proportionate choice.

2.2 Medium term: regulation

Quick wins matter – but we must also keep the broader perspective in view.

As underlined last February in our joint letter to the Commission with the Governors of the Bundesbank, Banca d'Italia and Banco de España³, simplification must begin with a **holistic assessment** of the present framework.

This could lead afterwards to constructive discussion of Level 1 texts, and a critical review of gold-plating and Europe-specific layers of complexity.

While we should not pre-empt the outcome of this review, a number of wellknown candidates for simplification already stand out in my opinion. First, on **resolution**, the coexistence of TLAC and MREL requirements, which is a clear case of gold-plating and complexity. Then, the **multiplication of MDA triggers**, which generates uncertainty for capital planning. In particular, the removal of the MREL and leverage ratio-based MDA triggers deserves serious consideration. Beyond these, ambition in simplifying should be maintained even on more complex topics such as the structure of the capital stack, and in particular, the macroprudential architecture.

On **Basel 3**, I am and remain a great supporter of its implementation, with one exception: it is appropriate to postpone by one more year to 2027 the implementation of the fundamental review of the trading book (FRTB) given the international uncertainty. This delay should be used to adjust some of the design of the FRTB. Lastly, current European discussions on the output floor's impact on the P2R should be in line with the spirit of the level 1 text and avoid goldplating.

To conclude, we can be proud of what has been achieved since the 2008 crisis: the European banking system is now more robust, better capitalised, subject to stronger and more coordinated supervision, giving us greater confidence as we

face today's uncertainties. We can now turn to what remains to be done: reducing the complexity of our framework without weakening it. Simplifying does not mean lowering our guard – it means strengthening our foundations. Let us discuss it together, with a bit less passion and mutual suspicion, and a bit more pragmatic action. As Marie Curie said: "Nothing in life is to be feared, it is only to be understood." We must show less fears, and more mutual understanding.

This is, contrary to the latest US drift, the European way I believe in.

-
1. "For instance, the median cost of over 150 systemic banking crises during the period 1970–2017 is 6.7% of GDP for advanced economies and 10% for emerging market economies (Laeven and Valencia, 2020)". Source: BIS Working Paper n°1090. Monetary and Economic Department. Claudio Borio, Marc Farag and Fabrizio Zampolli.
 2. Tackling the fiscal policy-financial stability nexus. April 2023. ii The estimated cost of physical climate damages is projected to rise from 5% of global GDP today to 15% by 2050. Source: Network for Greening the Financial System (NGFS). NGFS long-term climate scenarios – Highlevel Overview. November 2024.
 3. Joint Letter from Banque de France, Bundesbank, Banca d'Italia and Banco de España, to the European Commissioner Albuquerque. 19th March 2025.



Sam Woods

Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority - Bank of England

EU-UK regulatory cooperation, competitiveness and growth

Thank you, Didier, very much. Let me start with three quotes. First, here is the White House. 'President Trump will halt the job-killing and inflation-driving regulatory blitz.' Second, here is Rachel Reeves. 'The regulatory system has become burdensome to the point of choking off innovation, investment and growth. We will free businesses from that stranglehold.' Third, Ursula von der Leyen, 'We need to make it easier to do business in Europe. First, this means cutting red tape.' Didier, as you know well, Eurofi is attended by many very highly accomplished and very skilful industry lobbyists. They have been studying these comments, and they have detected a common theme, which is that across the Western world, with a few notable exceptions, the most senior political leaders in power have reached the view that we have too much regulation. As well as the lobbyists, there are many regulators here as well.

What should we make of this as regulators? Let me just tell you a little story about the first time I attended the Board of Supervisors at a European supervisory authority (ESA). I should be clear about this. I have actually been on the Board of Supervisors of more than one ESA, so I am able to tell you this story without revealing its source. What happened was I met with the team back in the UK and at PRA, before going to my first meeting, because I wanted to make sure I understood what we were about. Did I need to try and forge an alliance with the

Dutch, try and head off an Italian amendment, come in early, come in late? This is very familiar to many of you here in this room. The team is very hard working. They have done me an excellent brief. The brief was about 30 or 40 pages, to explain to me what I should be doing in this meeting.

They printed off the brief, but everything else, all the other papers, they had put onto my iPad, which I have just there, in order to save on printing. As it was my first meeting, I said, 'No, just print off me all the papers for the meeting.' They said, 'Are you sure about that?' I said, 'Yeah, print them off.' They printed them, and the board pack for this one meeting was about this thick. I thought, 'This is quite a big mouthful.' I waded my way through it, but when I got to the end of it, I realised that what they had done was print off the meeting papers, but they had not printed off for me all of the rules which we were being asked to approve in this meeting, which would then apply to the financial sector. I said, 'Can you please print those for me as well? I want to make sure I know what we are approving here.' They looked at me like I was a madman, but I insisted.

Anyway, they printed them. It is an actual fact that the rules we were approving in that one meeting were actually too big to fit into my suitcase, so I had to leave them in the UK. I have always remembered that episode, and I am not making an EU point here. We are very capable of producing

very long regulations by ourselves in the UK as indeed our colleagues are across the Atlantic Ocean, although they seem a little distracted just at the moment.

I am telling you this because, as regulators, I think we should acknowledge that in some places the politicians may in fact have a decent point. In fact, in the UK we have gone further than this. The Parliament in the UK, probably some of you know, gave us regulators a clear and a strong new mandate to do more to facilitate competitiveness and growth. This had strong cross-party support when brought in, in 2023, and retains strong support from both of the main parties, even though we have had a change of government since. We are making a major and sustained effort to deliver this new responsibility given to us by our elected representatives.

Simplification is a very important part of this, and much discussed at the moment here in the EU, but I would argue the issue is in fact a bit broader than that. We are making some simplifications, such as our new strong and simple regime for small banks. I know that tailoring is a dirty word here in the EU following the banking turmoil of 2023, but honestly, the full complexity of our rulebook is too much for our smallest institutions. We are also cutting compliance burdens. For instance, we have cut the reporting burden for insurers in the UK by a third and are now exploring what we can do on the banking side.

Some things have in fact been over-calibrated. In the UK we have been deferring senior bankers' bonuses, including a couple of people in the room actually, who probably have strong views on this. We have been deferring over effectively eight years. Deferral is very important, but eight years is more than we need and out of line with the approach elsewhere, so we are consulting on bringing that back in a bit. Another example is a small one, but I think it is a good example of over-calibration. It is that in our rules we prevented high street financial advisors from banking with ring-fence banks, on the grounds that they were a financial institution. That is a step too far and not necessary to achieve the purposes of the ring-fence. In a few places, we have simply made mistakes. Somewhat nervously, as we are here in the EU, I would point to the bonus cap as one such mistake, because in our view it does not advance regulatory objectives, and in some ways in fact it does the opposite.

Underlying all of this, following a long period of very significant regulatory expansion and change following the global financial crisis, it is actually reasonable for the financial sector to seek a bit less churn in the coming period. I imagine, possibly wrongly, that any industry lobbyists in the audience today will have been enjoying this speech so far, although of course plenty of regulatory churn is a great thing for lobbyists, so perhaps you are worried about that aspect. Those of you who fall into that category are also experienced hands, so you are waiting. You are waiting for the 'but'. Is there a 'but'? Of course, there is a 'but'. There must always be a 'but'. The 'but' in this case is very simple. We must not throw out the baby with the bathwater. There is a lot that we can and should do to ease the regulatory burden and support growth, but we must not take steps which undermine financial stability.

The UK Parliament actually debated this very specific issue long and hard in 2023, and provided an absolutely clear

message to the regulators. We like the baby. We want to keep the baby. Do not injure the baby while changing the bathwater. Possibly some of you here are not very familiar with this English idiom about babies and bathwaters. You are wondering, 'Why is this regulator talking about babies?' Let me put it to you more simply. The instruction from Parliament to us is, 'Do not do anything to deliver our new objective on competitiveness and growth which would undermine our primary objectives of safety and soundness and policyholder protection.' I think this position is very sensible, because in my view, there is in fact scant evidence that the key planks of the post-global financial crisis (GFC) reforms, such as the overall level of capital in our banking systems, have in fact been seriously overcooked.

One obvious risk to this position is, however, the possibility of a potentially unstable dynamic between jurisdictions, leading to a race to the bottom. As it happens, some talented researchers in the UK have just published a super interesting piece on this exact issue. Carlos Salazar, Misa Tanaka and John Thanassoulis have created a quite ingenious thought experiment on competitiveness and growth. Bear with me for a moment here. Imagine a world with two countries, and each with a financial regulator. One regulator, let us say it is run by Misa and Carlos, is more strongly focused on financial stability, and the other, let us say it is run by John, is more focused on short-term growth. If there are no internationally mobile banks, each regulator sets the stringency of regulation at the level which maximises to its preferences. Unsurprisingly, Misa and Carlos set tougher rules than John.

Next, our researchers consider what happens when some banks are willing to move countries. This creates an element of competitive deregulation, as regulators make some efforts to attract and retain banks in their own jurisdiction, but not a race to the bottom as long as both regulators attach some weight to financial stability.

Our researchers then examine what happens if the regulators are given a stronger growth mandate. It turns out that, if we give John a stronger growth objective, so that he becomes even more growth-focused, then competitive deregulation does not intensify much, because Misa and Carlos simply become less willing to compete with him. Therefore, the stringency of regulation is not much changed. If, however, we give the stability-minded Misa and Carlos a stronger growth objective, then competitive deregulation kicks in much more strongly, as they lower the stringency of regulation, and John reacts by lowering his standards further as well. We see a big drop in stringency, though interestingly one that still remains short of a race to the bottom, because both regulators still want to avoid costly financial crises.

We can take all this with a pinch of salt, as it is only a theoretical model, but I think it points to something very important: the role that international standards and cross-border cooperation in banking regulation can play in driving a shared commitment to financial stability, which serves the interests of citizens in all of our countries. This seems particularly relevant today, with the UK having left the EU and in a world which is fragmenting more daily. I share the UK government's enthusiasm for deepening cooperation between the UK and the EU as we enter the next phase of global affairs. As a regulator, I expect to play my full part in that.



Jean-Paul Servais

Chairman - Financial Services and Markets Authority, Belgium (FSMA)

Towards a pragmatic SIU approach to the benefit of all EU member states

It is with great pride that I deliver this final reflection, inspired by the insightful remarks shared during the last panel. During my remarks I aim to present a pragmatic vision for a Savings and Investment Union (SIU) that can truly serve all EU member states. I shall focus particularly on the importance of local ecosystems in supporting both investors and issuers—especially small and medium-sized enterprises (SMEs) and scale-ups.

Let me clarify that I speak not in my capacity as Chair of the International Organization of Securities Commissions (IOSCO), but as Chair of the Belgian Financial Services and Markets Authority (FSMA)—that is, from the standpoint of a national regulator. Although I have no political mandate, I firmly believe that national supervisors such as myself must be part of the conversation. I am grateful to Didier and his colleagues for offering me this platform.

At present, the real issues of the SIU are scarcely addressed in public discourse. Perhaps this is because, as Mario Draghi rightly noted, there is no single solution or "silver bullet." In the absence of such a solution, discussions tend to focus on adjacent topics such as supervisory architecture. However, much of the information circulating is, unfortunately, inaccurate. For this reason, I feel compelled to share some facts and figures—not to suggest that progress is unnecessary, but rather to clarify the challenges and reaffirm the role of regulators in helping to build the SIU.

Whether one works in the public or private sector, we share a crucial objective: to make market-based savings accessible throughout the European Union. In this respect, SMEs are key. As a Belgian, I come from a relatively small country, but one that is home to 400,000 listed SMEs. These businesses are the backbone of open economies. According to Eurostat, SMEs make up to 99 per cent of all businesses in the EU. They employ 48 per cent of the workforce and generate 35 per cent of gross value added.

Europe is abundant in promising ideas and innovation. Our universities are world-class, and our joint ventures offer solutions to both digital and sustainable transitions. They also increasingly contribute to strengthening our defence capabilities. When we speak of drones or finance, the innovation rarely comes from established giants. It emerges instead from joint ventures, FinTechs, and start-ups, often working in close collaboration with universities and local ecosystems. These young, dynamic companies must be able to access EU capital markets easily—from pre-seed funding to initial public offerings (IPOs).

In my role as Chair of the Corporate Governance Committee of the OECD, I have learned from valuable research that more than 8,500 companies are listed on growth markets across Asia. By contrast, Europe has only 3,486. While China is, of course, not a small country, this disparity is telling. If companies are forced to seek funding outside the EU during their growth phases,

they may ultimately choose to list on non-EU stock exchanges. The challenge is how to enable them to go from A to B within Europe.

I propose three measures. First, SMEs must gain a clear understanding of the benefits and opportunities offered by EU capital markets. Are we truly confident that this understanding exists? Or is the Eurofi initiative operating in an echo chamber? Consider the following: as a member of the Euronext College of Supervisors, I discovered that only a small fraction of companies listed on Euronext Brussels utilise the European passport. Why? Not because of fees or barriers—it is free and available immediately upon request. The problem seems to be a lack of awareness.

This suggests a lack of knowledge beyond informal financing methods like "friends and family." Therefore, we must improve communication. One solution would be to establish an EU-wide financial literacy network that shares best practices among national authorities. This network should not only enhance investor literacy—a cause I have long championed—but also coordinate efforts to guide SMEs towards market-based finance. Many capable entrepreneurs hesitate to go public, daunted by the demands of transparency and the need to communicate openly, even during downturns.

We are addressing this in Belgium with the launch of a new academy dedicated to market readiness. Interestingly, our Financial Services and Markets Authority (FSMA) also educates companies on avoiding

market abuse, underscoring the enabling role that regulators can play. Belgium's Wikifin programme—a national initiative led by the FSMA—has become a model for investor education. Moreover, we routinely provide public guidance on new legislation, even when not legally required. This proactive approach equips companies with the tools they need to navigate financial markets confidently.

Second, we must not shy away from simplifying the administrative and regulatory burdens faced by SMEs. Your concerns are mine as well. I was among the first to advocate for the endorsement of International Sustainability Standards Board (ISSB) standards by IOSCO. At the same time, I cautioned against an overly broad scope for the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS).

This is why I welcome the Commission's Omnibus package proposal. As the ESRS are revised, it will be essential to engage directly with companies and users of sustainability disclosures. The goal should not be to generate statistics, but to provide material information that helps firms attract capital and supports investor decision-making. In this context, the Commission might also consider launching work on optional "IFRS-light" accounting standards for listed SMEs.

We could also exempt plain vanilla bonds from prospectus requirements.

Third, and finally, we must preserve and strengthen local ecosystems across the EU in particular as product offerings often differ from one member state to another. The European securities market is a tapestry of diverse local environments. Consider that over the past decade, 501 companies have been listed in Sweden—more than in France, Germany, the Netherlands, and Spain combined. This is partly due to a strong investment culture and an openness to risk and failure.

Sweden offers a compelling example of a vibrant financial ecosystem, composed of law firms, boutique advisory services (often lacking

in other jurisdictions), investment banks, institutional investors, and experts in financial regulation, accounting, and communication. The industry recognises this as a competitive advantage.

It is no coincidence that I have been invited to deliver the closing remarks—perhaps in the hope that most bankers have already slipped out for a drink. Joking aside, it is imperative that all stakeholders remain engaged. High underwriting fees can pose a serious barrier for small issuers. In some EU IPOs, fees reach 5 to 7 per cent of the transaction value. While this may be lower than in the United States, we must question whether we are truly operating in the same global environment.

This is not an issue of supervisory or administrative costs. For small IPOs, the pressure to seek listing opportunities outside Europe remains strong. In Belgium, we are actively addressing this with support from the banking sector. Adequate tax incentives are also essential to encourage investment in SMEs. To put it bluntly: when you multiply one thousand by zero, you still get zero. No IPOs mean no progress.

Let me conclude with a brief reflection on supervisory architecture. Reform in this area is unlikely to be a cure-all. The experience of the Banking Union has shown that centralised supervision does not necessarily lead to market integration or the emergence of pan-European players. Instead, we should aim for a balanced, efficient system that respects the interests of all member states.

In business-to-consumer (B2C) activities, such as product supervision, national regulators should retain responsibility within a common EU framework. Investment fund distribution continues to reflect national and cultural preferences. As a member of the Board of the European Securities and Markets Authority (ESMA), I fully support its mission. However, ESMA should maximise its tools to promote supervisory convergence and ensure a level playing field.

For instance, the process for notifying cross-border distribution of UCITS and AIFMs could be

streamlined. A fund could inform its home supervisor of the compartments and share classes it intends to distribute elsewhere. The home authority would update the ESMA register, and this information would then be automatically shared with host supervisors. Though technical, this reform would simplify life for thousands of asset managers.

In the field of trading infrastructure, we could go further by enhancing the supervision of stock exchange groups. As a member of the Euronext College of Supervisors, I believe that national supervisors and colleges should also further strengthen the group dimension of market operators. Granting ESMA a coordinating role or expanding the remit and creating a new generation supervisory colleges with enhanced powers, would support the effective functioning of cross-border market operators.

Finally, I would caution against fragmenting supervisory powers over issuer disclosures between national authorities and ESMA. The lessons from Wirecard failure are instructive here: a two-tier oversight system can lead to inefficiencies. We should avoid such duplication in corporate financial reporting. Dividing responsibilities could result in incomplete information flows and hinder effective supervision.

Building a successful SIU will require a comprehensive, SME-focused strategy rooted in strong, convergent local supervision. We must invest in financial literacy and foster a deeper investment culture. Most importantly, we must learn from one another and work collectively to create a thriving financial ecosystem.

To conclude, in my capacity as IOSCO Chair, I urge EU jurisdictions to fully engage in multilateral cooperation. Global standard-setters such as IOSCO and the Financial Stability Board are essential to addressing cross-border risks in areas such as non-bank financial intermediation. No single country can do this alone. Whatever the geopolitical context, enhanced international collaboration remains imperative.

Thank you for your attention.



Shigeru Ariizumi

Vice Minister for International Affairs - Financial Services Agency, Japan (J-FSA)

Wrap up on SIU priorities and next steps

Good afternoon, everyone. It is a great pleasure for me to be here today at Eurofi. Eurofi has always been a particularly enjoyable conference to attend, bringing together colleagues from across Europe — including public authorities and market participants. I always appreciate the opportunity to be part of this forum. I would like to begin by thanking David, Didier, and the entire Eurofi team for hosting this event in the beautiful city of Warsaw. At the outset, I would also like to commend the European Commission for the recent publication of the Savings and Investments Union, which has already sparked considerable discussion.

This is a very welcome development. There is a growing need for investment across the globe, including in Europe, and it is encouraging to see that this proposal outlines a comprehensive strategy with a clear timetable for action. In today's rapidly evolving global environment, the world needs a dynamic and resilient Europe. We hope that this initiative will become a central pillar supporting that aim.

Both the European Union and Japan face similar challenges. Japan has long struggled with deflation and sluggish economic growth. Like Europe, we have a predominantly bank-based financial system, and we recognise the need to shift from cash and deposits towards investment. In Japan, we are now on the verge

of overcoming deflation. I hope that current developments will not jeopardise this effort, but last year brought promising signs of economic recovery. We witnessed record wage increases of over five percent — a figure that is extraordinary from a Japanese perspective.

For the first time in thirty-three years, equity prices and nominal capital investment also reached record highs. One of the key drivers of this progress has been our initiative to position Japan as a leading asset management hub. While this may appear narrow in scope, it is in fact far-reaching. The initiative rests on three pillars: first, supporting stable asset building by households; second, enhancing corporate governance; and third, reforming the asset management industry and patterns of asset ownership. Today, in the context of the Savings and Investments Union, I shall focus on the mobilisation of household assets.

What was the central thinking behind our reform efforts? Let me share some personal reflections. Although I am not especially fond of 3D films, **I describe our strategy using three Ds: determination, decisive action, and a diverse approach.**

Let me begin with **determination**, which refers to strong political commitment at the highest level. For instance, former Prime Minister Fumio Kishida launched our asset management initiative, and it continues to receive strong support from the current Prime

Minister, Shigeru Ishiba. This backing enables government agencies to act boldly, knowing they have the support of their political leadership. That is crucial.

The second element is **decisive action**. As was discussed in the previous panel, ambition is essential. Let me illustrate this through our efforts to encourage retail investment. At the heart of our approach is the Nippon Individual Savings Account (NISA), which is comparable to the ISA scheme in the United Kingdom. NISA is a tax-exempt investment scheme, offering exemption from capital gains and dividend taxation. In 2024, we implemented a major overhaul of the programme, tripling the investment limit and making it permanent — a move that provides clarity and confidence to retail investors.

NISA now consists of two components. The first is the Accumulation Segment, designed for novice investors. It promotes long-term, diversified, and regular investment — typically via monthly deductions from salaries. The products eligible under this scheme are restricted to simple, balanced, low-cost investment trusts. The second component is the Growth Segment, which is tailored to more experienced investors. It allows investment in individual stocks and active funds, including those with a more dynamic investment strategy.

A particularly important feature is that NISA includes eligibility

for overseas investment products. This allows investors to construct globally diversified portfolios. Naturally, there have been political voices in Japan questioning why household assets should be invested abroad, and why the scheme is not limited to domestic equities and bonds. Nevertheless, we have remained steadfast in our approach.

At the same time, given the realities of global market competition, the government has introduced a complementary growth strategy. This strategy identifies key sectors in which Japan has a comparative advantage and aims to attract investment into these areas.

The third D stands for a diverse approach. Alongside reforming the NISA programme, we have integrated financial literacy efforts. This point was discussed earlier as well. If retail investors are to participate actively in markets, they must be well-informed. To that end, we established the Japan Financial Literacy and Education Corporation (J-FLEC) in April of last year. J-FLEC is a public-private partnership, with both sectors contributing financial and organisational resources. Together, we aim to raise the level of financial literacy across the country.

J-FLEC certifies financial professionals who demonstrate a commitment to acting in their clients' best interests. The organisation produces standardised educational materials and offers both group sessions and one-on-one consultations. While standardisation is important, it is equally vital to recognise individual circumstances. People have different financial goals based on their age, income, asset base, and risk tolerance. Thus, in practice, guidance must be personalised — and that demands significant time and resources. It is not easy, particularly in Japan, but it is essential.

As mentioned earlier, this is not a matter of one or two days. It requires long-term, consistent

effort. In addition, it is important to ensure that broker-dealers are acting in good faith and prioritising their clients' needs. We must guard against the promotion of opaque or excessively complex products. This is critical.

The success of NISA has been remarkable. In just two years, the number of accounts has increased by eight million, bringing the total to twenty-five million — meaning that one in four Japanese adults now holds a NISA account. Annual purchases through the programme have reached eighteen trillion yen, a threefold increase from the previous year. The statistics also indicate strong uptake among younger generations, which is very encouraging.

Before concluding, let me share two additional thoughts. First, regarding the three Ds — while political leadership is crucial, I appreciate that consensus-building across multiple Member States can be more challenging in the European context. Nevertheless, I hope that constructive dialogue between the European Commission and Member States will help find an optimal path forward. Europe's success remains vital on the global stage, and I have high hopes for this initiative.

Second, let me briefly touch upon the risks. Shifting from savings to investment often sounds very promising, but investment inherently involves risk. At times, investments may underperform or even result in losses. Recent market developments have tested our resolve, but we have remained committed. Our Minister made a statement earlier this week, urging investors to remain calm and to focus on long-term, diversified, and regular investment strategies.

Consistency is key. Retail investors who begin with an accumulative strategy need reassurance that policies will not change abruptly. Policymakers must remain steady and coherent over time.

Finally, allow me a short announcement. We plan to showcase the progress of our

reforms during "Japan Weeks," a series of investor-related events taking place from 20 to 24 October. If you are considering a visit to East Asia, that would be an ideal time to come. We would be delighted to welcome you to Tokyo.

Thank you very much for your attention.



Bernard Mensah

President of International - Bank of America

Speech

Thank you, Didier – and thank you for giving me the opportunity to speak. I thought I would share a few thoughts over the next ten minutes or so. It is really good to be back and to see some familiar faces. I have attended Eurofi for several years now, though I missed the last one. It feels like there's real momentum behind the broader journey we've all been on in global finance – and I will come back to that in just a moment.

First of all, a big thank you to our Polish hosts and the team for inviting us. It has been great to meet so many peers, colleagues and regulators throughout the day. There's a Chinese saying that goes, 'May you live in interesting times.' And clearly, these are interesting – and slightly uncertain – times, as we can all see in the markets right now. I am starting to go a bit grey, but I have been working in finance for over 30 years now, through what has really been a long arc of globalisation. I started out in the late 1980s and early 1990s, and ever since, we have seen a fairly consistent trend: globalisation, liberalisation, and the steady opening up of capital markets.

It all began, for those around my age, with the Latin American debt crisis. Then came the rise of Eurobonds, the fall of the Berlin Wall, the creation of the Single Market in 1992, the growth of derivatives in the 1990s, NAFTA in North America, China joining the WTO, the launch of the euro, the internet, and mobile phones – all

major developments that fuelled the opening and globalisation of financial markets. At the same time, of course, we have faced our share of setbacks: the Russian crisis, the Asian crisis, the dot-com bubble, the 2008 financial crisis, Brexit, and more recently, Covid. And let's not forget LTCM back in the late 1990s. Despite all that, the financial industry proved remarkably resilient in its role of channelling global capital.

So, are we now standing at another turning point? What will the next 25 years look like? That remains to be seen – but we are not just observers; we're active participants. Our actions, our connections, our engagement and our attitude will help shape what's to come. At the heart of our shared mission is the efficient allocation of savings and capital – and that has never been more important. Every time I come to Eurofi, I try to remind myself that this is really what it's all about: gathering savings, allocating them wisely, and channelling them to where they'll do the most good. The extraordinary wealth creation we've seen globally in recent years is closely tied to this process – and I think many of you would agree.

Capital markets remain the most efficient way to channel hard-earned savings into productive investment. There are, of course, other paths – through government and industrial policy, for instance. But the evidence clearly shows that capital markets have played a vital role in driving growth and prosperity over the past

quarter-century. Lately, however, we have seen some crowding out. Governments have had to respond to crises like Covid, which has led to heavier use of savings and public borrowing, weakening their balance sheets while strengthening those of the private sector. We've all had to navigate this shift.

Now, more than ever, capital markets need to work harder to harness savings and turn them into real economic value. At Bank of America, that is exactly what we're focused on. We operate in 35 countries and manage a global balance sheet of \$3.2 trillion. My role is to help allocate those resources as effectively as possible across our clients, markets, and geographies. We are not alone in this – other American, European and Asian banks are doing the same. Our international corporate loan book is actually larger than our US one. We're deeply connected to this global flow of capital.

Research is another key part of it. Access to insight – on countries, companies, asset classes – helps to guide capital allocation. Clients and market participants rely on firms like ours to make sense of the bigger picture and ensure that capital is put to work effectively, across borders.

So we know what needs to be done. Those of us who come to this forum regularly are pretty clear on that. As a former President of the European Commission once said, 'In Europe, we know what to do. We just don't

know how to get re-elected once we've done it.' That's part of the challenge. We have talked at length about the Draghi Report, the Letta Report, the Capital Markets Union, the Banking Union. Now we're talking about savings and the proposed Savings and Investment Union (SIU).

I saw an op-ed the other day by Christine Lagarde and Ursula von der Leyen. We have talked about securitisation. There is a new commissioner focused on simplification. We have the Omnibus Directive. We know all of this. But what we might not fully grasp is the cost of the current inefficiencies in Europe's capital markets. Why haven't we been able to deliver what we've been talking about for years?

It has never been seen as an urgent priority – and maybe that is because we have never really quantified it. We know the price of fuel, the price of a car. But what is the cost to each of us when our savings aren't used efficiently? One of my mantras is: if you can't measure it, it is hard to improve it. The current inefficiencies mean Europe exports more capital than it needs to.

And yes, some capital should flow abroad – there's a global need. But the real problem is that we're not using our capital effectively within Europe. We're not matching it properly to risk appetite. The amount of capital available matters – but so does how we allocate it: to private equity, startups, venture capital, and

especially the riskier segments of the capital structure. If we could measure that inefficiency properly, I think it would move higher up the agenda.

And it does feel like the moment might be now. There is a new energy, a real sense of opportunity in Europe. Europe has so much going for it: excess capital, deep experience with capital markets, and a long history of financial innovation. You can trace it back to the Amsterdam Stock Exchange in the 1600s or the first eurobond by an Italian company 60 years ago. Fun fact: Bank of America was founded by an Italian immigrant – Amadeo Giannini. He created the Bank of Italy in San Francisco, and when the name became available, he turned it into Bank of America. So yes, we have got some European roots.

Globally, there is growing interest in Europe again, driven by recent events. This could be the time for Europe to step forward. Let's hope we're now in execution mode. We know about securitisation, the SIU, regulatory architecture, and supervision. Let's tackle the real cost of slow progress. If this really is the moment, then Bank of America stands ready – with our global presence and deep resources – to continue being a trusted partner for Europe. We are already deeply invested in the region, and we're committed to staying the course. Thank you.



David Wright

President - EUROFI

Speech

Before we take a break, Didier kindly allowed me a few minutes to share some thoughts about the European Union's current situation. As I wrote in the Eurofi magazine, this may be the most important Eurofi event in our twenty-five-year history.

We are presented with a unique geopolitical opportunity to make real progress — collectively, inclusively, and decisively — on our integration agenda. With the Savings and Investment Union, the European Commission has proposed a sensible and comprehensive package. We must not forget the importance of Banking Union either. Didier and Jacques de Larosière have repeatedly emphasised the need for genuine macroeconomic discipline — a prerequisite for long-term financial stability.

This is something we may not discuss often enough. In my view, this is the central theme of this Eurofi: are we going to move forward — or not?

This afternoon, we shall hear from the European Commissioners, who I hope will offer a clear and optimistic roadmap. One essential step is to set a deadline — a date for finality. I suggest the end of next year. Establishing a target date will help focus minds, create momentum, and unlock the necessary political negotiations. This echoes what Shigeru said about the importance of the three Ds — particularly determination.

We cannot afford to wait until a mid-term review of the Savings

and Investment Union in 2027 — that is two and a half years away. Nor should we delay the review of the Banking Union until 2026. I have just chaired a panel on this topic, and the issues are already crystal clear. The task now is to deliver solutions. It is time for bold and forward-looking action.

The European Council made some positive conclusions at the end of March. We now have a new German government and promising signs of stronger Franco-German cooperation, which is a welcome development. Some Member States, such as the Netherlands and Sweden, have already achieved notable progress in their capital markets. That provides a useful benchmark although of course not an exclusive one.

For some time now, I have advocated for the European Commission, the European Council, and the European Parliament to reach a political agreement to implement these reform packages by the end of 2026.

If necessary, I would urge decision-makers to use all legal instruments available under the treaties. That includes qualified majority voting — and not insisting on perfect or minimal solutions. The treaties allocate voting rights for a reason. If two or three Member States are unwilling to move forward, then enhanced cooperation mechanisms should be activated. They exist for precisely this purpose. If needed, emergency provisions in the treaties should also be considered.

We have encountered challenges in areas such as taxation and corporate governance. The so-called 28th regime offers a path forward, and I understand the Commission intends to pursue this route. It is essential that we act decisively — and avoid letting perfection become the enemy of the good.

There are promising signals that capital is beginning to flow from the United States into the European Union. This is a highly encouraging development. We must nurture this trend and remain open to third-country investors. I have always insisted on openness, and I shall continue to do so.

Let me conclude with five key points. Firstly, we must continue to make the strongest possible economic case for European financial integration, tailored to each Member State. It is unfortunate that neither the Draghi nor Letta reports included detailed economic analyses. I understand the International Monetary Fund is preparing such work, and I hope the Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN) will do the same. We shall need this evidence to convince policymakers.

We need robust economic studies — of the kind Jacques Delors supported during the creation of the internal market — and they are currently missing.

Secondly, we need stronger, more coordinated support from the

LATEST *EUROFI* PUBLICATIONS

Explore the documents published on the occasion of the Eurofi Warsaw event

European financial industry. If institutions know they have industry backing, it becomes significantly easier to pursue bold reforms. I hope that consumer organisations will also lend their support.

Finally, let me stress the importance of international cooperation. Some developments in the United States are, frankly, astonishing. They highlight the need for like-minded countries to stand together against illegal and unnecessary trade actions. We must defend multilateralism and coordinate our responses. This is our best hope of restoring rational international relations, which all civilised societies should desire.

I believe that the European Union, Japan, and other partners must present a united front. If certain countries choose a confrontational path, we must be ready with an alternative model — and the resolve to pursue it.

Thank you very much.

Economic and Monetary scoreboards: Statistics and charts on key monetary and economic trends impacting the financial sector

Views Magazine: More than 200 contributions from a wide range of public and private sector representatives on the main themes of the Eurofi event



Index of Speakers

Public Authorities

ANTI-MONEY LAUNDERING AUTHORITY

Bruna Szego
Chair

AUSTRIAN FINANCIAL MARKET AUTHORITY

Helmut Ettl
Executive Director
Birgit Puck
Managing Director Securities Supervision
Andreas Schirk
Head of Division, Prevention of Money Laundering and Terrorism Financing

AUTORITÉ DE CONTRÔLE PRUDENTIEL ET DE RÉOLUTION

Olivier Fliche
Director of FinTech Innovation Hub
François Haas
Deputy Director General, Financial Stability & Deputy Secretary General
Frédéric Hervo
Deputy General Secretary

AUTORITÉ DES MARCHÉS FINANCIERS

Sébastien Raspiller
Secretary General
Jérôme Reboul
Head of the Regulatory Policy and International Affairs Directorate

BANCA D'ITALIA

Giuseppe Grande
Deputy Head of Market and Payment Systems Oversight

BANCO DE ESPAÑA

Soledad Nuñez
Deputy Governor

BANK FOR INTERNATIONAL SETTLEMENTS

Gaston Gelos
Deputy Head, Monetary and Economic Department and Head of Financial Stability

BANK GUARANTEE FUND POLAND

Maciej Szczęsny
President of the Management Board

BANK OF ENGLAND

Philip Evans
Director, Banking Policy
Lee Foulger
Director, Financial Stability Strategy and Risk
Sasha Mills
Executive Director for Financial Market Infrastructure
Sam Woods
Deputy Governor for Prudential Regulation and Chief Executive Officer of the Prudential Regulation Authority

BANK OF JAPAN

Kentaro Tamura
Deputy Director-General of Financial System and Bank Examination Department

BANK OF LITHUANIA

Simonas Krėpšta
Member of the Board of the Bank of Lithuania

BANQUE DE FRANCE

Denis Beau
First Deputy Governor
Yann Marin
Deputy Director, DG International Affairs
Christian Noyer
Honorary Governor, Banque de France
François Villeroy de Galhau
Governor, Banque de France & Chair, Bank for International Settlements (BIS)

BERMUDA MONETARY AUTHORITY

Ricardo Garcia
Managing Director

CENTRAL BANK OF CYPRUS

Stelios Georgakis
Acting Director General Payments

CENTRAL BANK OF IRELAND

Gerry Cross
Director Capital Markets and Funds
Mary-Elizabeth McMunn
Deputy Governor, Financial Regulation

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

Carlo Comporti
Commissioner

EUROPEAN PARLIAMENT

Regina Doherty
MEP & Vice-Chair, Tax Matters Sub-Committee, ECON Committee
Markus Ferber
MEP, ECON Committee
Jonás Fernández Álvarez
MEP, ECON Committee
Ondřej Kovařík
MEP, ECON Committee
Aurore Lalucq
Chair & MEP, ECON Committee
Janusz Lewandowski
MEP & Vice-Chair, BUDG Committee
Fernando Navarrete Rojas
MEP, ECON Committee
Ludek Niedermayer
Vice-Chair & MEP, ECON Committee
Tsvetelina Penkova
MEP & Vice-Chair, ITRE Committee
Sirpa Pietikäinen
MEP, ECON Committee
Stéphanie Yon-Courtin
MEP, ECON Committee

CROATIAN FINANCIAL SERVICES SUPERVISORY AGENCY

Ante Žigman
President of the Board

CROATIAN NATIONAL BANK

Boris Vujčić
Governor

CYPRUS SECURITIES AND EXCHANGE COMMISSION

George Theocharides
Chairman

CZECH NATIONAL BANK**Vojtech Belling**

Executive Director, Financial Regulation and International Cooperation Department

DANISH FINANCIAL SUPERVISORY AUTHORITY**Karen Dorte Abelskov**

Deputy Director General

DANMARKS NATIONALBANK**Ulrik Nødgaard**

Governor

DE NEDERLANDSCHE BANK**Klaas Knot**

President, DNB & Chair, FSB

Steven Maijor

Executive Board Member and Chair of Supervision

DEPARTMENT OF FINANCE, IRELAND**Michael J. McGrath**

Assistant Secretary, Financial Services Division

DEUTSCHE BUNDESBANK**Julian Reischle**

Head of Central Department Payments Transactions and Settlement Systems

Michael Theurer

Member of the Executive Board

Esther Wandel

Head of Unit, Sustainable Finance Unit

EUROPEAN COMMISSION**Maria Luísa Albuquerque**

Commissioner for Financial Services and the Savings and Investments Union

Ugo Bassi

Director, Banking, Insurance and Financial Crime, DG FISMA

Claes Bengtsson

Principle Adviser, DG TAXUD

John Berrigan

Director General, DG FISMA

Declan Costello

Deputy Director-General, Coordination of Economic Policies of Member States, DG ECFIN

Valdis Dombrovskis

Commissioner for Economy and Productivity; Implementation and Simplification

Alexandra Jour-Schroeder

Deputy Director-General, DG FISMA

Mario Nava

Director General, DG REFORM

Alessandra Sgobbi

Head of Unit, Climate Finance, DG CLIMA

DUTCH AUTHORITY FOR THE FINANCIAL MARKETS**Barbara Antonides**

Manager Public and International Affairs

Jos Heuvelman

Member of the Executive Board

ESTONIAN FINANCIAL SUPERVISION AUTHORITY**Kilvar Kessler**

Chairman of the Management Board

EUROPEAN BANKING AUTHORITY**José Manuel Campa**

Chairperson

François-Louis Michaud

Executive Director

EUROPEAN CENTRAL BANK**Ulrich Bindseil**

Director General, DG Market Infrastructure & Payments

Simonetta Rosati

Head of Oversight Division

Evelien Witlox

Director, Digital Euro

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY**Petra Hielkema**

Chairperson

Fausto Parente

Executive Director

EUROPEAN INVESTMENT FUND**Lazaros Panourgias**

Head EIF Affairs, Brussels & EIF SG Senior Adviser

EUROPEAN SECURITIES AND MARKETS AUTHORITY**Natasha Cazenave**

Executive Director

Klaus Löber

Chair, Central Counterparties Supervisory Committee

Verena Ross

Chair

EUROPEAN STABILITY MECHANISM**Nicoletta Mascher**

Head of Financial Sector and Market Analysis

Rolf Strauch

Chief Economist and Member of the Management Board

EUROPEAN SYSTEMIC RISK BOARD**Francesco Mazzaferro**

Director General of Secretariat

FEDERAL FINANCIAL SUPERVISORY AUTHORITY, GERMANY**Mark Branson**

President & Member of the Supervisory Board, SSM

Rupert Schaefer

Chief Executive Director Strategy, Policy and Control

Julia Wiens

Chief Executive Director Insurance and Pension Funds Supervision

FEDERAL MINISTRY OF FINANCE, AUSTRIA**Harald Waiglein**

Director General for Economic Policy and Financial Markets

Nadine Wiedermann-Ondrej

Deputy Director General for Financial Market Regulation

FEDERAL MINISTRY OF FINANCE, GERMANY**Doris Dietze**

Head of Financial Market Regulation Directorate

Jörg Kukies

The Minister

Marcus Pleyer

Deputy Director General

Eva Wimmer

Director General, Financial Market Policy

FINANCIAL CONDUCT AUTHORITY**Camille Blackburn**

Director - Wholesale Buy-Side

Sacha Sadan

Director of ESG

FINANCIAL SERVICES AGENCY, JAPAN**Shigeru Ariizumi**

Vice Minister for International Affairs

FINANCIAL SERVICES AND MARKETS AUTHORITY, BELGIUM**Jean-Paul Servais**

Chairman FSMA & Chair of the Board, IOSCO

FINANCIAL STABILITY INSTITUTE

Fernando Restoy
Chair

HELLENIC CAPITAL MARKET COMMISSION

Vasiliki Lazarakou
Chair of the Management Board

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Jonathan Dixon
Secretary General

INTERNATIONAL MONETARY FUND

Alfred Kammer
Director, European Department

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

Rodrigo Buenaventura
Secretary General

MALTA FINANCIAL SERVICES AUTHORITY

Christopher P. Buttigieg
Chief Officer Supervision

MINISTRY FOR NATIONAL ECONOMY, HUNGARY

Anett Vékony
Deputy State Secretary, Financial Services

MINISTRY OF ECONOMY AND FINANCE, ITALY

Riccardo Barbieri Hermitte
Director General of the Treasury

MINISTRY OF ECONOMY, COMMERCE AND BUSINESS, SPAIN

Francisco Espejo Gil
Assistant Director, Research and International Relations
Ana Puente Pérez
Deputy Director General for Sustainable and Digital Finance

MINISTRY OF FINANCE OF THE REPUBLIC OF LATVIA

Līga Kļaviņa
Deputy State Secretary on Financial Policy

MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

Rimantas Šadžius
The Minister

MINISTRY OF FINANCE, CZECH REPUBLIC

Alžběta Pazderková
Head of Capital Market and Financial Innovation Unit

MINISTRY OF FINANCE, ESTONIA

Märten Ross
Advisor, ECOFIN & EFC

MINISTRY OF FINANCE, POLAND

Dariusz Adamski
Director, Institute of Finance
Andrzej Domański
The Minister
Jurand Drop
Undersecretary of State
Elżbieta Franków-Jaśkiewicz
Deputy Director Department of Financial Information
Paweł Karbownik
Undersecretary of State
Maria Staszkievicz
Advisor to the Deputy Minister of Finance

MINISTRY OF THE ECONOMY, FINANCE AND INDUSTRIAL AND DIGITAL SOVEREIGNTY, FRANCE

Christophe Bories
Assistant Secretary for Financial Regulation
Gabriel Cumenge
Deputy Assistant Secretary of Banking and General Interest Financing
Bertrand Dumont
Director General of the Treasury
Éric Lombard
The Minister
Sandrine Ménard
Deputy Assistant Secretary, Financial Markets and Corporate Financing

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Ethan Sonnichsen
Chief Government Affairs Officer

NATIONAL BANK OF ESTONIA

Madis Müller
Governor

NATIONAL BANK OF POLAND

Marta Kightley
First Deputy Governor
Paweł Sobolewski
Director Payment Systems Department

OESTERREICHISCHE NATIONALBANK

Robert Holzmann
Governor and Member of the Governing Council of the ECB

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Carmine Di Noia
Director of Financial and Enterprise Affairs

PERMANENT REPRESENTATION OF THE CZECH REPUBLIC TO THE EU

Alex Ivančo
Head of Financial and Cohesion Policy Unit

PERMANENT REPRESENTATION OF THE FEDERAL REPUBLIC OF GERMANY TO THE EU

Sebastian Thomasius
Head of Unit, Financial Services Unit

PERMANENT REPRESENTATION OF THE SLOVAK REPUBLIC TO THE EU

Peter Palus
Member of the EFC/EWG & Head of Financial Unit

POLISH FINANCIAL SUPERVISION AUTHORITY

Jacek Jastrzębski
Chair of the Board

POLISH NATIONAL BANK

Marek Belka
Former MEP & Polish Prime Minister, Minister of Finance and the Governor of the Polish National Bank
Maciej Brzozowski
Deputy Director of Financial Stability Department

PORTUGUESE SECURITIES MARKET COMMISSION

Inês Drumond
Vice Chair

SINGLE RESOLUTION BOARD

Dominique Laboureix
Chair

SINGLE SUPERVISORY MECHANISM

Patrick Montagner

Member of the Supervisory Board

Anneli Tuominen

Member of the Supervisory Board, ECB Representative

SPANISH SECURITIES AND EXCHANGE COMMISSION

Paloma Marín Bona

Vice Chair

Carlos San Basilio

Chair

THE CENTRAL BANK OF HUNGARY

Barnabás Virág

Deputy Governor

WARSAW STOCK EXCHANGE

Tomasz Bardziński

President of the Management Board

Industry Representatives

ABN AMRO

Dan Dorner

Vice Chairman & Chief Commercial Officer Corporate Banking

AÉMA GROUPE

Xavier Michel

Director, Head of Public Affairs France & EU

ALLIANZ SE

Claudia Donzelmann

Global Head of Regulatory and Public Affairs

AMAZON

Chris Betz

Chief Information Security Officer, AWS

Sara Duffer

Chief Compliance Officer, AWS

William Olgati

Head of EU Payments Acceptance & Experience, Amazon EU Sarl

Andrew Vennekotter

Head of Security Regulatory Engagement, Europe, AWS

AMERICAN EXPRESS

Anna Marrs

President, Global Commercial Services

AMUNDI

Simon Janin

Head of Governance and Public Affairs

APOLLO GLOBAL MANAGEMENT

John Golden

Global Head of Insurance Regulation

AUSTRIAN RAIFFEISEN ASSOCIATION

Johannes Re hulka

Managing Director & Secretary General, Austrian Raiffeisen Association

AXA INVESTMENT MANAGERS

Stéphane Janin

Head of Global Regulatory Developments and Public Affairs

Gilles Moëc

Chief Economist

BANK OF AMERICA

Alexander Batchvarov

Managing Director and Head of International Structured Finance Research

Bernie Mensah

President of International & and Chief Executive Officer, Merrill Lynch International

Fernando Vicario

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

BARCLAYS EUROPE

Francesco Ceccato

Chief Executive Officer

BBVA

Santiago Fernández de Lis

Head of Regulation

BITPANDA

Christian Steiner

Director, Regulatory Group Compliance

BLACKROCK

Martin Parkes

Managing Director, Co-Head EU Policy

BLOOMBERGNEF

Maia Godemer

Researcher - Senior Associate

BNP PARIBAS

Laurent Bertonnaud

Head of Public Affairs France – Retail – Digital

Philippe Bordenave

Senior Executive Advisor to General Management and the Chair of the Board

Haroun Boucheta

Head of Public Affairs & Chief of Staff, Securities Services

Laurence Caron-Habib

Head of Public Affairs, BNP Paribas Asset Management

Jean Lemierre

Chairman

BNY

Cecile Nagel

Global Head of Corporate Trust

BVR

Daniel Quinten

Member of the Management Board

CACEIS

Laurent Majchrzak
Group Head of Digital Assets

CAIXABANK

Christian Castro
Head of Public Affairs

CAPITAL GROUP

Walt Burkley
Chief Legal Counsel

CBOE EUROPE

Nick Dutton
Chief Regulatory Officer

CCF GROUP

Jerome Lachand
General Secretary

CITADEL

Stephen Berger
Managing Director, Global Head of Government & Regulatory Policy

CITI

Kipp Kranbuhl
Global Head of Regulatory Strategy and Policy

CLS BANK INTERNATIONAL

Marc Bayle de Jessé
Chief Executive Officer

CNP ASSURANCES

Thomas Béhar
Chief Financial Officer

COINBASE

Tom Duff Gordon
Vice President of International Policy

COMMERZBANK AG

Bernhard Spalt
Chief Risk Officer

CRÉDIT AGRICOLE S.A.

Alban Aucoin
Head of Public Affairs
Rozanne Dorard Latimier
Director of CSR Policies, Standards and Governance
Jérôme Grivet
Deputy Chief Executive Officer
Axel Marmottant
Head of Capital and Resolution

DAI-ICHI LIFE HOLDINGS, INC.

Webster Coates
Chief Compliance Officer

DEKABANK DEUTSCHE GIROZENTRALE

Alexandra Richers
Managing Director

DELOITTE

Julia Patorska
Partner, Sustainability and Climate, CE Portfolio Lead

DESJARDINS GROUP

Guy Cormier
President and Chief Executive Officer

DEUTSCHE BANK AG

Koen Holdtgreffe
Global Head of Regulatory Policy & Deputy Global Head of Government & Public Affairs

DEUTSCHE BÖRSE GROUP

Niels Brab
Chief of Staff/Head of Group Corporate and Regulatory Strategy

DEUTSCHER SPARKASSEN- UND GIROVERBAND

Joachim Schmalzl
Executive Member of the Board

DNB BANK ASA

Inger-Johanne Rygh
Director Governmental and Public Affairs EU

ERSTE GROUP BANK AG

Rainer Hauser
Head of Group Investment Management

EUROCLEAR S.A.

Pablo Portugal
Senior Public Affairs Director
Francesco Vanni d'Archirafi
Chairman of the Board

EURONEXT

Stéphane Boujnah
Chief Executive Officer and Chairman of the Managing Board

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Odile Renaud-Basso
President

FEDERATED HERMES (UK) LLP

Dennis Gepp
Head of European Government Affairs

FIDELITY INTERNATIONAL

Christian Staub
Head of EMEA & Global Client Propositions

FLOW TRADERS

Mike Kuehnel
Chief Executive Officer

FORVIS MAZARS

Matgorzata Pek
Partner

GENERALI

Gerardo Di Filippo
Head of Group Risk Management Processes and Operations

GOOGLE

Fenitra Ravelomanantsoa
Head of Cloud Regulatory Affairs, EMEA

GROUPAMA

Denis Rousset
Chief Risk Officer

GROUPE BPCE

Jacques Beyssade
Secretary General

GROUPE CAISSE DES DÉPÔTS

François Wohrer
Director of Investment

HSBC HOLDINGS PLC

Chiranjit Chakraborty
Director of AI and Data Science
David Serrero
Head of Investment CDC Tech Premium

ING GROUP**Tanate Phutrakul**

Chief Financial Officer & Member of the Executive Board

Brunon Bartkiewicz

Chief Executive Officer, ING Poland

INVESCO**Matthew Tagliani**

Head of Product and Sales Strategy, EMEA ETFs

J.P. MORGAN**Vittorio Grilli**

Chairman of Italy & of the CIB, EMEA

Patrick Thomson

Chief Executive Officer, EMEA, J.P. Morgan Asset Management

Anna Dunn

Chief Financial Officer, EMEA, JPMorgan Chase & Co.

KPMG**Sylvie Miet**

Partner Lead Regulatory & Sustainable Banking Hub

KRAKEN DIGITAL ASSET EXCHANGE**Jonathan Jachym**

Global Head of Government Relations & Policy

Beata Sivak

Head of Government Relations & Policy EMEA

LA BANQUE POSTALE**Perrine Kaltwasser**

General Manager of Risk, Compliance and General Counsel, of the Conglomerate & Member of the management board

LONDON STOCK EXCHANGE GROUP**Delphine Dirat**

Senior Manager, Government Relations and Regulatory Strategy

Julien Jardelot

Head of Government Relations & Regulatory Strategy, Europe

Corentine Poilvet-Clediere

Chief Executive Officer, LCH SA

MASTERCARD EUROPE**Sebastien Albert**

Senior Vice President, Strategy & Business Excellence Europe

METLIFE**Gino Del Sesto**

Head of Government Relations, Europe

MIZUHO FINANCIAL GROUP, INC. / MIZUHO BANK, LTD.**Naoaki Chisaka**

Managing Director and EMEA Advisor to Chief Sustainability Officer / Senior Advisor to the Chief Executive Officer for EMEA

MOODY'S**Keith Berry**

Head of Corporate and Government Business

Annabel Schaafsma

Director Global Structured Finance, Moody's Ratings

Michael West

President, Moody's Ratings

MSCI**Neil Acres**

Managing Director, Global Regulatory Affairs

MUFG**Anne-Karien von Fumetti**

Director, Head of Regulatory Policy and Advocacy EMEA

NASDAQ**Roland Chai**

President European Market Services

NATIXIS INVESTMENT MANAGERS**Philippe Setbon**

Chief Executive Officer

NORDEA**Andreas Widegren**

Head of Public Affairs Sweden

OLIVER WYMAN (UK)**Christian Edelmann**

Managing Partner Europe

OPTIVER**Jan Boomaars**

Chief Executive Officer

OTP BANK**György Kiss-Haypál**

Deputy Chief Executive Officer, Head of Risk Management Division

PAYPAL**Jörg Kablitz**

Vice-President, Managing Director Germany, Austria & Switzerland

PGIM FIXED INCOME**Edwin Wilches**

Managing Director, Co-Head of Securitized Products

POSTE ITALIANE**Cosimo Pacciani**

Head of Unit, Group Research Hub & Chief Economist

PWC FRANCE**Benoît Sureau**

Partner, FS Risk & Innovation

RABOBANK**Vincent Maagdenberg**

Chief Risk Officer

RAISIN GMBH**Tamaz Georgadze**

Chief Executive Officer

Marc Roberts

General Counsel

REVOLUT**Joe Heneghan**

Chief Executive Officer, Europe

RIPPLE**Mathew Osborne**

Policy Director Europe

S&P GLOBAL RATINGS**Yann Le Pallec**

President

SANTANDER**José Antonio Álvarez**

Vice Chair

Lara Inés de Mesa Garate

Global Head Responsible Banking

Gloria Hervás Ortega

Head of Public Policy

Barbara Navarro

Head of Research, Public Policy and Institutional Relations

Magdalena Szwarc-Bakuła

Head of the Legal Area, Santander Bank Polska

SIX GROUP**Pilar Martínez**

Head Public Affairs EU and Latin America

SMBC BANK INTERNATIONAL PLC**Melissa Ocampo**

Managing Director, Head of Sustainability Strategy EMEA

SOCIÉTÉ GÉNÉRALE**Yves Blavet**

Deputy Director of Group Public Affairs

David Durouchoux

Deputy Chief Executive Officer, Société Générale FORGE

STANDARD CHARTERED BANK AG**Joerg Hessenmueller**

Chief Operating Officer and Member of the Management Board

STATE STREET BANK INTERNATIONAL GMBH**Andreas Przewlaka**

Chief Executive Officer

STRIPE**Sam Hinton-Smith**

Head of Public Policy APAC & EMEA

SWEDBANK**Johanna Fager Wettergren**

Head of Group Sustainability

SWIFT**Marianne Demarchi**

Chief Executive EMEA

Harry Newman

Managing Director Policy

SWISS RE EUROPE**Annick Felten**

General Manager

THE DEPOSITORY TRUST & CLEARING CORPORATION**Michalis Sotiropoulos**

Head of Government Relations, Europe

Valentino Wotton

Managing Director and General Manager, NSCC, DTC & DTCC Institutional Trade Processing

THE NORINCHUKIN BANK**Hiroataka Hideshima**

Counsellor on Global Strategy to President and the Board of Directors

TRADITION**Vincent Remy**

Advisor to the Chairman

UBS GROUP AG**Yannick Oberson**

Head Governmental Affairs International

UNICREDIT S.P.A.**Aurelio Maccario**

Head of Group Credit Risk

Fiona Melrose

Head of Group Strategy and ESG

VISA EUROPE**Mette Grolleman**

Senior Vice President, Government Engagement, Europe

ZURICH INSURANCE GROUP**Thanos Moulouvasilis**

Group Head of Life Business Management

Other Stakeholders

EPI INTERIM COMPANY SE**Ludovic Francesconi**

Chief Member and Strategy Officer

EU T+1 INDUSTRY COMMITTEE**Giovanni Sabatini**

Chair EU T+1 Industry Committee

EUROFI**Jean-Marie Andrès**

Senior Fellow

Jean-Jacques Bonnaud

Treasurer

Didier Cahen

Secretary General

Jacques de Larosière

Honorary President

Marc Truchet

Senior Fellow

David Wright

President

EUROPEAN FINANCIAL REPORTING ADVISORY GROUP**Patrick de Cambourg**

Chair of the Sustainability Reporting Board

FINANCE WATCH**Julia Symon**

Head of Research and Advocacy

GOETHE UNIVERSITY FRANKFURT**Axel A. Weber**

President, Center for Financial Studies

INTERNATIONAL FINANCIAL REPORTING STANDARDS**FOUNDATION****Sam Prestidge**

ISSB Technical Strategy Lead

THE EUROPEAN CONSUMERS' ORGANISATION**Agustin Reyna**

Director General

Sylvie Goulard

Expert

This document was drafted by Eurofi and does not engage in any way the Polish EU Council Presidency or the Polish EU public authorities.

The views expressed in this report are the personal opinions of speakers and do not necessarily reflect the views of Eurofi or of its members or partners. Several chapters of this report are reported under Chatham House rules.

Reproduction in whole or in part of the summary is permitted, provided that full attribution is made to Eurofi and to the source(s) in question, and provided that such reproductions, whether in whole or in part, are not sold unless they are incorporated in other works.

Authors: Jean-Marie Andrès & Marc Truchet

Publisher: Didier Cahen

Design & Production: Daniela Craciun & Initial Print

We thank the **Polish Presidency of the EU Council**
and **the partner institutions** for their support in
organizing the Eurofi Warsaw Seminar



BNP PARIBAS



CRÉDIT AGRICOLE S.A.

J.P.Morgan

LSEG

MOODY'S



DEUTSCHE BÖRSE
GROUP

DTCC



ING



kraken

EUROFI MEMBERS



europi

www.europi.net