Scaling Europe's **Financial System**

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Dear reader,

Europe's capital markets agenda is entering a new phase. The Capital Markets Union (CMU) has long been positioned as a response to fragmentation, aiming to deepen liquidity and broaden access to funding. In March 2025, the European Commission relaunched that ambition under a wider banner: the Savings and Investments Union (SIU), designed to connect household savings directly with productive investment and to bring pensions, market infrastructure and supervision into a single agenda.

This edition of the Journal of Financial Services sits at that turning point. Contributions from academics, market infrastructures, banks, EU institutions and legal experts converge on a shared question: is the SIU another slogan, or a strategy that can actually work?

Europe's starting point remains unresolved. Capital markets are still fragmented along national lines, shaped by differing legal and regulatory frameworks. While the ambition behind CMU, and now the SIU, is widely supported, progress has been uneven. This leaves Europe structurally distinct from the United States, where markets are deeper, more unified and channel a far greater share of household savings into productive investment.

Closing that gap is, at its core, a question of scale: how a patchwork of national markets can become one system large enough to compete. That question runs through this edition, from what it would take to move from fragmentation to scale, to what the SIU would need to look like decades from now to have actually delivered on its ambition.

Scale cannot be built on integration alone. It also depends on supervision that treats the single market as genuinely single, rather than as a set of national regimes operating in parallel. Several contributors now frame this question in terms of sovereignty, from institutional autonomy to Europe's dependence on cloud, compute and capital that it does not control.

Sustainability adds a further layer of complexity. As European capital markets integrate, they are also expected to channel funding towards the green transition. This edition looks at where sustainable-finance and capital-market architectures reinforce each other, and where they still pull in different directions.

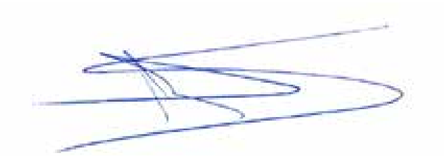
These developments form the backdrop to the perspectives brought together in this edition. Decisions on market integration, supervision and sustainable finance will shape Europe's ability to compete and to mobilise capital at the scale its economy needs.

Europe's position is complex. Compared with the United States, the challenge is alignment as much as scale. Compared with more centralised financial systems elsewhere, Europe must balance deeper integration with national autonomy and existing market structures. This complexity may prove to be a strength, but only if it is matched with delivery.

The contributions in this edition reflect that direction. Progress will require coordination across capital markets policy, financial supervision and sustainable finance, alongside space for innovation and experimentation, including through regulatory sandboxes. The SIU is therefore evolving beyond a policy label into a test of whether Europe can turn a long-standing ambition into a working financial system.

For financial institutions, this is no longer a distant ambition but a near-term reality shaping funding strategies, supervisory relationships and cross-border operating models. The task ahead is not simply to integrate markets, but to do so while preserving room for innovation and strengthening resilience.

That balance will define the next phase of European financial services.



Stefan Dierckx, Founder & CEO, Projective Group

Scaling Europe's Financial System

Building **integrated European capital markets**: lessons and outlook from a decade of harmonization

Dirk Loscher,
Head of Custody & Investor Solutions,
CEO Clearstream Europe AG

ABSTRACT

This paper examines the evolution of the European Union's Capital Markets Union (CMU), recently reframed as the Savings and Investments Union (SIU), and evaluates the extent to which a decade of regulatory harmonization has advanced the integration of European capital markets. Despite substantial progress since 2015, Europe continues to face structural fragmentation across legal, tax, supervisory, and post-trade infrastructures, limiting cross-border capital flows and constraining its ability to mobilize the investment required to support competitiveness, digital transformation, sustainability, and defense objectives. Drawing on eight major harmonization initiatives implemented between 2015 and 2025, including TARGET2-Securities (T2S), the Central Securities Depositories Regulation (CSDR), the Eurosystem Collateral Management System (ECMS), T+1 settlement, the FASTER Directive, MiCAR, the proposed 28th Regime, and the Market Integration and Supervision Package (MISP), the paper analyzes both the achievements and persistent challenges of the integration agenda. By synthesizing lessons from a decade of reform, the paper concludes that between regulation, operational standards, and new technology, there is no singular answer to the realization of SIU goals.

1. Introduction

Launched in September 2015, the European Commission's Capital Markets Union (CMU) initiative aimed to create a single, integrated EU capital market to mobilize cross-border savings and investment flows – an ambitious strategic imperative that is still advancing today. Europe's capital markets remain structurally underdeveloped: EU listed-company market capitalization stands at approximately 73% of GDP, compared to 270% in the U.S. [EC (2025a)], reflecting Europe's persistent reliance on bank-based financing over capital markets. This structural deficit translates directly to investment shortfalls: the 2024 Draghi competitiveness report [Draghi (2024a)] quantifies an annual investment gap of €750–800 bln through 2030 to fund green transition, digital transformation, defense, and competitiveness imperatives – capital that cannot be mobilized by banks alone. At the same time, approximately €10 tln in EU household savings remain trapped in bank deposits, earning minimal returns despite the existence of significantly underutilized capital markets.

Three 2024 high-profile policy reports have crystallized the urgency of CMU acceleration: Mario Draghi's, former Prime Minister of Italy and former President of the European Central Bank, report proposes strengthening ESMA into a more powerful EU-level securities supervisor and expanding securitization to free bank balance sheets; Enrico Letta's, former Prime Minister of Italy, report [Letta (2024)] emphasizes developing EU-wide long-term savings vehicles to channel household capital into strategic investments (green, digital, defense); and Christian Noyer's, former Governor of the Bank of France, report [EBF (2024)] outlines five concrete pillars – long-term savings products, securitization revival, integrated supervision, modernized post-trade infrastructure, and reduced cross-border barriers – to leverage the capital that EU citizens and companies need.

Reflecting this convergence, in March 2025 the Commission revamped and rebranded the agenda as the Savings and Investments Union (SIU) [EC (2025b)], an evolution that explicitly targets mobilizing household capital away from passive bank deposits and into productive European investment – positioning SIU not merely as a market-structure reform, but as a cornerstone of European economic resilience.

Beyond regulatory harmonization, the persistent challenges that remain span national legal, tax, and regulatory barriers and continue to fragment liquidity. This paper examines these challenges, across eight major harmonization initiatives from 2015 to 2025, identifying where each succeeded and where each revealed the limitations of its approach, and arguing that translating the SIU agenda into market reality requires moving beyond regulatory standardization to concerted efforts to evolve at the operational and technological layer. While empirical research and direct market experience show that the EU has the capacity and regulatory basis to foster a robust capital market, it still lacks the regulatory catalysts required to unite its fragmented resources and unlock future growth opportunities.

2. The strategic problem: from regulation to implementation

Despite nearly a decade of harmonization efforts, Europe's post-trade infrastructure remains characterized by fragmentation rooted in divergent national legal and fiscal frameworks as well as idiosyncratic market structures and practices. The European Central Bank's 2025 AMI-SeCo (Advisory Group on Market Infrastructures for Securities and Collateral) report [ECB (2025a)] on remaining barriers to integration in securities post-trade services identified 43 distinct barriers spanning legal frameworks, issuer-investor relationships, and settlement operations – from divergent insolvency law treatments of intermediaries and securities to fragmented collateral eligibility rules, non-standardized corporate-action processing, and differing withholding-tax regimes. Operationally, multiple national central securities depositories (CSDs) continue to function with country-specific messaging formats, data definitions, and cut-off times, in accordance with local market practices and laws, and thus a significant portion of transactions settle outside harmonized systems, weakening integration. The result creates a web of operational complexities: issuers face restrictions on cross-border issuance locations; investors navigate divergent shareholder and corporate-governance frameworks; and market participants incur additional costs for compliance, processing errors, and inefficient settlement workflows. This fragmentation persists despite initiatives such as TARGET2-Securities (T2S) and regulatory harmonization through MIFID II and CSDR, highlighting the importance of addressing these post trade barriers with further regulatory convergence and simplification.

2.1 Integrating market infrastructure: MISP's platform ambition

The Market Integration and Supervision Package (MISP), proposed by the European Commission in December 2025 as part of the broader Savings and Investments Union (SIU) package, a current and impactful initiative, represents a critical step in translating high-level ambitions into concrete regulatory action. It aims to strengthen the financial infrastructure of European markets by integrating the single market for trading, clearing, and settlement, while also establishing a framework for emerging technologies like distributed ledger platforms. At the post-trade layer, it aims to increase T2S participation, simplify cross-border processes for CSD services, and increase access to financial instruments by enhancing the interconnectedness of EU settlement systems. Applied in a risk-sensitive manner and with respect to market liquidity considerations and operational feasibility, the initiative stands to succeed in enhancing connectivity between markets and cross-border activity, thus moving the frontier from harmonized rules to a truly interoperable market infrastructure landscape. The same principle applies to the digital markets innovation focused area of MISP: to unlock the full potential of Distributed Ledger technology (DLT) and the tokenization of financial instruments, the priority must be the modernization of core, crisis-proven regulatory frameworks (i.e., CSDR, MiFID, and EMIR), rather than containing innovation to a siloed, parallel regime that adds to further fragmentation of liquidity. The primary goal should be to permit all regulated entities to develop DLT-based services and utilize new forms of digital assets.

2.2 Consolidating the settlement layer: T2S's operational achievement and remaining challenges

T2S, launched by the ECB in June 2015, successfully consolidated European securities settlement into a single, harmonized platform serving national CSDs. By 2025 [ECB (2025b)], T2S settles over 700 thousand transactions daily, worth €281 tln annually, providing a true delivery-versus-payment (DvP) mechanism in multiple currencies on one platform and across multiple settlement systems. T2S provided the means to reduce cross-border settlement risk by making it as efficient as domestic ones from a purely technical perspective due to the usage of a single securities settlement platform. Despite this operational consolidation, cross-border settlement on T2S constitutes just under 4% of volume and value share of total settlement on the platform. Thus, the experience of T2S shows that infrastructure integration alone is insufficient without legal harmonization – a lesson that shaped subsequent policy initiatives such as the MISP, which includes measures to promote greater use of the T2S system and to increase settlement volume. To avoid the creation of a complex and inefficient model of overlapping infrastructure links, the MISP introduces the "hub and spoke model" for the CSDs in Europe, whereby multiple smaller CSDs connect to the few larger EU CSDs, acting as "CSD hubs". The MISP's proposal to strengthen T2S, combined with the hub model, is expected to create a network of interconnected settlement nodes across the EU, allowing participants of any EU CSD to seamlessly hold and settle securities across European market infrastructures.

2.3 Standardizing conduct through CSDR: from regulatory framework to market practice

Since 2014, CSDR has introduced a settlement discipline framework that harmonized CSD authorization and prudential requirements, and standardized asset-servicing rules. The 2022 implementation of settlement-discipline penalties created financial incentives to settle on time, while CSDR also mandated transparency on settlement fails and moved EU post-trade supervision toward common standards. By 2024, the framework had contributed to generally high settlement-efficiency levels across major EU markets - typically above 95–98% on intended settlement date depending on market and asset class. The 2024 Refit effort improved CSDR rules in five specific areas, among them the simplification of the CSD passporting regime, and the amendment of rules to make settlement-discipline more operational and better aligned with market diversity through nuanced penalties and settlement fails reporting. Yet, further work is required as fail rates vary by market, and national corporate-action processing still diverges on key dates, processing sequences, and shareholder identification – a set of crucial "to-dos" that have been picked up within the proposals of the MISP. Additionally, the MISP introduces increased transparency requirements for internalized settlement, allowing for a fair and standardized comparison between settlement internalizers (SIs) and CSDs. However, enhanced disclosure and transparency obligations alone are not sufficient to remedy the existing structural imbalance: the bilaterally settled post-trade volume is five times higher than that settled centrally via CSDs. This requires stricter requirements, such as mandatory settlement penalties. This can ensure that the benefits of centralized settlement – higher stability, transparency, and resilience – effectively support the EU's integration approach.

2.4 Unifying collateral management: ECMS as infrastructure enabler

The Eurosystem Collateral Management System (ECMS), launched in 2025 (8), represents a single Eurosystem platform for managing collateral used in ECB credit operations (refinancing operations, emergency liquidity assistance). By consolidating over 20 disparate national central-bank collateral management systems into one, ECMS reduced operational risk, simplified access for its over 2500 connected financial institution counterparties [ECB (2025b)], and provided a unified, real-time view of collateral availability across the euro area. For SIU, ECMS is a critical enabler of post-trade efficiency: by standardizing collateral eligibility, mobilization, and settlement-link operations as well as corporate actions processing under one rulebook, it removed a number of operational frictions that previously made cross-border collateral reuse expensive, complex, and less automated. The success of ECMS stems also from its exclusive use of the T2S platform for moving collateral even if it ultimately still depends on the set-up of CSD links to ensure complete access to ECB-eligible collateral by market participants.

2.5 Accelerating harmonization: T+1 as mobilizing function

In October 2025, the EU published T+1 regulations in the Official Journal [EU (2023)], mandating a transition from T+2 to T+1 settlement by October 11, 2027. In anticipation, the EU, U.K., and Switzerland are coordinating their efforts, with ESMA, the ECB, and the European Commission having launched joint governance structures to manage the transition. T+1 matters because, in addition to aligning European markets, it fundamentally compresses post-trade timelines. This compression is not trivial; it is estimated that participants will have 83% less time to manage post-trade processes [AFME (2022)], particularly for cross-border trades. The challenge this presents is stark when viewed against current market behavior.

The 23:59 deadline is set for including trades in the main T2S overnight settlement cycle and provides sufficient time to perform remediations, if any. Yet while an impressive 85% of instructions meet this cut-off, only 77% are matched by that time. This existing matching gap poses a risk in an environment with drastically reduced time for exception handling. T+1 is thus an optimization accelerator, not merely a settlement-cycle change, as it eliminates the buffer for manual processes and re-work. This creates powerful incentives for automation and harmonized infrastructure, making the adoption of all features recommended by the EU T+1 Industry Committee a critical necessity. While the core settlement process at the (I)CSD level is largely cycle-agnostic, the true requirement for T+1 success lies in the readiness of all parties including those at a pre-settlement level. This is where the focus must be: on effective inventory management, timely and accurate instruction creation, and swift allocation and confirmation processes before instructions ever reach the (I)CSD.

2.6 Addressing legal fragmentation: the 28th Regime concept

Revived by Enrico Letta's 2024 single-market report and adopted by the EU Commission, the idea of a "28th regime" proposes an optional, EU-level legal framework that coexists with national laws rather than replacing them [EP,(2026)]. The 28th Regime offers a unique opportunity to simplify operations, foster innovation, and empower businesses to thrive in a more integrated and resilient European economy. The structure of such a regime could be an integral pillar of the EU's efforts to address fragmentation in various areas, like securities. Clearstream and Euroclear, as the EU's two ICSDs and two largest CSD groups, have thus introduced a 28th Regime proposal for dematerialized debt securities [Clearstream (2026)], specifically Eurobonds, which represent the third largest debt market worldwide and the key pillar of EU cross-border transactions. This joint market-led initiative by Clearstream and Euroclear is aimed at providing an optional, EU-wide legal framework with a target scope, that is technologically neutral and supports innovation as well as SIU. Once implemented, it could then be extended to other asset classes at a later stage.

The initiative shows renewed support at the political and industry level to make legal framework cohesion a reality, in a further move to tackle one of the fundamental obstacles to European capital markets development.

2.7 Digitizing tax relief: FASTER's cross-border enablement

Faster and Safer Tax Relief of Excess Withholding Taxes (FASTER), published in the Official Journal in January 2025 [EU (2024)], is an EU directive aimed at making withholding-tax procedures faster and safer for cross-border investors. It addresses a long-standing friction in EU capital markets: cross-border investors face excess withholding taxes (deductions above bilateral treaty rates) and slow, burdensome refund procedures. Core mechanisms include an Electronic Tax Residence Certificate (eTRC) issued within 14 calendar days by national authorities (streamlining proof of entitlement to treaty relief), relief-at-source options (reduced withholding rates applied at payment by 2027), fast-track relief procedures for expedited refunds, and registration of certified financial intermediaries to reduce fraud and administrative burden. Withholding-tax friction is a material barrier to cross-border retail investment, and FASTER lowers transaction costs and encourages EU citizens to invest across borders by reducing relief delays from months to days/weeks. Member states have until December 31, 2028 to transpose FASTER into national law; implementation success depends on member state adherence while limiting deviations to the reporting framework, for the benefit of investors and financial intermediaries.

2.8 Extending to digital assets: MiCAR's scope and integration challenge

The Markets in Crypto Assets Regulation (MiCAR) [EU (2023)], which entered into force in June 2023, represents the EU's first comprehensive framework for regulating crypto-assets, stablecoins, and crypto-asset service providers (CASPs) – a critical expansion of SIU beyond traditional securities into digital and tokenized assets. The regulation was phased in stages: asset-referenced tokens (ARTs) and e-money tokens (EMTs) became subject to authorization requirements from June 2024, while full CASP authorization, governance, prudential, and conduct rules became mandatory from December 2024. MiCAR's achievement lies in creating a unified EU regulatory perimeter, ending the prior patchwork of national approaches and enabling cross-border crypto-asset services under a single license.

DLT adoption, however, faces a potential bottleneck that parallels the fragmentation challenges that traditional infrastructures have faced. Network fragmentation has emerged as one of the most pressing hurdles to DLT adoption and scale: without interoperability standards, digital assets remain trapped in isolated blockchain networks, operational costs for market participants remain elevated, and both operational and regulatory risks remain unresolved. Market participants require post-trade rails that are safe, neutral, and offer high degrees of reliability and asset fungibility. Critically, digital asset securities are at an early stage of market development, providing a unique opportunity to embed interoperability at the outset – a lesson learned from decades of traditional post-trade fragmentation – rather than attempting retroactive harmonization.

2.9 Synthesis: the convergence point in harmonization efforts

The eight major harmonization initiatives spanning 2015–2025 reveal a layered evolution of the SIU strategy, progressing from infrastructure consolidation to regulatory standardization, to digital expansion, to remaining legal and tax barriers. T2S and CSDR established the foundational technical and regulatory layer, proving that operational consolidation and settlement discipline could work but that legal fragmentation persisted despite infrastructure harmonization. ECMS reinforced this lesson by creating a unified collateral-management layer, while T+1 acts as a mobilizing factor for further automation in all aspects of the trade lifecycle – it will align the European with the American capital market making the flow of capital between both easier. Simultaneously, MiCAR opened a parallel frontier by extending the SIU's reach into crypto-assets and tokenized securities, creating a unified regulatory perimeter for CASPs and stablecoins, though fragmented transitional periods and the absence of a common on-chain settlement asset have delayed the promised integration of DLT into traditional post-trade infrastructure.

MISP attempts to synthesize these lessons by proposing an integrated market-infrastructure platform encompassing trading, clearing, settlement, and asset servicing.

Finally, FASTER and the 28th Regime (under development) address the remaining friction: withholding-tax procedures and legal divergence that infrastructure consolidation alone cannot solve. The pattern is clear: early initiatives focused on technical and regulatory harmonization; middle initiatives are forcing standardization through operational constraints; later initiatives address legal and tax integration; and the frontier now lies in three simultaneous challenges: (1) political will to incentivize consolidation of more volume onto interoperable European infrastructures (MISP); (2) legal harmonization of corporate law, taxation, and insolvency (28th Regime, FASTER); and (3) successful integration of tokenized assets and DLT into the traditional post-trade ecosystem (MiCAR).

3. Realizing integration: infrastructure as the bridge between policy and market participants with Clearstream's pan-European CSD model

The European capital markets harmonization agenda has achieved significant regulatory and operational progress in reducing cross-border settlement barriers. While efforts are ongoing to reach a fully harmonized legal and tax framework, analysis highlights opportunities for operational optimization where gains can be realized today, with existing infrastructure, which can strategically position market participants for harmonized, interoperable, digital capital markets. Recent research commissioned by Clearstream and conducted by The ValueExchange [Clearstream (2025)] documents this gap empirically: a tier-1 broker-dealer faces an estimated €37 mln in annual losses attributable to funding inefficiencies, operational complexity, and sub-optimal capital allocation – with €32 mln stemming from treasury costs (maintenance of disparate funding accounts, collateral fragmentation across multiple CSDs, and sub-efficient Basel III risk-weighted asset treatment) and €6 mln from operational overhead related to managing multiple CSD relationships and adapting to regulatory changes across fragmented providers.

Realizing SIU's objective of cross-border capital mobilization requires moving beyond regulatory harmonization to implementation at the market infrastructure level. As the pan-European CSD connecting 19 T2S markets and still growing, managing over 50% of T2S transaction volume, Clearstream has developed a unified infrastructure model that directly addresses this cost structure through single collateral management, consolidated settlement on one account, and simplified operational connectivity.

Complementing this, Clearstream is actively enhancing tax services through digitization of tax services – aligning with regulatory imperatives including the EU's FASTER Directive – to reduce operational risk, improve compliance, and deliver scalable solutions that address the withholding-tax friction identified as a material barrier to cross-border investment.

Importantly, the ongoing debate about CSD consolidation – with some arguing for a single, U.S.-model consolidated entity – overlooks the EU's diverse, multi-market reality and misses that meaningful consolidation is already occurring through market-led hub models. The MISP proposal champions the concept of CSD hubs, aligning with Clearstream's vision of providing participants access to multiple markets through a single-entry point, drastic reducing complexity and cost. Our pan-European CSD solution exemplifies this hub model in practice: clients access 19 European markets through a single securities account and gateway, proving that integrated, market-led network architecture delivers scale and operational efficiency without requiring the political coordination that a true single-CSD model would demand.

As a result of its comprehensive network coverage, it also supports the collateralization of all ECB-eligible securities under ECMS, whether on a bilateral basis or through Clearstream's integrated and only full triparty collateral management engine on the platform. As the EU advances MISP implementation, FASTER transposition, and T+1 settlement, consolidated infrastructure operators positioned to unify settlement, collateral management, and tax processing will be essential to translating the SIU's ambitious harmonization agenda into the cost reduction and cross-border capital flow necessary for competitive European capital markets.

4. The digital frontier: from use case to industrial scale

As the European capital markets harmonization agenda matures through infrastructure consolidation and regulatory integration, a parallel transformation is underway in digital asset technology: the emergence of DLT and tokenized securities as core post-trade innovation. Clearstream's evidence-based position on this frontier reflects this learning: our Digital Infrastructure has already processed the issuance of over €90 bln in digital securities [Clearstream (2024)], demonstrating that next-generation issuance operates at industrial scale today, not as speculative future. We advocate a strategic approach of "evolution, not revolution", integrating tokenized assets within trusted, regulated infrastructure rather than creating parallel systems. Operationally, this means integrating DLT and all forms of tokenized money (including MiCAR instruments) into existing core frameworks such as CSDR and MiFID – embedding digital innovation within established regulatory structures that preserve stability while unlocking scaled interoperability. As the SIU advances toward 2027–2028 implementation deadlines, the integration of DLT infrastructure with traditional post-trade frameworks – grounded in demonstrated operational scale rather than theoretical potential – represents both the final frontier of post-trade harmonization and the foundation for next-generation European capital markets competitiveness.

5. Conclusion: moving from regulatory convergence to cross-border capital flow

The SIU is gaining full traction and there is both political and industry will to bring down the decades-long barriers to post trade. A decade of regulatory harmonization has established the necessary foundation for an integrated legal and supervisory framework, but more work is still needed to establish truly integrated European Capital Markets. The Market Integration and Supervision Package will be pivotal for determining whether this effort will translate into concrete cross-border capital mobilization.

Success depends on simultaneous execution across three domains. First, interoperable infrastructure platforms must replace fragmented silos. Second, legal and tax modernization (28th Regime, FASTER) must remove the specific barriers that infrastructure consolidation cannot address. Third, DLT and tokenized assets must integrate into traditional post-trade frameworks, picking up critical mass and developing in an interoperable manner from the outset.

Infrastructure operators, working with regulators and market participants, have a distinctive role in this transition: translating regulatory ambitions into operational reality. Research documents that €37 mln in annual broker-dealer losses from fragmentation are not inevitable – they reflect choices about infrastructure architecture. The pan-European CSD model, ECMS, and Clearstream's D7 platform demonstrate that cost reduction, operational and balance sheet efficiency gains are achievable today with existing or near-existing infrastructure.

The analysis shows, therefore, that between regulation, operational standards, and new technology, there is no singular answer to the realization of SIU goals. As T+1 looms, FASTER transposition deadlines approach, and MISP begins implementation, the test will not just be whether enough rules have been harmonized. It will be whether market infrastructure operators and participants act on the opportunity to consolidate operations, simplify processes, and mobilize the €10 tln in household savings that European growth requires. The final frontier of European capital markets development, therefore, is a concerted effort amongst policy, infrastructure operators, and market participants to proactively make the SIU a reality, boosting growth and realizing the region's potential.

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Scaling Europe's Financial System

Europe's Savings and Investments Union: another slogan, or a strategy that can work?

Ignazio Angeloni,
Senior Policy Fellow, Leibniz Institute for Financial Research SAFE, and Non-Resident Fellow, Institute for European Policymaking (IEP), Bocconi University

Marco Pagano,
Professor of Finance, University of Naples Federico II, Director, Centre for Studies in Economics and Finance (CSEF), and Research Fellow, Einaudi Institute of Economics and Finance (EIEF), Centre for Economic Policy Research (CEPR), and European Corporate Governance Institute (ECGI)

ABSTRACT

The European Union's proposed Savings and Investments Union (SIU) seeks to address a longstanding paradox: Europe has abundant private savings but struggles to channel them into productive, long-term, and risk-bearing investment. This article argues that the SIU will succeed only if it avoids treating capital-market development as an alternative to banking integration. Europe remains a bank-centered financial system, especially in financing small and medium-sized enterprises, and its capital markets can realistically develop only through the active participation of stronger, larger, and more cross-border banks. The article proposes four mutually reinforcing lines of action: creating a country-blind regulatory framework for cross-border banking groups; resisting national political interference in banking consolidation; developing simple and portable savings and pension instruments that mobilize household wealth for risk capital; and reviving securitization through standardization, sound regulation, and market-making support. The central message is that the SIU can become more than just another European policy catchphrase only if it connects the Banking Union and the Capital Markets Union through a practical institutional strategy: using banks as the bridge between European savings and European investment needs.

Keywords: Savings and investments union, banking union, capital markets union, financial integration, cross-border banking, securitization, bank consolidation.

JEL codes: G21, G28, F36, G32.

1. Introduction

The EU has no shortage of financial-policy catchphrases. Banking Union, Capital Markets Union, strategic autonomy, competitiveness compass, sustainable finance: each captures a real problem, each has generated legislative initiatives, and each has also run into the same structural obstacle. Europe remains financially inefficient and fragmented. It saves a great deal, but it does not efficiently convert those saving into productive, long-term, risk-bearing investments of European – not just national – dimension. Its firms, especially small and medium-sized enterprises (SMEs), rely on limited funding sources, mainly from banks. Its households hold large volumes of liquid and low-yielding assets. Its capital markets remain shallower and less integrated than those of the U.S. Its banks are large by national standards but often too small, too domestically focused, and too politically constrained to compete on a global scale.

The new European agenda for a Savings and Investments Union, or SIU, risks hitting the same roadblock [EC (2025a)]. The European Commission presents the SIU as an effort to give citizens better opportunities to grow their wealth and to improve firms' access to funding through a more integrated, efficient, and competitive financial system. Its Market Integration and Supervision Package, adopted in December 2025, is presented as a central component of this strategy [EC (2025b)]. The underlying intuition is correct: Europe has abundant private savings, yet it struggles to channel them toward innovative firms, high-growth companies, infrastructure, the energy transition, digitalization, defense, and other long-horizon investments.

The key question is, however, whether the SIU marks a real change in strategy or merely repackages older ambitions under a more attractive label. If it is to be more than a slogan, the SIU must confront a basic institutional fact: Europe is, and will remain for the foreseeable future, a bank-centered financial system. Capital markets can and should grow, but they will not grow by pretending that Europe can simply copy the U.S. Nor will they grow by treating banks as legacy institutions to be bypassed. In Europe, banks are the most plausible agents for building deeper capital markets.

In what follows, we argue that the SIU can succeed only if it is anchored in a strategy that integrates banking and capital markets. The goal should not be to replace banks with markets, but to create a European financial ecosystem in which stronger cross-border banks help mobilize household and pension saving, originate and distribute risk, support securitization, and connect firms to deeper pools of capital. That requires a shift in emphasis. Instead of concentrating almost exclusively on politically blocked Banking Union files, Europe should focus on four additional operational lines of action: creating a genuinely country-blind framework for cross-border banks; resisting national political interference in banking consolidation; developing European savings and pension instruments that channel household wealth toward risk capital; and reviving securitization through standardization, market-making, and appropriate regulation.

2. The SIU between ambition and ambiguity

The ambition behind the SIU is easy to understand. Europe faces a large investment challenge. The Draghi report on European competitiveness emphasized that Europe can no longer rely on many of the conditions that supported its past growth and must mobilize both public and private finance on a far larger scale [Draghi (2024)]. The Commission's SIU strategy similarly seeks to connect savings more effectively with investment opportunities, especially by increasing citizens' participation in capital markets and improving firms' access to finance. Recent policy initiatives, including the Market Integration and Supervision Package, proposals concerning personal pensions and savings accounts, and consultations on private equity exits, show that the SIU is becoming a broad umbrella for financial market reform.

Yet breadth is not the same as coherence. The SIU risks becoming an appealing label for a long list of loosely connected initiatives. The problem is not that the goals are wrong. Few would dispute that Europe needs deeper capital markets, better retail investment channels, more efficient supervision, stronger banks, and greater financial autonomy. The problem is that these goals may conflict unless they are placed in a clear hierarchy and supported by realistic instruments.

The aforementioned package targets several genuine sources of fragmentation. It seeks to reduce barriers in financial services, improve supervision, enhance passporting opportunities, streamline cross-border fund distribution, and facilitate more integrated market infrastructures. These are useful reforms. However, they do not by themselves answer the more fundamental question: who will create, distribute, underwrite, trade, and hold the instruments that a deeper European capital market requires?

In the U.S., large investment banks, asset managers, pension funds, insurance companies, and deep securities markets perform many of these functions. Europe has elements of this ecosystem, including a globally successful UCITS fund framework, but lacks a comparable market architecture. Nor does it have a unified legal, tax, pension, and supervisory environment. As the European Central Bank has continued to warn, euro-area financial integration has improved in some dimensions, but equity markets remain fragmented, and structural barriers such as divergent supervision, tax systems, and market infrastructure still limit cross-border investment [ECB (2026a)].

This is why the SIU cannot be just a market-integration agenda. It must also be a banking agenda. The paradox is that Europe's capital markets can develop only if the banking institutions that dominate European intermediation are given both the capacity and the incentives to support that development.

3. Europe is a bank-centered system—and should start from that fact

The starting point should be factual rather than ideological. Europe is a bank-centered financial system. Banks remain central to credit allocation, especially for SMEs [ECB (2026b)]. SMEs are the backbone of the European economy, and many are unlikely to access public equity or bond markets directly, even within a more developed Capital Markets Union. For these firms, banks will remain the main originators of credit, the holders of relationship information, and the first screeners of credit risk [Allen and Gale (2000)].

This matters because much of the European debate has been framed as if the development of capital markets requires a reduction in banks' role. That is misleading. What Europe needs is not a smaller banking system, but a different one: larger, more cross-border, better at distributing risk, more engaged in investment banking and securities placement, and less captive to national political priorities.

There is no realistic path by which Europe simply imports the American model. The U.S. has stronger federal institutions, a single capital market, deep pools of institutional investors, an integrated securities law, a large and unified Treasury market, a long equity investment culture, and large private pension vehicles. Europe, on the other hand, has fragmented insolvency regimes, different tax systems, national pension traditions, national regulators, national political concerns, and, despite the Banking Union, many residual barriers to cross-border banking. These are not minor differences. They shape how households save, how firms borrow, and how financial institutions operate.

A successful SIU would, therefore, treat banks as a bridge between savings and markets. Banks can help transform retail deposits into investment products. They can originate loans that are later securitized. They can underwrite bond and equity issues for firms ready to access the markets. They can provide advice, placement capacity, and market-making services. They can help standardize financial products and distribute them across borders. But for this to happen, Europe needs banks with sufficient scale, geographic scope, and business-model incentives.

At present, too many European banks remain essentially national institutions. Some have international activities, but few operate as genuinely pan-European financial intermediaries. National authorities often prefer to keep banking activity, savings flows, and credit allocation within national borders. Governments also have an interest in maintaining domestic banking systems capable of absorbing public debt issuance. These incentives undermine the very integration that the SIU is supposed to promote.

4. The limits of the traditional Banking Union agenda

The traditional Banking Union debate has focused on three main unresolved issues: a European deposit insurance scheme, the fiscal backstop to the Single Resolution Fund, and the regulatory treatment of sovereign exposures in bank balance sheets. These are important for financial stability and for the credibility of an integrated banking market. But they have also proved politically intractable.

The reason is well known. Member states differ in their views of legacy risk, fiscal responsibility, and loss-sharing. Some fear that common deposit insurance could mutualize risks created by weaker banking systems. Others argue that without shared insurance, the Banking Union remains incomplete and vulnerable to national fragmentation. Similar tensions arise over sovereign exposures because any attempt to change the treatment of government bonds in bank portfolios immediately raises fiscal and political concerns.

These are serious issues, but they are not the whole problem. Even if Europe completed deposit insurance tomorrow, that would not automatically create deeper equity markets, more cross-border investment banking, greater household participation in risk assets, or a more liquid securitization market. Traditional Banking Union reforms are necessary for stability, but they are not sufficient for capital-market development.

The policy debate, therefore, needs to be refocused. Instead of waiting for agreement on politically blocked issues, Europe should identify reforms that make large cross-border banking both possible and attractive. A more integrated banking system would not solve all market-development problems, but it would create institutions with the balance-sheet capacity, distribution networks, and commercial incentives to help build capital markets.

This is also a question of international competitiveness. European banks are not absent from global finance, but they are underrepresented among the largest global institutions relative to Europe's economic weight. Recent public debate has increasingly recognized this weakness. In May 2026, for example, the Eurogroup chair, Kyriakos Pierrakakis, argued that Europe needs larger banks capable of competing with American and Chinese institutions, and explicitly linked that objective to cross-border mergers and resistance to national fragmentation.

The point is not that Europe should create politically protected "champions" of the old national variety. On the contrary, it should avoid national champions and encourage European ones. The distinction is crucial. National champions often preserve fragmentation by tying banks to domestic political priorities. European champions would help reduce fragmentation by operating across borders within a genuinely integrated framework.

4.1 First line of action: a country-blind framework for cross-border banks

The first line of action should be regulatory. Banking within the euro area, at least for genuinely cross-border groups, should become equivalent to banking within a single national jurisdiction. The Draghi (2024) agenda points in this direction by proposing a distinct jurisdiction for banks with substantial cross-border activity, one that is country-blind for prudential supervision and crisis management. Earlier policy work has made a similar point: the goal should be to remove legal and regulatory obstacles that prevent cross-border banking groups from operating as integrated entities within the Banking Union [Angeloni (2024), EP (2026)].

This reform would not mean deregulation. It would simplify existing regulation by removing unnecessary national segmentation within a common prudential framework. A banking group supervised at the European level should not be forced to manage capital, liquidity, resolution planning, and intragroup exposures as if each subsidiary were a separate national fortress. Such ring-fencing reduces efficiency, raises costs, and weakens the logic of the Banking Union. It also discourages cross-border consolidation.

A country-blind regime would enable genuinely European banking groups to allocate capital and liquidity more efficiently across the Banking Union, subject to strong European supervision. It would strengthen the business case for cross-border mergers. It would also help create institutions large enough to perform capital-market functions at scale: underwriting, distribution, securitization, advisory services, custody, and market-making.

The design would need to be careful. It might initially apply only to banks that meet clear criteria for cross-border activity, governance, resolvability, and supervisory transparency. It could be accompanied by group-funded deposit-insurance arrangements for participating cross-border banks, while national schemes continue to apply to purely domestic institutions. The point is not to abolish all national safeguards overnight. It is to create a credible path for banks that want to become genuinely European.

4.2 Second line of action: stop defending national banking fortresses

Regulatory reform alone will not be enough if national governments continue to treat banks as instruments of domestic policy. A second line of action must, therefore, be political: member states should stop obstructing cross-border consolidation in the name of national control.

The recent debate over UniCredit and Commerzbank illustrates the problem. German political resistance to a possible Italian-led consolidation showed how quickly national reflexes reappear when a domestic banking institution becomes the object of foreign interest. Similar reflexes are visible elsewhere, including in political rhetoric about the "nationality" of savings. These attitudes are understandable from a domestic political perspective, but they are inconsistent with a serious SIU.

Europe cannot simultaneously demand global financial strength and preserve national banking fortresses. If every member state wants to keep "its" banks under national influence, the result is a prisoner's dilemma. Each country tries to protect domestic control, but all countries end up with weaker banks, less integration, and reduced global competitiveness.

This does not mean that any merger should be approved automatically. Competition policy, prudential risk, governance, and financial stability concerns remain legitimate. But the presumption should shift. Cross-border consolidation should be viewed as a strategic European objective, not as a threat to national sovereignty. The relevant question should be whether a transaction creates a stronger, safer, and more efficient European institution—not whether it preserves national ownership.

Such a shift would also help align banking policy with the broader geopolitical moment. Europe's need for strategic autonomy has become more pressing amid intensified great-power competition, supply-chain risks, defense needs, and shifting relations with the U.S. and China. Financial capacity is part of strategic capacity. A continent that cannot mobilize its own savings and support its own firms will remain dependent on external capital markets and external financial institutions.

4.3 Third line of action: mobilize household and pension saving for risk capital

The third line of action concerns the savings side of the SIU. Europe's households hold substantial wealth, but too much of it remains in bank deposits or low-risk instruments [ECB (2026a)]. That is not irrational from the point of view of individual households, given differences in financial literacy, taxation, trust, and pension systems. But at the aggregate level, it creates a problem: Europe has abundant savings but insufficient risk capital.

The Commission has recognized this problem through initiatives on savings and investment accounts and personal pensions. Its SIU timeline includes a savings and investment account strategy, a proposal to revise the Pan-European Personal Pension Regulation and other measures aimed at increasing retail participation in capital markets. These efforts go in the right direction. But they need to be embedded in a broader architecture.

Europe should develop simple, tax-efficient, portable, and low-cost savings and pension vehicles that encourage long-term investment in diversified portfolios of European and global risk assets. The model could draw partly on Sweden's Investeringssparkonto, or ISK, which simplified household investment by offering a tax framework that made it easier to hold financial assets. The precise design would differ across countries, but the common objective should be to reduce the frictions that keep households in deposits and out of long-term investment [Bocconi IEP (2026), EFAMA (2024)].

Such instruments should not become vehicles for financial nationalism. They should not force households to buy domestic securities or politically favored assets. Rather, they should create a European pool of long-term savings accessible to both private and public investors under equal conditions across the Union. Over time, this pool could support venture capital, growth equity, listed equities, infrastructure funds, corporate bonds, and other long-term financing channels.

Banks should play a central role here as distributors, advisers, and product platforms. This may seem paradoxical: if the aim is to move savings out of deposits, why rely on banks? The answer is that banks already have the customer relationships. In many European countries, households interact with financial markets primarily through their banks. Trying to bypass banks would slow adoption. A better strategy is to change banks' incentives so that they profit not only from deposit gathering and lending, but also from helping customers build diversified long-term investment portfolios.

Consumer protection is essential. Retail investment reforms must avoid high fees, opaque inducements, and unsuitable products. But excessive paternalism can also be damaging if it locks households into low-yielding assets for decades. The right balance is to combine strong disclosure, suitability rules, and cost transparency with simple default products and long-term tax incentives. The objective is not to push households into speculation, but to give them better access to diversified wealth accumulation and to increase the supply of patient capital.

4.4 Fourth line of action: revive securitization as a market-building tool

The fourth line of action is securitization. In Europe, securitization remains burdened by the legacy of the global financial crisis. That legacy is understandable. Poorly designed securitization structures, especially in the U.S. before 2008, contributed to excessive leverage, opacity, and misaligned incentives [Ashcraft and Schuermann (2008)]. But the lesson should not be that securitization is inherently dangerous. The lesson is that it must be simple, transparent, standardized, and properly regulated.

A well-functioning securitization market can help connect bank lending and capital markets. Banks originate loans, including SME loans and mortgages, and then distribute part of the risk to investors. This frees balance-sheet capacity, diversifies risk, and creates securities that institutional investors can hold. For a bank-centered system like Europe's, securitization is one of the most natural bridges between banks and markets.

The problem is that European securitization has never fully recovered from the post-crisis regulatory reaction. Capital charges, due diligence burdens, and stigma have limited issuance and liquidity. Europe's securitization market remains smaller and less dynamic than it could be. If the SIU is serious about integrating savings and investment, this is a mistake.

Reviving securitization does not mean returning to pre-crisis excesses. It means building a European market for standardized, transparent, and high-quality securitized products. Regulation should distinguish clearly between complex, opaque structures and simpler instruments backed by well-understood assets. Public authorities could support standardization and data transparency. Private institutions, especially large cross-border banks, could originate, structure, and distribute the products, provided originators retain a meaningful share of the underlying exposures on their own balance sheets, thus preserving their incentives to screen and monitor debtors and aligning their interests with those of investors.

Market-making is critical. A securitization market cannot function if investors fear they cannot sell. Europe should, therefore, consider a platform or network of market makers for standardized securitized credit instruments. The initiative should be private, but public support may be justified in the initial phase to overcome coordination failures and establish liquidity. Once liquidity exists, private demand can sustain the market.

This reform would also indirectly support SMEs. Most SMEs will not issue bonds or equity directly. But their bank loans can be pooled, tranched, and sold to long-term investors if the structures are transparent and the incentives are sound. In this way, capital-market finance can reach firms that are too small to access markets on their own.

4.5 Why the four lines of action belong together

These four lines of action are mutually reinforcing. A country-blind cross-border banking framework creates the regulatory basis for European banking groups. Political acceptance of cross-border consolidation allows such groups to emerge. Savings and pension instruments provide a broader investor base for risk capital. Securitization gives banks a mechanism to distribute credit risk into capital markets. Together, they create a practical version of the SIU: not a rhetorical merger of Banking Union and Capital Markets Union, but an institutional strategy that uses banks to build markets.

The sequence matters. Europe often discusses market development as if legal harmonization alone will create market depth. Legal harmonization is important, but markets are built by institutions with incentives to trade, underwrite, distribute, advise, invest, and make prices. Without such institutions, regulatory packages remain incomplete. The SIU should, therefore, focus on the agents of integration, not only on the rules of integration.

This also explains why the SIU should not be limited to the European Union in a narrow legal sense. Financial integration may involve the U.K., Switzerland, and other European or allied financial centers where interests align. The post-Brexit relationship with the U.K. remains complicated, but London is still a major financial center. A pragmatic SIU would recognize that European financial autonomy is not the same as EU-only financial autarky. In a world of geopolitical fragmentation, cooperation among "middle powers" and like-minded economies may become more important, not less.

5. Risks and objections

Several objections deserve attention. The first is that larger banks may become more systemically risky. This is a valid concern. Europe should not pursue scale at the expense of resolvability or prudential discipline. But fragmentation is not safety. A system of many domestically protected banks can also be fragile, inefficient, and politically distorted. The objective should be large but resolvable European banks, subject to strong supervision, credible resolution planning, and robust capital requirements.

The second objection is that promoting banks could weaken capital markets by reinforcing bank dominance. This concern misunderstands the proposal. The aim is not to preserve the traditional bank-centered model, in which banks originate and hold loans until maturity while households keep savings in deposits. The aim is to transform banks into conduits between savers, firms, and markets. A bank that distributes investment products, securitizes loans, underwrites securities, and supports market liquidity is not blocking markets; it is helping to create them.

The third objection is political feasibility. Deposit insurance has stalled for years; why would cross-border banking reform be easier? Because opposition to cross-border integration and mutualized deposit insurance has so far come predominantly from countries hosting subsidiaries of foreign groups and from small banks defending their local footprint. The proposed approach can start with coalitions of willing countries and institutions. Not every member state needs to move at the same speed. Not every bank needs to join the country-blind framework immediately. Europe has often advanced through differentiated integration. The SIU could do the same.

The fourth objection concerns retail investors. Encouraging households to take more risk may expose them to losses. That is true, but the current system also exposes households to a different risk: low long-term returns, insufficient retirement wealth, and excessive dependence on pay-as-you-go pensions or public finances. The answer is not to avoid risk, but to manage it through diversification, long horizons, transparency, and appropriate default products.

Last, but not least in order of importance, a more integrated and sophisticated financial system by itself cannot solve the problems of European corporate fragmentation if companies still face 27 different environments as regards corporate law, taxation, insolvency, labor regulation, and many others when trying to incorporate, raise venture capital, issue employee equity, scale domestically and across borders, or exit. Letta (2024) proposed overcoming such fragmentation by creating a 28th legal regime in the EU, an idea also supported by Draghi (2024): a harmonized, optional legal framework could make companies legally independent of their country of incorporation for all their activities, not just in the financial sphere. The 28th regime is a natural complement to the SIU.

The EU Inc. framework recently proposed by the European Commission goes in this direction [EC (2026a)]. It establishes a new harmonized corporate legal regime, particularly designed for innovative companies and startups, but open to all companies that consider it suited to their business model. It includes digital incorporation, standard templates, and features that support startup finance and employee ownership. It sets demanding requirements for minimum speed and maximum cost of administrative procedures. While these are all welcome directions, EU Inc. is seriously incomplete. It provides only a foundational structure, covering aspects of corporate law but missing key areas such as taxation, insolvency, employment rules, accounting, and audit requirements. Even if approved as proposed, EU Inc. would still leave companies that opt for it to operate in a seriously fragmented regulatory environment. Whether this partial step will actually bring concrete improvements, and when the next steps will be made, remain open questions.

6. Conclusion

The Savings and Investments Union can be an important turning point in European financial integration. But it will do so only if it avoids the fate of earlier slogans. Europe does not need another label for familiar ambitions. It needs a strategy that recognizes how its financial system actually works.

The continent's banks must become larger, more European, more market-oriented, and less constrained by national political boundaries. The European Commission's communication on banking, issued in July 2026, and published as this article goes to press, acknowledges this objective [EC (2026b)]. However, whether it will lead to meaningful change depends on the proposal and adoption of sufficiently robust legal provisions to support it. At the same time, Europe must create the savings vehicles, pension channels, and securitization markets that allow household wealth and bank-originated credit to flow into productive investment.

The SIU should, therefore, be judged by whether it changes incentives. Does it make cross-border banking easier? Does it discourage national protectionism? Does it help households invest for the long term? Does it revive safe and transparent securitization? Does it create institutions capable of underwriting, distributing, and making markets in European financial instruments? If the answer is no, the SIU will remain another slogan. If the answer is yes, it may finally connect Europe's savings with Europe's investment needs.

Europe has spent three decades trying to build a single banking market and more than a decade trying to build a Capital Markets Union. Progress has been real but incomplete. The new global environment makes incompleteness more costly. Technological competition, defense needs, energy transition, demographic pressure, and geopolitical uncertainty all require a stronger European financial system. The SIU is, therefore, not merely a technical financial-services project. It is part of Europe's broader attempt to regain economic dynamism and strategic capacity.

The central lesson is that market integration and banking integration should no longer be treated as separate agendas. They are two sides of the same problem. Europe's savings will finance Europe's future only if the institutions that collect, transform, and distribute them are allowed to operate on a European scale. A bank-based Europe can still build deeper capital markets—but only if it sees banks and markets as complements rather than alternatives.

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Scaling Europe's Financial System

Unity without uniformity: how Europe can build integrated capital markets without a single post trade infrastructure[1]

Pablo Portugal,
Senior Public Affairs Director, Euroclear

Nicolas Micheli,
UK Managing Partner and
Group FMI Lead, Projective Group

ABSTRACT

Calls for deeper integration of Europe's capital markets are often influenced by comparisons with jurisdictions where a single post trade infrastructure supports a large and highly liquid market. In Europe, however, the question is not whether markets should be unified, but how unity can be achieved in a structurally diverse environment. This article argues that interoperability, rather than institutional uniformity, is the mechanism through which Europe can achieve scale, liquidity, and operational coherence. Drawing on established European market models in fixed income, exchange traded products, and cross border settlement, it shows how hub based and interoperable architectures have already delivered efficiencies and network effects that rival, and in key respects outperform, those of infrastructures in other leading jurisdictions. In a period of technological transformation and increasing adoption of distributed ledger technologies, such models offer superior resilience, stronger incentives for innovation, and greater strategic autonomy. The article concludes by identifying the remaining legal, supervisory, and market practice barriers to broader adoption, and sets out principles for deepening European market integration while preserving competition and diversity.

1. The views expressed in this article are solely those of the authors and do not necessarily reflect the official policy or position of Euroclear Holding SA/NV, or any of its group holding companies.

1. Introduction - why Europe needs both deeper capital markets and deeper integration

For decades, Europe stood alongside the U.S. at the center of the global economy. However, since the start of this century, a significant gap in GDP per capita has opened up between the EU and the U.S., largely due to smaller productivity gains in Europe. Europe faces growing challenges in productivity and competitiveness, combined with an investment challenge to digitalize and decarbonize the economy and increase defense capacity. Both the Letta and Draghi reports identify scale as one of the defining economic challenges of the coming decades. Europe's ability to compete will depend not only on innovation and industrial policy, but also on its capacity to mobilize capital efficiently across the Single Market.

As Enrico Letta argues, the Single Market remains Europe's most powerful instrument for creating economic scale, competitiveness, and prosperity [Letta (2024)]. However, completing the Single Market in the twenty-first century requires more than removing barriers to trade, it also requires creating efficient pathways through which European savings can be transformed into productive investment.

Europe's challenge is not a lack of capital. EU households hold approximately €10 tln in bank deposits and save around €1.4 tln every year, yet Europe continues to face an investment gap estimated at €750-800 bln annually. According to ECB analysis, if EU households were to align their deposit-to-financial-assets ratio with that of U.S. households, a stock of up to €8 tln could be redirected into market-based investments, equivalent to around €350 bln of additional investment flows each year [Lagarde (2024)]. The challenge is, therefore, the ability of capital markets to channel those savings efficiently into productive investment.

European firms often struggle to access the depth of capital available to competitors in the U.S., particularly in the scaleup phase when innovation must turn into large scale production. Companies frequently reach a point where growth capital, liquidity, and investor ecosystems become easier to access elsewhere. Fragmentation reduces market depth, limits liquidity pools, and increases costs for issuers and investors alike.

This assessment is shared across a growing body of European policy thinking. Letta (2024) frames the challenge through the lens of the Savings and Investments Union (SIU), Draghi (2024) through competitiveness and productivity, and Noyer (2024) through the need to create deeper capital markets capable of financing Europe's future growth ambitions. Together, these perspectives point towards the same conclusion: Europe requires larger, more integrated pools of capital capable of connecting savings with productive investment opportunities.

The challenge is determining how such integration can be achieved in a market that spans multiple jurisdictions, legal systems, and financial ecosystems. Understanding what integration should mean in a European context is, therefore, the next step in the discussion.

2. What market integration really means

Market integration is often assessed through the degree of institutional consolidation achieved within a jurisdiction. Yet for investors, issuers, and intermediaries, integration is ultimately experienced through outcomes: access to liquidity, cost efficiency, ease of cross-border activity, and the ability to raise and deploy capital at scale.

Consolidation and integration are frequently used interchangeably, yet they describe different concepts. While consolidation refers to the number of institutions operating within a market, integration refers to the degree to which market participants can access liquidity, services, and capital seamlessly across that market. And although consolidation can support integration, the two are not synonymous.

Single-jurisdiction markets such as the U.S., the U.K., Singapore, and Hong Kong achieve scale through a high degree of legal and institutional uniformity. The U.S. provides an interesting example. Although it is composed of individual states with their own legal systems, a combination of federal institutions and harmonized frameworks such as the Uniform Commercial Code provides a common legal foundation for commercial and financial transactions across the country. This has helped support the development of a deeply integrated national capital market.

The evolution of U.S. post-trade infrastructure reflects this broader context. Over time, a number of regional infrastructures merged into national arrangements centered around The Depository Trust Company (DTC). Such consolidation was facilitated not only by market forces, but also by the existence of a common political, legal, and regulatory framework.

Europe's challenge is different. Its diversity – political, legal, linguistic and, in some cases, monetary – is not a temporary condition that can simply be designed away. The question, therefore, is not how to replicate the legal and institutional structures of more homogeneous markets, but how to achieve comparable levels of liquidity, efficiency, and scale within a multi-jurisdictional single market. This requires a broader understanding of integration, one based not on harmonization and institutional consolidation alone, but on connectivity, interoperability, and the ability to generate deep liquidity pools at the European level and enable capital to move efficiently across the Union.

The question is not "Why doesn't Europe have a DTC?" but rather: "What kind of integration model works in a market composed of 27 jurisdictions retaining national specificities in legal frameworks and market practices?" Europe does not need to replicate the institutional structure of more homogeneous markets, it needs to deliver equivalent outcomes in terms of liquidity, access to capital, and market depth.

Europe's diversity is not a transitional phase on the way to a U.S.-style market structure. It is a defining characteristic of the European project. The challenge is, therefore, to achieve integration without requiring complete institutional convergence.

The debate on European market integration often starts with institutional structures. It may be more useful to start with market outcomes: investors care about access to liquidity; companies care about access to capital; and all users care about costs, efficiency, scale, and resilience. Integration should, therefore, be assessed not by the number of infrastructures that exist, but by the extent to which they enable capital to move freely and efficiently across Europe. Diversity can remain, provided it does not impede these objectives.

3. Understanding fragmentation: causes beneath the infrastructure

Discussions on European capital markets often focus on the number of infrastructures operating across the Union. Yet infrastructures are, to a large extent, a reflection of the broader environment in which they operate. National markets developed around distinct legal systems, ownership frameworks, tax regimes, and corporate governance models. Traditional infrastructures developed as part of these ecosystems and have continued to evolve, shaped by user demand, market developments, and the regulatory environment.

The legal and fiscal environment in Europe has significantly contributed to shaping the current market architecture. This conclusion is consistent with the findings of the ECB's Advisory Group on Market Infrastructures for Securities and Collateral [AMI-SeCo (2025)], which identified a broad range of remaining barriers spanning legal frameworks, issuance, custody, clearing, settlement, collateral management, and regulatory reporting.

The sources of this type of fragmentation can broadly be grouped into four categories, all of which have varying degrees of impact:

1. **Corporate law**: the differences regarding shareholder identification, voting rights, issuer obligations, and disclosure requirements can make cross-border servicing significantly more complex.
2. **Securities law**: the definitions of ownership, custody, and asset protection differ across Member States. A French security, a Swedish security, and an Italian security may all ultimately represent ownership rights, but the legal frameworks governing them are not necessarily identical.
3. **Taxation**: the different withholding tax procedures, tax reclaims, and reporting obligations create friction and operational complexity.
4. **Asset servicing**: corporate actions and investor servicing often remain highly market-specific despite progress over the years.

However, structural barriers alone do not fully explain the current market landscape. The degree of integration achieved across Europe has also been influenced by broader market factors, including:

1. **Capital market development**: uneven levels of market development and depth across Member States contribute to the fragmentation across the Union's 27 jurisdictions.
2. **Investor behaviors**: diverse investor attitudes, national differences in asset classes, and home market biases have influenced the levels of cross-border investment and market integration.

The contrast between fixed income and equity markets is particularly striking. Equity markets continue to be influenced by national corporate law, shareholder rights frameworks, taxation regimes, and asset servicing requirements, all of which create frictions that can limit cross-border activity. By contrast, fixed income markets, which are more institutional in nature, have demonstrated a greater capacity to concentrate liquidity and connect issuers and investors across jurisdictions. Collateral management needs have been an important driver in liquidity concentration and network effects in these markets.

The Eurobond market illustrates this dynamic. Over several decades, it has evolved into a genuinely international market that enables issuers to access a broad investor base beyond their domestic market. Similarly, parts of the ETF ecosystem have benefited from market-led initiatives that have concentrated liquidity and simplified post-trade processes across borders. In both cases, integration emerged not primarily through institutional consolidation, but through the development of common market practices, interoperability, and efficient channels connecting participants.

These examples suggest that fragmentation should not be viewed as a fixed feature of European markets. Rather, integration has developed where market structures allow liquidity, scale, and investor access to emerge across national boundaries. Understanding why some segments have achieved these outcomes while others continue to face barriers is critical to identifying the next steps towards a more integrated European capital market.

Creating common platforms or enhancing connectivity can improve efficiency, but they cannot by themselves harmonize shareholder rights, taxation procedures, or corporate law. Technological integration and institutional integration must, therefore, progress together.

The costs of fragmentation extend beyond market infrastructure and operational processes. Ultimately, fragmentation affects how efficiently capital is mobilized, allocated, and deployed across the European economy.

For investors, fragmentation can result in higher costs, additional operational complexity, and reduced access to liquidity. For issuers, it can increase the complexity of raising capital across borders. At the system level, fragmentation reduces the ability of capital to move freely to its most productive uses, limiting the scale and depth of European capital markets.

These effects are particularly significant at a time when Europe is seeking to mobilize private savings to finance innovation, competitiveness, decarbonization, digital transformation, and strategic autonomy. Harmful fragmentation should, therefore, not be seen merely as an operational challenge for market participants, but as a broader economic challenge affecting Europe's ability to compete and grow.

Ultimately, the cost of fragmentation is not measured by the number of infrastructures operating across Europe, but by the frictions that prevent savings, investment, and liquidity from flowing efficiently across the Single Market.

4. Integration through interoperability, competition, and choice

If fragmentation originates in the diversity of national frameworks, interoperability becomes a critical mechanism for overcoming it.

Interoperability allows different infrastructures, markets, and participants to operate within their own environments while remaining connected to a wider European ecosystem. Rather than requiring complete institutional convergence, it enables market participants to access broader pools of liquidity and investment opportunities through common standards, connectivity, and operational consistency.

Table 1: The economic cost of fragmentation

Fragmentation source	Immediate consequence	Broader economic impact
Different corporate law frameworks	Increased asset servicing and shareholder rights processing complexity	Higher levels of cross-border intermediation and potential costs for issuers and investors
Different securities laws	Jurisdiction-specific custody and settlement arrangements	Legal complexity and limitations on scalability depending on the applicable legal frameworks
Divergent tax procedures	Additional operational burden and uncertainty, e.g., in the recovery of withholding tax	Reduced returns, higher costs, and disincentives to cross-border investment
National market practices	Duplicated processes and lower standardization	Limited economies of scale
Fragmented connectivity between infrastructures	Reduced concentration of secondary market activity	Less market depth and higher operational complexity

Fragmentation is, therefore, not solely an infrastructure issue, it is an economic constraint that affects liquidity, scale, competitiveness, and ultimately Europe's ability to mobilize capital efficiently.

This distinction is particularly important in Europe. Unlike more homogeneous jurisdictions, Europe is unlikely to evolve towards a single legal, regulatory, or market framework in the foreseeable future. Integration must, therefore, be achieved across jurisdictions rather than within a single one.

Interoperability should not be viewed as a compromise between fragmentation and consolidation; it is a distinct model of integration in its own right. By enabling capital and liquidity to circulate efficiently across diverse markets, interoperable infrastructures can deliver many of the benefits traditionally associated with consolidation while preserving the flexibility needed to accommodate different legal systems, market structures, and participant needs.

The concept is straightforward. Market participants do not necessarily require a single infrastructure. What they require is seamless access to capital, liquidity, and services. Interoperability provides a mechanism through which these outcomes can be achieved without demanding institutional uniformity.

Competition is often portrayed as being in tension with integration. Europe's experience suggests the opposite. Some of the continent's most successful integration stories emerged because issuers, investors and intermediaries were free to choose the most efficient routes to market. As liquidity concentrated around infrastructures offering the strongest connectivity, scale emerged organically. In this sense, competition and integration should be viewed not as conflicting objectives, but as mutually reinforcing forces.

When market participants are free to determine how and where they access services, they naturally gravitate towards infrastructures that offer the deepest liquidity, broadest connectivity, and greatest efficiency. This process creates powerful network effects, encourages innovation, and reduces operational friction across the market.

The examples discussed in the following section illustrate this dynamic. They were not primarily the result of top-down redesign or institutional consolidation, rather they evolved because market participants recognized the benefits of broader access, improved liquidity, and more efficient operating models.

This remains highly relevant today. Open access and user choice create incentives for infrastructures to improve connectivity, enhance services, and reduce barriers to participation. In doing so, competition becomes a driver of integration rather than an obstacle to it.

The role of policymakers should, therefore, not be to prescribe a particular market structure in advance, but to create conditions in which competition, interoperability, and market demand can work together to support integration across the Single Market.

The increasing focus on hub models reflects a broader recognition that scale matters.

Deep liquidity pools, network effects, and larger volumes can generate significant efficiencies for issuers, investors and intermediaries. At the same time, Europe's diversity means that any successful integration model must accommodate multiple jurisdictions, market structures, and legal frameworks.

Market-driven hubs can provide one mechanism for balancing these objectives. By concentrating activity around well-connected infrastructures, hubs can simplify access to multiple markets, facilitate liquidity concentration, and support economies of scale while preserving the diversity of local ecosystems.

However, hubs should be viewed as enablers rather than objectives in themselves. Liquidity cannot be legislated into existence. It emerges when market participants find efficiency, connectivity, and value. History suggests that durable market structures develop when they respond to genuine commercial demand rather than prescriptive institutional design.

For this reason, the future development of hub models should remain closely aligned with market needs. Their success will ultimately depend not on their institutional design alone, but on whether they provide tangible benefits to the issuers, investors, and intermediaries they seek to serve.

What matters are outcomes.

- Can issuers access a broader pool of European and international investors?
- Can investors deploy capital across Europe efficiently?
- Can capital be issued, traded, settled, and serviced efficiently across borders?
- Can liquidity concentrate where it is most productive?
- Can markets achieve sufficient depth and scale to compete globally?

These questions shift the focus from structures to performance. They recognize that there may be multiple paths towards integration and that the most effective solutions will often emerge from a combination of interoperability, competition, connectivity, and market demand.

Viewed through this lens, integration is not a destination defined by a specific institutional model, it is an outcome characterized by liquidity, efficiency, access, and scale.

Europe's challenge is, therefore, not to replicate the structures of more homogeneous markets, but to create the conditions under which those outcomes can emerge within its own diverse and multi-jurisdictional environment.

Several parts of the European market have already demonstrated that this is possible. The next section examines a number of integration models that have successfully combined connectivity, competition, and scale, providing practical examples of how market-led integration can emerge in practice.

5. European success stories already operating at scale

Europe's market structure is often described in terms of fragmentation, but this should not obscure the areas where significant integration has already been achieved. In several asset classes, market participants have developed models that connect issuers and investors across jurisdictions, concentrate liquidity, and reduce operational friction without requiring full institutional uniformity.

These examples matter because they demonstrate that Europe does not need to start from a blank page. The building blocks of an integrated European capital market already exist. The challenge is to understand why these models have succeeded, what conditions enabled them, and how similar principles could be applied more broadly across the financial ecosystem. Several of these examples have involved Euroclear directly, providing a practical perspective on how market participants have successfully overcome fragmentation and achieved scale across multiple jurisdictions.

What they have in common is not a single legal framework or predetermined institutional design, but a reliance on connectivity, interoperability, market adoption, and the ability to create efficient access points to wider pools of liquidity.

The Eurobond market is one of Europe's clearest examples of successful capital market integration. Developed as a genuinely international market, but anchored in Europe and led by EU infrastructures, it allows issuers to access a broad investor base without being confined to national market boundaries. Over time, it has evolved into one of the largest debt markets in the world and a powerful illustration of how European infrastructures can achieve scale despite operating across multiple jurisdictions.

Euroclear has been a central participant in this ecosystem through Euroclear Bank, which serves as one of the key infrastructures supporting the issuance, settlement, and safekeeping of Eurobonds. The success of the market demonstrates that integration and competition can be achieved not by eliminating diversity, but by fostering interoperability, establishing the right legal foundations, and creating efficient market-driven mechanisms that connect issuers and investors.

In the case of the Eurobond market, scale emerged because market participants were able to concentrate issuance and secondary market activity around trusted, interoperable infrastructures, generating network effects that benefited the broader ecosystem.

The European ETF market provides another example of how integration can emerge through market-led solutions. Historically, ETFs faced inefficiencies arising from fragmented issuance, trading, and settlement arrangements. Dealers had to continually realign shares, moving them between the different national CSDs of buyers and sellers. Beginning in 2010, market participants developed a more efficient post-trade model as these inefficiencies were increasingly constraining ETF market growth. Under the international ETF (iETF) model, iETFs are issued directly through international CSDs and can be listed in multiple trading venues and across multiple currencies. This approach resulted in more concentrated liquidity, narrower spreads, improved settlement efficiency, and increased European scale and global reach.

While the structures differ from those used in fixed income markets, the underlying principle is similar. Efficient access, interoperability, and liquidity concentration have enabled greater scale without requiring the disappearance of local markets or trading venues.

The ETF experience demonstrates that integration does not always require institutional consolidation. In many cases, the greatest benefits arise from improving the connections between markets rather than replacing existing market structures. Together with the Eurobond market, the iETF model provides a useful reference point for exploring similar solutions in other asset classes affected by fragmentation, including equities, while recognizing the different characteristics of financial instruments and market participants.

Fixed income markets offer another illustration of how connectivity can support integration. Many securities continue to be issued in domestic CSDs, yet investors are able to access them through broader European channels that connect markets and concentrate liquidity.

The investor-CSD model demonstrates how domestic issuance structures can coexist with pan-European investor access. Local ecosystems play a fundamental role in the development of capital markets and supporting issuers, investors and market participants. But it is important that local proximity is combined with efficient access to pan-European scale and liquidity. The investor-CSD model illustrates how connectivity can bridge these two objectives, allowing domestic market structures to remain in place while connecting them to broader European and international pools of capital.

The migration of Irish securities to Euroclear Bank following Brexit provides a different perspective on integration. Unlike the examples above, it represents a case of deeper legal and operational consolidation, with a national market choosing to migrate to a pan-European infrastructure. This example demonstrates that consolidation can be achieved under the right conditions. At the same time, it highlights the practical realities involved, including legal alignment, operational readiness, and broad market support. The Irish experience should, therefore, not be viewed as a universal template for Europe, but rather as one possible integration model within a spectrum of approaches. This consolidation model could serve as a reference for future efforts in other EU jurisdictions, particularly smaller sized markets.

Other integration models have emerged in the European landscape that sit between complete fragmentation and full consolidation, including common platform arrangements and multinational CSD structures that combine operational

Table 2: Existing European integration models

Example	What it demonstrates	Integration mechanism	Key lesson
Eurobonds	Concentrating issuance and post-trading activity in pan-European infrastructures can reduce fragmentation and enable global scale	Common standards, flexibility regarding applicable law, and activity organized via interoperable and competing infrastructures	Market-driven integration can emerge when common standards, interoperability, and participant incentives align
International ETFs	Trading across multiple venues can coexist with more integrated and efficient post-trade models	User-led integration of issuance and post-trade activity at the European level, enabled by open access and leveraging existing infrastructure	Integration works best when it is market-led and anchored around open access principles and user needs
Fixed income / investor-CSD model	Domestic issuance can connect to broader European liquidity	Infrastructure links and investor access channels	Connectivity can integrate markets without eliminating domestic structures
Ireland	Full consolidation is possible under specific conditions	Legal and operational migration to a pan-European infrastructure	Consolidation can be an effective integration mechanism when legal, operational, and market conditions align.
Multinational platforms	Operational integration and scale are possible while retaining separate legal establishments across jurisdictions (e.g., local CSDs or branches)	Common platform and shared operational structures across separate entities	Synergies and efficiencies are possible without full legal consolidation

These are not templates to replicate mechanically, but examples of different integration mechanisms

integration with local legal frameworks. Examples include Euroclear's ESES platform, which supports the Belgian, French, and Dutch markets through a common operational infrastructure, and Nasdaq CSD SE, which operates securities settlement systems across multiple jurisdictions through a single licensed entity with local branches in different Member States. Such arrangements preserve national legal frameworks while achieving greater scale, connectivity, and operational efficiency through shared infrastructure.

Their significance lies in showing that Europe does not need to choose between complete fragmentation and complete consolidation. Different models can coexist, provided they ultimately contribute to greater liquidity, efficiency, and access to capital.

6. Looking forward: hubs, DLT and the next phase of integration

Europe's market integration journey is entering a new phase. Alongside ongoing efforts to deepen the Single Market, financial markets are exploring new technologies, operating models, and forms of settlement that have the potential to reshape post-trade processes over the coming decades.

These developments create significant opportunities. They also create potential new risks. Europe's capital markets have spent decades managing the consequences of fragmentation across legal systems, market practices, and infrastructures. As digital market infrastructures evolve, policymakers and market participants have a unique opportunity: they can avoid recreating the fragmentation of the past in a new technological environment.

The challenge is, therefore, not simply adopting new technologies, it is ensuring that innovation contributes to integration rather than creating a new generation of disconnected platforms, standards, and liquidity pools.

The lessons emerging from Europe's most successful integration stories remain highly relevant.

Whether in Eurobonds, ETFs, or cross-border fixed income markets, scale emerged because market participants could access broader pools of liquidity through common standards, connectivity, and interoperable infrastructures. These principles are technology agnostic. They remain just as relevant for digital infrastructures as they are for traditional ones.

As tokenization and distributed ledger technologies evolve, there is a risk that innovation becomes fragmented across multiple platforms, networks, and standards. While competition and experimentation remain essential, Europe should be mindful of creating isolated ecosystems that are unable to communicate effectively with one another or with existing market infrastructure.

The objective should, therefore, be interoperability from the outset. New technologies should strengthen connectivity across markets rather than create new silos around them.

Recent policy discussions have increasingly focused on the concept of infrastructure hubs as a mechanism for supporting deeper market integration.

The attraction is understandable. Hubs can provide access to broader liquidity pools, generate economies of scale, and simplify connections across markets. Properly designed, they can help market participants access multiple jurisdictions through efficient and well-connected infrastructures.

However, for the hub-and-spoke model to be cost-effective, the connectivity arrangements should remain closely linked to market demand and user needs. Experience suggests that enduring integration tends to emerge where infrastructures facilitate choice, openness, and connectivity rather than where outcomes are determined through an overly prescriptive design irrespective of market demand. The functionalities of the Target2-Securities (T2S) common settlement platform, operated by the Eurosystem, should be utilized to their full extent as a key enabler of connectivity.

The future European landscape is unlikely to consist entirely of legacy infrastructures or entirely of distributed ledgers. For the foreseeable future, markets will operate in a hybrid environment where traditional infrastructures, digital platforms, commercial bank money, and central bank money coexist.

This reality reinforces the importance of interoperability. The challenge is no longer connecting one national infrastructure to another, it increasingly involves connecting different technologies, settlement platforms, forms of digital cash, and operating environments while preserving liquidity, legal certainty, and operational resilience.

In this context, resilience should be understood more broadly than operational continuity alone. A resilient market architecture is one that can evolve, incorporate new technologies, and accommodate changing market needs without creating fragmentation or disrupting existing market activity.

The ability to connect different infrastructures may, therefore, become as important as the infrastructures themselves.

Legal interoperability will be an important consideration in a DLT environment. While full harmonization will be challenging, optional frameworks can deliver real value in some market segments. Today, lack of legal certainty regarding the valid issuance of dematerialized debt securities in cross-border scenarios incurs legal costs, ties up resources, hinders scalability across the EU, and impacts time-to-market. A harmonized EU issuance framework for these instruments, sometimes described as a "28th regime", could reduce fragmentation, improve legal certainty, and support the broader adoption of DLT-based market infrastructures.

The emergence of digital market infrastructures does not on its own solve Europe's integration challenges, it creates an opportunity to put in place strong foundations to overcome today's challenges and ensure European infrastructure is fit for the next evolution in capital markets.

7. Principles for moving forward

Europe's capital markets do not need to choose between fragmentation and uniformity. The more relevant challenge is to create the conditions in which scale, liquidity, and efficiency can emerge across a diverse market structure. The experience of European market integration to date suggests that this will require a combination of market growth, regulatory progress, competition, infrastructure connectivity, and technology adoption.

Five principles should guide the next phase.

7.1 Grow markets, not just infrastructure

The ultimate objective is not to integrate infrastructure or harmonize legal frameworks for their own sake, but to deepen Europe's capital markets. Infrastructure can reduce friction, improve access, and support liquidity, but it cannot by itself create investment demand or turn savings into productive capital.

Europe's broader challenge remains the efficient mobilization of savings into investment, which means creating stronger incentives and better pathways for households to become investors, for institutional capital to support European growth, and for high-growth companies to access equity and debt markets at scale. Without stronger supply and demand from market users, infrastructure integration can only take Europe part of the way.

The next phase of integration should, therefore, be judged by whether it helps capital move more effectively from savers to issuers, from local markets to European opportunities, and from passive liquidity into productive investment.

7.2 Address fragmentation at its source

Europe's post-trade landscape reflects a deeper set of national differences.

Sustainable integration, therefore, requires progress beyond infrastructure connectivity alone. Common platforms, links, and hubs can reduce operational friction, but they cannot fully compensate for barriers embedded in legal and regulatory frameworks. Concrete barriers should be addressed through practical approaches and regulatory action where needed to maximize economies of scale across the Single Market.

This does not necessarily mean eliminating all national differences. While harmonization of securities laws is unlikely in the near term, greater legal interoperability between systems is both achievable and valuable. Efforts should, therefore, focus on enabling more seamless interaction between legal and market frameworks, while optimizing the functionalities of T2S and advancing the harmonization of standards and market practices in line with market needs.

7.3 Promote competition, choice and open access

European integration should not be confused with forced concentration. Some of Europe's most successful integration examples have emerged because market participants were able to choose efficient routes to access liquidity, investors, and services.

Competition and integration can, therefore, be mutually reinforcing. When issuers, investors and intermediaries have genuine choice, activity can concentrate around the infrastructures and market models that offer the greatest value. This creates incentives for innovation, efficiency, and service improvement.

Open access, interoperability, and user choice should, therefore, remain central to the European model. The role of policy should be to create the conditions for efficient market outcomes, not to prescribe those outcomes in advance.

7.4 Build connectivity before consolidation

Institutional consolidation can support integration in some circumstances, but it is not the only route to scale. Europe's experience shows that meaningful integration can also emerge through connectivity, interoperability, and market-driven concentration of activity.

The priority should, therefore, be to ensure that infrastructures, markets, and participants can connect efficiently across borders. This includes common standards, reliable access models, operational consistency, and proportionate regulatory frameworks that allow efficient links to develop where there is genuine market demand.

Leveraging the functionalities of the T2S common platform remains essential. CSD hubs could become an important feature of the future architecture. Their value will depend on their ability to provide access to deep liquidity pools and achieve scale while supporting user needs and market demand.

7.5 Avoid recreating fragmentation in the digital era

The emergence of DLT, tokenization, and new settlement models creates an opportunity to address some of the inefficiencies of today's market structure. It also creates a risk that Europe recreates old fragmentation in digital form.

If new platforms, standards, and networks develop in isolation, the market could become more fragmented rather than less. Europe should, therefore, make interoperability a first-order design principle for digital market infrastructure. New technologies should be able to coexist with existing systems, interact across networks, and support common standards from the outset.

The objective should not be to replace one fragmented landscape with another, it should be to ensure that digital innovation strengthens Europe's ability to connect markets, mobilize capital, and support trusted, resilient infrastructure at scale.

8. Conclusion: unity without uniformity

Europe's challenge is not to replicate the structures of more homogeneous markets, it is to achieve comparable outcomes within a diverse and multi-jurisdictional environment: deeper liquidity, broader access to capital, greater efficiency, and stronger global competitiveness.

The examples discussed in this article show that integration is not synonymous with uniformity. Europe has already demonstrated that market-led integration can emerge through interoperability, connectivity, and user choice, while selected examples such as the Irish market illustrate that deeper forms of consolidation can also succeed where market conditions, legal frameworks, and participant needs align. There is, therefore, no single pathway to integration, nor does Europe need a single institutional model.

The ultimate objective is not the integration of infrastructures, but the integration of capital markets. Infrastructure remains a critical enabler of that ambition, but it is not an end in itself. Success should be measured by Europe's ability to connect savings with investment, issuers with investors, and local markets with continental scale.

That is the promise of a European model built on unity without uniformity.

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Scaling Europe's Financial System

From fragmentation to scale: how Europe can finally deliver the Savings and Investments Union

Ben Pott,
International Head of Public Policy
and Government Affairs, BNY

ABSTRACT

Europe has no shortage of savings – it has a shortage of mechanisms to turn those savings into productive investment. In this article, I argue that the success of the EU's Savings and Investments Union will depend not on further regulatory reform alone, but on removing the structural barriers that continue to fragment capital markets. From tax, insolvency, and market infrastructure reform to securitization, pensions, retail investing, and digital assets, this article outlines a practical roadmap for mobilizing capital at scale, strengthening competitiveness, and unlocking long-term economic growth. At a moment when Europe faces significant investment needs and growing global competition, this article will set out what is required to transform policy ambition into tangible market outcomes.

1. Introduction

Europe's problem is not a shortage of capital but rather a failure to put that capital to work. While Europe has high levels of household savings, too much wealth remains in low yield deposits, while businesses continue to rely heavily on bank lending and public balance sheets for growth. What this means is a persistent gap between available savings and productive investment, which stalls competitiveness, slows innovation, and leaves Europe more exposed at a time of geopolitical disruption.

This challenge sits at the heart of Europe's longstanding ambition to build an integrated market for savings and investment through the Savings and Investment Union (SIU) [EC (2026a)]. The SIU is seen as the solution to putting savings to productive use. However, despite successive action plans and legislative initiatives, Europe's capital markets remain fragmented, and capital continues to flow far less freely than policy intent suggests.

The issue is not a lack of ambition, but how reforms have been pursued. Policy ideas have been approached from the perspective of regulatory change rather than focused on the change needed for the right outcome. While rules have evolved, the structures that determine whether markets function at scale - such as legal certainty, tax efficiency, infrastructure integration, and cross border access – have remained largely national. This leaves market participants facing higher costs, operational complexity, and frictions when deploying capital across European borders.

At a time when governments globally are reshaping regulatory frameworks to attract investment, stimulating economic growth within the EU has become a priority.

Meeting Europe's investment ambitions, including the energy transition, digital transformation, defense capability, and infrastructure renewal, will require significantly higher levels of long-term capital. Concurrently, demographic changes and monetary pressures will further strain public finances. Mobilizing private capital more effectively is central to the SIU's ambitions. Reducing complexity and fragmentation will be critical to enabling growth, alongside a regulatory environment that supports innovation.

This is why the SIU should be seen as central to economic competitiveness. Efficient capital markets support innovation, broaden access to investment opportunities, improve resilience, and reduce reliance on a small group of financing channels.

The evolution of the Capital Markets Union into the SIU reflects a growing recognition that incremental reform is insufficient. Achieving the scale needed requires focus on what allows capital to move easily, predictably, and safely across borders.

The introduction of the Market Integration and Supervision Package in December 2025 (EC (2025a)], the flagship proposal of the SIU, is both timely and welcome. It signals a step change in intent as a more coordinated and ambitious effort to address fragmentation and the architecture underpinning Europe's capital markets. It also demonstrates the political ambition to ultimately deliver the SIU.

What is needed now is to match that ambition with sustained execution. Delivering a truly integrated market will require more than proposals or tinkering at the sides of regulation. It needs a relentless focus on market outcomes, a willingness to tackle longstanding structural frictions, and collaboration between policymakers and market participants. For the first time in many years the pieces are beginning to align. The opportunity now is to ensure that this momentum is not lost but translated into impactful change focused on ambitious, growth oriented policies that can unlock scale and enhance global competitiveness.

2. Fixing the foundations of integration

2.1 Moving from frameworks to outcomes

Europe's integration solutions have often focused on harmonizing rules, improving disclosures, and strengthening supervisory coordination. These are important building blocks, but they are not enough on their own to change market behavior. A SIU cannot be legislated into existence through frameworks alone and instead must be built through mechanisms that make cross-border activity cheaper, easier, and more predictable in practice.

Fragmentation remains visible across several layers of the system. Legal regimes continue to diverge, especially in areas such as insolvency and creditor rights. Tax processes remain complex and nationally administered. Supervisory and authorization models often require firms to replicate activities across jurisdictions. Post-trade infrastructure remains uneven, with national boundaries still shaping settlement, custody, collateral management, and asset servicing. These frictions compound one another and reduce Europe's ability to achieve scale.

For firms operating across the Union this is not an abstract concern, as it affects the cost of capital, the economics of servicing, the efficiency of collateral deployment, the scalability of technology investment, and the viability of cross-border distribution models. If the SIU is to succeed, the focus must shift from legislative outputs to measurable market outcomes.

One area where fragmentation remains particularly evident is shareholder identification. Divergent national definitions of "shareholder" continues to create operational complexity, inconsistent identification processes, and uncertainty around the exercise of voting and engagement rights across cross-border custody chains. These differences act as a barrier to efficient cross-border investments and weaken the effectiveness of a genuinely integrated European capital market.

Against this backdrop, the ongoing Shareholder Rights Directive review represents a welcome opportunity to address this [EC (2026b)]. Divergent national definitions of "shareholder" create legal uncertainty, fragment shareholder identification processes, and hinder the consistent exercise of investor rights across jurisdictions. A harmonized pan-European definition, aligned to the end investor, would strengthen legal certainty, reduce operational friction, and advance the broader goals of market integration, investor engagement, and European capital market competitiveness.

A further opportunity to reduce market fragmentation lies in the introduction of a "golden operational record" for corporate actions and shareholder identification requests. The absence of a mandatory, standardized, and machine-readable record creates inefficiencies and increases the risk of inconsistent processing across custody chains. A harmonized approach would improve data quality, reduce operational complexity, and support greater integration of EU capital markets.

The proposed "EU Inc." framework offers another opportunity to reduce fragmentation by creating a common corporate legal regime across the EU, known as the 28th regime [EC (2026c)]. By simplifying company formation, investments, and corporate operations across jurisdictions, it could lower barriers to cross-border activity, support business growth, and contribute to deeper capital market integration.

2.2 Taxation and insolvency: the quiet blockers of integration

Tax and insolvency regimes reveal the structural barriers that continue to undermine integration. These issues rarely dominate headlines, yet they are a powerful influence on how capital flows in practice.

Withholding tax processes remain fragmented, manual, and slow, increasing costs and operational risk for cross border investors. In this context, the EU Commission's FASTER initiative represented an important step toward simplifying withholding tax relief procedures, but its design could have moved further and faster in addressing the root causes of fragmentation and inefficiency in cross border investments [EC (2024)].

While the introduction of standardized relief at source and common reporting frameworks is welcome, the initiative stops short of fully harmonizing processes across member states, leaving scope for continued divergence in implementation, documentation requirements, and timelines. This risks perpetuating operational complexity for intermediaries and investors, limiting the scalability of automated solutions, and slowing the realization of benefits.

A more ambitious approach focused on deeper standardization, broader adoption of digitalized processes, and clearer alignment with existing market infrastructure would have accelerated progress toward a truly seamless, pan European withholding tax framework and better supported the wider objectives of the SIU.

Divergent insolvency frameworks create uncertainty over creditor outcomes, pricing, and recovery, particularly in stress scenarios. Together, these factors distort investment decisions and discourage the efficient allocation of capital across borders.

These issues feature regularly in European consultations and expert reports, yet progress has been slow precisely because they sit at the intersection of national competence and market integration.

Crucially, the solution is not full harmonization. Europe's diversity of legal traditions is a reality. Convergence around the core principles of clarity, predictability, and enforceability would materially improve market confidence. Streamlined tax processes and greater alignment on insolvency outcomes would reduce friction without undermining national sovereignty.

2.3 From post-trade fragmentation to scale: settlement, collateral, and issuance

If legal and tax frameworks set the rules of the game, market infrastructure determines whether those rules can operate at scale. This is why the Market Integration and Supervision Package (MISP) matters [EC (2025b)]. As the flagship legislative proposal under the SIU, it reflects a recognition that Europe cannot build deeper capital markets while the underlying infrastructure for trading, settlement, and post-trade activity remains fragmented along national lines.

The Commission has presented the package as a means to remove barriers and create a more integrated and efficient financial system, and in practice much of its importance lies in its potential to reduce post-trade fragmentation. This includes measures to strengthen cross-border access to Central Securities Depositories (CSDs), streamline passporting arrangements, and enhance interconnectivity between market infrastructures, via a hub and spoke model.

Equally important is the requirement for euro-denominated CSDs to connect to TARGET2-Securities (T2S), the Eurosystem settlement platform, which has already demonstrated its ability to improve settlement efficiency, optimize liquidity management, and promote greater harmonization across European markets. In effect, this points towards the long-standing, but still incomplete, objective of a single European settlement area. Settlement remains one of the clearest examples of where national boundaries continue to shape market outcomes, creating inefficiencies, higher costs, and operational complexity for cross-border activity. A more integrated settlement environment, where there is greater uptake of CSD's connecting to T2S, would improve interoperability and liquidity, reduce duplication, and support greater scale across European capital markets.

However, settlement integration alone is not enough, and the same logic should extend to collateral. If Europe wants markets to function more efficiently and resiliently, it should also aim for a single European collateral area, in which collateral can move, be mobilized, and be used more seamlessly across market segments and jurisdictions.

Today fragmented rules impede that objective. A clear example is Article 47.3 in the European Markets Infrastructure Regulation (EMIR), which restricts where Central Counterparty Clearing Houses or CCP's can hold securities, while imposing no equivalent constraint on cash. The effect is a distortion in incentives, increased costs, and fragmented inefficient collateral pools. Improving collateral mobility as part of the MISP, and the wider SIU agenda, is essential to reducing structural inefficiency and improving resilience in European markets.

There is also a third dimension that deserves attention. If capital is to move more freely across the Union, market participants need not only more integrated settlement and collateral arrangements, but also more harmonized processes at the point of issuance and investment. Today, differences in corporate actions processing, shareholder identification, local market practice, and issuer servicing still create friction for issuers and investors operating across borders. Greater convergence in these areas would reduce operational complexity, improve predictability, and make European markets easier to access and scale.

Taken together, these three objectives, a single European settlement area, a single European collateral area, and a single European issuance area, provide a more practical definition of what SIU delivery should mean. They move the debate away from abstract institutional reform and towards the market conditions needed for capital to circulate efficiently across Europe. If the SIU is to succeed, integration must encompass the full market lifecycle, extending beyond the rules that govern markets to include the infrastructure and processes that make them work.

2.4 Depositary passporting as a practical integration lever

Yet true integration requires more than interoperable systems. It requires market participants to be able to serve clients across borders efficiently, without replicating the same capabilities in every jurisdiction. Today, however, national requirements continue to create operational complexities, additional costs, and barriers to scale. This is particularly evident in the depositary model. A fund manager distributing products across multiple Member States may rely on separate depositary arrangements, operational processes, and reporting structures in each jurisdiction. While intended to reflect national supervisory frameworks, this fragmentation can generate duplication without delivering corresponding benefits for investor protection.

A depositary bank passport put forward as part of the Market Integration and Supervision Package would help address this challenge. By allowing appropriately authorized depositaries to provide services across the Union under a consistent regulatory framework, it would reduce unnecessary duplication, support greater competition, and expand choice for fund managers and investors. Importantly, passporting is not about lowering standards; it is about enabling firms to operate at scale within a robust and consistent supervisory regime.

A well-designed passport could improve efficiency, strengthen operational resilience, and support greater investment in technology, controls, and service quality. More broadly, it would help remove a structural barrier to cross-border fund distribution and represent a tangible step towards a more integrated European market.

The growing focus on depositary passporting reflects a wider recognition that market integration cannot be achieved through regulatory coordination alone. It also requires practical mechanisms that allow market participants to operate seamlessly across borders under common standards. Properly designed, such reforms can simultaneously enhance market efficiency, strengthen resilience, and advance the objectives of the SIU.

Beyond intra-EU integration, it is equally important that Europe remains open to international capital and globally connected financial services. While efforts to deepen the Single Market should continue, policymakers should also be mindful of measures that may unintentionally restrict cross-border activity or create unnecessary barriers for international firms. An example of this is Article 21c of CRD6, which introduces significant constraints on the provision of core banking services by third-country institutions into the EU.

Maintaining both internal integration and external openness will be critical to ensuring that EU capital markets remain competitive, attractive, and capable of mobilizing investment at scale.

2.5 T+1 settlement: the forcing function

The global shift toward shorter settlement cycles underscores the urgency of reform. European authorities and market participants face a coordination challenge that cuts across infrastructure, liquidity management, and operational readiness by October 2027.

Shorter settlement cycles reduce counterparty risk, improve liquidity efficiency, and align markets more closely with real time economic activity. They also require significant operational readiness, harmonization, and coordination. Fragmented processes and inconsistent infrastructure make T+1 difficult, if not risky, to implement.

In this sense, T+1 is less a technical adjustment than a stress test for market integration. It exposes inefficiencies, accelerates the case for infrastructure modernization, and reinforces the need for alignment across markets. More fundamentally, it offers Europe the opportunity to operate at a different pace, one defined by greater speed, precision, and coordination. Adapting to that pace will not only require operational readiness, but a broader shift in how markets are structured to support growth at scale.

3. Unlocking capital for growth

3.1 Reviving securitization as a growth engine

A strong economic growth culture within the European Single Market must focus on reduced fragmentation but also efficient capital allocation, competitiveness, innovation, and strengthened long-term resilience across member states.

Few areas illustrate the gap between Europe's policy and growth ambitions and its market reality more clearly than securitization. Despite its potential to support lending, distribute risk, and mobilize long term capital, the European securitization market remains structurally underdeveloped relative to global peers. At a time when the SIU is intended to unlock capital at scale, this underperformance represents a missed opportunity to deploy one of the most effective channels for financing the real economy.

Europe's financial system remains heavily bank-led. Businesses, particularly small and medium-sized enterprises (SMEs), continue to depend disproportionately on bank credit rather than market-based financing. Europe's equity and debt capital markets remain shallower than those of major global peers, and cross-border participation is still constrained by a range of legal, operational and supervisory frictions. The result is a system that underuses Europe's own savings base and limits its capacity to fund growth.

The scale of this gap is not theoretical. In 2024, total securitization issuance in the United States exceeded that of the EU and the UK combined by more than six times, highlighting the structural constraints that continue to limit Europe's ability to mobilize capital through market based risk transfer. Moreover, a significant share of European issuance remains retained on balance sheet, reducing secondary market liquidity and limiting the systemic benefits securitization is designed to deliver.

This reflects a set of persistent frictions. In practice, European issuers often face higher capital charges, more complex disclosure requirements, and a smaller, less liquid investor base than comparable issuers in more integrated markets. The result is that transactions are structured conservatively, retained on balance sheet or not pursued at all, limiting the ability of securitization to support new lending.

Increasingly, this places the EU at risk of being seen as a global outlier. While other jurisdictions have adopted more pragmatic and proportionate approaches, seeking to balance resilience with usability, the EU framework remains comparatively prescriptive and conservative. This divergence not only affects competitiveness but also limits the ability of European markets to attract global capital and participate fully in cross border investment flows.

This is increasingly at odds with policy intent. European institutions have consistently recognized the role securitization can play in supporting lending, investment, and risk transfer, particularly in the context of financing strategic priorities such as the green transition, infrastructure, and defense. Yet the regulatory and prudential framework has not fully evolved to translate that recognition into a market that functions at scale.

A deeper and more integrated capital market can enable institutional investors to play a greater role in financing these assets, provided structures are investable, scalable, and supported by consistent regulatory treatment. Securitization can act as an enabler in this context, helping to recycle capital and distribute risk, but requires a broader ecosystem in which infrastructure is developed into a recognizable and investable asset class. Strengthening this linkage is essential to unlocking long-term, productive investment and advancing the broader objectives of the SIU.

The importance of closing this gap is clear. In mature capital markets, securitization is a foundational tool. By enabling banks to transfer risk and free up balance sheet capacity, it supports continued lending to households and businesses, particularly SMEs and growth sectors. By creating investable instruments with defined risk profiles, it attracts institutional capital into productive uses. And by diversifying funding sources, it strengthens the resilience of the financial system.

Reviving securitization does not require weakening standards. Rather, it requires a recalibration of the framework to better balance resilience with usability. A more pragmatic and proportionate approach, focused on simplicity, clarity, and consistency would reduce unnecessary costs and barriers to participation, while maintaining robust investor protections. Greater alignment with international practices, a focus on investors, and a more neutral treatment relative to other asset classes would help restore confidence and unlock scale.

As the EU moves to finalize its legislative reforms to the securitization framework, there is a clear opportunity to land in a place that reflects this balance, preserving resilience while enabling growth. As the SIU agenda advances, the priority is to ensure that securitization can operate as a deep, liquid, and efficient market. Without this, Europe will remain overly reliant on bank balance sheets. With it, securitization can become a central pillar of a more integrated, competitive, and resilient capital market.

3.2 Pensions: meeting the demographic challenge while unlocking long-term capital for growth

While securitization helps free up balance sheet capacity to support immediate lending, pensions play a critical role in channeling long-term savings into productive investments, making them central to Europe's broader growth agenda.

Europe's demographic landscape is shifting rapidly, bringing into sharper focus the growing fiscal pressures associated with pension provision and long-term income security. Ensuring financial stability for ageing populations is set to become one of the defining economic and social challenges of the coming decades. At the same time, this challenge intersects with a broader policy priority: strengthening Europe's competitiveness by unlocking deeper pools of long-term capital. Pension systems, if structured effectively, can play a central role in both.

Expanding pension coverage remains a foundational priority. Automatic enrolment has emerged as one of the most effective mechanisms for increasing participation, encouraging earlier saving and narrowing persistent retirement gaps. Its strength lies in its simplicity and scalability, while still allowing national systems to reflect local labor markets, contribution structures, and institutional arrangements.

Yet coverage gaps persist, particularly among groups that sit outside traditional employment models. The growth of self-employment, gig work, portfolio careers, and non-linear employment paths has exposed the limits of legacy pension frameworks. Any effort to broaden participation must, therefore, be designed with these changing labor dynamics in mind, ensuring that access to retirement saving is not contingent on traditional career patterns.

However, expanding participation alone is not sufficient if contribution levels and investment strategies fail to deliver meaningful retirement outcomes. The focus is increasingly shifting towards policies that encourage sustained, long-term saving behavior, supported by contribution structures that reflect longevity and evolving income patterns. Greater engagement, clearer communication, and better alignment between savings pathways and expected retirement needs will all be essential. Without this, the risk is not only insufficient individual retirement income, but also greater long-term pressure on public finances. A live example of a jurisdiction grappling with this challenge is Germany, which has recently introduced a package of pension reforms aimed at introducing a Swedish-style pension fund and a gradual increase in the retirement age to help stabilize the country's pension system as the population ages.

Underlying these challenges is a structural transformation in how retirement outcomes are delivered. The transition from defined benefit to defined contribution systems has fundamentally reshaped the landscape, transferring responsibility for saving, investment decisions, and retirement planning from institutions to individuals. This shift has broadened individual choice but has also introduced greater complexity and variability in outcomes. In this environment, the effectiveness of defined contribution systems depends heavily on their design. Simplicity, strong governance, cost efficiency and well-constructed default investment strategies are no longer desirable features but essential ones. Equally important is access to diversified, long-term investment opportunities that allow pension assets to contribute meaningfully to economic growth while delivering sustainable returns for savers.

Current EU policy initiatives reflect growing recognition of these dynamics. The continued push for wider adoption of automatic enrolment schemes signals a clear direction of travel, reinforcing their role in improving participation across member states. At the same time, revisions to the IORP II framework are intended to strengthen governance, oversight, and consistency across occupational pension systems [EC (2025c)]. Proposals such as the introduction of mandatory depositaries point to a greater emphasis on safeguarding assets, enhancing operational resilience, and reinforcing confidence through independent oversight.

Alongside this, efforts to revitalize the Pan-European Personal Pension Product (PEPP) highlight a broader ambition to support cross-border retirement saving and increase individual engagement with long-term investment [EC (2025d)]. A more flexible and viable PEPP framework has the potential to widen access, particularly for mobile workers, while encouraging deeper participation in capital markets. Moving away from rigid fee caps and towards investment approaches that better balance risk and return, including lifecycle strategies, is likely to be critical in making the product both attractive and sustainable.

Taken together, these developments point to a broader shift in thinking. Pension systems are no longer viewed solely through the lens of retirement adequacy, but increasingly as a central component of Europe's financial architecture. Well-designed systems can help close the pension gap, support financial resilience for individuals, and, at the same time, channel long-term capital into productive investments. In a context where Europe must mobilize its own savings more effectively, the role of pensions as both a social and economic lever has never been more important.

3.3 Savings and investment accounts (SIAs) – enabling retail participation

An essential pathway to advancing capital market integration across the EU is fostering a stronger investment culture, including greater retail investor participation. In that context, advancing SIAs across EU Member States should be a central priority in delivering the European Commission's SIU agenda.

The Commission has explicitly positioned these types of accounts as a tool to foster a stronger retail investment culture, enable households to achieve higher returns on their savings, and channel capital into European businesses to support growth and job creation.

In practice, the current fragmentation of retail savings frameworks and the persistent bias toward low-yield deposits continues to limit capital formation and constrains Europe's competitiveness, with significant untapped household savings remaining outside capital markets. A consistent and scalable rollout of SIAs supported by simple design, tax incentives, and accessible investment pathways would, therefore, represent a tangible, demand-side lever to deepen capital markets, improve financial resilience of households, and help close the investment gap relative to global peers.

The work underway in Ireland provides a practical model for how this agenda can be operationalized at Member State level. The proposed Personal Investment Account (PIA), developed through close engagement between government, industry, and policy stakeholders, is already being positioned as an early implementation of the Commission's recommendations, with momentum building toward inclusion in the national policy framework.

The joint BNY–IIEA white paper, "Designing a Personal Investment Account for Ireland," sets out a detailed blueprint for the design of such an account, including the importance of simplicity, transparency, appropriate incentives, and alignment with the lived financial realities of households [O'Brien and O'Donohoe (2026)]. It highlights that a well structured PIA can move individuals beyond short term savings and into long term investment, improving financial inclusion while supporting broader economic outcomes such as capital formation, innovation, and sustainable growth.

Creating an investment account for those under the age of 5 in Ireland, with an acorn investment of €1,000 from the Government and matching investments up to €50 a month, will provide a catalyst for developing Ireland's long-term investment culture. The compounding power and cumulative effect, from investing in capital markets, could result in a child reaching 18 with savings worth over €40,000.

In this respect, Ireland's proposed approach demonstrates how Member States can translate high level EU policy into tangible retail products, offering a credible template for wider EU adoption.

3.4 Digital assets and tokenization: modernizing the backbone

While much of the SIU agenda focuses on fixing existing structures, digital assets and tokenization offer the opportunity to modernize them.

Tokenization is best understood not as a parallel financial system, but as an opportunity to revolutionize existing market infrastructure. Its potential lies in reducing friction in issuance, settlement, and asset servicing while preserving the legal certainty, governance, and resilience of traditional markets. The efficiency gains associated with programmable assets and near real time settlement will only be realized if digital and traditional infrastructures evolve together, supported by interoperable standards and robust supervision.

Europe has taken an important step forward with the introduction of a comprehensive regulatory framework for crypto assets Markets in Crypto-Assets Regulation (MiCA) [EU (2023)]. This clarity provides a foundation for responsible innovation and positions Europe as a credible jurisdiction for institutional grade digital finance, and has positioned it as a reference point internationally, particularly as other jurisdictions watch how digital finance is integrated into established market structures.

By enabling assets to be issued, transferred, and settled on distributed ledgers, tokenization has the potential to reduce friction, improve transparency, and enhance collateral mobility. Settlement can become faster and more predictable, corporate actions can be automated, and assets can be programmed to behave in specific ways under defined conditions.

The challenge now is ensuring that digital innovation supports, rather than bypasses, the broader SIU agenda.

The benefits of tokenization will only be realized if digital and traditional markets evolve together. Interoperability, governance, and integration with existing infrastructure are essential. Digital assets should accelerate the SIU, not fragment it further. Without common standards and interoperability, the proliferation of digital platforms risks recreating national silos in digital form, undermining the very integration the SIU seeks to achieve.

4. Conclusion - delivering Europe's SIU

The shift from Capital Markets Union to a broader Savings and Investments Union reflects a recognition that success must be measured not by the volume of reform, but by its economic impact. An integrated European market will only deliver if it is approached as a market delivery agenda focused on outcomes rather than frameworks, and on removing the frictions that prevent capital from moving at scale.

The priorities are clear. Legal and tax clarity underpin confidence and pricing; infrastructure integration and passporting enable scale; securitization, pensions, and savings unlock channels for capital mobilization; and digital innovation enhances efficiency once markets can operate seamlessly across borders. None of these reforms will succeed in isolation. Their impact lies in how they are combined, sequenced, and delivered in practice.

At its core, Europe's challenge remains structural with a persistent gap between the savings it generates and the investment it mobilizes. Closing that gap is essential not only to support growth and innovation, but to reduce reliance on public balance sheets and strengthen long-term resilience in an increasingly competitive global environment.

The task is both practical and ambitious. Europe must remove the fragmentation that continues to constrain its capital markets, while matching this with bold, growth oriented action that can unlock scale and attract investment. Regulatory alignment is necessary but insufficient. Real progress will depend on creating the conditions for markets to function efficiently, predictably, and at pace.

The opportunity is also significant. Taken together, the reforms suggested would help to reduce the frictions that continue to impede cross-border activity, while advancing the harmonization of the rules, infrastructure, and processes that underpin European capital markets. The prize is not simply a more integrated market, but a more attractive one. As liquidity deepens, it attracts further liquidity, creating a cycle of participation, efficiency, and scale. Over time, this network effect can generate powerful multiplier benefits, lowering the cost of capital, enhancing market resilience, and reinforcing Europe's position as a destination for investment and growth.

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Scaling Europe's Financial System

Capital markets union - **strengthening Europe's financial future**: unlocking resilience and efficiency through standardization

Robert Hooper,
Chief Information Officer (CIO) – EMEA, SMBC Group

John Parker,
Partner, Transformation Practice Leader, Projective Group

ABSTRACT

This article explores whether standardized operating models are becoming a strategic necessity for European banks. Against a backdrop of regulatory complexity, technological transformation, and growing resilience requirements, it examines how banks can balance local regulatory demands with enterprise-wide consistency. It also highlights the growing role of cloud platforms, data governance, and precision-based AI in improving efficiency, reducing risk, and delivering better customer outcomes. Offering a Chief Information Officer's perspective on one of banking's most pressing challenges, the article provides insights into building financial institutions that are more resilient, scalable, and competitive.

1. Introduction

Across Europe, banks and other regulated financial institutions are under sustained pressure to simplify complexity while strengthening control. Multi office operating models have expanded organically over time, shaped by local regulatory interpretation, legacy technology, and market specific practices. The result is often fragmentation: duplicated processes, inconsistent risk management, higher cost bases, and poor customer experience.

Against this backdrop, management teams are increasingly focused on defining a single, standard operating model that can be applied consistently across jurisdictions while still accommodating local regulatory nuance. This paper sets out from the viewpoint of a CIO, why a standardized operating model is now a strategic imperative for European banks, the regulatory and structural barriers that make it difficult to achieve, and how regulatory convergence, enterprise wide technology platforms, and targeted AI solutions are enabling organizations to unlock both compliance and material efficiency at scale.

This paper explores the many considerations on the mind of the CIO.

- Multi-office European businesses need single standard operating models.
- EU countries with different regulations make a single operating model hard to achieve.
- Regulatory bodies are gradually converging with consistent standards emerging.
- Efficiencies will be achieved through Enterprise-wide Technology and precision-based AI solutions.
- European banks must anchor their transformation programs in a set of well-defined frameworks.
- Globalization: navigating fragmentation in an uncertain world.
- How should the CIO best use scarce resources?

2. Multi-office European businesses need single-standard operating models

A single, standard operating model is not only a driver of efficiency but a foundational enabler of operational resilience. In a multi jurisdictional banking environment, fragmented processes and inconsistent control frameworks can obscure accountability, weaken governance, and create vulnerabilities in risk management. By contrast, a standardized model establishes clear roles and responsibilities, consistent control design, and end to end process ownership across entities. This enhances transparency, enabling organizations to better understand how critical services operate and where risks reside. It also strengthens the organization's ability to prevent, detect, and respond to disruptions through more reliable data, clearer escalation paths, and coordinated decision making. In this context, standardization becomes a key mechanism for embedding resilience, ensuring that controls are not only effective in isolation but operate cohesively across the enterprise.

- → **Regulatory consistency across jurisdictions**: a standard operating model allows banks to respond to increasingly coordinated supervisory expectations with a consistent interpretation and execution of regulations. This reduces the risk of local divergence, supervisory challenges, and remediation activity across entities.
- → **Operational efficiency and lower cost base**: standardization eliminates unnecessary duplication created by locally designed processes, systems, and controls. Over time, this enables cost reduction through shared services, platform consolidation, and simplified operating structures.
- → **Stronger risk management and control environment**: an enterprise wide operating model creates clearer accountability, stronger end to end control ownership, and more reliable risk aggregation. This is essential as regulators place greater emphasis on resilience, third party risk, and consistent control effectiveness across entities.
- → **Better customer and client experience**: consistent operating models underpin uniform customer journeys and service outcomes

across products and geographies. This improves predictability, responsiveness, and trust, particularly for customers interacting with the bank across multiple countries or channels.

- **Scalability and strategic agility**: a standardized model provides a stable foundation that can absorb regulatory change, acquisitions, divestments, and technology transformation with less disruption. It enables banks to scale efficiently while remaining agile in responding to evolving market and regulatory demands.

3. EU countries with different regulations make a single operating model hard to achieve

Achieving a single operating model across Europe is inherently challenging due to the diversity of national regulatory frameworks, supervisory approaches, and legal structures. While there has been progress towards harmonization, in practice regulators interpret and enforce rules differently, reflecting local market conditions, risk appetites, and political priorities. This leads to variation in areas such as data residency, outsourcing, risk modelling, and structural requirements, all of which directly influence how technology platforms and processes must be designed and operated. As a result, banks cannot simply deploy a uniform model across jurisdictions; instead, they must navigate a complex landscape of regulatory nuance, balancing the efficiency of standardization with the need for local compliance.

- **Anti money laundering (AML) supervision and enforcement**: in the Netherlands, there is a highly intrusive AML supervision with large fines and extensive transaction monitoring expectations. In Italy there is a detailed rule based AML framework with formal customer identification steps, but historically less aggressive enforcement.
- **Use of internal risk models**: in Germany, supervisors are often more supportive of advanced internal models for credit risk. In southern European countries, such as Portugal and Greece, there is a more conservative supervisory approach, sometimes encouraging standardized approaches.
- **Structural banking rules (ring fencing vs universal banking)**: Germany (BaFin) operates a universal banking model: retail, corporate, and investment banking commonly sit in the same legal entity. Meaning there are limited structural separation requirements. The U.K. currently applies mandatory retail ring fencing for large banks.
- **Regulatory expectations on data outsourcing and data location**: in Germany, banks are subject to BaFin's supervisory requirements, such as BAIT (Bankaufsichtliche Anforderungen an die IT) and MaRisk. These rules impose strict expectations on where data is stored and accessed, especially for core banking systems, risk data, and customer and transaction data. In the U.K., banks must adhere to U.K. GDPR and PRA/FCA outsourcing rules (e.g., SS2/21). The U.K. regulatory approach is risk based and principles driven; there is no general expectation that banking data must remain in the U.K. or EU and there is greater acceptance of global cloud service providers. The U.K. requires focus on data security, operational resilience, exit substitution of third-party providers, and access rights.

4. Regulatory bodies are gradually converging with consistent standards emerging

While regulatory fragmentation continues to present challenges, there is a clear and accelerating trend towards convergence between the U.K. and European regulatory landscape. Supervisory bodies are increasingly aligned on core priorities, particularly in areas such as operational resilience, third party risk, cyber security, and data governance. A key example is the EU's Digital Operational Resilience Act (DORA), elements of which are expected to be adopted by the PRA, reinforcing a consistent approach to resilience across both jurisdictions:

- Operational incidents.
- Material third party arrangements.

This convergence is also evident in financial crime regulation. The introduction of the new EU Anti

Money Laundering (AML) framework, with compliance required by July 2027, will drive more standardized expectations in transaction monitoring, customer due diligence, and regulatory reporting. Alongside this, international frameworks such as BCBS 239 and evolving outsourcing and ICT risk guidelines continue to shape consistent supervisory expectations on data, controls, and governance.

Additionally, for banks operating above certain thresholds, European Central Bank (ECB) supervision and registration requirements are reinforcing alignment in regulatory interpretation and compliance standards across major institutions. This further reduces divergence in how large banks design and operate their control environments.

For CIOs, this gradual convergence creates an opportunity to design more unified, enterprise wide technology and control frameworks, reducing duplication while maintaining sufficient flexibility to address residual jurisdictional nuances.

5. Efficiencies will be achieved through enterprise-wide technology and precision-based AI solutions to enhance and compliment processes

Enterprise wide technology platforms and precision based AI are central to unlocking efficiency in complex, multi jurisdictional banking environments. By consolidating fragmented systems into integrated platforms, banks can standardize processes, improve data quality, and reduce duplication. AI further enhances this foundation by automating high volume activities, improving decision accuracy, and strengthening controls. Together, these capabilities enable CIOs to deliver scalable efficiency gains while supporting regulatory compliance, operational resilience, and a more agile, data driven operating model. Examples include:

- **ServiceNow risk, resilience and integrated risk management**: provides a single enterprise platform for incident management, operational resilience, third party risk, and controls. These together enable compliance to operational resilience across Europe.
- **Salesforce financial services cloud**: provides a 360 degree view of retail, corporate, and wealth clients across products and entities; supports personalized customer journeys, cross selling, and relationship manager productivity; and enables a strong ecosystem and integration with core banking and analytics platforms.
- **Oracle Fusion Cloud ERP and SAP S/4HANA Finance**: banks are replacing legacy finance stacks to support: real time general ledger, financial close, and management reporting; multi entity and multi currency banking; integration of finance with risk, treasury, and regulatory reporting.
- **Moody's Risk Authority / CreditLens / Op Risk solutions**: enable consistent risk measurement and aggregation across legal entities and risk types through: integrated framework for credit, market, and operational risk; strong regulatory alignment (ICAAP, stress testing, IFRS 9); and advanced analytics with transparent methodologies trusted by regulators

However, the story for Payments platforms is not quite so clear cut. Due to the complexity of Payments, implementing and keeping these platforms on par with local requirements or new products is difficult, hence established banks are sticking to the larger platforms. For example, in the Netherlands banks must process iDEAL (the dominant online payment method in the Netherlands), and meet specific Tax requirements. Vendors are developing these as localized or customer specific services, but the trade-off is that such localizations increase cost and the complexity of maintenance releases. As a result, challenger banks are moving to modular Payments.

Connecting best of breed solutions via API connections and an API integration layer help improve flexibility and enable faster innovation. A number of organizations are now implementing precision based AI solutions to enhance and complement core banking processes, moving beyond experimentation into scaled, business critical deployment. These capabilities, ranging from machine learning driven AML monitoring to intelligent customer service automation and credit decisioning, enable significant improvements in efficiency, accuracy, and responsiveness. By reducing false positives, automating routine decisions, and augmenting human judgement, AI is helping banks manage growing volumes of regulatory and operational complexity.

However, as AI becomes embedded within critical workflows, it must also be considered through the lens of operational resilience. AI enabled processes are highly dependent on data quality, model governance, and increasingly complex third party ecosystems, including cloud providers, data vendors, and specialist analytics platforms. This amplifies the importance of understanding end to end service dependencies and the potential impact of third party disruption on critical business services.

CIOs must, therefore, ensure that AI solutions are designed with resilience by default, incorporating clear failover mechanisms, model explainability, and robust monitoring of both performance and risk. Equally, tolerance to disruption must be explicitly defined: banks need to understand how long AI enabled processes can be degraded or unavailable before material customer or regulatory impact occurs.

In this context, precision based AI is not just an efficiency lever but a core component of a resilient operating model, requiring disciplined governance, transparency, and alignment to broader regulatory frameworks such as operational resilience and third party risk management.

6. European banks must anchor their transformation programs in a set of well-defined frameworks

These frameworks provide structure, ensure regulatory alignment, and allow flexibility to accommodate local requirements while maintaining enterprise consistency. There are several categories of frameworks to consider:

→ **Regulatory frameworks** should not be treated as constraints, but as design principles for enterprise architecture and operating models:

- **DORA (Digital Operational Resilience Act)**: provides a unifying framework for ICT risk management, operational resilience, incident reporting, and third-party risk. It should be treated as a baseline architecture principle, ensuring that systems are designed for resilience, recoverability, and traceability by default.
- **EBA Guidelines (e.g., outsourcing, ICT, and security risk)**: these frameworks define expectations for governance, vendor management, and control environments. They should be embedded into vendor selection, cloud strategy, and service design.
- **BCBS 239 (Risk data aggregation and reporting)**: critical for shaping data architecture and governance, ensuring that banks can aggregate, reconcile, and report risk data consistently across jurisdictions.

→ **Enterprise architecture and platform frameworks** enable standardization at scale:

- **TOGAF (The Open Group Architecture Framework)**: supports the design of a target-state architecture, covering business, application, data, and technology layers. Particularly useful for aligning multi-country operating models.
- **Modular/platform-based architecture**: banks should define a core platform strategy (e.g., for payments, CRM, risk, finance) with: standardized core services, configurable local layers for regulatory variation, and API-driven integration across systems.
- **Cloud adoption frameworks (e.g., Microsoft CAF, AWS CAF)**: provide structured approaches to cloud migration with a focus on governance, security, and compliance; critical in jurisdictions with varying data residency expectations. A platform-led architecture, rather than fragmented system landscapes, is essential to achieve both efficiency and regulatory consistency.

→ **Operating model and process standardization frameworks**: are critical to successful IT transformations: technology standardization must be matched by process and governance standardization to unlock full value:

- **Target operating model (TOM) frameworks**: define standardized processes, roles, and control points across jurisdictions while allowing for controlled local deviations.
- **Global process ownership (GPO)**: establishes

accountability for end-to-end processes (e.g., payments, customer onboarding, and risk reporting), reducing fragmentation and ensuring consistency.

- **Lean/Six Sigma**: applied to eliminate duplication and inefficiencies created by legacy local processes, supporting the move to shared services and centralized operations.

➔ **Data and AI governance frameworks**: data and AI must be managed as enterprise assets, not local capabilities, with consistent governance across all entities:

- **Data governance frameworks (e.g., DAMA-DMBOK)**: define ownership, quality standards, lineage, and controls to support regulatory reporting and analytics.
- **AI governance and model risk management**: these frameworks are critical when deploying AI across key domains such as AML monitoring, credit decisioning, and customer interaction tools.

The frameworks ensure AI is applied safely and consistently by enforcing transparency, explainability, and auditability. This allows organizations to understand how models operate, manage risk effectively, and remain compliant with evolving EU AI regulation while maintaining trust in automated decision making.

➔ **Transformation delivery frameworks**: ensure that Transformation can be delivered through repeatable, scalable methods that balance speed with regulatory assurance

- **Scaled agile framework (SAFe)/agile-at-scale**: enables coordinated delivery across multiple jurisdictions and platforms while maintaining alignment to a common roadmap.
- **DevSecOps**: embeds security, compliance, and resilience into the software development lifecycle, critical for regulated environments.
- **Change management frameworks (e.g., Prosci)**: ensure adoption across geographies, addressing cultural and organizational resistance to standardization.

7. Globalization: navigating fragmentation in an uncertain world

For a UK-based bank, the traditional benefits of globalization, (scale, efficiency, and access to shared technology platforms) are increasingly counterbalanced by a more complex geopolitical and regulatory landscape. CIOs are expected to architect globally consistent IT environments that deliver cost efficiency, resilience, and interoperability across jurisdictions. However, this must now be achieved alongside a growing emphasis on national and regional sovereignty, particularly in areas such as data residency, cloud adoption, and critical infrastructure control.

Heightened geopolitical tensions, regulatory divergence, and the re emergence of protectionist policies are driving jurisdictions to assert greater control over financial services operations and data. This creates inherent tension: global platforms and enterprise architectures are essential for standardization and scalability, yet overly centralized models can conflict with local regulatory expectations and political priorities.

The CIO must, therefore, strike a careful balance, designing modular, platform based architectures that enable global consistency while preserving the flexibility to localize where required. This includes embedding data sovereignty controls, ensuring operational resilience within jurisdictional boundaries, and maintaining optionality in vendor and cloud strategies.

In this environment, successful globalization is no longer about uniformity, but about controlled interoperability, where global standards coexist with deliberate, well governed local variation.

8. How should the CIO use scarce resources?

For the CIO, the effective deployment of scarce resources, both skilled talent and capital, is central to delivering sustainable transformation. The reality for most banks is that highly skilled technology professionals are limited and expensive, particularly in key financial centers. As a result, CIOs must adopt a blended resourcing model, combining strategically located onshore expertise with offshore and near-shore delivery centers that provide cost efficient access to scalable, high quality engineering capability.

This approach allows scarce senior talent to focus on high value activities such as architecture, regulatory engagement, and complex transformation design, while more standardized development, testing, and support activities are industrialized in lower cost locations.

At the same time, infrastructure investment decisions are critical. Traditional data center models require significant capital expenditure and ongoing maintenance, tying up both financial and human resources. The increasing maturity of cloud platforms presents a compelling alternative, enabling banks to shift towards variable cost models, improve scalability, and reduce the operational burden of managing physical infrastructure.

Across EMEA, CIOs in major London based banks are already prioritizing large scale programs such as cloud migration of core platforms, consolidation of fragmented risk systems, and enterprise wide data platform initiatives aligned to BCBS 239. Others are investing in AI driven AML transformation, customer service automation, and finance platform modernization (e.g., SAP S/4HANA or Oracle Cloud ERP) to reduce manual effort and improve control. These programs compete directly with BAU demands - legacy system maintenance, regulatory change, and resilience obligations - placing further pressure on scarce talent.

Successful CIOs, therefore, apply rigorous prioritization, focusing funding and expertise on initiatives that simplify architecture, reduce duplication, and deliver long term structural cost reduction while maintaining operational resilience.

9. Conclusion

Looking ahead, banks operating across Europe are expected to move decisively from fragmented, locally optimized models to resilient, standardized operating models anchored in enterprise capabilities rather than jurisdiction specific solutions. Regulators are signaling clear expectations: resilience must be demonstrable, data driven, and embedded into day to day operations, with consistent incident management, third party oversight, and enhanced reporting disciplines.

In response, management teams will need to rationalize complexity, make deliberate choices about where standardization is non negotiable, and invest in scalable platforms that enable consistency while allowing for controlled local variation.

Enterprise wide technology and precision based AI are no longer optional efficiency levers; they are becoming foundational components of compliant, competitive banking models. Those institutions that act early, aligning operating models, governance, and technology around resilience and efficiency, will be best positioned to meet regulatory expectations, reduce structural cost, and deliver a more reliable and differentiated customer experience in an increasingly demanding regulatory and commercial environment.

Scaling Europe's Financial System

The SIU in 2050: reverse engineering a Capital Markets Union

Eelco Dubbeling,
General Manager, Nederlandse Vereniging van Banken (Dutch Banking Association)

Tom Rood,
Senior Policy Advisor for Financial Markets, Nederlandse Vereniging van Banken (Dutch Banking Association)

Simon Rooze,
Senior Advisor for Public Affairs, Nederlandse Vereniging van Banken (Dutch Banking Association)

ABSTRACT

This retrospective from 2050 examines how the European Union (EU) can succeed in creating a genuine Savings and Investment Union (SIU). Using a potential future scenario as an analytical framework, the article explores the economic, regulatory, and political developments that can transform Europe's fragmented financial landscape into a more competitive, and resilient financial ecosystem. The article reflects on the challenges that confront policymakers in the mid-2020s and assesses the role of key initiatives such as the Market Integration and Supervision Package (MISP), enhanced European supervision, and the necessary political leadership required in overcoming these obstacles. Ultimately, it argues that the success of the SIU depends not only on technical reforms, but on a fundamental political choice to treat capital market integration as a strategic European project essential to long-term prosperity, innovation, and economic sovereignty.

1. Introduction

If you ask Europeans in 2050 when the continent regained control over its economic destiny, they might point to the moment when Europe finally did what it had promised itself for decades: build a genuine capital market. By then, the Savings and Investment Union should no longer be a policy acronym in Brussels, but part of daily economic life: a Dutch pension saver who can invest seamlessly in a Spanish scale-up; a Polish defense innovator that can raise long-term capital from investors across the Union; an Italian family business that can expand without first outgrowing its national financial market; and European banks, investors, and market infrastructures that can operate within one deep, liquid, and trusted financial ecosystem.

It is a Europe that looks markedly different from the one that entered the 2020s. Companies scale faster, citizens participate more directly in long-term value creation, and savings are no longer structurally exported to finance growth elsewhere. Europe neither followed the U.S.'s laissez-faire model, nor copied China's state-led approach. It found its own route: open, rules-based, competitive, and resilient.

The completion of the Capital Markets Union did not solve every challenge the continent faced, but it did provide the financial foundation for Europe to fund its transitions, strengthen its strategic autonomy, and turn its knowledge, savings. and industrial capacity into broad prosperity.

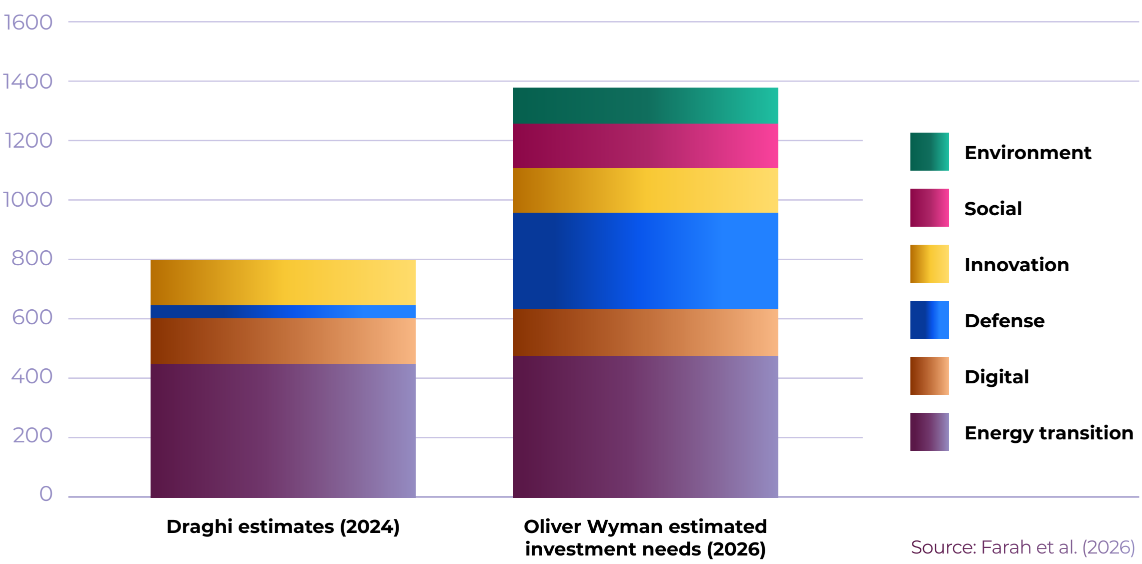
2. Setting the scene

By mid 2020s, it had become clear that Europe needed to change course. Its capital markets remained highly fragmented along national lines, resulting in insufficient scale, higher costs of capital, and weaker investment opportunities for European companies. This fragmentation was causing EU capital markets to fall further behind those of the U.S. Between 2016 and 2022, Europe's equity capital market capitalization, as a share of GDP, rose from 48% to 66%, while in the U.S. it increased from 104% to 157%. Over the same period, equity market liquidity, measured by turnover velocity, fell from 68% to 52% in Europe, while remaining at 145% in the U.S. [Oliver Wyman et al. (2024)].

The EU's financial sector faced 27 distinct regulatory and supervisory regimes, resulting in fragmented markets, and undermining cross border offering of services. The EU financial sector supervision was divided between 52 supervisors across member states, organized in different ways and with different mandates and supervisory scopes [Carmassi at el. (2026)]. These structural shortcomings resulted in a financial sector that struggled to compete globally and were a clear constraint on Europe's growth, innovation, and strategic autonomy.

Innovative companies in fields such as AI and digitalization were often forced to look to the U.S. for investors or risked being overtaken by foreign com-

Figure 1: EU's annual additional financing needs (€ bln)



Source: Farah et al. (2026)

petitors. In 2024, the European Investment Bank noted that "European scale-ups raised 50% less capital than their San Francisco peers." They concluded that the scarcity of EU investors that can provide financing at the scale-up phase pushes many EU companies to seek funding abroad and, at exit, look for a foreign buyer or get listed on a foreign stock exchange [EIB (2024)].

The Draghi report, published in 2024, stated these weaknesses in clear terms. Europe's lack of investments made households collectively poorer, while companies had less access to funding and investments. The report also noted that EU investment needs were "massive and unprecedented from a historical perspective," estimating annual needs of €750-800 billion, equivalent to 4.4%-4.7% of EU GDP at 2023 levels [Draghi (2024a)]. To meet these investment needs, the Draghi report presented EU capital markets as a crucial horizontal enabler for the EU economy and provided various concrete proposals to strengthen these. This report was preceded by a study by Enrico Letta on behalf of the European Commission to set out specific recommendations on how to improve the EU's internal market. In his report, Letta placed the creation of a capital market union as a key requirement for strengthening the EU's economy [Letta (2024)].

Building on these reports, the European Commission introduced the Savings and Investment Union as an action plan to solve the fragmentation of capital markets and channel more investments into the EU economy. Geopolitical pressure then gave the SIU a broader strategic meaning: it was no longer framed merely as a financial integration project, but as an economic and geopolitical instrument to mobilize savings, scale investments, and strengthen Europe's global financial position.

Despite this momentum, tangible progress towards a true Capital Markets Union remained slow, even as Europe's financing needs continued to rise. In 2026, Oliver Wyman updated the estimated financing needs of the EU economy, concluding that annual additional needs had increased to €1.4 trillion. This increase was driven particularly by the need for greater sectoral investment in Europe's defense industry, against a backdrop of rising geopolitical tensions (Figure 1) [Farah et al. (2026)].

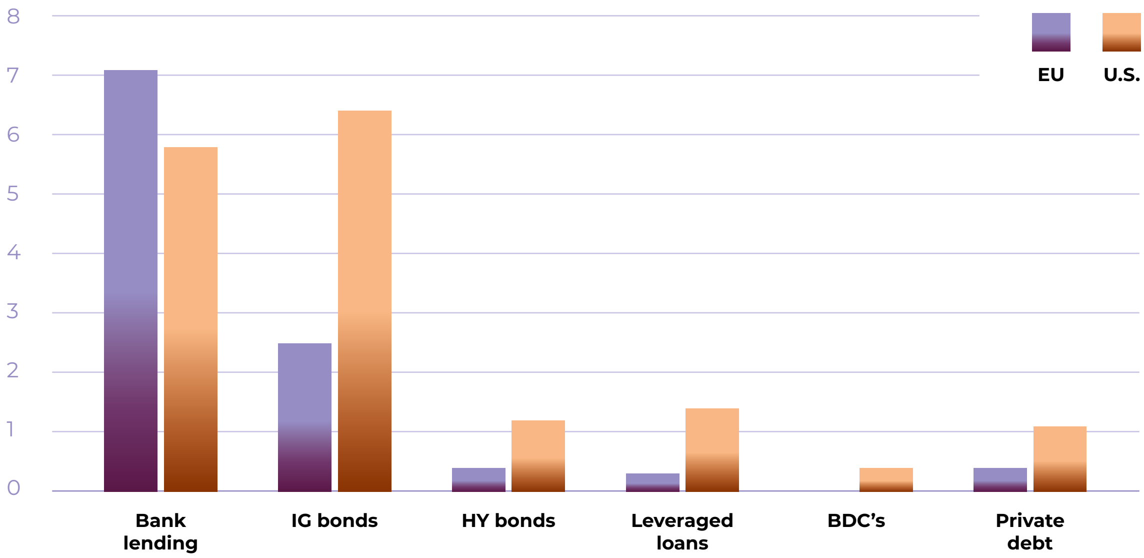
3. MISP: first step but no silver bullet

Looking back from 2050, the Market Integration and Supervision Package (MISP) was the first push towards integrated financial markets. Introduced in late 2025, the MISP contained several important measures to improve market integration and functioning. It introduced enhanced passporting regimes for trading venues, central securities depositories and investment funds, and proposed a pan European market operator license allowing firms to run multiple venues under a single authorization. The package also supported innovation through adjustments to the DLT Pilot Regime and technology neutral updates to existing legislation [EC (2025)].

One of the most crucial changes brought about by the MISP was increased competition in market infrastructure. The Implement Consulting Group had concluded that EU capital market infrastructure remained highly fragmented, with 27 exchanges, 14 Central Clearing Counterparties, 27 Central Securities Depositories, and more than 250 trading venues. This fragmentation increased costs and reduced liquidity. As a result, EU capital markets remained underused, with the average market capitalization-to- GDP ratio being 61% in the EU compared to +214% in the U.S. [Implementing Consulting Groupe (2025)].

The MISP addressed this problem by creating conditions for more transparent, competitive, and interoperable market infrastructure. The European Banking Federation concluded that, since most central securities depositories were commercial entities, there was an inherent tension between their role as central market utilities and their profit-maximizing incentives. Measures to enhance transparency and standardize CSD fee structures were, therefore, essential. The MISP also strengthened CCP interoperability by reinforcing open-access provisions, making interoperability between significant CCPs the default principle within EU capital markets. Following the MISP, refusals to grant CCP access were limited to cases where clearly substantiated systemic risks could be demonstrated. The open access supported deeper market integration by enabling clearing members to consolidate activity, benefit from economies of scale, and optimize multilateral netting efficiencies. Together, greater transparency and more choice for market participants increased competition and

Figure 2: EU's annual additional financing needs (€ bln)



Source: EBF (2026)

created the conditions for market-led consolidation across market infrastructures [EBF (2026)].

This improved the efficiency of EU capital markets, lowering the cost for market participants. These efforts also produced real economic benefits. In 2025, the Implement Consulting Group estimated that improved liquidity alone could reduce trading costs by 16 basis points in EU financial markets. That improvement alone was estimated to translate into structurally higher capital investments in the EU economy of 0.09%. While such gains appeared modest at first, they were expected to generate around €52 bln in additionally accumulated growth over the following decade

Yet the MISP also left important gaps. It deliberately avoided several politically sensitive issues widely regarded as critical to full capital market integration, including insolvency law harmonization, withholding tax procedures, and the broader integration of retail investment frameworks.

3.1 A single European Market Supervisor helped harmonize markets

A second pillar of the MISP was the push towards more centralized supervision of capital markets through the European Securities and Markets Authority (ESMA). Before the reform, financial market participants active in different Member States had to deal with several supervisory authorities, which resulted in many different national rules and supervisory practices. The ECB noted in 2026 that this increased operational complexity and compliance costs, possibly creating a barrier for smaller firms or new entrants seeking to expand across the EU [ECB (2026)].

The expansion of ESMA's role was regarded as highly beneficial but not without risks. The package granted ESMA new direct supervisory powers over certain large, cross border market participants and infrastructures. The key challenge was to shift supervisory powers to the EU level in a way that produced tangible efficiency gains, while making supervision more proportionate and cost-efficient for market participants. The financial sector, mindful of the earlier creation of direct EU supervision for large banks, was wary that a new supervisory framework might simply increase costs and contributions.

Clear operational boundaries between ESMA and national competent authorities were, therefore, essential. This was particularly important where centralized supervision addressed cross-border risks linked to pan-European infrastructures. The expansion of EU-level supervision also required clear legal recourse for entities subject to direct European supervision.

For these reasons, the move towards a single supervisor did not happen overnight. A careful phased-in approach allowed ESMA's operational capacity to grow while ensuring that efficiency gains were realized. Taking on board concerns from the financial sector, centralized supervision for cross-border and significant financial market infrastructure providers became a positive and necessary development. A single supervisor reduced cross-border frictions by ensuring the single capital market rulebook was applied more consistently.

While direct ESMA supervision of certain market infrastructure providers was introduced gradually, the strengthening of ESMA's supervisory convergence tools had immediate benefits. It helped ensure that financial market participants across the Union were subject to higher-quality and more consistent supervision. Extending the use of non-action letters to situations where level playing field concerns arose was seen as a major improvement.

At the request of the financial sector such as the European Banking Federation, it was deemed necessary that the non-action letter proposals were made more effective and predictable by empowering the European Commission to temporarily suspend specific EU requirement, including regulatory technical standards (RTS) and implementing technical standards (ITS), where relevant. This approach significantly strengthened the effectiveness of non-action tools in addressing urgent regulatory issues, while ensuring greater legal certainty and predictability for market participants [EBF (2026).

In this context, banks considered it essential that ESMA's mandate be expanded with a secondary objective related to the competitiveness of European capital markets. Such a mandate required clear monitoring metrics and an accountability process towards the co-legislators. The reform of ESMA's mandate served as a forerunner for a similar revision of the European Banking Authority's mandate. The purpose was not to override the European Supervisory Authorities' core objectives of market integrity and financial stability, but to complement them by ensuring that international competitiveness and growth prospects were taken into account. One concrete way to incorporate this objective was for ESMA to systematically include competitiveness and growth considerations, including international implications, in its impact assessments and cost-benefit analyses. These analyses were periodically reviewed by an independent body, which assessed the approach taken and provided an opinion.

3.2 Remaining challenges to retail initiatives and banking competitiveness

Although the MISP was a crucial building block for stronger EU financial markets, it was never sufficient on its own. The Draghi report and subsequent analyses underlined that banks continued to play a central role in financing the EU economy. In 2024, bank lending was approximately 70% of EU GDP, while in the U.S. bank lending played a much more modest role because capital markets were much deeper [Draghi (2024a)]. Consequently, Europe needed a stronger market-based finance as well as a competitive banking sector with sufficient lending capacity. In 2026, the European Commission launched a broader consultation on the competitiveness of the EU banking. This consultation laid the groundwork for proposals to improve the regulatory framework for European banks. Importantly, it also triggered a wider policy debate on why Europe needed globally competitive banks to support its economic and strategic objectives.

In parallel, the European Banking Federation (EBF) commissioned a study by Oliver Wyman, which provided a comprehensive assessment of the challenges facing European banks and outlined recommendations to strengthen their ability to support the EU economy. The study highlighted the significant and growing investment gap. Since the Draghi report, estimated annual additional investment needs had increased from €800 bln to €1.4 tln annually until 2030. Under the existing regulatory framework, banks expected to finance only around €300 bln of this amount [Farah et al. (2026)]. However, the study also showed that targeted adjustments to EU banking regulation could substantially increase banks' contribution. With the right policy changes, annual bank lending capacity for these needs was estimated to rise from around €300 bln to approximately €700 bln, increasing banks' share from 20% to 50% of additional financing needs.

The study underscored the importance of a balanced approach: advancing capital markets integration through the SIU, while simultaneously ensuring that banks remain competitive, well-capitalized, and capable of fulfilling their financing role.

3.3 The political bottleneck

The main obstacle to the Savings and Investment Union was never a lack of diagnosis. By the mid-2020s, the problem was well understood.

Europe had too many fragmented markets, too many supervisory approaches, and too little scale. The real bottleneck was political. Member States broadly supported the idea of deeper capital markets in principle, but consensus became much harder once integration touched national supervisory powers, tax practices, insolvency regimes, or the competitive position of domestic financial centers.

This tension had been present from the beginning. The Capital Markets Union, the precursor of the Savings and Investment Union (SIU), was launched as an idea by EU Commission President Jean-Claude Juncker in 2014 and not coincidentally presented early 2015 by the British EU Commissioner for financial services, Jonathan Hill. The objective of the CMU was to develop deeper, more liquid, and more efficient European capital markets. At the time, there was still an expectation that the U.K.'s financial expertise and the strength of the City of London would help make the project a success.

Brexit changed that equation. The EU lost London as its dominant financial center, while the U.K. lost frictionless access to the European markets. Instead of one integrated European successor emerging, financial activity spread across several hubs. Paris and Frankfurt attracted foreign bank branches, Amsterdam briefly overtook London in equity trading [BBC (2021)]. This demonstrated that Europe had financial capacity but also exposed the underlying problem: EU capital markets increasingly functioned as a collection of competing hubs rather than as one integrated market.

Ten years after the initial CMU action plan, the ECB concluded that despite three CMU action plans, the core objectives had still not been achieved: "While many measures that have been taken since 2015 improved regulation, transparency and market access, full integration and efficiency remain elusive. Notably, many proposals on structurally challenging actions, such as taxation, insolvency, pensions and supervision, were either stalled in the legislative process or saw progress only in the form of non-binding actions" [Arampatzi et al. (2025)]. Moreover, for many EC proposals the preference for directives over regulations gave the Member States flexibility in transposition, which in turn led to more fragmentation. National gold-plating, exemptions, and lengthy transitional periods delayed regulatory convergence, adding further layers of complexity rather than fostering integration.

The lesson from the first decade of CMU was clear: a single rulebook does not create a single market if supervision and implementation remain politically fragmented. The MISP, therefore, became more than a technical package. It was the first concrete test of whether Member States were willing to treat capital markets as a European strategic asset. And if they were not all willing, and ready, to move at the same pace, would a carefully designed multi-speed approach help break the deadlock without weakening the single market?

4. Renewed political momentum

In the run up to the new European Commission mandate in 2024, there was the realization that something needed to change. Commission President Ursula von der Leyen turned to Mario Draghi. His report on "The future of European competitiveness" formed the basis for the Commission's competitiveness agenda. As he told the European Parliament: "The results show that to finance this volume of investment, we must make progress on Capital Markets Union, so that private savings can be channeled into investment across the whole EU" [Draghi (2024b)]. Draghi's report turned capital markets integration from a technical financial-services agenda into a central pillar of Europe's competitiveness strategy. By 2026, geopolitical pressure gave that argument additional force. If Europe wanted to finance defense, technology, energy, and industrial resilience, it could no longer afford another decade of incrementalism.

In 2026, geopolitical pressures on the EU had increased with renewed uncertainty about international defense cooperation and increased European defense spending needs. However, while the European Commission moved forward with its agenda to boost capital markets, there were already signs that traditional divisions between Member States would again prevent tangible progress. Replaying the same issues as the previous 10 years was not going to lead to a fundamentally different outcome and major national elections in France, Italy, and Spain in 2027 could lead to further political paralysis. To use the available political window, the finance ministers of Germany, France, Italy, Spain, Poland, and the Netherlands formed an informal coalition to accelerate decision making on capital market integration, as well as defense spending, and industrial policy.

The countries named themselves the E6, and made the SIU a priority, arguing that "To enhance Europe's sovereignty and competitiveness, creating a genuine Savings and Investments Union has become an urgent strategic necessity. We, the finance ministers of France, Germany, Italy, the Netherlands, Poland and Spain, are committed to driving this important project forward by taking action at European as well as at national level" [Lecure et al. (2026)]. They emphasized the importance of progress in market integration and supervision, and that the Market Integration and Supervision Package (MISP) was an essential piece of legislation for increasing the attractiveness and competitiveness of the EU capital markets. Together with the European Commission, they became a driving force for moving the MISP and broader SIU forward in the political process.

5. Conclusion: the uncomfortable truth in 2026

Returning to today, it remains uncertain how European capital markets will actually evolve in the coming years. Political and ideological entrenchment remains. And while the MISP is technically ambitious and would represent a major step in the right direction, other critical issues, particularly in the areas of insolvency and tax regulation, will still need to be addressed.

What is certain, however, is that both Europe as a whole and individual Member States stand to benefit from more integrated capital markets. Policymakers should recognize that this is a long-term project worth pursuing, even in the face of setbacks and political resistance. Although there is no single silver bullet that can instantly create a European capital market, incremental steps towards better coordinated financial markets will already deliver meaningful benefits for European companies and households.

The uncomfortable truth in 2026 is that Europe can no longer afford to wait for perfect consensus. If a genuine Savings and Investment Union is to emerge, progress might first have to come from those Member States willing to move faster. A Europe running at two speeds is not without risk: if poorly designed, it could entrench fragmentation rather than overcome it. But if kept open, transparent, and anchored in the objective of a single market, it could become the bridge between political ambition and practical delivery.

Europe does not lack savings, companies, or ideas. However, it may lack the political resolve to connect them at scale. The SIU succeeds only when Member States choose to treat capital market integration not as a technical Brussels file, but as the financial architecture of Europe's future.

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Scaling Europe's Financial System

From Capital Markets Union to Savings and Investments Union: **Putting European Savings to Work**

Andrea Beltramello,
Head of the Savings and Investments Union Coordination unit, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, European Commission

John Maguire,
Policy Officer - Savings and Investments Union Coordination unit, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, European Commission

ABSTRACT

Europe faces an economic paradox: despite holding one of the largest pools of private wealth globally, household savings remain heavily concentrated in low-yield bank deposits while businesses struggle to secure the long-term financing required for innovation and global competitiveness. To address this challenge and finance the EU's strategic priorities, the European Commission launched the Savings and Investments Union (SIU) Strategy. Serving as the citizen-focused evolution of the Capital Markets Union, the SIU bridges European savings and productive investment through four mutually reinforcing pillars: empowering citizens to invest and get a better return from their savings, building a robust growth-finance ecosystem for businesses, enhancing market integration, and advancing a more integrated supervisory framework in the EU. Supported by strong political momentum and national-level reforms, the SIU aims to transform Europe's financial system into an integrated, high-scale market that supports sustainable growth, household prosperity, and long-term economic resilience.

1. Introduction: Europe's savings paradox

Europe does not suffer from a shortage of capital. European households collectively hold one of the largest pools of private wealth in the world. Yet many Europeans do not get the best returns out of their savings and many European businesses continue to face challenges in accessing the long-term financing required to innovate, scale, and compete globally.

This apparent contradiction lies at the heart of one of the European Union's most important economic challenges. While substantial savings exist across the Union, too much capital remains concentrated in bank deposits or fragmented across national markets rather than being channeled efficiently towards productive investment. This also means that Europeans are missing out on opportunities for building their wealth by investing in capital markets. While banks remain central to financing the EU economy, they are not always the most suitable channel for financing long-term, high-risk investment, particularly for innovative firms and emerging sectors. As the EU seeks to finance the green transition, digital transformation, infrastructure modernization, security capabilities, and industrial competitiveness simultaneously, unlocking the potential of private capital has become a strategic necessity.

The scale of the challenge is considerable. Public finances alone cannot provide the investment required to meet Europe's future needs. Demographic pressures, fiscal constraints, and growing geopolitical uncertainty have reinforced the need for stronger capital markets capable of matching savings with productive investment opportunities. The question facing policymakers is, therefore, not whether Europe possesses sufficient capital, but whether it can deploy that capital effectively to where it can generate growth, innovation, and resilience.

It was against this backdrop that the European Commission launched the Savings and Investments Union (SIU) Strategy in March 2025. The SIU represents the latest stage in a decade-long effort to deepen and integrate EU capital markets. It also marks an important evolution in emphasis, as the SIU places citizens and their well-being at the center of the policy agenda.

The transition from CMU to SIU is, therefore, not a departure from previous policy but an expansion of it. The SIU retains the objective of creating deeper and more integrated European capital markets while broadening the focus to include household participation, supplementary pensions, and the mobilization of long-term savings. In this sense, the SIU can be understood as the citizen-focused evolution of the CMU project.

2. From Capital Markets Union to Savings and Investments Union

The origins of the SIU can be traced directly to the Capital Markets Union (CMU) initiative launched in 2015. At the time, the objective was clear: to reduce Europe's reliance on bank financing and create deeper, more integrated capital markets capable of supporting economic growth and strengthening economic resilience.

The rationale was compelling. Unlike the U.S., where capital markets provide the majority of corporate financing, European businesses have historically relied heavily on bank lending. While this model has supported the growth of many successful European businesses and industrial sectors, it also created structural limitations. Bank lending is particularly effective for established businesses with predictable cash flows and tangible collateral. It is often less well-suited to innovative, high-growth firms whose value lies primarily in future potential rather than existing assets.

Over the subsequent decade, the CMU agenda delivered a substantial program of legislative and regulatory reform. Key achievements included the establishment of the Simple, Transparent and Standardized (STS) securitization framework, the Prospectus Regulation, the Listing Act, reforms to European venture capital and social entrepreneurship funds (EuVECA and EuSEF), the Pan-European Personal Pension Product (PEPP), a harmonized covered bonds framework, and a European crowdfunding regime. The CMU program also promoted SME Growth Markets and introduced preventive restructuring and second-chance frameworks to improve insolvency outcomes. Together, these measures laid much of the regulatory foundation upon which the SIU is now being built.

These reforms advanced market integration and expanded financing options, but several structural challenges remained. Compared with the U.S., household participation in capital markets has remained relatively low, with a significant proportion of savings continuing to be held in bank deposits and other low-risk products. While these products offer security and liquidity, they may not provide the best long-term outcomes for many savers. They also mean that a substantial share of the EU's savings is not being channeled efficiently to support long-term, productive investment. At the same time, European capital markets continued to operate across fragmented legal and supervisory frameworks, increasing complexity and limiting cross-border investment.

The context also changed significantly. Brexit, the COVID-19 pandemic, supply-chain disruptions, inflationary pressures, intensifying global competition, and Russia's unjustified war of aggression against Ukraine all reinforced the importance of economic resilience and strategic autonomy.

These concerns were crystallized in two landmark reports published in 2024. In his report on the future of the Single Market, Enrico Letta argued that Europe needed to complete the integration project by removing barriers that continued to fragment capital, innovation, and investment across the Union. Central to his analysis was the need to mobilize private savings more effectively and create genuinely European markets capable of operating at scale.

Mario Draghi's subsequent report on European competitiveness sharpened the sense of urgency. Professor Draghi warned that Europe faced an unprecedented investment challenge if it was to maintain prosperity, competitiveness, and strategic autonomy in an increasingly contested global economy. He estimated that achieving the Union's ambitions in areas such as decarbonization, digitalization, innovation, security, and industrial modernization would require an additional €750 billion to €800 billion of annual investment.

Taken together, the Letta and Draghi reports reframed the policy debate. The challenge was no longer simply to improve market efficiency or remove regulatory barriers. The challenge was to unlock the potential of Europe's considerable pool of household savings and institutional capital at a scale capable of financing its strategic priorities.

It was against this backdrop that the SIU emerged. Rather than replacing the CMU, it builds upon its foundations while broadening its focus. The SIU recognizes that market integration is necessary to build scale but is insufficient if households remain

largely absent from capital markets, or if institutional investors continue to face obstacles when allocating capital across borders.

Just as importantly, the SIU recognizes that financial policy can no longer be viewed in isolation from broader questions of economic competitiveness. Access to financing influences whether innovative firms can scale, whether infrastructure projects can proceed, and whether the EU can successfully finance strategic priorities ranging from clean technologies and digitalization to security capabilities and industrial modernization. Financial integration has, therefore, become not only a financial services objective, but an economic and strategic imperative.

This broader ambition is reflected in the four pillars that underpin the SIU Strategy.

3. The four pillars of the SIU: delivery in motion

The SIU is built around four mutually reinforcing pillars. While each pillar addresses a distinct aspect of the EU financial system, together they pursue a single objective: creating a more effective pathway between European savings and European investment.

The logic is straightforward. Citizens must be willing and able to invest. Businesses must have access to a wider range of financing options. Capital must be capable of flowing efficiently across borders. And investors must have confidence that the Single Market operates under a coherent and effective supervisory framework. Weakness in any one of these areas limits the effectiveness of the others.

The SIU combines a long-term strategic vision with an ambitious implementation agenda. Rather than focusing solely on financial market structures, it seeks to address the entire investment chain – from household savings and retirement provision to business financing, market integration, and supervision. The result is a broader and more comprehensive approach to capital markets reform, one that links financial integration directly to economic growth, competitiveness, and household prosperity.

The four pillars provide the framework through which these objectives are being pursued.

3.1 Pillar 1: Citizens and savings: bringing households into the investment economy

The first pillar represents perhaps the most visible evolution from the traditional CMU agenda. The SIU introduces a different starting point: the citizen.

This shift reflects a fundamental reality. Deep capital markets do not emerge solely from regulatory reform. They are ultimately built upon millions of individual decisions regarding saving, investing, and retirement planning. If households remain disconnected from capital markets, the pool of long-term investment capital will remain constrained regardless of how sophisticated financial infrastructure becomes.

The issue in Europe is, therefore, not the existence of savings, but the fact that a significant proportion of that wealth remains concentrated in products that provide security and liquidity, while offering limited protection against inflation over long investment horizons and providing relatively little support for productive investment within the wider economy.

This situation creates a dual challenge. Many citizens miss opportunities to participate in the wealth creation generated by economic growth, while European businesses face difficulties accessing growth capital. The SIU seeks to address both issues at the same time.

One of the most notable initiatives under this pillar is the recommendation for national Savings and Investment Accounts (SIAs). Drawing inspiration from successful models already operating in several Member States and internationally, these accounts are intended to provide simple, accessible, and attractive vehicles through which citizens can invest. The Commission has deliberately chosen a recommendation rather than a harmonized legislative approach, recognizing that many of the most effective policy levers for encouraging household participation, such as taxation, remain at national level. Member States are, therefore, central players in the SIU project, responsible for designing savings and investment frameworks that reflect national circumstances while contributing to common European objectives, such as citizens' financial well-being and funding for the economy.

Financial literacy forms a second major component of this pillar. Research consistently demonstrates that many European citizens lack confidence in making investment decisions, often perceiving capital markets as complex, opaque, or excessively risky. The EU Financial Literacy Strategy seeks to address this challenge by promoting greater understanding of long-term investing, retirement planning, diversification, and risk management. Importantly, the strategy is designed to complement rather than replace national initiatives. Member States remain best placed to engage directly with citizens, educational institutions, employers, and consumer organizations, while the EU's role is to support cooperation, promote best practices, and encourage greater consistency across the Union.

Supplementary pensions represent a third critical element. Demographic change is placing increasing pressure on public pension systems across Europe. While pension design remains primarily a national competence, the SIU recognizes that stronger occupational and personal pension arrangements can improve retirement outcomes for people while simultaneously increasing the availability of long-term investment capital. The Commission's pensions package reflects this dual objective. Alongside recommendations on pension tracking systems, pension dashboards, and auto-enrolment, based on national best practices, it also includes reforms of the Institutions for Occupational Retirement Provision (IORP II) Directive and the Pan-European Personal Pension Product (PEPP) Regulation to improve the efficiency, scale, and attractiveness of supplementary pensions. The package, therefore, combines EU-level reforms with flexible recommendations that can be adapted to national circumstances.

Taken together, these initiatives seek to strengthen the EU's investment culture. The ambition is not simply to increase participation in financial markets, but to make long-term investing and retirement saving a normal part of household financial planning. In doing so, the first pillar aims to create a stronger connection between European citizens, European savings, and European growth.

3.2 Pilar 2: Investments and financing: building a European growth finance ecosystem

If the first pillar focuses on unlocking the potential of EU savings, the second focuses on ensuring that those savings can be matched efficiently with productive investments throughout the economy.

The EU economy has long relied heavily on bank-based financing. This model has many strengths and continues to play a vital role in supporting households and businesses. However, the scale of the EU's future investment needs means that bank lending alone cannot provide all of the capital required. Moreover, bank lending is often not well suited to young and innovative companies, which typically lack the collateral or track record needed to access traditional credit. Financing decarbonization, digitalization, security capabilities, infrastructure modernization, and technological innovation will require a broader and more diverse financing ecosystem.

The challenge is particularly acute for innovative and high-growth firms. Europe has demonstrated a strong capacity to generate world-class research, start-ups, and entrepreneurial talent. Yet many companies continue to encounter difficulties as they move from early-stage development to commercial expansion. Access to venture capital, growth capital, and public market financing remains uneven across the Union, and too many successful firms continue to seek funding or listings outside Europe.

A central focus of this pillar is strengthening Europe's equity financing ecosystem. The Commission has identified venture capital, growth capital, and exit opportunities as areas where Europe continues to lag behind other major economies. Future measures are, therefore, aimed at improving access to growth financing, supporting more dynamic investment markets, and helping successful European companies remain and scale within Europe.

Institutional investors also play a crucial role. Pension funds, insurers, investment funds, and banks collectively manage vast pools of capital that can support long-term investment in infrastructure, innovation, clean technologies, and productive assets. Recent reforms to prudential frameworks for banks and insurers aim to support the essential role of these institutional investors, by ensuring that regulatory requirements appropriately reflect the long-term nature of their investments and do not create unnecessary barriers to investment in equity and other growth-enhancing assets.

Securitization forms another important component of the agenda. A well-functioning securitization market can free up bank balance-sheet capacity, support additional lending to households and businesses, and diversify sources of finance across the economy. More broadly, the SIU recognizes that banks and capital markets should be viewed as complementary rather than competing sources of finance. Both are essential if Europe is to meet its investment needs and strengthen its competitiveness.

Ultimately, the objective of this pillar is to create a financing ecosystem capable of supporting businesses from inception to maturity. Successful firms should be able to access the capital they need to innovate, expand, and compete globally without facing unnecessary structural barriers or needing to look beyond Europe for funding.

3.3 Pillars 3 and 4: Market integration and supervision: completing a true single market for capital

The third and fourth pillars together address one of the most persistent challenges facing European capital markets: fragmentation. While the European Union has successfully created a high degree of economic integration in many areas of economic activity, capital markets continue to operate largely through a patchwork of national systems. As a result, Europe often fails to capture the full benefits of the scale, liquidity, and efficiency that a market of 450 million people could provide.

This fragmentation affects both investors and businesses. Cross-border investment frequently remains much more complex and costly than domestic investment, while companies seeking to raise capital across the Union continue to encounter differing legal, administrative, and market practices. The result is a financial system that remains less integrated, less liquid, and less efficient than many of its global competitors.

The SIU seeks to address these challenges by making it easier for capital, financial services, and investment products to move across borders. The objective is not integration for its own sake, but the creation of larger, deeper, and more liquid markets capable of supporting investment, innovation, and economic growth at scale. A more integrated market improves access to financing, broadens investment opportunities, strengthens competition, and enhances the ability of European businesses to attract capital.

For this reason, market integration and supervision are increasingly seen as two sides of the same policy challenge. Removing barriers to cross-border activity is essential, but integration can only succeed if market participants also have confidence that rules are applied consistently across the Union. Common legislation alone is not sufficient: firms and investors must be able to rely on predictable supervisory practices and a framework that supports cross-border activity without unnecessary duplication or divergence. This combined objective is reflected in the Market Integration and Supervision Package (MISP). The package addresses barriers that continue to fragment EU capital markets, particularly in areas such as trading, post-trading, asset management, and the cross-border provision of financial services. Its measures facilitate cross-border activity, improve market infrastructure, support innovation, and enable market participants to make fuller use of the scale offered by the Single Market. The package also facilitates the cross-border distribution of investment funds, helping investors access a wider range of products while supporting the development of deeper European capital markets.

Innovation forms an important part of this agenda. The MISP modernizes elements of the regulatory framework to support distributed ledger technology and other emerging technologies within financial markets. By adapting existing rules to new market developments, it aims to ensure that innovation can flourish while maintaining market integrity and investor protection.

Integrated markets also require a high degree of supervisory consistency. Common rules can deliver the full benefits of the Single Market only if they are applied effectively and predictably across the Union. Effective supervision, therefore, forms an important foundation for investor confidence, market integrity, and cross-border investment.

Over the past two decades, the European Union has developed a sophisticated supervisory architecture combining national competent authorities with the European Supervisory Authorities. This framework has played a central role in strengthening financial stability, investor protection, and market resilience. As capital markets become increasingly interconnected, however, the importance of supervisory convergence has grown.

Market participants operating across borders continue to encounter differences in supervisory practices, authorization processes, and regulatory interpretation. While such differences often reflect national legal frameworks and market structures, they can also increase costs, create uncertainty, and make it more difficult for firms to operate seamlessly across the Single Market. From an investor perspective, greater consistency can help reinforce confidence that equivalent standards apply throughout the Union.

The SIU, therefore, places renewed emphasis on creating a supervisory framework that matches the scale and ambition of an integrated European capital market. Elements of the MISP seek to strengthen coordination across the European supervisory framework and enhance the role of the European Securities and Markets Authority (ESMA) in areas where greater consistency can support cross-border market activity. The objective is not to centralize supervision for its own sake, but to ensure that supervisory arrangements evolve alongside increasingly integrated markets so firms and investors can benefit more fully from the opportunities offered by the Single Market.

A key element of the package is a differentiated supervisory model. For the most significant and cross-border market participants – particularly in trading, post-trading, and crypto-asset markets – the Commission has proposed moving towards direct supervision at EU level by ESMA. For other sectors, particularly asset management, the emphasis is on strengthening ESMA's role in promoting more consistent supervisory outcomes across Member States through enhanced supervisory convergence. This reflects the principle that direct EU supervision should be applied where it can add the greatest value for market integration, while supervisory convergence should continue to strengthen consistency across the wider financial system.

More consistent supervision supports the broader goals of the SIU in several ways. It can reduce unnecessary complexity for firms operating across multiple jurisdictions, improve the efficiency of cross-border business models, and strengthen confidence in EU capital markets. In doing so, it helps create conditions in which capital can move more freely, and investment can be allocated more effectively across the Union. As capital markets become more integrated, greater consistency in supervision can help ensure that businesses and investors experience the Single Market as a genuinely European market rather than as a collection of national ones. It also supports the development of the supervisory culture needed for deeper and more competitive European capital markets: supervision that is agile, risk-based, predictable, and capable of addressing cross-border challenges efficiently, while continuing to promote innovation, investor protection, and market integrity.

The debate surrounding supervision remains an important one. National authorities possess deep expertise in their domestic markets and continue to play a central role in maintaining financial stability and protecting investors. At the same time, increasingly integrated markets require supervisory arrangements that reflect the cross-border nature of financial activity. The challenge is, therefore, not to choose between national expertise and European coordination, but to ensure that each operates where it can add the greatest value in support of a more integrated Single Market.

Ultimately, supervision is about fostering trust. Investors are more likely to allocate capital across borders when they have confidence in the quality and consistency of oversight, while firms are more likely to expand across the Union when supervisory expectations are clear and predictable. In this sense, effective supervision underpins the broader ambitions of the SIU: creating deeper, more integrated capital markets capable of supporting investment, competitiveness, and long-term growth.

Ultimately, these pillars are founded on a simple premise: scale matters. Larger and more integrated markets tend to attract investment, improve liquidity, lower transaction costs, enhance price discovery, and support a broader range of financing opportunities. If the EU is to compete effectively in a global economy increasingly defined by scale and capital intensity, its capital markets must function more like a genuine European market and less like a collection of national ones.

4. Other Single Market reforms supporting the SIU

The Commission has also recognized that deeper integration requires action beyond traditional financial services legislation. Taxation, insolvency frameworks, company law, and administrative procedures continue to differ significantly between Member States. While many of these areas remain to a large extent national competences, they can nonetheless create obstacles to cross-border investment and reduce the attractiveness of European capital markets. The SIU, therefore, places renewed emphasis on identifying and reducing barriers that prevent capital from moving freely across the Union.

The proposed 28th regime reflects the ambition to reduce legal and administrative fragmentation across the Single Market by providing optional European frameworks that operate alongside national systems. Although the 28th regime runs in parallel, rather than formally within, the SIU, it is closely aligned with the SIU's objective of creating a more integrated European market in which businesses can raise capital and operate more easily across borders.

One of the first initiatives under this agenda is the proposed "EU Inc." framework, which aims to establish a harmonized European corporate form, making it easier for companies to establish, raise capital, operate, and scale across borders without navigating multiple national legal regimes. While the 28th regime extends beyond company law alone, the proposal illustrates the direction of travel and the growing willingness of policymakers to pursue more ambitious solutions to long-standing barriers to market integration. Reflecting the political priority attached to this agenda, European leaders have called for political agreement on the proposal before the end of 2026.

5. Implementation and political momentum

Taken together, the four pillars of the SIU form a comprehensive strategy to strengthen Europe's financial system: citizens are encouraged to participate more actively in capital markets; businesses gain access to a broader range of financing opportunities; markets become more integrated and capable of operating at scale; and supervision becomes more coordinated and consistent across borders. The common objective running through all four pillars is clear: to ensure that Europe's substantial savings can be mobilized more effectively to support investment, innovation, competitiveness, and long-term prosperity.

One of the recurring criticisms of the CMU over the past decade was that progress often appeared incremental relative to the scale of the challenge. Important reforms were adopted, but many of the most significant barriers to deeper market integration proved politically complex and technically difficult to address. The SIU was launched against this backdrop, creating expectations that the new strategy would move rapidly from vision to implementation.

In this regard, the pace of activity since the publication of the SIU Strategy in March 2025 has been notable. Within a relatively short period, the Commission brought forward initiatives spanning SIAs, supplementary pensions, securitization, prudential frameworks, and market integration and supervision. Rather than treating these as isolated reforms, the SIU presents them as interconnected elements of a broader effort to strengthen the entire savings-to-investment chain.

Political momentum has also remained exceptionally strong. In March 2026, the European Council called for the rapid advancement of key SIU measures, recognizing the mobilization of private capital as essential to Europe's competitiveness, resilience, and strategic autonomy. This commitment was reinforced by the "One Europe, One Market" roadmap published in April 2026, which reflected a broader institutional effort involving the European Parliament, Council, and Commission to strengthen the Single Market and remove barriers that continue to impede growth, investment, and scale across the Union. The Eurogroup has similarly highlighted the importance of developing stronger capital markets capable of channeling Europe's savings towards productive investment. Together, these initiatives have helped maintain a sense of urgency around the SIU agenda and accelerated progress from strategy to implementation.

Perhaps more significantly, the SIU explicitly acknowledges that many of the barriers to investment cannot be addressed through EU legislation alone. While European institutions can establish common frameworks and remove cross-border obstacles, crucial policy levers remain at the national level, particularly in areas such as taxation, pensions, financial education, and savings incentives.

For this reason, implementation increasingly extends beyond the traditional legislative process. Through mechanisms such as the European Semester, the Commission is actively encouraging Member States to examine and dismantle structural barriers that limit investment participation, pension development, and access to growth capital. During the 2026 Semester cycle, the Commission's structural review across national retail markets, supplementary pension frameworks, and venture capital market development provided clear, targeted parameters for national action. The objective is to ensure that national reforms and European initiatives reinforce one another rather than operate in isolation.

This reflects one of the defining characteristics of the SIU. Success will depend not only on legislation adopted in Brussels, but also on the willingness of Member States, regulators, market participants, employers, and citizens to play their part in creating a more investment-oriented financial system.

6. Beyond legislation: building investor confidence

Legislation can remove barriers, create incentives, and improve market infrastructure. It cannot, however, change financial behavior overnight.

One of the most distinctive features of European household finance is a strong preference for savings products that prioritize security and liquidity. In many Member States, households continue to favor bank deposits, real estate, guaranteed savings products, and insurance-based investments over participation in capital markets. These preferences are entirely understandable and have often contributed to financial resilience during periods of economic uncertainty.

Yet demographic and economic realities are increasing the importance of long-term investment. As populations age and pressure on public pension systems grows, households will need greater access to investment returns to support retirement income and long-term wealth accumulation. At the same time, Europe requires larger pools of patient capital capable of financing innovation, infrastructure, and industrial transformation.

Changing financial behavior is inherently more challenging than changing regulation. New frameworks can be introduced relatively quickly when the will is there; building confidence in investing typically takes much longer. The success of the SIU will, therefore, depend not only on policy reforms but also on whether it can foster a stronger culture of long-term investment across the Union.

Importantly, the objective is not to encourage speculation or short-term trading. Rather, it is to promote informed participation in capital markets as part of normal financial planning. Investing for retirement, education, housing, or other long-term goals should become more accessible and more familiar to European households.

This is ultimately why financial literacy, supplementary pensions, and Savings and Investment Accounts occupy such a prominent place within the SIU framework. They are not peripheral measures. They reflect the recognition that Europe's capital markets will only reach their full potential if citizens are willing and able to participate in them.

In this sense, the SIU is as much about culture as it is about regulation. Its long-term success will depend on whether Europe can complement stronger financial markets with a stronger investment culture.

7. Financing growth in the real economy

For business leaders, the SIU is more than a financial services initiative. It reflects a broader shift in the way Europe intends to finance growth, innovation, and competitiveness. As capital markets deepen and become more integrated, companies are likely to encounter a financing environment that is broader, more competitive, and increasingly European in its outlook.

For many businesses, the most important implication is optionality. Bank lending will remain a cornerstone of corporate finance, but firms will gradually gain access to a wider range of funding sources throughout their development, from venture capital and private equity to institutional investors and public markets. A more diversified financing ecosystem can improve resilience by reducing dependence on any single source of capital and allowing businesses to match financing more closely to their investment needs.

The SIU also has implications beyond fundraising. Measures to improve market integration, streamline cross-border activity, and strengthen supervisory convergence have the potential to make it easier for firms to operate across the Single Market. Businesses seeking to expand internationally may benefit from larger pools of investors, more integrated financial infrastructure, and a regulatory environment that is progressively becoming more consistent across jurisdictions.

The Strategy is equally significant for sectors at the center of Europe's long-term policy agenda. Delivering the green transition, digital transformation, security capability, infrastructure renewal, and technological innovation will require sustained private investment on a scale that public finances alone cannot provide. A stronger European capital market is intended to help mobilize that investment more effectively.

Ultimately, the SIU is about creating a business environment in which access to capital becomes less constrained by national boundaries and better aligned with commercial opportunity. For executives, the strategic question is not simply how the regulatory framework is changing, but how a more integrated European capital market may influence financing decisions, investment strategies, and long-term growth.

8. Conclusion: from a continent of savers to a continent of investors

The transition from the CMU to the SIU represents more than a change in terminology. It reflects an evolution in European economic policy and a growing recognition that the mobilization of private capital will be critical to the EU's future prosperity, competitiveness, and resilience.

Over the past decade, the CMU established many of the foundations for a more integrated European financial system. It modernized regulatory frameworks, expanded financing options, strengthened market infrastructure, and advanced the integration of European capital markets. Yet the scale of Europe's future investment needs has exposed the limits of a strategy focused primarily on market structures and regulatory reform.

The SIU builds upon these foundations while broadening the agenda. It recognizes that deeper capital markets require not only efficient regulation and integrated infrastructure, but also active participation by citizens, stronger supplementary pension systems, more effective financing pathways for businesses, and greater confidence in cross-border investment.

This shift is particularly significant at a time when Europe faces major investment requirements in areas such as decarbonization, digitalization, security, infrastructure, and innovation. Public resources alone cannot meet these needs. Unlocking the potential of EU's vast pool of household savings and institutional capital has, therefore, become an economic imperative.

The success of the SIU will ultimately depend on implementation. Progress will require sustained cooperation between European institutions, Member States, supervisors, market participants, businesses, and citizens. Many of the barriers that continue to fragment EU capital markets - including differences in taxation, insolvency frameworks, supervisory practices, and investment culture - will take time to address.

Nevertheless, the direction of travel is clear. The SIU seeks to create a financial system in which citizens are empowered to invest, businesses can access financing throughout their growth journey, and capital can move more freely across borders to where it can be used most productively.

The coming years will be critical as the SIU moves from policy design to practical implementation. As legislative negotiations conclude and national reforms gather pace, attention will increasingly shift from the adoption of measures to the delivery of outcomes. The Commission's planned 2027 mid-term review of the Strategy will provide an important opportunity to assess progress, evaluate the effectiveness of the initial reforms, and identify where further action may be required. By then, policymakers should be in a stronger position to judge whether the SIU is succeeding in its central objective: strengthening the link between European savings and European investment.

The SIU represents the European Union's most ambitious effort to date to connect European savings with European investment. Its success will depend not on a single legislative measure, but on sustained cooperation across the Union. The European institutions can provide the framework, but Member States, supervisors, market participants, employers, and citizens all have a role to play. Together, they have an opportunity to transform Europe's vast savings base into a powerful engine for investment, innovation, competitiveness, resilience, and long-term prosperity.

Scaling Europe's Financial System

A union for Europe's capital markets: **from vision to implementation**[1]

Miye Kohlhase, Member of the Executive Board, Clients and Markets, Association of German Banks (Bankenverband, BdB)

ABSTRACT

Europe is under immense economic, demographic, and geopolitical pressure: above all, Europe must strengthen its resilience and overcome its persistently weak growth. The coming months will be critical in determining whether Europe can safeguard its long-term economic and political capacity to act. In this context competitiveness, capital market integration, and strong banks are a strategic issue.

Competitiveness is a core pillar of European sovereignty. It is a prerequisite for expanding modern infrastructure, for the digital transformation, for defense capability, and for the transition to a sustainable economy. The investment required for this is enormous and calls for an efficient system to finance it. Strong banks and a high-performing capital market are, therefore, indispensable. They finance investment, innovation, and growth and ensure the efficient allocation of capital. At the same time, the European capital market is still not making sufficient use of its potential and capabilities. Europe needs a capital market that mobilizes private capital on a large scale, reliably finances companies and businesses and offers retail and institutional investors attractive, non-complex, and competitive financial products. The European Commission's project, the Savings and Investments Union, can provide the right framework for this, provided it does not become mired in additional regulation but removes concrete market barriers and bureaucracy, thereby facilitating cross-border investment. Creating deep and liquid capital markets in the EU is more than a financial-market initiative. It is the strategic foundation for Europe's economic capacity to act and for Europe's independence in geopolitically uncertain times, because public finances alone will not be sufficient to address the challenges. The course must now be set correctly. From the perspective of the private banks in Germany, this concerns five fields of action: 1. Streamlining regulation; 2. modernizing market processes; 3. advancing market integration; 4. increasing financing capacity; and 5. support from the Member States at national level.

1. Article based on the BdB position papers on competitive capital markets (https://tinyurl.com/4h5cprm2) and the EU Market Integration and Supervision Package (https://tinyurl.com/2u9dtfrv)

1. Introduction: a key year for Europe's capacity to act

Europe is under economic, demographic, and geopolitical pressure. The question is no longer whether additional investment is necessary, but how Europe can mobilize the private capital needed to remain globally competitive, resilient, and sovereign over the long term. Modern infrastructure, digitalization, defense capability, and the transition to a sustainable economy require a financial system that channels capital quickly and efficiently to where it enables growth and innovation. Europe has strong banks and substantial private savings. These must now be directed into productive capital.

This makes the competitiveness of capital markets in Europe a question of European sovereignty. A deep, liquid, and integrated capital market increases Europe's resilience, facilitates cross-border investment, and improves financing conditions for businesses. At the same time, it is essential for mobilizing and allocating private capital at scale. Only then can retail and institutional investors fully benefit from the value created by the companies in which they invest.

The measures taken so far for a Capital Markets Union have achieved some progress. Yet European capital markets could make much better use of its potential. To do so, there is a need to reduce, as quickly as possible, the fragmentation that still exists in some areas and thereby become more liquid in many segments. Unlike other international markets, complex and partly inconsistent regulation hampers capital-market-based investment in the EU. This makes investing more difficult, increases costs, and diverts resources away from financing, innovation, and client service.

Europe should now work in a targeted way to revitalize the market economically by increasing liquidity. The next phase of the Capital Markets Union must, therefore, focus on simplifying legal requirements, increasing market integration, and achieving the rapid and ambitious implementation of harmonization measures. Modern market structures are just as important as simple access to capital-market participants and to efficient, secure market infrastructures.

2. Savings and Investments Union: more market, less micromanagement

Policymakers in the European Union are rightly focusing on a high-performing capital market and strong banks. There is no lack of political ambition to create a single, attractive market. In the current legislative period, the Savings and Investments Union (SIU) is one of the European Commission's stated objectives for establishing a Single Market for capital.

What is decisive, however, is that competition and market mechanisms remain at the center of these efforts. Policymakers and supervisors should create a clear, reliable, and internationally competitive framework in which markets and fair competition can operate, rather than prescribing specific products, ordering the consolidation of market structures, or adding new detailed obligations to existing complexity. Only the market and its participants decide what is attractive from their perspective and in the global context.

An attractive capital market needs stability, integrity, and liquidity. Financial stability and market integrity are indispensable, but without global competitiveness even a formally stable system will not remain high performing in the long term. Anyone who wants to make Europe attractive to international investors must, therefore, consistently assess regulation in terms of its benefits, costs, and impact on liquidity, and thus ultimately on the attractiveness of the market.

The principle of proportionality plays a key role here: it is not only the size of the market participants or the business model that should be taken into account. The focus should be on whether the rules in question promote the objective of supporting a capital market that is globally competitive. In other words: is the rule really necessary, is its scope sensible, and does the rule achieve its objective without unnecessary costs?

This also requires a clear division of roles: banks and capital markets complement one another. Banks provide financing, advice, and risk management, but they also connect their customers with market infrastructures. They serve, on the one hand, companies that issue capital-market instruments and, on the other, investors who provide their capital. In particular, banks, other market participants, and financial-market infrastructures have complementary tasks and offer different services. Anyone who deliberately disregards or unintentionally changes these roles risks rendering other useful measures ineffective or even achieving the opposite of what was intended. Capital markets function globally. The roles of market participants and infrastructures are defined internationally and evolve through global interaction. Europe needs these different roles, as well as competition, for a functioning and effective capital market. Only then can the market depth be achieved that is needed to finance the transformation of our economy at scale, something traditional financing channels alone will no longer be able to provide.

Particularly important: banks are not market infrastructures! They have a direct and trust-based contractual relationship with their clients; they connect issuers and investors via market infrastructures and often assume risks on their own account. Market infrastructures, by contrast, are neutral technical platforms for trading, clearing, and settlement, enabling investors to conduct financial transactions anonymously, and they generally do not take risks onto their own books. They operate, for example, as regulated exchanges, central counterparties (CCPs), and central securities depositories (CSDs).

These differences must be reflected in regulation, especially in transparency, reporting, and supervisory obligations.

3. The EU MISP as a practical test for capital-market integration

The EU Market Integration and Supervision Package, or MISP, is currently being negotiated in Brussels. The MISP is a central practical test of whether Europe is addressing the right capital-market regulatory requirements in order to achieve EU-wide usable market infrastructure under the existing framework and to promote cross-border investment. The package can effectively deliver market integration if it genuinely supports less costly and less complex infrastructures, harmonizes post-trade processes, and creates legal certainty.

Many MISP proposals are already heading in the right direction. But the MISP, too, must recognize the difference between banks and market infrastructures. Transparency and in particular reporting obligations should be applied in a differentiated way in trading (lit versus dark trading) and in settlement (CSD versus internalization). Otherwise, cost-effective, efficient banking services will be made more difficult or prevented, ultimately harming market liquidity. Banks should not be regulated like infrastructures, but like banks.

When amending, for example, the requirements for equity markets in the EU, legislators should take into account the needs and wishes of capital-market investors. A variety of execution options gives investors the best conditions for price-cre-

Table 1: what is needed at the EU level

1. Streamlining reglation	2. Modernizing market processes	3. Advancing market integration	4. Increasing financing capacity
Reduce reporting obligations, eliminate duplicate reports, and consistently apply proportionality.	Harmonize post-trade; design tax procedures in a practical way.	Strengthen infrastructures that can be used across Europe; anchor competitiveness as a supervisory objective.	Revive the securitization market; adopt a technology-neutral approach to regulating innovation

For a functioning Savings and Investments Union: simplify, integrate, mobilize!

ation mechanisms and counterparties. Investors, especially institutional investors, are a central factor in strengthening the attractiveness and liquidity of the EU market. The expertise of the European Securities and Markets Authority, ESMA, should also be taken into account. ESMA recently carried out an analysis of the development of equity markets and sought the financial industry's assessment through a call for evidence.

More competition could also be achieved, for example, by creating cost transparency for CSDs. If CSDs published uniform and transparent fee schedules, CSD costs in Europe could be compared and overall costs thereby reduced. When disclosing costs, however, it should not be overlooked that banks already compete intensely with one another when responding to their customers' requests for individual service offerings, and that a general disclosure obligation in this area would only create unnecessary bureaucracy without additional benefit.

More effective than introducing further reporting and transparency obligations would be to remove existing barriers in post-trade. The barriers identified by the European Central Bank's working group "AMI-SeCo SEG" show that a lack of harmonization, insufficient data quality, and inefficient processes cause concrete costs and stand in the way of creating a single European capital market. From the report "Remaining barriers to integration in securities post trade services – issues and recommendations," the following measures should be prioritized to simplify post-trade processes, reduce transaction costs, and improve the functioning of capital markets.

Civil-law harmonization in areas such as custody law and company law should be addressed in a targeted way. Targeted harmonization means limiting EU-wide harmonization to rules that are relevant to capital markets. This would also improve the currently insufficient freedom to choose the CSD when issuing securities, under Article 49 CSDR. Amendments to the Shareholder Rights Directive would also be helpful, such as the introduction of a golden source for information on securities-related data, the improvement of issuers' data quality through uniform formats or the expansion of the scope of application.

It would be particularly helpful if data were made available digitally and completely at source, that is, by the issuing company. In post-trade and also in asset servicing, banks act as the link between issuing companies and investors. Digitalization and standardization in this area can make processes much more efficient. The same applies to procedures for refunding withholding tax. These must become simpler and more practical. The FASTER Directive is an important starting point here; what matters now is pragmatic implementation.

Finally, Europe's competitiveness must be part of ESMA's mandate. As a regulator and in its supervisory activities, the supervisor too must be committed to the objective of competitiveness. Analogous to the practice of the UK Financial Conduct Authority, ESMA should systematically consider how its actions influence the long-term growth, attractiveness, and international position of the EU economy and its capital markets.

A more integrated market may require more centralized European supervision in certain areas. However, this must not be the starting point but should be the result of reform. Centralized market supervision is, therefore, only one facet of the MISP and not its core: markets must first be harmonized, processes simplified, and legal frameworks made practical; coherent supervision can then build on this. More centralized supervision alone does not create a deep market.

4. Streamlining regulation and creating capital-market depth

A key competitive disadvantage for Europe lies in regulatory complexity and red tape. In order to simplify regulation and remove unnecessary requirements, reviews of legislation should be used specifically to delete what is superfluous and simplify what is complex. Policymakers should resist the temptation to keep adding new layers. Even avoiding new statutory procedures and reporting obligations helps.

Reporting obligations that have grown in parallel in various EU legal acts and other, for example supervisory, requirements cause considerable operational burdens; the requirements under MiFIR, EMIR, and SFTR are just three examples. A more fundamental reform of transaction reporting, ideally centered on reporting at source, could reduce costs and free up resources. Germany's private banks support ESMA's current considerations to fundamentally reform and simplify reporting. A reduction in reporting obligations of at least 25 percent should also mean that the resources tied up for this purpose will in future be available for growth and competition.

The Retail Investment Strategy also shows how well-intentioned regulation can miss its target. If new requirements make access to the capital market more complicated, they are more likely to deter service providers and retail investors than to mobilize private capital. In any event, the new detailed regulation does not do justice to the objective of bringing more retail investors into the capital market.

Another lever for greater capital-market depth is a high-performing securitization market. Given the high investment needs, this instrument is strategically important for Europe. Securitizations can give banks capacity for additional lending, broaden corporate financing, and channel private capital more precisely into the economy. The existing safeguards for financial stability have proven themselves. What matters now is simplifying processes, calibrating capital requirements in a risk-adequate manner, and avoiding new regulatory categories that increase barriers to market entry.

5. Strengthening innovation

Capital-market integration is not only a question of traditional market infrastructure. It must also allow for technological change. Opening regulatory frameworks to distributed ledger technology (DLT) and further developing the Regulation on Markets in Crypto Assets (MiCAR) are important building blocks for ensuring that Europe remains competitive in digital market structures.

Expanding the DLT pilot regime to all MiFID financial instruments, as well as significantly raising the thresholds, is therefore logical. Issuing securities using DLT is now established practice.

Innovation also needs clear and consistent regulatory responsibilities. For example, it is not clearly regulated whether and which restrictions under the DLT pilot regime apply to traditional loans by banks. Among other things, clarification would be needed regarding activities such as a DLT Settlement System or DLT Trading and Settlement System, alongside lending that is not related to securities services.

Competent authorities for supervision and reporting obligations should also not diverge, as is currently the case for banks under MiCAR. If responsibilities are fragmented or duplicate structures arise, innovation is slowed and bureaucracy increases. The same applies to cross-border issuance structures, for example in the case of multi-issuance stablecoins: legal certainty and a level playing field are essential for viable market models.

6. EU Inc.: from company law to a financing framework

To strengthen Europe's innovation potential and to keep high-growth companies in Europe, the new and voluntary European company form, EU Inc., is a real opportunity. This idea of an optional European company form should also be conceived with capital markets in mind.

It leaves the national rules for existing and established company forms in the EU untouched. Nevertheless, the legislative draft supports companies in cross-border business within the EU and aims to enable modern, digital register management. This creates an opportunity to harmonize the laws that reflect the key life stages of a company: formation, equity financing, and liquidation. It would be even better to include the rules for debt and loan financing and collateral. The new legal framework should reflect the entrepreneurial reality from the outset.

Especially for young AI and deep-tech companies, whose scaling phase is short and whose capital requirements are high, the question of where to establish, finance, and scale is not a company-law question but a strategic one. Value creation should be built and remain in Europe.

The proposed legislative draft for the EU Inc. company is therefore a promising building block for reducing fragmentation in the European market. As an optional 28th regime, companies could have a uniform European legal form available to them, thereby facilitating growth, investment and internationally used financing options. The new regime also creates an EU-wide uniform framework for investors, and thus significantly lower investment and advisory costs.

Although this draft should not be watered down, the focus must not be narrowed solely to formation, capitalization, and company-law issues: companies need financing at every phase of their life cycle, initially often equity capital, but with increasing maturity also increasingly debt capital, especially bank loans. This is precisely where there is a central need for improvement: cross-border financing and collateral agreements in the EU continue to be based largely on national contract and insolvency law. These differences create legal uncertainty, make it harder to use standardized agreements, and increase financing costs.

A targeted European framework for financing contracts and collateral could, therefore, have a much broader impact than a special insolvency regime for individual EU Inc. companies. It would be conceivable to integrate harmonized rules into, or align them with, the EU Financial Collateral Directive. Lenders, investors, and companies across Europe should be able to conclude reliable, effective, and standardizable financing and collateral agreements.

By contrast, the proposed special insolvency regime for certain innovative start-ups should not be pursued further. It would not solve the actual obstacles to cross-border financing and could even make debt capital more difficult. If creditor rights are disproportionately restricted, collateral or netting mechanisms are devalued and no sufficient protective mechanisms are provided, risk premiums rise, or financing may not materialize at all.

A robust digital register is also important for the success of EU Inc. companies. It should create legal reliability for third parties, provide comprehensive and accurate information. It should also record transfers of shares, pledges, and other rights in rem over shares. Only if market participants can legally rely on the register information can the digital register have its integrating effect. This applies in particular regarding know-your-customer requirements. The information in the company register will often not be sufficient for these requirements, so linking it to the transparency register should also be considered.

Finally, EU Inc. companies should, under certain conditions, be able to form legally separate pools of assets, so-called compartments. They could then be used not only for operating companies but also as a European standard vehicle for investment funds and securitizations. This would be another important building block for deeper capital markets.

7. Financial literacy as the foundation of the capital market

Capital markets function better when citizens understand their opportunities and risks. Financial education is, therefore, not a marginal issue, but a prerequisite for economic participation in the value created by companies and for retirement pension plans. It helps people make informed consumer and financial decisions, protects against over-indebtedness, and opens access to long-term capital investment.

National financial literacy strategies, a central coordination office, and a compulsory school subject in economics and financial literacy would be concrete steps for anchoring financial competence more broadly. If the capital market is also to grow through the population's savings, knowledge about saving, investing, risk, and retirement planning must be taught early and in a way that is close to real life. Appropriate information and education offerings are needed so that financial knowledge can be built up from a young age and barriers to the capital market can be reduced. In the long term, this can also relieve the social security systems.

Citizens need access to capital markets to build long-term financial security. They also need opportunities to learn how capital markets work and to gain practical experience of their opportunities and risks.

8. Member States must use national levers decisively

Europe needs an overall concept for integrated capital markets. At the same time, important levers remain national. Germany can support this, for example, by lowering corporate taxes more quickly to an internationally competitive level and implementing withholding-tax procedures pragmatically, with little bureaucracy and without gold plating.

A second national lever is capital-market-based pension plans. The retirement plan account (*Altersvorsorgedepot*) without contribution guarantees and with flexibility in the payout phase is a milestone for a stronger securities culture. What matters is a simple, cost-efficient, and understandable approach. The early-start pension (*Frühstart-rente*) additionally offers the opportunity to familiarize young people with the capital market and retirement planning at an early stage.

Thirdly, access to the capital market must become easier for companies. Start-ups and scale-ups need growth and venture capital; too often they turn to financing outside Europe or relocate their business activities there. The goal in the Member States too should be to enlarge the entire ecosystem, expand this market, and pave the way to a stock-market listing.

A graduated regulatory approach after the IPO, more flexible downlisting and delisting rules, and reforms in company and capital-market law can make this path more attractive for many companies.

9. Conclusion: competitiveness must become the benchmark for action

Completing the Single Market for capital is necessary, but not sufficient. What is essential is that this Single Market is globally competitive. The agenda for competitive capital markets is clear: Europe must simplify regulation, remove market barriers, treat banks and market infrastructures differently, revive securitizations, enable innovation, and consistently advance national reforms. Implementation is what matters now.

The SIU will only be successful if it can mobilize private capital quickly, reliably, and permanently. This requires less regulatory self-absorption and more focus on liquidity, efficiency, and genuine competition in the market. Capital markets are not an end in themselves. They are a prerequisite for Europe to generate the financing needed for growth, transformation, and prosperity from its own resources.

Scaling Europe's Financial System

Scaling Europe: why the scale-up chasm is the **defining sovereignty risk** of our generation

Ralf Temporale,
Managing Director - Country Lead Germany,
Projective Group

ABSTRACT

Europe can produce world-class technology but cannot retain the companies that scale it, and this failure has become one of the defining sovereignty challenges of our time: the continent's digital, financial, and defense infrastructure now depends on compute, cloud, and capital it does not control. The scale of the problem is captured in a single figure. Europe's growth-stage funding gap is estimated to be U.S.$375 bln, against which the flagship public instrument, the Scaleup Europe Fund, commits roughly €5 bln. Public money was never meant to fill that gap; it was meant to catalyze the institutional capital held by European insurers, pension funds, banks, and asset managers. The decisive shift is this: after two years of unprecedented policy activity—from the Draghi and Letta Reports to the Competitiveness Compass, the Scaleup Europe Fund, EU Inc., and the Solvency II reforms—the binding constraint is no longer the regulatory framework, which has largely been put in place. The remaining constraint lies in the internal investment governance of European financial institutions: the investment committees, benchmarks, fiduciary practices, and risk frameworks that remain calibrated to a different portfolio allocation and a different economic era. The implication is clear. This is no longer primarily a policy challenge to be addressed in Brussels, but a capital allocation decision to be made by Europe's financial institutions themselves. If the investment case is competitive on a risk-adjusted basis, and current valuations provide an attractive entry point, the responsibility shifts from policymakers to institutional investors. The decision is ultimately an institutional one, but its consequences extend to Europe's economic sovereignty.

1. Introduction

Over the past three decades, the EU has built the regulatory and institutional foundations of an integrated digital and financial market. It has produced world-class research universities, global technology champions from automotive software to industrial automation, and a start-up ecosystem generating thousands of new ventures annually. Yet, by the metric that matters most in the technology economy - the ability to create, scale, and retain globally competitive companies - Europe has consistently underperformed. Over the past fifty years, not a single EU-headquartered company with a market valuation exceeding €100 billion has been created from scratch [Draghi (2024)]. This single statistic encapsulates a structural weakness whose implications extend far beyond market capitalisation: it reflects Europe's limited capacity to transform technological innovation into globally leading firms, with direct consequences for competitiveness, productivity, and economic sovereignty.

This article argues that the scale-up chasm - the gap between Europe's capacity to generate innovation and its inability to finance, scale, and retain the companies that commercialise it - constitutes one of the defining sovereignty risks facing the current generation of European policymakers. For decades, Europe's strategic vulnerability was primarily understood in terms of its dependence on Russian energy, a risk brought into sharp focus by Russia's full-scale invasion of Ukraine in 2022. Today, an equivalent strategic dependency is emerging in the digital economy, centred on cloud infrastructure, artificial intelligence computing capacity, and semiconductor value chains, where Europe remains predominantly a consumer rather than a producer of critical technologies.

Unlike energy dependence, however, this vulnerability is not rooted in geography or natural resource endowments. Rather, it reflects structural shortcomings in Europe's financial system, including fragmented capital markets, regulatory barriers, and institutional investment practices that have failed to support the scaling of innovative firms. Precisely because these constraints are institutional rather than physical, they are, at least in principle, amenable to policy reform.

2. The gap between origination and retention – Europe's sovereignty risk

2.1 The "kill switch" risk

Technology sovereignty risks becoming a rhetorical concept unless it is defined with precision. The clearest definition is an operational one: a jurisdiction lacks technological sovereignty when the functioning of its critical digital, financial, or defence infrastructure depends on decisions taken by entities beyond its legal and political authority. In this sense, technological sovereignty concerns the capacity to exercise effective legal and jurisdictional control over critical systems, rather than economic self-sufficiency or technological autarky. By this definition, the EU does not currently possess technological sovereignty in key areas such as cloud infrastructure, AI computing capacity, and advanced semiconductor technologies at a level sufficient to reduce strategic dependencies or ensure autonomous action.

The extent of this dependency becomes evident when examining the three pillars of modern digital infrastructure. In cloud computing, the European market is dominated by the three US hyperscalers - Amazon Web Services (AWS), Microsoft Azure, and Google Cloud - which together account for approximately 65% of the European public cloud infrastructure and platform services market by revenue [EC (2025a)]. No EU-headquartered provider operates at a comparable scale. European firms such as OVHcloud, Hetzner, and Deutsche Telekom's Open Telekom Cloud occupy important niches and serve specific market segments, but none has developed the breadth of services, geographic reach, or developer ecosystem required to compete as a full-scale enterprise cloud provider.

The dependence is even more pronounced in artificial intelligence (AI). The computational infrastructure on which European businesses, public administrations, and research institutions increasingly rely is built around chips designed by NVIDIA, manufactured primarily by TSMC in Taiwan, and accessed largely through cloud platforms operated by US companies subject to US jurisdiction. This dependence extends beyond hardware. It is reinforced by NVIDIA's CUDA software platform and the broader ecosystem of tools, libraries, and applications built around it, creating powerful technological lock-in and high switching costs.

The legal architecture underpinning these dependencies creates what may reasonably be described as a "kill switch", although the term encompasses two distinct legal mechanisms with different triggers and consequences.

The first is a "data switch". The US CLOUD Act of 2018 enables US authorities to compel US-based cloud providers to disclose data under their control, irrespective of where that data are physically stored, including in European data centers. The legal threshold is relatively low, as it operates through ordinary judicial or law enforcement processes rather than an exceptional national security decision. Its consequences, however, are limited to questions of confidentiality and jurisdictional control: it compromises European authority over data held within its territory but does not provide a means of disabling European digital operations.

The second mechanism, and the more consequential from a sovereignty perspective, is a "compute switch". Under US export control legislation, administered by the Bureau of Industry and Security (BIS), the US government can restrict access to advanced semiconductors and the software ecosystem required to deploy them. The threshold for such action is considerably higher, typically requiring a national security determination, but the potential consequences are substantially greater. Restrictions on access to advanced computing capacity would directly affect the infrastructure on which European artificial intelligence, cloud services, high-performance computing, and an increasing share of defense capabilities depend.

This authority has already been exercised in practice in the context of U.S.–China technology restrictions since 2022, with successive BIS measures limiting access to NVIDIA's H100 and A100 GPUs, advanced chip-design software, and semiconductor manufacturing equipment [EC (2025b), Bruegel (2026)]. This example is cited not to suggest equivalence between the U.S.–China context and Europe's situation, but to demonstrate that such controls are operationally effective and to illustrate how critical infrastructure dependencies can create jurisdictional risks under different policy scenarios.

The two mechanisms are therefore not equivalent. The data switch represents a standing, lower-threshold constraint on sovereignty, affecting control over information and jurisdictional authority. The compute switch, by contrast, is a higher-threshold instrument of economic leverage that, if deployed, could materially disrupt the digital operations of an entire economy without the use of armed force or the imposition of formal sanctions.

The EU's position is not equivalent to China's, and the U.S.–EU relationship exists within a fundamentally different geopolitical context. The argument is narrower and operational: a jurisdiction that depends on external infrastructure for the functioning of its economy and defense capabilities remains vulnerable to constraints imposed by external actors whenever political interests diverge. This is the dynamic that European policymakers observed in real time during the 2022–2025 U.S.–China technology confrontation, and it informed the Draghi Report's identification of the innovation gap as one of Europe's three defining strategic challenges [Draghi (2024)].

The semiconductor dimension of this vulnerability deserves separate attention because it is frequently misunderstood. ASML, the Dutch company that manufactures the extreme ultraviolet (EUV) lithography machines required to produce the most advanced semiconductors, is often cited as evidence of Europe's strategic importance in the global chip supply chain. That importance is genuine: ASML holds a de facto global monopoly on EUV lithography equipment, and no advanced chip - whether designed by NVIDIA, Apple, or TSMC - can be manufactured without its technology.

However, the conclusion that this indispensability translates into European technology sovereignty is flawed for two reasons. First, ASML operates within an export-control framework shaped by broader geopolitical dynamics. Since November 2023, following pressure from the U.S., the Dutch government has restricted ASML's ability to export its most advanced EUV systems to China [NAPF (2026)]. The fact that a U.S. ally was required to impose restrictions on technology produced by a Dutch company illustrates that ASML's operating environment is influenced by strategic decisions taken beyond the EU's exclusive control.

Second, ASML occupies a critical but upstream position in the semiconductor value chain. It provides an essential manufacturing capability, but it does not control the downstream layers where digital power is increasingly exercised: cloud infrastructure, AI models, and software platforms. Europe's strength in ASML provides supply-chain leverage, but leverage is not the same as sovereignty. It gives Europe influence over a critical input; it does not, by itself, provide autonomous control over the digital systems built upon that input.

The European Chips Act of 2023 recognized this vulnerability and established a target of increasing the EU's share of global semiconductor production to 20% by 2030, from a baseline of approximately 8–10%. In its 2025 Special Report on the EU's microchip strategy, the European Court of Auditors concluded that the €4.5 billion in direct Commission funding committed under the €43 billion initiative was insufficient to achieve this objective, and that the remaining financing depended on Member State and private-sector co-investment that had not yet been secured [ECA (2025)].

The Chips Act 2.0, proposed in June 2026 with the ambition of mobilizing €200 billion by 2035, represents a more ambitious response. However, independent analysts remain skeptical that the EU can achieve frontier-level semiconductor manufacturing capacity within the proposed timeframe [Bruegel (2026), DIGITALEUROPE (2025)]. The EU has, therefore. identified the problem with considerable precision, but the scale of public and private resources committed, while increasing, has not yet matched the magnitude of the challenge.

The EU's digital economy, financial system, and emerging defense-technology capabilities are, therefore, exposed to a structural vulnerability that European institutions have not previously had to manage: not the risk of an isolated cyberattack or a specific regulatory failure, but a systemic dependence on critical infrastructure governed by the sovereign decisions of a third party. Whether that third party remains a benign partner is ultimately a question of geopolitics rather than technology policy. Responsible institutions, both public and private, must, therefore, incorporate scenarios in which that assumption no longer holds.

This is where the sovereignty argument becomes a financial one, and where it becomes directly relevant to the institutions addressed in this article. The dependency described above is not merely an abstraction of geopolitics; it is the cumulative result of thousands of capital allocation decisions that have financed the scaling of technology companies elsewhere rather than in Europe. The same dependency that exposes Europe to external strategic pressure is the dependency that European capital markets can either reinforce or help unwind. Every growth-stage funding round that a European company is forced to raise from U.S. investors, and every scale-up that lists abroad because domestic capital is unavailable, deepens this structural dependence. Conversely, every euro of European institutional capital deployed into European growth-stage technology represents, in the most literal sense, an investment in sovereignty. The warning and the response are two sides of the same issue: the boardrooms of European insurers, pension funds, banks, and asset managers are where this dependency is either reinforced or reduced.

2.2 Europe's scale-up failure is one of capital markets, not science

The sovereignty risk described in Section 2.1 is not primarily the result of a failure in European science or engineering. European researchers produce world-class fundamental research, European engineers develop internationally competitive technologies, and European entrepreneurs create companies capable of competing at the frontier. The challenge lies at the interface between innovation and scale: a structural failure of the European capital market ecosystem to provide the financing, legal frameworks, and institutional support required for technology companies to grow from promising start-ups into globally dominant firms. This failure is documented with unusual statistical clarity in reports published between 2023 and 2026.

The most fundamental metric is the availability of large-scale venture capital. Between 2016 and 2024, only 12 EU-domiciled venture capital funds raised funds exceeding U.S.$ 1 bln, compared with 157 in the U.S. [EC (2025c)]. For funding rounds above €50 mln, there are at least seven times more funds capable of participating in the U.S. than in the EU [EC (2025c)]. These figures do not reflect a shortage of investable companies; rather, they reveal a structural deficit in the capital-intermediation ecosystem.

When a European company reaches Series C and requires €100 mln or more, the number of European funds capable of leading such a round remains limited. The predictable outcome is either that the company raises capital from U.S. investors - often bringing governance implications, board representation, and incentives toward U.S. market expansion and eventual listing - or that it is unable to raise comparable amounts on equivalent terms and therefore scales more slowly.

The scale of this gap is reflected in several complementary estimates. European growth-stage financing at Series C and beyond is 4.4 times lower than in the U.S., representing a shortfall of more than €88 bln [EIB (2025), LHoFT (2025)]. A broader estimate places Europe's growth-stage funding gap at U.S.$ 375 bln [Groszkowska (2025)]. These figures measure different dimensions of the same structural problem and are, therefore, not contradictory. The 4.4-times ratio and the €88 bln estimate capture a like-for-like comparison of late-stage equity financing (Series C and beyond) relative to the U.S. The U.S.$375 bln estimate reflects the broader cumulative shortfall across the full scale-up financing pipeline and over a longer time horizon. The former isolates the late-stage equity deficit; the latter captures the wider investment opportunity that European capital markets have so far failed to address.

The consequences of this capital gap are visible in the financing trajectories of Europe's most prominent technology companies. Mistral AI, the French large language model company founded in June 2023, provides a particularly instructive recent example. Its approximately €105 mln seed round in June 2023 was led by Lightspeed, with significant participation from U.S. investors; its €385 mln Series A in December 2023 was led by Andreessen Horowitz; and its €600 mln Series B followed in June 2024 at a €5.8 bln valuation. Its €1.7 bln Series C in September 2025 valued the company at €11.7 bln (approximately U.S.$ 14 bln) and was led not by a U.S. fund but by ASML, the Dutch lithography company discussed in Section 2.1, with participation from NVIDIA and Andreessen Horowitz [Mistral AI (2025), CNBC (2025)].

ASML's leadership reflects a clear strategic rationale: by strengthening Europe's frontier AI ecosystem, it helps anchor downstream demand and resilience within the advanced semiconductor value chain, where ASML occupies a critical upstream position. Mistral AI is, by origin, research base, and corporate identity, a European frontier AI company; yet much of its early growth capital came from U.S. investors. The Series C is, therefore, doubly instructive. It demonstrates both the extent to which even Europe's flagship AI companies have relied on U.S. capital markets for scaling and the capacity of European strategic investors to lead frontier technology rounds when they choose to deploy capital.

The scarcity of such European-led investments is, therefore, institutional rather than inevitable. At the same time, the governance implications of earlier U.S.-backed financing rounds remain significant: investor structures, board representation, strategic networks, and potential exit pathways are shaped by the capital providers involved from a company's earliest stages.

Aleph Alpha, the German artificial intelligence company, provides an instructive contrast. Its €486 mln Series B financing round in 2023 was led by German industrial and strategic investors - including Bosch, SAP, and the Schwarz Group - making it one of the few examples of European industrial and institutional co-investment at scale in deep technology [EC (2025c)]. This example demonstrates that European industrial actors can mobilize substantial capital for strategic technologies when they choose to do so. It also highlights how exceptional such cases remain and why they are unlikely to provide a scalable solution without broader institutional investment channels.

Aleph Alpha's financing model depended on the deliberate strategic commitment of some of Germany's largest companies; it was not the product of the ordinary functioning of European capital markets.

Aggregate data on company relocation reinforces this picture, although the evidence requires an important methodological qualification. Draghi (2024) noted that 30% of Europe's unicorns have left the bloc since 2008 because they were unable to scale within the European market. CEPA (2024) documented cases of European start-ups relocating to the U.S. in search of deeper capital markets, talent pools, and customer access. A 2026 EIB study, the most rigorous assessment to date, found that only 3–4% of venture capital-backed EU start-ups formally relocate their headquarters [EIB (2026)].

These findings are not necessarily contradictory; they measure different phenomena. The EIB study focuses narrowly on formal headquarters relocation and may, therefore, not capture the broader forms of migration that matter most from a sovereignty perspective. The more consequential shift is often not a change in legal registration, but a transfer of financing dependency, governance influence, and strategic decision-making capacity. Companies may remain nominally European while their growth trajectory, investor base, board composition, and strategic orientation become increasingly shaped by U.S. institutions. In this sense, the 30% figure captures a broader phenomenon than formal changes of corporate domicile alone.

In the generative AI (GenAI) cycle specifically, the most strategically significant investment wave of the decade, approximately 80% of global funding by dollar value between 2023 and 2024 went to U.S. companies, while Europe and Israel combined accounted for roughly 20% [Accel (2024), Accel (2025)]. This imbalance reflects both the concentration of frontier model development in the U.S. and the limited availability of European capital capable of leading frontier AI financing rounds.

The main area in which European GenAI companies have attracted significant investment is sovereign and enterprise AI, largely because European governments and corporations provide a regulatory and institutional demand signal that is less pronounced in the U.S. This demand is commercially meaningful and creates opportunities for European firms, but it is insufficient on its own to generate globally competitive technology platforms.

Examining the broader European venture capital market in 2025 reinforces this structural diagnosis. In the first half of 2025, total European equity funding reached €23.8 bln across 2,143 rounds, representing an 11.5% decline compared with the first half of 2024 [ETFR (2025)]. Median Series B round sizes in Europe fell by 25.3% year over year in H1 2025, reaching €29.6 mln [ETFR (2025)]. Against a backdrop of substantially higher U.S. Series B medians, this compression of European round sizes is particularly damaging at precisely the stage when companies transition from product validation to commercial scale.

Cross-border venture capital investment within Europe itself amounted to only €3.6 bln in 2023 [EC (2025d)] - a remarkably limited figure for a market of 450 million people seeking to compete globally. In a survey conducted by the European Investment Fund, 66% of venture capital fund managers reported that Europe lacks sufficient financing opportunities for companies seeking to scale [Kraemer-Eis et al. (2023)].

The structural causes underlying these figures are well established, although the precise contribution of each factor remains subject to ongoing debate. Five interrelated causes, taken together, explain much of the scale-up gap, and each corresponds to a distinct lever within the European capital market and policy framework.

- **Market fragmentation**: the EU consists of 27 different legal systems, tax regimes, and insolvency frameworks. A company expanding across Member States must navigate this complexity precisely at the stage when management attention should be concentrated on commercial execution and growth. This represents a genuine competitive disadvantage relative to a U.S. company operating within a single federal market from San José to Boston. **Takeaway**: the Single Market remains incomplete precisely in the areas where scaling companies experience the greatest constraints.
- **Underdeveloped late-stage venture capital**: few European venture capital funds have assets under management exceeding EUR 500 million, and the number with established track records leading €100 mln-plus equity rounds is smaller still. **Takeaway**: at Series C and beyond, European funds are often not sufficiently large to lead the financing rounds required by scaling companies.
- **Disproportionate regulatory compliance costs**: compliance costs disproportionately affect fast-growing companies, not necessarily because European regulation is inherently excessive, but because regulatory requirements remain fragmented across national jurisdictions. These duplicative costs are largely absent in more unified markets. **Takeaway**: the primary burden is not necessarily the substance of European rules, but the cost of navigating multiple national frameworks.
- **Shallow exit and IPO markets**: Europe lacks a public equity market comparable in depth, liquidity, and investor specialization to NASDAQ. Companies reaching public-market readiness, therefore, face a choice between European exchanges with lower liquidity, limited analyst coverage, and structurally lower valuation multiples, or U.S. markets. **Takeaway**: for many European scale-ups, the exit pathway still leads to New York rather than Frankfurt or Amsterdam.
- **Talent and equity-compensation constraints**: Differences in salary levels and, in particular, equity-compensation frameworks reduce Europe's ability to retain globally mobile technical and commercial talent. Stock-option taxation and related regulatory arrangements often make equity incentives less attractive in after-tax terms than comparable U.S. arrangements. **Takeaway**:

Europe develops significant pools of talent, but U.S. markets often provide stronger incentives to retain and reward that talent through equity ownership.

Only approximately 8% of global scale-ups are headquartered in the EU, compared with approximately 60% in North America [EIC (2025)]. This gap is not explained by the quality of European innovation; rather, it reflects the structural constraints described above. The policy objective is not to replicate Silicon Valley, but to remove the specific barriers - growth-stage capital scarcity, regulatory fragmentation, and limited talent mobility - that prevent European companies from scaling successfully within Europe.

3. Policy architecture is not capital

3.1 Belatedly the Commission treats scale-up capacity as an industrial-policy objective

For most of the period between the Lisbon Treaty and approximately 2022, European economic policy operated on the assumption that a properly completed Single Market would generate competitive outcomes through scale, legal certainty, and access to a large consumer base. The regulatory role of EU institutions was primarily conceived in terms of competition policy, consumer protection, and financial stability: the state would establish the rules, while markets would allocate capital.

This model produced genuine successes, from aviation to telecommunications, but it has proven less effective in technology platform competition, where scale advantages are self-reinforcing, network effects generate winner-take-most dynamics, and early movers that achieve global scale acquire structural advantages that rules-based competition policy alone cannot easily reverse.

The 2024 reports by Mario Draghi and Enrico Letta represent the most significant intellectual departure from this passive regulatory model in the history of the European project, and their influence on subsequent European Commission policy has been substantial. The Draghi Report, published in September 2024, called for €750–800 bln in additional annual investment across the EU , a scale that exceeds any previous European investment program, and framed this not as fiscal stimulus, but as the minimum required to address structural gaps between European and U.S./Chinese productivity in technology, decarbonization, and defense [Draghi (2024)].

The report identified the innovation gap as the first of three strategic challenges, called for a new "EU Cloud and AI Development Act" to build European capabilities in these domains, and noted that EU companies invested €270 bln less in research and development than U.S. companies in 2021 alone [Draghi (2024)]. Critically, the report called for a fundamental reassessment of how public resources are deployed to support innovation, shifting away from fragmented, project-based grant funding toward strategic investments in platform technologies capable of anchoring European industrial competitiveness.

The Letta Report, published in April 2024, addressed the complementary dimension of the challenge: the incompleteness of the Single Market as a constraint on scale-up competitiveness [Letta (2024)]. Its analysis was particularly focused on fragmentation in services, capital, and data. A digital company scaling across Europe must navigate GDPR requirements interpreted differently by national supervisory authorities, operate within fragmented national services frameworks, and access capital markets that remain segmented along Member State lines. Letta's prescription, completing the Single Market for services, capital, and data with the same urgency applied to goods in the 1990s, became a central conceptual reference point for subsequent European Commission strategy.

The European Commission's Competitiveness Compass, published in January 2025, translated these reports into a structured policy agenda organized around three pillars: closing the innovation gap, jointly decarbonizing while enhancing competitiveness, and reducing strategic dependencies [EC (2025d)]. For the purposes of this article, the first and third pillars are the most relevant. The Competitiveness Compass explicitly frames technology scale-up capacity as an industrial policy objective, rather than merely a market outcome to be enabled through regulation. This represents a significant paradigm shift; the first time since the 1980s that the Commission has articulated a proactive industrial policy mandate at the technology frontier.

The European Chips Act of 2023, now being revised into Chips Act 2.0, illustrates both the potential and the limitations of this industrial policy turn. As Section 2.1 noted, its directly committed budget fell short of the resources required to achieve the 20% production target, and independent analysts characterized the target as aspirational rather than achievable within the stated timeframe [ECA (2025), Bruegel (2026), DIGITALEUROPE (2025), ZVEI (2025)]. The Chips Act 2.0 adopts a more nuanced approach, emphasizing strategic indispensability and supply-chain resilience rather than fixed market-share targets [EC (2026a), Bruegel (2026)]. This recalibration reflects a genuine evolution in policy thinking: the objective is not technological autarky, which the EU neither can nor should pursue, but the reduction of acute dependencies in critical nodes of strategic value.

The EU Start-up and Scale-up Strategy, published in May 2025 under the banner "Choose Europe to Start and Scale," addresses the regulatory and capital-market dimensions of the scale-up challenge more directly than any previous Commission initiative [EC (2025d)]. It targets three principal barriers: regulatory fragmentation, financing gaps, and talent attraction.

Of particular significance is the proposed "EU Inc." legal form: a single EU-wide corporate structure designed to enable digital incorporation within 48 hours for €100, standardized across all 27 Member States. However, practical operational dependencies, including bank accounts, tax identification numbers, and payroll arrangements, would continue to vary by country [EC (2025d)]. Advanced into a formal Commission proposal in March 2026, EU Inc. addresses one of the most significant practical obstacles to cross-border scaling: the inability of companies to operate under a single legal identity throughout the EU. Legislative agreement is targeted for the end of 2026, with implementation expected from 2027–2028.

The limitations of EU Inc. also require acknowledgment. It would not harmonize tax regimes, eliminate divergences in insolvency law affecting creditor recovery and risk pricing, or resolve the structural weakness of European exit markets. EU Inc. is, therefore, a valuable and symbolically important initiative, but it is not a comprehensive solution to the barriers that constrain European scale-up.

The most significant new capital instrument is the Scaleup Europe Fund, anchored by the European Innovation Council. It targets a total size of approximately €5 bln, including €1 bln committed by the European Commission through the EIC Fund and €1.5 bln from founding private limited partners, including Novo Holdings, CriteriaCaixa, Allianz, APG, EIFO, and the Wallenberg family, with EQT appointed as general partner in May 2026 [EIC (2026)]. The fund is expected to make its first investments in autumn 2026 and will target equity investments of €100 mln or more per company in strategic deep-tech sectors, including AI, quantum computing, semiconductors, biotechnology, space, and clean technology. It addresses a demonstrably real market gap: prior to its creation, no comparable EU vehicle was capable of directly providing equity financing at this scale to deep-tech scale-ups.

The governance architecture - combining EQT as general partner with a revised private-investor structure and reduced French limited-partner representation relative to earlier iterations - has prompted legitimate questions regarding national balance and strategic alignment. Key issues include how the fund will allocate investments across Member States, how it will manage potential tensions between commercial returns and strategic objectives, and whether EQT's limited-partner model is compatible with the patient-capital horizon required by deep technology companies. These questions will ultimately be answered through operational experience rather than the fund's design documents.

The European Tech Champions Initiative, launched in 2023 as a €3.85 bln fund-of-funds, has mobilized €10 bln in total investment capacity, with the difference reflecting the leverage model inherent to fund-of-funds structures: anchor commitments to private growth-stage venture capital funds catalyze additional private limited-partner capital, allowing each euro of public funding to attract additional private investment. It complements the Scaleup Europe Fund by operating at the fund level rather than directly at the company level [ETCI (2023)].

The STEP Regulation of 2024 and the EIC STEP Scale-up scheme, which provided €300 mln in 2025 with an expected €900 mln by 2027, add further public financing capacity. The Commission's announcement of €200 bln mobilized for AI investment and €20 bln for AI Gigafactories represents the most ambitious AI infrastructure commitment in European history [EC (2025d)]. Taken together, these instruments constitute a policy response whose breadth and ambition exceed any previous EU-level effort.

The effectiveness of state-directed industrial policy relative to market-driven capital allocation remains an unresolved empirical question. There are well-documented cases of success, including Korea's semiconductor industry, Taiwan's TSMC ecosystem, and the U.S. DARPA model, as well as equally well-documented examples of costly failures. The difference typically depends on the quality of strategic selection, the discipline to exit underperforming investments, and the ability to use public funding as an anchor for genuine private-capital mobilization rather than as a substitute for private markets.

Whether the EU's current policy architecture can achieve this balance will depend on governance choices that remain unresolved.

3.2 Institutional pathways: unlocks, instruments, and actions

The architecture described in Section 3.1 - from Draghi and Letta to the Competitiveness Compass, Chips Act 2.0, EU Inc., the Scaleup Europe Fund, and ETCI - represents the most comprehensive European industrial policy framework since the Single Market program. It is not, however, sufficient on its own. The Scaleup Europe Fund, at approximately €5 bln, is meaningful as an anchor and a market signal, but remains structurally insufficient relative to a growth-stage funding gap estimated at U.S.$375 bln [Groszkowska (2025)].

Public instruments can reduce risk, demonstrate commitment, and catalyze private co-investment, but they cannot substitute for the broader redeployment of institutional capital. A substantial share of European savings remains allocated to bank deposits, government bonds, and liquid equity markets rather than to the growth-stage technology companies that will shape European competitiveness in the 2030s.

The institutional capital opportunity is, in principle, extraordinary, although headline figures must be interpreted with care. EU households hold approximately €35 tln in savings [EC (2025d)], but this gross figure does not represent a deployable investment pool: the vast majority is held in bank deposits, residential property, and pension entitlements, while the genuinely mobilizable share available for growth-stage equity represents only a small fraction of the total. The relevant metric is, therefore, not the €35 tln headline figure, but the marginal share that regulatory and governance reforms could realistically redirect. Even a one- or two-percent reallocation would still exceed by orders of

magnitude the public funds committed to technology scale-up.

European insurance companies hold trillions in investable assets, yet regulatory frameworks have historically discouraged significant exposure to illiquid, equity-like investments. European pension funds - while smaller relative to GDP than their U.S. or U.K. counterparts and concentrated primarily in a limited number of Member States, including the Netherlands and Denmark - collectively manage assets that far exceed the public resources currently committed to technology scale-up.

In practice, any meaningful redeployment of this capital would need to occur through existing institutional channels: occupational pension schemes, life insurers, and large asset managers allocating capital to specialized growth-equity and venture-capital vehicles rather than investing directly in individual technology companies. The central question is whether the regulatory and institutional barriers preventing even a fraction of this capital from supporting European growth-stage technology can be removed before the opportunity cost becomes irreversible.

The Capital Markets Union (CMU), rebranded as the Savings and Investments Union (SIU) in 2025–2026, has been the EU's primary vehicle for addressing this challenge since 2015. Progress over the past decade has been real but insufficient. The central barrier remains unchanged: EU savings are still overwhelmingly held in bank deposits rather than being channeled through capital markets, reflecting a combination of regulatory incentives, risk preferences, and the underdevelopment of European investment-product distribution.

The SIU agenda - simplifying cross-border investment, reducing withholding-tax barriers, and developing European pension products through the Pan-European Personal Pension Product - addresses important demand-side constraints, but it has not yet materially shifted the overall allocation of European savings toward productive equity investment. Completing this structural reform remains one of the most important, and least visible, priorities on the European financial policy agenda.

On the insurance side, the most consequential recent development is the amendment to the Solvency II Delegated Regulation, adopted by the Commission in October 2025 as Delegated Regulation (EU) 2026/269 and scheduled to apply from 30 January 2027 [EC (2026a)]. It introduces three changes of direct relevance to technology investment. First, it establishes a preferential Solvency Capital Requirement risk factor under Solvency II of 22% for qualifying long-term equity investments, compared with the standard equity stress factor of 39%. This reduces the capital charge associated with holding venture capital and private equity positions by approximately 44%, materially improving the risk-return profile for insurers considering such exposures. Second, it removes mandatory look-through requirements for certain investment funds, reducing the operational complexity associated with indirect venture capital exposure through fund structures. Third, it provides preferential treatment for equity investments made through qualifying public legislative programs, extending to the insurance framework an approach already established for banks under Article 133(5) of the Capital Requirements Regulation [Debevoise and Plimpton (2026)].

The Commission has explicitly framed these changes as mechanisms for directing insurance capital toward productive investment in the EU, while maintaining supervisory monitoring of whether the freed capital is actually redeployed toward these objectives.

The key uncertainty that the available evidence does not yet resolve is whether insurers will actually redeploy the freed capital into illiquid venture capital and private equity investments, or whether the benefit will instead flow toward more liquid asset classes. The historical experience of European insurers following changes in capital treatment provides mixed signals: in some asset classes, regulatory reform has generated genuine reallocation; in others, freed capital has been absorbed into liquid bond markets without producing the intended shift.

The effectiveness of the reform as an instrument for scale-up financing will, therefore, depend on deliberate action by insurance-sector leadership rather than on the passive operation of the new framework. The operationalization challenge is substantial: many European insurers currently lack the internal capabilities required for deal sourcing, portfolio monitoring, and co-investment management at the scale necessary to hold significant venture capital and private equity exposures. Building these capabilities requires investment in human capital and governance infrastructure, not merely adjustments to regulatory risk parameters.

In the pension fund sector, European allocation to venture capital remains markedly low. IORP entities, occupational pension institutions regulated under the IORP II Directive, allocate only 4% of their alternative investment fund exposure to venture capital [ECB (2026b)]. The Commission has clarified that the "prudent person principle" under IORP II permits equity investment as appropriate for long-duration pension liabilities, confirming that venture capital and private equity allocations can be consistent with fiduciary duties. As with the Solvency II reform, however, this regulatory clarification does not automatically translate into behavioral change. The structural constraints are multiple. The concentration of EU pension assets in a limited number of Member States, particularly the Netherlands and Denmark, means that the available pool is smaller than aggregate EU savings figures suggest. Minimum fund-size requirements for venture capital general partners reduce the number of managers capable of receiving institutional allocations, while the shorter track record of European venture capital funds in managing illiquid alternative investments compared with U.S. equivalents creates additional challenges in limited-partner due diligence.

The European Startup Nations Alliance has recommended a target allocation of 5% of pension fund assets to venture capital and private equity [ESNA (2024)]. Achieving such a level would represent a significant increase from current allocations and, if implemented across even a portion of European pension assets, could generate capital flows to growth-stage companies at a scale sufficient to materially narrow the funding gap.

The role of the banking sector is structurally different from that of insurers and pension funds. EU banks operate under Capital Requirements Regulation and Directive constraints on equity exposures, while Basel III endgame rules introduce additional constraints on venture-capital-type investments, reflecting the Basel Committee's concerns regarding the volatility of bank capital under stress. Within these constraints, banks have a growing and strategically important role in venture debt, revenue-based financing, and equity-linked instruments that complement rather than replace equity financing. Several large European banks, including BNP Paribas, Commerzbank, and ING, have established corporate venture arms or minority equity programs in technology companies. While individually modest, these initiatives collectively reflect a growing recognition that banks' commercial interests and European technology development are not necessarily in conflict.

EIF guarantee programs provide a risk-sharing mechanism that enables banks to extend venture debt to scale-ups whose credit profiles fall outside conventional lending parameters [Kraemer-Eis et al. (2023)]. The STEP framework's preferential capital treatment for certain equity-linked instruments provides an additional mechanism for bank participation in growth-stage financing without incurring the full capital cost associated with direct equity investment.

Asset managers and private equity firms are the institutional actors most directly capable of supporting the European scale-up ecosystem, possessing the investment expertise, fund structures, and investor relationships required to deploy capital into technology companies at scale. Their primary constraint is not capability but fund economics: European venture capital managers face significant AIFMD compliance costs, depositary requirements that increase operational expenses, and difficulties raising capital from large institutional limited partners that lack established frameworks for illiquid alternative investments.

The European Commission's 2026 consultation on venture and growth-capital fund reform proposes reducing AIFMD-related frictions, supporting cross-border fund passporting, and encouraging larger fund formation through differentiated treatment for funds above certain assets-under-management thresholds [EC (2026c)]. If implemented, these reforms could reduce the economic barriers to large-fund formation by lowering compliance overhead, reducing depositary-related costs, and simplifying cross-border fund structuring. In doing so, they would address the supply side of the market, complementing Solvency II and IORP reforms aimed at unlocking institutional demand. Legislative timelines remain uncertain.

Taken together, the financial sector's action mandate is specific and actionable, but it differs by institution type. Each of the four principal categories of European institutional capital has a distinct unlock, a specific instrument available to it, and a concrete first move.

→ **Insurers**

- **Unlock**: the new 22% Solvency Capital Requirement preferential factor for qualifying long-term equity, which reduces the capital cost of holding venture capital and private equity positions by approximately 44% compared with the previous 39% equity stress factor.

- **Instrument**: direct or fund-mediated exposure to growth-stage equity under the qualifying long-term equity classification.
- **First move**: build internal deal-assessment and portfolio-monitoring capabilities and engage with the EIC Scaleup Europe Fund as a co-investor or anchor limited partner. Institutions that wait for industry consensus before acting risk losing the most attractive entry opportunities.

➔ **Pension funds**

- **Unlock**: the clarified prudent person principle under IORP II, which explicitly recognizes equity investment as appropriate for long-duration pension liabilities.
- **Instrument**: a targeted venture capital and private equity allocation. The ESNA recommendation of a 5% allocation provides an evidence-based benchmark that can be defended under fiduciary standards and, if applied across even a portion of European pension assets, could generate capital flows at a scale sufficient to materially narrow the funding gap.
- **First move**: treat the updated guidance as genuine investment latitude rather than a formal clarification. Where individual pension funds lack sufficient scale to access venture capital general partners directly, create pooled European pension vehicles capable of meeting minimum fund-size requirements.

➔ **Banks**

- **Unlock**: financing instruments that avoid the full capital cost of direct equity exposure, including venture debt, revenue-based financing, and equity-linked structures receiving preferential treatment under the STEP framework.
- **Instrument**: venture debt deployed through EIF guarantee structures, which share risk on scale-ups whose credit profiles fall outside conventional lending parameters.
- **First move**: expand venture debt offerings and participate in EIF guarantee programs, creating a risk-adjusted pathway into technology-sector financing that remains consistent with Basel III and CRR balance-sheet constraints.

➔ **Asset managers and private equity firms**

- **Unlock**: the proposed reduction of AIFMD-related frictions and cross-border passporting barriers under the 2026 Commission consultation, lowering the economic barriers to large-fund formation.
- **Instrument**: dedicated scale-up growth funds targeting the €50–500 mln ticket range, where European capital remains most structurally deficient compared with U.S. markets.
- **First move**: raise dedicated growth funds and co-invest alongside the Scaleup Europe Fund or participate as limited partners in the ETCI fund-of-funds, gaining exposure to European technology companies without assuming the full operational burden of direct investment.

Across all four categories, the deeper governance challenge is the same: moving away from quarterly performance benchmarking for venture capital and private equity allocations, which systematically disadvantages the long-duration, J-curve return profiles of growth-stage investing, toward governance frameworks with investment horizons appropriate to the actual risk and return characteristics of the asset class.

3.3 The shift from regulatory to governance barriers

The four plays outlined above share a common precondition, and it represents the central argument of this article. Two years of policy action have materially reduced the regulatory barriers to institutional venture capital and private equity allocation. The remaining constraint is internal: the investment governance frameworks of the institutions themselves. This diagnosis is more challenging than a regulatory one because it cannot be resolved in Brussels. It must be addressed within each institution's own investment committee.

The Eurofi analysis of long-term institutional capital deployment in Europe is instructive on this governance dimension [Eurofi (2025)]. It found that the principal barrier to reallocating capital toward productive investment is not, in most cases, regulatory capital treatment - although that has historically been significant - but rather the internal governance frameworks of financial institutions. These include investment committees structured around liquid-market benchmarks, risk functions calibrated to short-term mark-to-market volatility, and performance systems that create career incentives against illiquid allocations that may underperform in the short term but generate substantially higher returns over five- to ten-year horizons.

Changing these structures requires leadership decisions that go beyond regulatory compliance: boards and executive committees must make deliberate choices about the investment culture and risk appetite of their institutions.

4. The scaffolding is built; capital must move

Europe has diagnosed its scale-up challenge with unusual analytical precision over the past two years. The Draghi and Letta Reports, the Competitiveness Compass, the Chips Act and its forthcoming revision, the EU Start-up and Scale-up Strategy, the Scaleup Europe Fund, the Savings and Investments Union, EU Inc., and the Solvency II reform together constitute a policy and regulatory architecture that did not exist twenty-four months ago. This framework addresses, with genuine ambition, the structural barriers identified by the evidence as the root causes of European scale-up failure.

This represents a significant paradigm shift in how European institutions understand the relationship between market outcomes and public policy in the technology sector.

But policy architecture is not capital. The scaffolding of European technology sovereignty has largely been constructed, with the insurance measures taking effect from 2027. What remains is the decision by European financial institutions whether to occupy it. The Scaleup Europe Fund's €5 bln, measured against a U.S.$375 bln growth-stage funding gap, provides the clearest signal that public capital is intended as a catalyst, not a solution.

The Solvency II reform's new 22% risk factor is an invitation, not a mandate. The clarification of the prudent person principle for pension funds creates legal space for action; it does not compel action. The AIFMD consultation creates the conditions for larger venture capital fund formation; the funds must still be raised, limited partners must still commit capital, and investments must still be made.

It is worth stating the skeptical chief investment officer's case in its strongest form because, for most of the past decade, it was correct. European institutional caution toward growth-stage venture capital and private equity was not timidity; it was a rational response to the available evidence. Although some European venture capital managers outperformed, European VC as an asset class delivered persistently lower realized returns than U.S. VC across most vintages, with a thinner record of large exits to validate the model.

Capital treatment was punitive, the J-curve locked up capital for a decade, exit markets were shallow, and a CIO who avoided the asset class was rarely penalized, and was often vindicated. Allocating to illiquid European VC appeared, ex-ante, to mean accepting U.S.-level illiquidity for below-U.S. returns. Based on the evidence available at the time, staying out was the prudent decision.

What has changed is the risk-return arithmetic itself, on both sides of the equation. On the risk side, the capital cost has fallen materially: the Solvency II 22% factor reduces the regulatory capital charge for insurers by roughly 44%, the IORP clarification removes fiduciary uncertainty for pension funds, and the proposed AIFMD reforms lower the barriers to fund formation for managers.

On the return side, the entry point has shifted in the allocator's favor: European scale-up valuations remain compressed relative to U.S. equivalents at comparable levels of revenue and growth, a discount that the IMF (2024) and the German government's Federal Ministry of Finance Taskforce (2024) both attribute to addressable market imperfections rather than inferior business quality.

The skeptic's caution was justified by the past but is increasingly misaligned with present conditions. The factors that previously justified staying out - punitive capital treatment and structurally unattractive risk-adjusted returns - are precisely those that the past two years of reform and repricing have begun to reverse. The window created by this valuation and policy dislocation exists partly because relatively few institutions have acted so far.

The decision facing European financial institutions is not a binary choice between commercial prudence and strategic altruism. As the steelman argument above demonstrates, the valuation discount reflects the capital scarcity described in Section 2.2, not inferior business quality, and creates entry-point advantages for early movers that will diminish as European capital markets deepen.

The IMF Working Paper on venture capital and innovation in Europe [IMF (2024)] is explicit: the expected returns of well-managed VC investments in European scale-ups are competitive with global alternatives on a risk-adjusted basis. The risk premium currently embedded in European growth-stage valuations reflects addressable market imperfections, including information asymmetries, liquidity constraints, and limited fund track records, rather than structural disadvantages.

German government's Federal Ministry of Finance Taskforce [Federal Ministry of Finance Taskforce (2024)] reached a similar conclusion: the risk-return profile of late-stage European technology investment is not inherently inferior to comparable U.S. exposure; it is perceived as inferior because the institutional infrastructure required to evaluate and hold these assets remains underdeveloped.

There is, therefore, a commercial case for European institutional capital to be redeployed toward technology scale-up, not merely a strategic or political one. That case has clear limits: it requires professional fund management, disciplined portfolio construction, patience over five- to ten-year horizons, and governance maturity sufficient to resist political pressure to invest in national champions regardless of commercial merit. None of these conditions is guaranteed by the current policy environment; all depend on institutional decisions.

The governance dimension, set out in Section 3.3, is where the argument ultimately rests. The point bears repeating: with the regulatory constraint substantially reduced, the remaining barriers are internal. Changing investment governance is more difficult than changing regulation precisely because it requires the deliberate exercise of institutional leadership without the cover of regulatory compulsion.

One historical analogy is frequently invoked in this debate, and it is worth handling with care rather than using it as a closing flourish. The 1979 clarification of the U.S. "prudent man" rule explicitly permitted pension funds to invest in venture capital and is often credited with unlocking the institutional capital that helped build the modern American VC industry. The European prudent person clarification of 2025 represents a direct structural parallel.

The analogy, however, proves less than it first appears. The 1979 reform was necessary but not sufficient: the subsequent rise of U.S. venture capital also depended on the depth and liquidity of NASDAQ, an equity-compensation culture that retained technical talent, and decades of defense and federal research demand that seeded foundational technologies - conditions that Sections 2.1 and 2.2 demonstrate Europe still substantially lacks. Regulatory permission was a catalyst, not the cause.

The more accurate lesson is, therefore, the opposite of the romantic one: permission alone will not replicate the American outcome. The supporting conditions that made regulatory change consequential in the U.S. must be deliberately built in Europe rather than assumed. What the precedent does establish is narrower but meaningful: regulatory permission can convert latent institutional capacity into deployed capital when institutional willingness exists and the surrounding infrastructure is being developed. That is precisely the situation European reform efforts over the past two years have begun, but only begun, to create.

5. Conclusion

The next edition of European financial leadership will not be defined by compliance sophistication, balance-sheet resilience, or the robustness of risk-management frameworks, capabilities that European financial institutions have developed to a high standard. It will be defined by the willingness to deploy patient capital toward the companies, technologies, and infrastructure that will determine whether European citizens, businesses, and governments retain meaningful control over the digital foundations of their economies.

The policy effort has created the preconditions. The financing decision is what remains, and European financial institutions hold it. The evidence on the consequences of inaction is now unambiguous; the evidence on the consequences of disciplined and ambitious action is increasingly compelling. The time to act is now. The choice is institutional; its implications are sovereign.

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Scaling Europe's Financial System

Unlocking retail participation in the EU: **financial literacy** - the missing piece

Urs Reich,
Head Public Affairs & Market Structure,
SIX Group

ABSTRACT

Europe does not suffer from a shortage of private savings, but from a persistent inability to channel private wealth into productive investments. Despite successive efforts to deepen European capital markets, retail participation remains limited, with households continuing to hold a significant share of their financial assets in low-yield deposits. This article examines the structural, behavioral, and regulatory barriers behind this underutilization. These include low financial literacy, limited investor confidence, fragmented market structures, and the complexity of investor-protection rules. The article reviews recent EU policy initiatives, including the transition from the Capital Markets Union to the Savings and Investments Union, the Retail Investment Strategy, and the proposed development of national Savings and Investment Accounts. It argues that these reforms are necessary but insufficient on their own. Without a sustained effort to improve financial literacy and build a broader investment culture, retail investors are unlikely to become meaningful participants in European capital markets. Financial education should, therefore, be treated as a core pillar of Europe's capital markets agenda, not as a complementary policy objective.

1. Introduction

Over the past two decades, the European approach to financial regulation has undergone a significant transformation, with increasing emphasis placed on the development of deep and integrated capital markets as key drivers of economic growth, competitiveness, and financial stability. The global financial crisis of 2008 exposed the vulnerabilities of a financial system heavily reliant on bank lending. As credit conditions tightened, many European economies experienced severe financing constraints, highlighting the need to diversify funding sources and strengthen market-based finance [Grochowska and Hild (2019)]. As a result, European policymakers recognized that more developed capital markets could improve risk sharing, enhance the resilience of the financial system, and reduce the economy's dependence on banks.

In response to these structural weaknesses, the European Commission launched the Capital Markets Union (CMU) initiative in 2015 under the Juncker Commission, with the aim of creating a more integrated capital market across the EU. While the CMU represented an ambitious step towards deeper financial integration and more diversified sources of financing within the Single Market, progress has been uneven. Today, in 2026, the results remain limited, with persistent fragmentation across Member States and continued reliance on bank-based financing.

An essential piece of this transition thus lies in unlocking greater retail investor participation. European policymakers have increasingly recognized that deeper capital markets cannot be achieved without mobilizing household savings more effectively. Both the Letta Report on the future of the Single Market [Letta (2024)] and the Draghi Report on European competitiveness [Draghi M., 2024a, b)] identify this phenomenon as a major structural weakness of the European economy. Rather than suffering from a shortage of savings, Europe faces a challenge in channeling its abundant private wealth towards productive investment. Increasing retail participation in capital markets is, therefore, seen not only as a means of improving households' long-term financial outcomes, but also as a prerequisite for financing innovation and strengthening Europe's long-term competitiveness.

It is worth highlighting that institutional investors also play an important role in deepening capital markets and channeling long-term investment. However, this paper particularly focuses on the role of retail investors and examines the current situation of European household savers and the persistent barriers that continue to limit retail participation in capital markets. It first analyses the structural and behavioral factors that shape saving and investment decisions in the EU, including low levels of financial literacy, limited investor confidence, and fragmented market structures across Member States. It then evaluates the main policy initiatives undertaken at the EU level to address these challenges and strengthen retail investment.

Building on this analysis, the paper argues that while regulatory and structural reforms are necessary, they are not sufficient to meaningfully increase retail participation. Strengthening financial education emerges as a central and necessary component of any effective long-term strategy.

2. Retail participation: the current landscape

Retail investor participation in European capital markets remains relatively limited compared to other advanced economies, despite the EU being characterized by high levels of household savings. As highlighted in Enrico Letta's report on the future of the Single Market, European households hold approximately €33 trillion in private savings, yet around one-third of these assets are kept in low-yield current accounts, generating minimal financial returns. This represents a significant misallocation of capital within the European economy.

This pattern has also been documented by the European Central Bank (ECB), which shows that euro area households continue to allocate a disproportionately large share of their financial wealth to deposits compared to equities and investment funds, particularly when benchmarked against the U.S. In the euro area, currency and deposit holdings accounted for approximately 32% of household financial portfolios in 2025, an increase from 28% in 2001. This proportion is three times higher than in the U.S., where it stands at around 11%. At the same time, direct holdings of listed shares account for only 5% of euro area household portfolios, compared with 31% in the U.S. [ECB (2026)].

Beyond this, there are also significant differences across Member States within the EU. Saving and investment patterns vary considerably across countries, with households in some Member States, such as the Netherlands and Sweden, typically allocating a larger share of their financial wealth to pension funds and equity-linked instruments. In contrast, in several Southern and Central European economies, household portfolios tend to remain more heavily concentrated in bank deposits and other low-risk financial assets.

European households clearly have the financial capacity to participate more actively in capital markets, given their substantial levels of accumulated savings. However, this potential remains largely underutilized in practice. The disconnect between households' saving capacity and their actual investment behavior, therefore, raises a central question: why do European households continue to favor savings despite the availability of more productive investment opportunities?

A first key factor is the persistently low level of financial literacy. For instance, a study from the European Commission in 2023 [EC (2023)] indicates a clear relationship between financial literacy levels and the degree of participation in capital markets, with Member States such as the Netherlands, Denmark and Sweden – where financial literacy levels are comparatively higher – showing a greater use of diversified savings and investment products.

A significant share of the population remains disengaged from capital markets because they lack the knowledge required to understand basic investment concepts, such as diversification, risk-return trade-offs, and long-term returns. This knowledge gap often translates into reluctance to invest, as many individuals feel uncomfortable allocating savings accumulated through work to financial products they do not fully understand.

Trust is another important barrier. For many European households, capital markets remain associated with volatility, uncertainty, and the possibility of financial loss. This perception has been reinforced by past financial crises, which undermined confidence in financial institutions and market-based investments. As a result, many households continue to favor familiar products, particularly bank deposits, even when these offer limited real returns over the long term.

A further factor contributing to limited retail participation is the growing complexity of the regulatory framework governing investments. In fact, in the aftermath of successive financial crises, European policymakers placed investor protection at the center of financial regulation. Legislative initiatives such as the Markets in Financial Instruments Directive II (MiFID II) and packaged retail and insurance-based investment products (PRIIPs) introduced extensive conduct of business rules, product governance requirements, suitability and appropriateness assessments, as well as detailed disclosure obligations, with the objective of ensuring that retail investors were adequately protected when accessing financial markets. However, while these measures aimed at strengthening investor protection, they ended up creating unintended consequences. The increasing number of compliance obligations, documentation requirements, disclosure rules, and administrative burdens has significantly raised costs while making the investment process more complex for retail investors themselves. Although investor protection remains essential, an effective regulatory framework must strike the right balance between protecting investors and providing them with clear, user-friendly tools and information that make investing as simple and accessible as possible. Regulation alone cannot create confident investors if households lack the knowledge and skills required to understand the products being offered.

Taken together, these factors help explain why Europe continues to experience a significant gap between its abundant household savings and relatively low levels of retail investment. However, this challenge is not merely a matter of individual investment choices; it has significant implications for the European economy as a whole. When household savings remain concentrated in low-yield deposits instead of being channeled towards productive investments, households, businesses, and the EU miss valuable opportunities.

For households, the costs of remaining outside capital markets can be substantial. By concentrating their savings in bank deposits, many individuals miss out on the higher long-term returns that diversified investments have historically generated. While deposits may provide security and liquidity, they often fail to preserve purchasing power over time, particularly during periods of elevated inflation, leading to a gradual erosion of real wealth.

This issue is particularly relevant in the context of retirement provision. Across many Member States, public pension systems are coming under increasing pressure as a result of demographic ageing populations, rising life expectancy, and declining fertility rates, which are steadily reducing the ratio of workers financing each retiree. Since most European pension systems rely predominantly on pay-as-you-go schemes, these demographic trends pose significant challenges to their long-term sustainability and place growing pressure on public finances. Although public pensions will remain the cornerstone of retirement income across the EU, demographic developments are expected to make it increasingly difficult to maintain the current system without substantial fiscal adjustments or structural reforms. As a result, future generations may need to rely more heavily on complementary sources of retirement income to maintain their standard of living.

However, by investing part of their savings in diversified long-term financial assets, households can build additional wealth throughout their working lives and complement future public pension benefits. Countries with more developed occupational and personal pension systems have shown that combining public pensions with long-term private investment can improve retirement adequacy while making pension systems more resilient to demographic change. Promoting a stronger investment culture among European households should, therefore, be seen as an essential component of Europe's response to population ageing. In this context, encouraging greater retail participation in capital markets becomes not only an economic objective but also a social necessity.

Beyond households, limited retail participation also has important consequences for European firms and the broader productive economy. By mobilizing household savings, retail participation increases market liquidity and depth, contributing to a more dynamic and attractive market for companies. When household savings are predominantly channeled into bank deposits rather than capital market instruments, the pool of long-term equity financing available within the EU remains relatively constrained. This can limit the capacity of companies - particularly innovative start-ups and small and medium-sized enterprises (SMEs) - to grow and access diversified sources of funding beyond traditional bank lending. Many of these firms may have sound business models but lack the collateral or credit history required to obtain bank financing, making equity investment from private and retail investors a crucial alternative source of funding. However, in this context, it is becoming increasingly evident how the limited availability of such financing within the EU has encouraged high-growth companies to seek listings and funding in more developed markets, particularly in the U.S., where capital markets are deeper, more liquid, and offer a more established base of retail investor participation.

This trend highlights the competitive disadvantage faced by the EU against other jurisdictions and reinforces the need to strengthen domestic capital markets in order to retain and scale European firms within the EU borders. Strengthening retail participation is, therefore, not simply a matter of expanding investment opportunities for households, it is also a strategic necessity for developing deeper capital markets capable of financing Europe's future growth and keeping its most promising companies within the EU.

The structural challenges associated with limited retail participation have not gone unnoticed by European policymakers. Over the past decade, the EU has progressively developed a broad policy agenda aimed at strengthening capital markets, improving access to investment opportunities, and encouraging greater participation by retail investors. Recognizing the structural weaknesses of European capital markets, the European Commission launched the Capital Markets Union (CMU) Package in 2015 under the Juncker Commission. The initiative sought to reduce the EU's historical dependence on bank financing by creating a deeper and more integrated capital market capable of facilitating cross-border investment and improving access to finance for businesses. Over the following years, the CMU delivered a number of important legislative initiatives, including reforms to securitization, venture capital, sustainable finance, insolvency frameworks, and market infrastructure. Nevertheless, despite these regulatory advances, European capital markets continued to be fragmented across Member States, limiting their efficiency and full potential.

In this context, European policymakers have increasingly recognized that the central challenge is not simply the integration of capital markets, but the effective mobilization of Europe's vast stock of private savings. This shift is reflected in the launch of the Savings and Investments Union (SIU) in 2025, which represents more than a simple rebranding of the CMU. Rather than focusing exclusively on removing barriers within capital markets, the SIU explicitly places citizens' savings at the center of the policy agenda, seeking to channel household wealth towards productive investments. In other words, the objective has evolved from building integrated capital markets to ensuring that European savings actively contribute to Europe's economic growth.

Alongside the SIU, the EU has also advanced the Retail Investment Strategy (RIS), which aims to make investing more accessible, transparent, and cost-effective for retail investors while maintaining a high level of investor protection. The reform introduces a number of important changes, including stronger value-for-money requirements for investment, enhanced transparency regarding costs and charges, tighter rules governing inducements paid to financial advisers, simplified disclosures, and a stronger obligation for firms to act in the best interests of retail clients. The overall objective is to improve confidence in financial markets while reducing unnecessary complexity that may discourage retail participation.

A particularly promising initiative emerging from the SIU is the proposal to encourage Member States to introduce Savings and Investment Accounts (SIAs). The European Commission has identified these accounts as a practical tool to simplify investing by allowing individuals to hold diversified financial assets within an accessible and tax-efficient framework. Rather than creating a harmonized EU product, the Commission has issued a blueprint encouraging Member States to develop national schemes inspired by existing best practices.

For instance, experience from several European countries demonstrates the potential of such accounts. As highlighted in BME's report on the proposal for a European Individual Pension Plan, Sweden's ISK account, for example, has significantly broadened retail participation by combining a simple investment structure with straightforward taxation and low administrative burdens. Similar schemes in other jurisdictions have shown that reducing complexity and providing appropriate tax incentives can encourage households to move part of their savings from deposits into long-term investments [Novoa (2025)]. For this reason, the widespread adoption of national SIAs across the EU could become one of the most effective instruments for fostering an investment culture among European citizens. However, while SIAs can simplify access to capital markets, they cannot by themselves ensure that households feel sufficiently confident to invest. Without the financial knowledge necessary to understand investment risks and opportunities, even the most accessible investment account is unlikely to unlock the full potential of European household savings.

3. Financial Literacy: the missing piece

Financial literacy plays a central role in shaping investment behavior. Individuals with stronger financial knowledge are generally better equipped to understand concepts such as diversification, risk-return trade-offs, compound interest, and long-term investing. They are also less likely to be influenced by short-term market fluctuations or behavioral biases, and more likely to build diversified portfolios aligned with their long-term financial objectives.

Survey evidence from the European Commission's Eurobarometer highlights the scale of the challenge. Only around 18% of EU citizens display a high level of financial literacy, while 64% fall within a medium range, and the remaining 18% demonstrate low levels of financial knowledge [EC (2023)]. In addition, financial education initiatives across the EU remain fragmented and unevenly implemented despite the growing policy attention. While several Member States have developed structured national strategies and introduced financial education into school programs, others continue to rely on more limited, voluntary initiatives led by consumer organizations or central banks. In addition, most existing policies remain heavily focused on younger generations, with comparatively less emphasis on adult financial education, despite the fact that investment decisions are predominantly made during working life. There is, therefore, a clear need to expand financial literacy programs beyond schools and universities to include targeted initiatives for adults.

At the same time, financial education could be further strengthened by engaging the private sector more systematically. Firms and employers can play an important role in improving financial awareness among their workforce through financial education programs in the offices, particularly in areas such as pensions, savings, and long-term investing. Similarly, financial market infrastructures (FMIs) are well placed to contribute to financial education efforts as they already operate dedicated education centers and possess first-hand knowledge of market functioning.

Strengthening financial literacy should, therefore, be viewed not as a complementary policy, but as a core pillar of the SIU. While regulatory reforms can improve access to capital markets, they are unlikely to be fully effective unless households also possess the knowledge and confidence required to engage with investment opportunities. In this sense, financial education is not merely a consumer protection tool, but a necessary precondition for mobilizing European savings and ensuring the success of broader efforts to deepen and integrate EU capital markets.

4. Conclusion

Europe is not facing a shortage of savings. On the contrary, European households hold substantial financial wealth that is not properly channeled into productive investments that support economic growth, innovation, and long-term wealth creation. Closing this gap has become increasingly important in a context marked by slower productivity growth, rising financing needs, and fiscal pressures associated with demographic ageing.

Over the past decade, the EU has made considerable progress in addressing the structural barriers that have historically limited the development of its capital markets. The Capital Markets Union introduced an ambitious legislative agenda aimed at reducing market fragmentation and improving access to finance, while the more recent transition towards the Savings and Investments Union (SIU) reflects an important evolution in policymakers' thinking. Rather than focusing exclusively on market integration, the new approach explicitly recognizes that household savings must be channeled more effectively into productive investments. Alongside this shift, initiatives such as the Retail Investment Strategy and the proposal to encourage national Savings and Investment Accounts seek to provide European citizens with more accessible, transparent, and attractive investment opportunities.

However, regulation and financial products alone are not sufficient. The missing element is the retail investor. Citizens cannot be expected to participate confidently in capital markets if they lack the financial knowledge needed to understand investment products, assess risk, or appreciate the benefits of long-term investing. At the same time, in seeking to protect investors, Europe has developed an increasingly complex regulatory framework that can make financial products and investment decisions more difficult for retail investors to navigate. This highlights the need to strike the right balance between effective investor protection and clear, user-friendly tools that enable households to access and understand investment opportunities more easily. In other words, Europe has created increasingly sophisticated investment opportunities, but many households still lack the skills and confidence required to make use of them. As long as this gap persists, many of the objectives pursued through the SIU will remain difficult to achieve.

Financial literacy should, therefore, be regarded as a core pillar for policymakers rather than a complementary social policy. Building a genuine investment culture requires coordinated action by Member States through education systems, learning programs for adults, and workplace financial education initiatives. Public authorities should also work with exchanges, financial market infrastructures, and other market participants to develop practical educational tools. These actors can contribute by explaining how markets function, supporting investor education centers, developing accessible material on long-term investing, and helping citizens distinguish between speculation and diversified investment.

Ultimately, the success of the SIU will not be measured solely by the number of legislative acts adopted or new investment products introduced, but by whether European households become active participants in capital markets. The EU has laid much of the regulatory foundation. The next challenge is to ensure that citizens have both the confidence and the capability to use it. Europe's problem is not a lack of capital, it is knowing how to mobilize it. Empowering retail investors to invest for the long term is, therefore, not only essential for financing Europe's future competitiveness, but also for improving households' financial resilience.

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Scaling Europe’s Financial System

Beyond harmonization: Could a 28th Regime help Europe’s capital markets scale?

Julia Kolbe,
Head of Capital Markets & UK Policy
at Deutsche Bank AG, London

ABSTRACT

Ten years after the launch of the Capital Markets Union, Europe continues to face structural fragmentation across legal systems, market infrastructures, and supervisory frameworks that limit the scale and efficiency of its capital markets. This article argues that further regulatory harmonization alone is unlikely to overcome these challenges. Instead, it explores the potential of a modular “28th regime” that would provide an optional European framework for inherently cross-border activities while preserving national diversity. Focusing on securities issuance, post-trade services, and supervision, the article proposes a pragmatic roadmap for deeper market integration. It further argues that digitalization should be embedded throughout the framework to reduce friction, enhance interoperability, and support European scale.

1. Europe's capital markets challenge

Ten years after the initial launch of the Capital Markets Union (CMU), Europe faces an uncomfortable truth: while capital markets integration has been a policy priority across successive European Commissions, European capital markets remain fragmented and are still insufficiently capable of mobilizing the scale of long-term capital that Europe now requires. New Financial has estimated that European capital markets are only marginally larger relative to GDP than when the CMU project was originally launched by the European Commission in 2015 [New Financial (2025)].

This matters far beyond the financial sector. Deep and efficient capital markets are central to Europe's ability to finance innovation, support the energy transition, strengthen industrial capacity, improve productivity, and respond to a more demanding geopolitical environment. The challenge is not a lack of European savings. Enrico Letta's report on the future of the Single Market highlighted that European households hold an estimated €10 tln in bank deposits, much of which remains insufficiently connected to productive investment opportunities across the Union [Letta (2024)]. At the same time, Mario Draghi estimated in 2024 that the European Union needs €750 to 800 bln of additional annual investment to support competitiveness, decarbonization, infrastructure, innovation, and security objectives by the end of the decade [Draghi (2024)] – a number which has since grown significantly: Oliver Wyman has put the wider annual financing need even higher, at around €1.4 tln when energy infrastructure, digital transformation, industrial capacity, and defense are considered together [Oliver Wyman (2026)].

Neither public budgets nor bank lending alone can meet these needs. Europe requires a much deeper, more liquid, and more integrated capital market to complement its banking sector and channel private savings into productive investment at scale. This is the central economic rationale behind the Savings and Investments Union (SIU) [EC (2025a)]. It is also the reason why the next stage of capital markets integration should not be treated as a purely technical regulatory exercise but an initiative that creates room for innovative and novel approaches to building deeper and more integrated EU capital markets.

2. Why harmonization has not been enough

Harmonization of regulatory rulebooks has been central to the success of the EU Single Market. From its inception to the successive waves of financial services legislation, the gradual approximation of national rules has reduced barriers, increased legal certainty, and supported cross-border activity. In financial services, the Financial Services Action Plan from 1999, the Lamfalussy process that was created in 2001, and the post-financial crisis single rulebook all reflected the same logic: common standards and mutual recognition help to gradually build a more integrated single market for capital.

This approach has delivered meaningful progress. European financial regulation today is far more integrated than it was two decades ago. Cross-border banking, asset management, and investment services operate within a much more developed legal and regulatory framework. Product initiatives such as the European Long-Term Investment Fund (ELTIF) and the Pan-European Personal Pension Product (PEPP) were designed to create more genuinely European investment opportunities. More recently, the Market Integration and Supervision Package (MISP) proposal from the European Commission has sought to reduce fragmentation across trading, post-trading, and asset management while strengthening the role of the European Securities and Markets Authority (ESMA) [EC (2025b)]. These are important initiatives that should continue at pace for the benefit of European capital markets.

But the question is whether harmonization alone can deliver the integrated capital market that Europe now requires? Capital markets do not depend on financial regulation alone. They are shaped by a wider ecosystem of company law, insolvency law, taxation, property rights, securities settlement, custody, corporate actions, market infrastructure, and supervisory practice. While financial regulation can be harmonized to a significant degree, many of these underlying structures remain national. A company issuing securities in Europe may benefit from common disclosure rules, but it is still a national legal entity, subject to national company law, operating under national insolvency rules, and interacting with national tax systems. Investors and intermediaries face similar complexity when investing, settling, holding, or servicing securities across borders.

This distinction between legal harmonization and practical integration is crucial. Europe has become increasingly effective at harmonizing the "software" of capital markets regulation, but the "hardware" of legal systems, infrastructures, and market practices remains largely national. One of the key reasons is that company, tax, insolvency, and employment laws are closely linked to national economic models and legal traditions. They touch on questions of creditor rights, social protection, fiscal sovereignty, corporate governance, and the balance between shareholders, employees, and other stakeholders. These are not technical matters that can easily be resolved through further regulatory convergence.

This helps explain why the CMU has so far struggled to achieve transformative results. Reforms to prospectus rules, the distribution of investment products, or supervisory processes can reduce friction, but they do not remove the deeper structural fragmentation that affects market activity at scale. A cross-border issuer still faces different national interfaces while investors still encounter different operational processes and post-trade activity remains shaped by national arrangements. Market participants continue to navigate a patchwork of rules, practices, and infrastructures that increases complexity and cost.

The post-trade ecosystem illustrates the problem particularly clearly. Trading may be increasingly cross-border, but settlement, custody, collateral management, corporate actions, and shareholder administration remain heavily influenced by national legal frameworks and market conventions. These frictions increase operational risk, reduce efficiency, and make it harder for Europe to build the kind of deep, liquid markets that attract both domestic and international investors.

This is why the next phase of capital markets integration should include an additional institutional tool: the 28th regime. The concept is simple but potentially transformative. Rather than seeking to fully harmonize rules across 27 Member States, the EU can create an optional 28th European framework that sits alongside national regimes. Market participants would be able to choose this framework where it offers clear benefits in terms of scale and legal certainty while leaving national systems intact. The 28th regime would not replace them but instead provide an additional route for activities that are inherently cross-border.

3. Lessons from existing European frameworks

For this idea to work, the EU does not need to start from scratch. The logic inherent in the 28th regime has been used before, with varying degrees of success. The Societas Europaea (SE) created a European legal form for public limited-liability companies, allowing companies from different Member States to organize themselves on a more European scale, while still relying on national law for areas not covered by the Regulation. Importantly, it was accompanied by rules on employee involvement to ensure that the creation of an SE did not result in the disappearance or reduction of existing employee participation practices in certain Member States.

Other examples where similar structures have been used are as follows:

- **European Cooperative Society (ECS)**: is an optional European legal form designed to facilitate cross-border and transnational cooperative activity, allowing cooperatives and certain other groupings to operate across Member States while preserving their cooperative structure.
- **PEPP**: follows the same broad logic in financial services; a voluntary personal pension framework that complements, rather than replaces, national pension systems.
- **ELTIF**: a harmonized European product label intended to channel capital into long-term investment.

These frameworks differ in design and uptake but they share the same institutional idea: where cross-border scale is limited by fragmentation, Europe can create an optional common framework alongside national systems.

The experience of existing European frameworks, however, also provides a useful reality check. Uptake has often been more limited than policymakers originally envisaged. The PEPP has seen limited uptake and is now subject to review under the SIU as it only had one provider, two registered products, and around 7,500 clients across four Member States in 2024 [Angeloni and Cavallini (2026); EIOPA (2026)]. Similarly, despite providing a European corporate form for more than two decades, the SE has seen relatively modest adoption [EU Inc News

(2026)]. The lesson is not that optional European regimes cannot work, but that legal availability alone is insufficient. To achieve meaningful scale, a European framework must offer clear economic benefits, operational simplicity, and a compelling reason for market participants to choose it over established national alternatives.

This is directly relevant to the current European Commission proposal on the so-called EU Inc. On March 18, 2026, the European Commission published a proposal for a 28th regime corporate legal framework, designed to create a new optional EU-wide company form [EC (2026a, b, c)]. The proposal is intended to help innovative companies, start-ups, and scale-ups operate under a more harmonized framework, with faster and cheaper fully digital company registration, simplified procedures through the company life cycle, easier digital share transfers and capital operations, support for modern financing instruments, and a common optional scheme for employee stock options with harmonized deferred taxation.

This is a significant development, but it also highlights the challenges of delivering an ambitious policy concept like the 28th regime within the EU's legislative process. The original ambition for EU Inc. had been framed around corporate, insolvency, labor, and tax law, but the actual proposal is more limited. For example, in the current proposal, tax provisions are focused on the treatment of employee remuneration through stock options and participation schemes, rather than a fuller 28th tax regime. The European Parliament has separately considered a proposal for a tax module that could be opted into by EU Inc. companies, including ideas such as a consolidated tax base, standardized tax returns, a centralized VAT framework, and digital one-stop-shop procedures, while respecting Member State competence [EPRS (2026)].

The tax debate reveals a central tension: a purely corporate-law regime may make incorporation easier but companies that scale across Europe will still face fragmented tax administration, different VAT processes, different treatment of stock options, withholding tax complexity, and varying approaches to corporate income taxation. If these frictions remain unaddressed, the regime risks solving only part of the problem. At the same time, taxation remains one of the most politically sensitive areas of national competence. Any attempt to go much further will run into the EU's need for unanimity on these types of issues and Member State concerns about fiscal sovereignty.

Co-determination raises a similar issue. The SE experience shows that employee involvement cannot simply be ignored when designing a European corporate form. The European Parliament has called for safeguards to protect employee participation rights in the context of the 28th regime, while the EU Inc. proposal seeks to sit alongside national forms and relies heavily on national law for matters outside the harmonized corporate framework.

These difficulties should not be seen as a reason to abandon the 28th regime concept and instead show why it must be designed carefully. A successful European regime cannot be a vehicle for regulatory arbitrage. It needs to be seen by investors, entrepreneurs, employees, and policymakers as a "seal of quality", not as a way to circumvent national protections. That requires safeguards, credible supervision, transparent data, and a clear interface with national law. Such a future capital-markets 28th regime should also be modular, starting with areas where the value proposition is strongest and where political feasibility is highest, while setting out a roadmap for how adjacent modules could be added over time.

4. Digitalization as an enabler of scale

Digitalization is central to this roadmap. Earlier stages of European integration often had to work around legacy systems and national processes that had developed over decades. A 28th regime offers the opportunity to design a European framework from the outset around common data standards, interoperable registers, and machine-readable reporting.

The Commission's EU Inc. proposal already points in this direction. It is based on digital-by-default solutions and also envisages the use of electronic identification, including European Digital Identity Wallets, trust services under the eIDAS framework, the European Unique Identifier, the EU Company Certificate, digital EU powers of attorney, and links to the proposed European Business Wallet. These tools could make incorporation, document exchange, investor verification, and company information flows more reliable across borders.

For capital markets, the implications are broader. A digital 28th regime could support securities issuance, investor onboarding, transparency, transaction reporting, and post-trade processing to be built around common data fields rather than divergent national templates. In an EU Issuance Framework, for example, an issuer could prepare standardized digital documentation that is recognized across the Union: investors could access comparable information in a machine-readable format; supervisors could receive structured data through a single interface; and authorities could rely on verified company data instead of requesting the same information repeatedly.

The same logic applies to post-trade. A digital European framework could support common standards for settlement instructions, shareholder identification, corporate actions, collateral data, and beneficial ownership information. This would not require the immediate replacement of existing infrastructures. Instead, it could create a common digital layer that makes those infrastructures more interoperable. The goal would be to reduce duplicative reporting and manual reconciliation that increase cost and operational risk for cross-border market activity.

Digitalization could also strengthen trust. One of the concerns around EU Inc. is that rapid, low-cost incorporation could create risks of fraud, letterbox companies, tax avoidance, or weak creditor protection if safeguards are insufficient. The answer should not be to abandon speed and simplicity but to embed controls into digital processes. Secure digital identity, automated links between business registers and tax authorities, and reliable public company information can make a regime faster and safer at the same time. The European Commission proposal on the EU Inc. explicitly links company data exchanges, business registers, tax identification numbers, VAT identification numbers, and beneficial ownership information to wider anti-money laundering objectives.

This is the critical distinction between digitalization as modernization and digitalization as mere online administration. A 28th regime should not simply put old national processes on a website. It should use digital design to create a genuinely European operating model. That means common data definitions, once-only submission of information, interoperable public registers, reusable digital credentials, standardized templates, and regulatory reporting that is designed around European scale. If done well, digitalization would become one of the core advantages of opting into the regime.

5. A modular roadmap for capital markets

The development of a capital-markets 28th regime should also be delivered by way of a modular approach, with securities issuance as the starting point. A company seeking to raise capital across the EU should not have to navigate a series of national processes, legal interfaces and documentation requirements (including translations into the various European languages) where a genuinely European route would be more efficient.

An EU Issuance Framework could allow selected securities to be issued across the Union under one European process, with standardized digital documentation, common disclosure fields, a streamlined supervisory interface, and recognized investor information. In practical terms, this could mean one prospectus, one offer, one venue, and one data standard for eligible issuances.

Such a framework would not replace national issuance channels. Domestic issuers could continue to use national systems where these remain more suitable. But companies with cross-border ambitions, and investors seeking access to a broader European market, would have the option of using a framework designed from the outset for European scale. This could reduce costs for issuers, improve comparability for investors, and support the development of deeper and more liquid pools of capital.

The economic rationale for such an approach is straightforward. Capital markets are characterized by strong network effects: liquidity attracts liquidity, common standards reduce operational costs, and larger markets typically support greater innovation and competition. Optional regimes allow these benefits to emerge organically. Rather than compelling market participants to abandon national frameworks, they create incentives for firms to migrate voluntarily where a European solution offers greater scale, efficiency, and legal certainty. The success of the regime would, therefore, be determined not by legislative mandate but by market adoption.

A second area to consider is post-trade activity, where a voluntary 28th regime framework could establish common standards, legal arrangements, and operational processes for participants choosing to operate at European scale. This could include common approaches to settlement instructions, corporate actions processing, shareholder identification, collateral management, beneficial ownership information, and selected post-trade reporting requirements. Such a framework would not require the replacement of existing central securities depositories or market infrastructures. Rather, it could create a common legal and digital layer that improves interoperability between them, helping to reduce manual reconciliations, operational complexity, and the cross-border frictions that continue to increase costs for issuers, investors and intermediaries alike.

A third area is supervision. The debate around the MISP reflects a wider recognition that fragmented supervision can itself become a barrier to market integration. If market participants choose to operate under a genuinely European regime, there is a strong argument that the supervisory model should also become more European. A more direct supervisory role for ESMA would enhance consistency, legal certainty, and market confidence. In many respects, the success of a European capital-markets regime would depend as much on supervisory predictability as on legislative harmonization.

The political attraction of the 28th regime model is that it avoids a binary choice between national sovereignty and European integration. Member States would not be required to abandon existing legal systems, while market participants would not be compelled to use the European alternative. The regime would succeed only if it provided sufficient value for the market to adopt it voluntarily. In this sense, integration would be driven by demand rather than regulatory compulsion. In any event, the regime would need to be attractive enough to be used while still robust enough to command trust.

In order to build a viable use case, Europe could begin with a limited but high-value capital-markets modules, such as issuance, with post-trade, and supervision to follow, and build further modules over time. This would also reflect the lessons from EU Inc. The current proposal is an important test case, but it also shows the limits of a narrow company-law approach. Digital incorporation in 48 hours and flexible share instruments are useful but a company that scales across Europe will still encounter national tax systems, national employment rules, national insolvency processes, and national courts. Rather than pretending these issues can be resolved immediately, policymakers should define the interface clearly and create a credible roadmap for future modules.

Over time, the long-term vision could be a more comprehensive European Capital Markets Code for firms and transactions that opt into it. EU law would be the primary framework for selected capital-markets activities, while Member State law would apply as a specified fallback for areas that remain national, such as tax liability, employment rights, or certain insolvency matters. This would not eliminate national diversity; it would make the relationship between European and national law more predictable.

That predictability is what Europe currently lacks. Investors do not only seek returns, but also legal certainty, liquidity, and operational efficiency. Issuers want access to capital, and they want to do so using processes that are commercially viable across borders. Intermediaries do not look only for harmonized regulation, they need systems and obligations that can be implemented at scale. A 28th regime, if designed properly, could bring these elements together and materially enhance Europe's competitive edge in the global market for capital.

6. Conclusion - a pragmatic next step for European capital markets

Europe must not treat the 28th regime as a side debate. It goes to the heart of the CMU's unfinished agenda. The first decade of the CMU showed that common rules are necessary but not always sufficient. The next decade will require institutions and frameworks that allow capital to move at European scale. If the EU wants to mobilize household savings to finance innovation, infrastructure, or defense, it needs more than regulatory convergence. It needs market structures capable of making that flow predictable and efficient.

This is ultimately a question of competitiveness. The reports by Letta and Draghi frame fragmentation as one of the structural constraints on Europe's growth model. They do not suggest that every national difference should disappear. Rather, they point to the need for practical solutions that allow firms, investors, and citizens to benefit more fully from the Single Market. A capital-markets 28th regime would be exactly such a solution. It would accept national diversity as a continuing feature of the Union, while creating a European layer for activities where fragmentation holds Europe back.

The success of such a regime is not guaranteed. Previous optional European frameworks show that market uptake depends on clear incentives, legal simplicity, and practical usefulness. EU Inc. is a reminder that political success also depends on credible safeguards for employees, creditors, tax authorities, and the integrity of the Single Market. But this is not an argument against pursuing a 28th regime. It is an argument for designing it carefully, starting where the value proposition is strongest and ensuring that digitalization, supervision, and legal certainty are built into the model from the outset.

After a decade of the CMU, Europe should be willing to ask whether its current approach is sufficient for the scale of the challenge ahead. Harmonization has brought the EU closer to an integrated capital market, but it has not completed the task. The next step is not to abandon harmonization but to add a missing layer: an optional European capital-markets framework that allows issuers, investors and intermediaries to operate at European scale when national fragmentation imposes the greatest costs.

Policymakers do not have to choose between harmonization and a 28th regime – both approaches can be mutually reinforcing. Harmonization remains essential to improving the functioning of national markets, but an optional European framework could provide an additional route for activities where scale and operational consistency matter most. If designed carefully, and expanded gradually through clearly defined modules, a capital-markets 28th regime could become a foundational next step in the evolution of the CMU: not a complete solution to Europe's financing challenge but a practical way to test whether more truly European market structures can help mobilize capital more effectively across the Single Market.

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Scaling Europe's Financial System

Savings and Investments Union (SIU): A view from Brussels

Issam Hallak,
Faculty of Business and Economics (FEB), K.U. Leuven, and Policy Analyst, European Parliamentary Research Service (EPRS), European Parliament [1]

ABSTRACT

This article examines the EU's strategy for establishing a Savings and Investments Union (SIU) to advance financial system integration (FSI). It argues that growing concerns over European competitiveness and innovation have reshaped the rationale for FSI and, in turn, influenced the design of the SIU. However, given the EU's limited competences in this area, the European Commission has also had to rely on the actions, and support of Member States to achieve its competitiveness objectives.

1. The views expressed in this article are those of the authors alone and should not be construed as representing the views of the European Parliament, its Members, or any of its constituent or affiliated bodies.

1. Introduction

The Savings and Investments Union (SIU) is the name given by the European Commission to its overarching policy strategy for advancing financial system integration (FSI) across the European Union (EU). Although the label is new, the objective is longstanding. FSI formed an integral part of Jacques Delors' "Europe 1992" agenda already, under which the Single Market became the cornerstone of the European integration project [EU (1985), Balor (2025)].

The so-called Delors White Paper notes that the objective of completing the internal market has three aspects:

- Creating a single market.[2]
- Ensuring that the single market is an expanding single market.
- "ensuring that the market is flexible so that resources, both of people and materials, and of capital and investment, flow into the areas of greatest economic advantage."

The final objective is the cornerstone of an effective Single Market. In economic terms, it corresponds to the optimal allocation of resources. FSI was, therefore, conceived as part of the broader objective of integrating the four markets - goods, services, capital, and labor - known as the four freedoms, each of which constitutes a distinct yet indispensable component of a well-functioning Single Market. Together, they enable the efficient allocation of resources across the EU, thereby enhancing productivity, competitiveness, and, ultimately, the wealth and prosperity of its citizens. It is this capacity to allocate resources efficiently within a competitive internal market that underpins the continued deepening and expansion of the Single Market.

The White Paper also identifies the physical and technical barriers that must be eliminated to complete the internal market. While physical barriers were removed relatively quickly, technical barriers have proved far more resilient, despite the European Commission's ambitious reform efforts.

Indeed, EU laws quickly established the freedom of movement in these four markets but a true "single market" – that is, an integrated market – is far from having emerged and the fragmentation of the four markets persists, because of "technical barriers". To achieve the single market, the treaties have assigned the EU the competence (and duty) to identify the potential barriers and take action to remove them. The SIU is necessarily part of this objective.

2. The context and the new political objectives

The SIU has emerged in a markedly different context from that of Delors' White Paper in the 1980s. It was conceived against the backdrop of growing concerns about the EU's declining competitiveness and its capacity to respond to the rise of competing global powers. This sense of urgency is reflected in both the Letta and Draghi Reports (LDR), published in 2024. Although the two reports approach the issue from different perspectives - respectively, the single market and competitiveness - they converge on the view that the single market remains the EU's most valuable policy instrument for enhancing competitiveness, while acknowledging that it remains far from complete.

The policy recommendations advanced by the LDR have received empirical support from Adilbish et al. (2025) and Venditti et al. (2025), who estimate the economic impact of technical barriers preventing EU single market. Adilbish et al. (2025) suggest that the EU is effectively "imposing tariffs on itself," equivalent to 44% on goods and 110% on services [Draghi (2025); Bini Smaghi (2025)]. Venditti et al. (2025) estimate that deeper capital market integration could increase EU GDP by up to 4.5% over a ten-year period.

However, there is a subtle but important difference between the LDR and the original objectives of FSI. Under the SIU, FSI is increasingly conceived as a means of financing EU policy priorities, including the twin transition (green and digital), defense, and innovation, areas that are now regarded as key determinants of European competitiveness, particularly in a context of constrained public spending capacity. Unlike the vision set out in the Delors White Paper, the market is no longer expected to determine alone which sectors are most compet-

2. Today, the terms "single market" and "internal market" are often used interchangeably. Throughout this article, the former is used to refer to the integration of the four fundamental freedoms. FSI, by contrast, refers to the integration of the financial sector, encompassing not only the free movement of capital but also the integration of financial services.

itive; rather, policymakers increasingly seek to provide strategic direction and guide the allocation of resources.

3. How the SIU is integrated into overarching EU strategies

3.1 Competitiveness compass

Under its current mandate, the Commission has explicitly aligned its strategies and actions with the Draghi Report. It states that 90% of the flagship measures included in its January 2025 "competitiveness compass" are directly inspired by the report's "most pressing recommendations" [EC (2025)]. The competitiveness compass has become the overarching framework for the EU's economic policy strategy, within which the SIU constitutes a key component.

The competitiveness compass identifies five enablers, with the SIU constituting one of the five "horizontal enablers" designed to address the innovation gap and support the EU's roadmap for decarbonisation and competitiveness.

The communication opens by noting that "the EU faces massive financing needs to deliver on its already-agreed objectives." Achieving innovation, the clean transition, and digital and technological diffusion requires substantial capital investment, including to support the "necessary massive scale-up of common goods" such as infrastructure. Such a large-scale effort requires "the EU and its Member States become much better at mobilizing private investment, including by institutional investors, and at using public funding in a more focused and targeted way."

Put more succinctly, this implies that private financing is increasingly expected to support EU policy objectives. However, where EU competences remain insufficient, Member States are expected to take complementary action, including through the mobilization of institutional investors. The single market, including FSI, has consistently been regarded as one of the EU's core assets and remains so today. What has changed, however, are the objectives pursued through its further completion, with the Letta and Draghi Reports (LDR) serving as a major catalyst for this shift.

Within the framework of the competitiveness compass, FSI is no longer framed primarily around objectives of financial stability or the creation of a level playing field. While the free movement of capital remains a fundamental principle, the emphasis has shifted towards enhancing competitiveness in a context characterized by a perceived sense of urgency. The objective of efficient resource allocation and the emergence of the most productive firms remains relevant, but it has become secondary to concerns about scale, investment capacity, and the ability to privately finance strategic companies and innovative firms.

3.2 Major related strategies and initiatives

The SIU should therefore be considered within the broader framework of the Commission's competitiveness strategy, which includes, among other initiatives, the "start-up and scale-up strategy" (3S) and the proposal to establish a unified "28th regime" business code, referred to as EU Inc. - an initiative that has received considerable attention. The 3S primarily addresses non-financial barriers to innovation development by seeking to create a more business-friendly environment for innovative start-ups. Similarly, EU Inc. aims to reduce the legal fragmentation and administrative burdens faced by start-ups as they expand their activities across the EU. The proposed regime would cover multiple stages of the business lifecycle, from "birth to death" - including establishment, organization, operations, investment, and dispute resolution. By combining improved conditions for innovation with simplified administration and greater regulatory transparency, EU Inc. is expected to contribute to attracting larger volumes of private funding.

Another major accompanying initiative is the European Competitiveness Fund (ECF), which would restructure 14 existing EU financing programs around four thematic windows: (i) clean transition and decarbonization, including industrial decarbonization (€23.2 billion, supplemented by €35.47 billion from the Innovation Fund); (ii) resilience and security, including the defense industry and space sectors (€115.7 billion); (iii) digital leadership (€48.5 billion); and (iv) health, biotechnology, agriculture, and the bioeconomy (€20 billion). The ECF would also incorporate Horizon Europe (€175 billion), bringing the overall total to approximately €400 billion.

The ECF is expected to become a major financial and coordination instrument through which the EU can direct private investment towards strategic priorities linked to competitiveness. By sharing investment risks in strategic sectors and technologies, as well as in important projects of common European interest eligible for State aid support, the Fund aims to mobilize additional private capital. In this respect, the ECF is intended to operate as a catalyst for private investment.

4. The SIU

4.1 The SIU objectives and the EU competences

The first key objective of the SIU strategy is therefore to channel greater volumes of private funding towards EU firms, particularly innovative companies. Achieving this objective requires significant changes to the EU financial system, including a shift away from the traditional reliance on bank-based financing towards a greater role for institutional investors, such as pension funds and insurance companies. This rationale underpins the amendments to the delegated acts under Solvency II for insurance companies and the proposed amendments to the Directive on Institutions for Occupational Retirement Provision (IORPs), which governs occupational pension funds.

The European Commission has nevertheless maintained a cautious approach to avoid potential conflicts with Member States regarding the boundaries of EU competence. While more ambitious measures, such as the introduction of automatic enrolment in pension schemes, could significantly expand institutional investment capacity, such reforms remain primarily subject to recommendations addressed to Member States - that is, non-legislative initiatives.

The second key strategy is to develop large and deep capital markets capable of providing innovative companies with exit opportunities and avenues for growth. This objective is pursued through further capital market integration, with particular emphasis on creating scale, including for fund management firms. Institutional investors are also expected to play an important role in this process.

This shift has significant implications for existing EU policy initiatives. For example, although demographic ageing remains a major challenge, and empirical studies suggest that households could benefit from allocating a greater share of their savings to capital markets rather than traditional bank deposits, equity investment is increasingly framed as a policy instrument. A notable illustration of this changing approach is the evolution of financial literacy policies: greater emphasis is now placed on equipping citizens with the knowledge and confidence to invest, rather than solely on protecting them from fraud, scams, and unsuitable financial products. Both objectives remain relevant, but the balance appears to be shifting from a defensive approach - avoiding harmful investment decisions - to a more active approach centered on participation, diversification, and long-term investment.

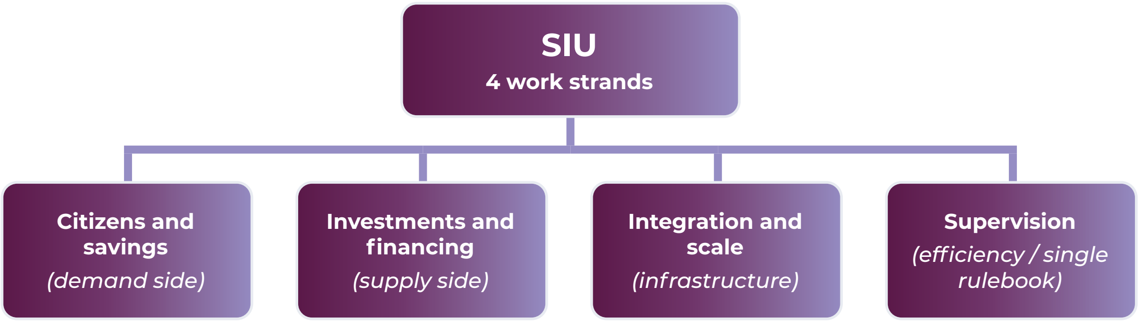
A further example concerns the integration of the supervision of trading venues and asset management firms. Whereas earlier EU initiatives primarily focused on reducing market frictions to improve the efficient allocation of capital, the current approach places greater emphasis on the scaling potential generated by market integration. A similar logic can be observed in the proposed amendments to the IORP Directive, where greater integration is viewed as a means of expanding institutional investment capacity.

4.2 Structure and content

The SIU now encompasses the two main pillars of the EU's previous financial system integration strategy: the Banking Union and the Capital Markets Union. The Banking Union attracted significant attention during the 2010s, as it was designed to address regulatory weaknesses in the banking sector that contributed to the financial crisis. By adopting a strategy that covers the financial system as a whole, the Commission effectively reintegrates banks into the broader FSI framework, treating them as an integral part of the wider objective of strengthening EU competitiveness while preserving high standards for financial stability. Furthermore, although the SIU communication makes limited explicit reference to the digital finance strategy adopted by the Commission under the previous commission mandate, it is implicitly incorporated into the broader SIU agenda.

Figure 1 presents the four work strands structuring the SIU. The first two strands largely reproduce the traditional approach of simultaneously stimulating demand for financial instruments (by savers) and supply of financial instruments (by firms). The "Citizens and Savings" work strand focuses

Figure 1: SIU – four work strands



on redirecting savings away from traditional bank deposits towards alternative investment instruments, particularly pension products - both occupational and private pension schemes - as well as savings and investments accounts designed to channel funding towards firms.

Most policy measures aimed at encouraging savers to invest in capital markets fall outside the scope of EU competence as defined by the Treaties, as they do not directly concern the deepening of the Single Market for capital. Consequently, many initiatives take the form of non-legislative measures, particularly in areas such as financial literacy, savings and investments accounts, and pension auto-enrolment.[3] To date, only one legislative package has been proposed by the Commission, consisting of amendments to existing EU legislation, notably the Directive on Institutions for Occupational Retirement Provision (IORP) and the Regulation on a Pan-European Personal Pension Product (PEPP), which will be negotiated between the European Parliament and the Council, also named the "co-legislators". Other measures are framed as recommendations and supported by monitoring tools, such as dashboards, encouraging Member States to adopt policies that promote capital market development.

The second "Investments and Financing" work strand aims to increase the supply of securities issued by businesses and encourage equity investment by financial institutions. It includes the Commission's proposal to amend the securitization framework, published in June 2025 and currently under negotiations between the co-legislators. The Commission has also revised the Solvency II delegated act provisions governing the regulatory treatment of insurance companies' equity investments, making it easier for insurers to finance European companies, including private equity and venture capital. In addition, it intends to provide guidance on the prudential treatment of such investments by banks.

The third work strand, "Integration and Scale," introduces a more innovative dimension, as it places particular emphasis on the concept of "scale", a term frequently used throughout the SIU strategy – suggesting both lower costs through economies of scales, and fit for international competition through size. In this context, scale applies primarily to securities markets and aims to reduce their persistent fragmentation. The three legislative proposals included in the Capital Markets Integration and Supervision Package (MISP) form part of this work strand, as they seek to advance supervisory integration through greater convergence and coordination. The MISP addresses supervisory issues relating to central securities depositories, financial collateral, settlement, and trading market structures. Its primary objective is to reduce barriers to cross-border trading and adapt the EU regulatory framework to technological developments and evolving financial market practices.

The fourth work strand is dedicated entirely to strengthening supervisory convergence tools available to national competent authorities and the European Supervisory Authorities (ESAs). It envisages the possibility of granting the ESAs more direct supervisory powers, with the Market Integration and Supervision Package (MISP) forming part of this broader objective. In particular, the MISP proposes direct oversight by the European Securities and Markets Authority (ESMA) of significant

3. Many of these measures also involve tax incentives, which would require unanimity in the Council.

trading venues, central counterparties (CCPs), and central securities depositories (CSDs). It also proposes direct supervision of crypto-asset service providers (CASPs).

Given its scope and the number of segments of the financial system it affects, the MISP is arguably the cornerstone legislative proposal put forward by the Commission in the context of the SIU.

5. Can the EU become a market-based financial system?

The main driver behind the EU's changing policy mindset is arguably the ambition to shift part of the European economy from a predominantly bank-based model towards a more market-based model. The argument that savings held in the form of bank deposits are insufficiently productive - or, alternatively, insufficiently aligned with EU strategic objectives - - constitutes one of the most significant critiques advanced by the EU itself against its traditional financing model. This represents a profound challenge for many European economies, yet one that has arguably received insufficient attention from policymakers.

The bank-based model remains a defining feature of the economic structure of many EU Member States, where banks continue to play a central role in financing businesses. Large companies have traditionally been key drivers of innovation, whether through internal research and development or external investment and acquisition. However, the Draghi Report implicitly challenges this model by suggesting that it contributes to Europe's competitiveness gap: a financing structure built around bank lending may be less suited to an economic environment in which innovation requires greater dynamism, risk-taking capacity, and the ability to attract talent and capital.

The EU's longstanding reliance on bank financing - particularly a model that may struggle to support rapid, intangible, and less collateral-based forms of growth – is, therefore, presented as one factor behind Europe's current competitiveness challenges. Beyond addressing the remaining shortcomings of the Single Market, the SIU seeks to mobilize European savings by redirecting a greater share of them away from bank deposits and towards productive investment. This rationale is reflected in the very name of the initiative: the Savings and Investments Union.

6. Positions of the co-legislators and outlook

While the Commission initiates legislation by submitting proposals, these proposals are subsequently examined and amended by the European Parliament and the Council, which act as the EU's "co-legislators". The co-legislators first adopt their respective negotiating positions, known as mandates, before entering into "interinstitutional negotiations" with the aim of reaching a common agreement. This agreement must then be formally adopted by both institutions. Once legislation is adopted, the European Commission is responsible for its implementation and enforcement within the framework of its competences.

While the respective positions of the co-legislators on all of the specific legislative files have not yet been adopted, some preliminary indications can be drawn from their previous positions. First, the European Parliament has consistently supported deeper integration of EU financial services. In its report on investments and reforms for European competitiveness and the creation of a Capital Markets Union, published on September 10, 2025, Parliament advocates measures to mobilize private investment and improve access to finance through a more integrated EU capital market.

Among its priorities are improving access to venture capital and equity financing, particularly for innovative companies. These companies would also benefit from greater alignment of regulatory frameworks and more consistent EU-wide tax arrangements aimed at reducing fragmentation. The Parliament supports the establishment of a "28th regime", savings and investments accounts designed to channel funding towards productive investment, and even the creation of an EU label for basic investment products.

Furthermore, the Parliament considers pension funds and insurance companies to be key intermediaries in mobilizing long-term investment. It also highlights the importance of post-trading infrastructures and supports further harmonization of supervisory practices, including by strengthening the convergence tools available to ESMA and potentially granting it direct supervisory powers over certain market infrastructures.

With regards to the Council, while Member States broadly support further financial integration, preliminary Council discussions on the MISP have revealed significant divergences regarding its scope and implementation. In May 2026, the EU6 - the group comprising the six largest Member States (Germany, France, Italy, the Netherlands, Poland, and Spain) - issued a common position on the MISP, identifying six priorities [Federal Ministry of Finance (2026)]: (i) strengthening the cross-border distribution of funds; (ii) increasing transparency in equity markets; (iii) reinforcing market infrastructures; (iv) ensuring a sound crypto-asset market in Europe; (v) enabling innovative financial technologies; and (vi) making ESMA fit for the future.

The EU6 supports the establishment of "coordination colleges" involving national competent authorities (NCAs) and ESMA for asset management funds. It also supports transferring supervisory responsibilities to ESMA for significant trading venues, central counterparties (CCPs), and central securities depositories (CSDs). Recent discussions have shown convergence among Member States.

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Scaling Europe's Financial System

Green finance or financing green?

Bridging the EU's sustainable-finance and capital-market architectures

Rebecca Christie,
Senior Fellow, Bruegel

ABSTRACT

The European Union (EU) has not well integrated its green goals with its overall approach to finance. This article proposes a more market-oriented approach to sustainable finance that links EU's disclosure policy with its capital markets union initiatives. Projects that help the climate transition need money; hence they need optimal market conditions as well as environmental credentials. To make its sustainable finance policy more fit for purpose, the EU should prioritize the solving of technical challenges; look beyond green bonds to equities, venture capital, and other asset classes; use guarantees and subsidies sparingly to incentivize investment and market tools such as securitization; reduce the role of the EU taxonomy and simplify data collection; and pare back the role of so-called double materiality so that EU rules can be more compatible with global standards, such as those developed by the International Sustainability Standards Board (ISSB).

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1. Introduction

The EU's approach to sustainable finance is a study in contrasts. Historically dependent on bank financing, the EU has been trying to consolidate and improve its capital markets. It also prioritizes the green transition and the mobilization of more money for related investments. Disclosure requirements are part of the attempt to bridge the gap, in the hope that offering more information will inspire more and better take-up.

When the system works, companies and projects are clear about what they are doing and how it fits into the broader effort to reduce carbon emissions, while investors can choose projects that align with their strategies. Governments can see where the private sector is investing and where complementary efforts might be needed to produce more public goods. The risk, however, is that companies spend time and money producing reports that no one uses, and governments mistake disclosure for financial incentive. Policymakers cannot compel investment or capital market development solely by forcing availability of more information. Risks are magnified by the EU's longstanding decision to work independently of, and more ambitiously than, global standard-setters such as the International Sustainability Standards Board (ISSB) [Gadinis and Fragoni, (2026)]. [2]

If sustainable finance disclosures become an attempt at back-door regulation, they will become a compliance exercise with little connection to real financial channels. If there is little overlap between the regulators tracking these standards and investor behavior, companies will create statistics and not economic activity. This may help track macro trends about the climate and the economy, but is unlikely to boost markets. There is also a risk of greenwashing if companies focus on maximizing labelling.

On the flip side, very detailed disclosures may be of great interest to individual investors doing due diligence on individual companies, but that level of detail may not scale up into comparable sets of information, given the many particulars involved. When disclosure does change company behavior to reduce industrial emissions, it may do so at a cost of lower profitability [Chen et al. (2018)]. Some investors may actively avoid such correlations.

Supporters of a strong disclosure regime would say that investors allocate capital on a forward-looking basis, and making more information available adds another incentive. Sceptics would counter that disclosure should not be relied on to set a price signal for things the market cannot price.

In a 2025 cost-benefit analysis, the Commission-backed European Financial Reporting Advisory Group (EFRAG) was potentially able to identify around €4 billion in savings from a proposal to simplify the European Sustainability Reporting Standards (ESRS; see section 3.1), while suggesting that benefits to data users could only be assessed in qualitative terms [EFRAG (2025)]. Similarly, a 2023 assessment of the 2019 Sustainable Finance Disclosure Regulation (SFDR, Regulation (EU) 2019/2088) found that most commenters simultaneously supported the measure's goals while not finding the regulation effective. Notably, 84 percent of respondents (249 out of 296) did not believe required disclosures were "significantly useful" to investors, and 83 percent (245 out of 296) said disclosures were being used as a marketing tool rather than a disclosure framework [E.C. (2024)].

There are some fundamental contradictions in the EU approach. Capital markets development is sector agnostic. But the sustainable finance framework is rooted in the 2020 European Green Deal plan for climate neutrality by 2050, meaning preferred policy outcomes are baked into the disclosure process on top of information that investors want.

Europe's challenge now is to link sustainable finance policy with capital markets and make sure the policy architecture combines both strands. So far, there has been little interaction between the green finance market and broader capital markets, or Europe's related policy approaches. Yet as European Central Bank President Christine Lagarde said in 2021, the green transition offers an opportunity to build a truly European capital market, given the size and scope of investment needed [Lagarde (2021)]. This paper offers a framework for thinking about these channels in a more joined-up context and provides recommendations on making the system more market-driven.

2. In May 2026, the European Commission moved ahead on guidelines that continues to diverge from the ISSB [Costa (2026)].

2. The evolution of EU capital markets and sustainable finance rules

2.1 Sustainable finance disclosures in theory and practice

In general, corporate social responsibility (CSR) disclosures are associated with better financial reporting and more ethical corporate performance [Rezaee and Tuo (2017)]. However, it seems that those who emit the highest levels of greenhouse gases in Europe also seem to be the ones most likely to engage in "earnings management" through carbon offsets and other emissions management techniques, leading to lower quality financial reporting [Mamatzakis and Tsouvanas (2025)].

Meanwhile the global outlook for sustainable finance has shifted dramatically. While some sectors have found a consistent niche and continue to see issuance and take-up, changing political attitudes have tended to marginalize the sector. The U.S. under President Donald Trump has withdrawn from various international climate initiatives and discouraged investment in so-called ESG (environmental, social and governance) oriented funds [Merler (2025a)]. While most European asset managers have remained active in sustainable investing, their U.S. counterparts increasingly vote against social and environmental resolutions [Schoenmaker (2026)].

Policymakers and market participants are split on how to calculate finance needs, funding gaps and market potential. Euroclear [Euroclear and Strategy& (2021)] has suggested that while the world could target up to $25 trillion in possible sustainable finance investments, current obstacles would need to be dismantled, including insufficient market infrastructure, unclear processes, high costs of managing disclosures in multiple jurisdictions, and being solely located in regions that lack capital-market depth. Euroclear's recommendations – reducing barriers, improving information flows, and expanding market participants and asset classes – require development of EU capital markets as much as sustainable finance per se. This estimate is aimed at the potential of the finance universe, in contrast to government and climate policy researchers' assessments of funding needs to combat global warming.

Although the EU has stuck to its policy commitment to green investment, regulatory uncertainty and ongoing complexity have not done the sector any favors. Merler (2025b) recommended that the EU combine and consolidate its many sustainable finance regulations, broaden them to include a wider swath of investment classes, consider the classification of defense spending [Merler (2025c)], and look for ways to bring transition finance into the fold – but this has not happened (see section 3).

Sustainable finance was one of eight sectors subject to European Commission "omnibus", or simplification, proposals in 2025 (see section 3). The proposals have been criticized for sidestepping impact assessments and skimping on accountability procedures [Bucher and Golberg (2025)]. Sustainable finance legislation, in particular ,was singled out for its poor process [Marcus and Thomadakis (2025)].

2.2 The EU's shift from single market to single financial market

The past decade of European Commission financial policymaking offers a window into how the EU has integrated finance into its broader economic policy. In general, banking and financial services have been integrated over time, but sustainable finance remains relatively isolated from internal workstreams as well as international advances.

The European Commission's Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) is the heart of finance policymaking at the EU level. It was created when former Commission president Jean-Claude Juncker took office in 2014, as the EU was wrestling with the legacy of the euro crisis and what is commonly referred to as the "doom loop", which can form when countries and financial institutions get into trouble [Barker (2014)].

Previously, financial stability had fallen under the domain of the Directorate General for Economic and Financial Affairs (DG ECFIN), which still keeps an eye on the financial sector as part of its country-specific reporting responsibilities. Banking and financial services had, however, fallen under the auspices of the Directorate General for Internal Market and Services (then DG MARKT), which in its current form has little to do with banking and finance.[3]

3. As of 2026, the single market department has been renamed the Directorate General for Internal Market, Industry, Entrepreneurship and SMEs and dubbed DG GROW.

These institutional shifts underscore the fact that integrated financial markets are a necessary infrastructure, rather than just a business sector. Linked-up financial channels have become essential for the EU to maintain its way of life and hold its own against the US and China in the complicated and competitive global economy.

2.3 The EU and the rest of the world move at separate speeds

The EU's banking and capital markets have not integrated equally. In the same year DG FISMA took on its current shape, the ECB's Single Supervisory Mechanism became the top authority for the euro area's biggest banks, a major step toward achieving so-called banking union [Véron (2024)]. In 2015, Juncker's commission proposed a "capital markets union" (CMU), which, unlike the banking union, has so far produced limited results in its quest for more common supervision, easier cross-border insolvency, increased funding for start-ups, and a better retail investing landscape [Véron (2025)].

A decade on, deadlock persists, with capital market fragmentation considered a top barrier to economic growth and competitiveness [Draghi (2024), Letta (2024)]. Draghi (2024) highlighted markets as essential for the green and digital transitions. Leaders regularly reaffirm their "steadfast commitment" to moving forward on capital markets [CEU (2026), Euro Summit (2026)]. At the suggestion of Letta (2024), the European Commission has rebranded the effort the "savings and investments union" (SIU).

The name-change highlights who will benefit if Europe ever makes progress on reducing the fragmentation. Savers will benefit from better vehicles with which to prepare for retirement, while companies will get access to a bigger and broader pool of financing options.

However, the change also shows the disconnects between Europe's goals and policy architecture. In principle, SIU is an umbrella that includes both banking union and capital markets union. In the organizational chart, SIU is a "horizontal" policy unit while banking, financial stability and financial markets each get their own hierarchy.[4] Sustainable finance is another horizontal policy unit. They are slotted in as market enablers, not market drivers, and thus somewhat apart from the core policy workstreams and each other.

2.4 The EU rulebook has been leapfrogged by global standard setters

The European Commission's sustainable finance regulatory push dates back at least a decade, kicking off with the 2016 green bond study [EC (2016a)][5]. Next came a 2018 action plan and legislative package, followed by the 2020 European Green Deal and another big sustainable finance package in 2021. This provided the foundation for the EU taxonomy, which took shape as an official rulebook in the E.U. Taxonomy Regulation [Regulation (E.U.) 2020/852], for defining green investments, and the E.U.'s green bond standards that require 85 percent taxonomy alignment.

The hope was that by defining sustainable investment and requiring firms to provide a lot of information about how they measure up against the definition, money would rush to the firms best placed to advance the green transition. Europe would become a leader in green finance standard-setting and the rest of the world would follow suit, in line with the "Brussels effect" theories of global regulation [Bradford (2019)].

However, while the market for green investment products has grown and matured, investors have not rallied around Europe's maximalist approach. Instead, issuance mostly follows the International Capital Markets Association's (ICMA) green bond standard, first developed in 2014, and disclosure rules set out by the International Sustainability Standards Board (ISSB), a 2021 offshoot of the IFRS (International Financial Reporting Standards) Foundation,[6] which bases its work on market-led and investor-focused reporting initiatives. The EU itself used the ICMA standards for its green bond program under the NextGenerationEU (NGEU) post-pandemic recovery initiative (see section 3.2). The NGEU green bond program was launched in 2021 with the intention of making the EU the world's largest green bond issuer.[7]

4. See European Commission, DG FISMA organigramme, https://tinyurl.com/4zbe6xzz.
5. European Commission, 2016, "Overview of sustainable finance – policy making timeline," https://tinyurl.com/yuej8fhc
6. The IFRS Foundation is a global not-for-profit organisation that sets international financial reporting standards. Erkki Liikanen, chair of Bruegel's board, is chair of its board of trustees. He was not involved with the writing of this paper.
7. A full explanation is available via the EU's investor relations disclosures; see European Commission, "NextGenerationEU Green Bonds," https://tinyurl.com/3hmjsxrx.

The biggest difference between ISSB standards and the EU process is expressed in terms of "materiality", or what factors go into deciding what to disclose. The ISSB uses a "single materiality" framework that focuses on climate information that affects a company's financial outlook. In contrast, the EU approach calls for "double materiality", which forces companies to assess how their activities affect the climate overall, not just in terms of their own bottom line. This is at the heart of the policy debate. Supporters of double materiality want to show that the planet's fortunes are directly linked to the financial outcomes of specific companies; Merler (2025b) recommended increasing its relevance by requiring all European providers of green ratings to include an assessment of this measure, even those who use their own metrics. Critics, however, view this overall impact as an externality without a clear price signal or uncontested benefit to shareholders [Atkins (2025)].

The EU approach is not the current standard worldwide. More than 50 green taxonomies are in use or development globally,[8] and EU taxonomy-aligned green bond issuance made up less than 10 percent of the market as of 2025 [EEA (2025)]. There is as yet no passporting approach between the ISSB standards and the EU protocols, meaning companies that wish to comply with both sets of rules must consult both rulebooks and make careful choices as they put their disclosures together.

When considering whether the attempted "Brussels effect" was realistic for sustainable finance disclosures, it is worth comparing to other national interactions with international financial standards. EU rules generally require companies to use the International Accounting Standards Board (IASB, part of the IFRS Foundation), rather than developing its own track. Meanwhile, despite being a champion of multilateral standards generally, and in banking specifically after the Global Financial Crisis, the EU in 2014 was judged, "materially non-compliant" with one of the main pillars of the Basel capital standards for banks [BCBS (2014)] – this has not, at time of writing, been resolved. It is also worth noting that the US, represented by the Securities and Exchange Commission, dropped its ISSB-related rules in 2025 [SEC (2025)], but US financial firms continue to use the ISSB standards. This shows that market standards can be more consistent than government signals and may deserve a bigger role in policy coordination.

2.5 Competing policy goals create a sense of ambivalence

The inconsistent policy language that characterizes the EU's capital markets and sustainable-finance efforts suggests that Europe remains ambivalent about its priorities. Merler (2025b) noted that the green finance rules assume that disclosures can alter the course of behavior, rather than facilitating market-oriented decisions. The European Commission reports taxonomy compliance for its own bonds on a voluntary basis and has not announced plans to issue using the taxonomy-aligned European Green Bond Standard.[9]

The complexity of the rules means that they may discourage as much as they inspire. If compliance is too much of a burden, it may deter rather than incentivize sustainable finance capital allocation [Nerlich et al. (2025)]. This runs counter to the idea that better information will inspire investment absent a clear financial incentive.

Sustainable finance disclosures are not among the six pillars of the EU Clean Industrial Deal,[10] a plan to boost industrial competitiveness alongside decarbonization led by the Commission's climate and energy teams. Its financing provisions focus on the EU budget and on state-aid rules. European spending, not European financial regulation, has now taken center stage in the green agenda.

DG FISMA's current approach to the disclosure rules contributes to the sense that sustainable finance has been sidelined from the main market's agenda. Asked how the capital markets union connects to the green finance framework, EU Commissioner for Financial Stability, Financial Services and the Capital Markets Union Maria Luis Albuquerque has said she is "agnostic" about green finance and considers it part of the Clean Industrial Deal, rather than one of her mainstays. "Sustainable finance, in order to make its way to capital markets, has to be a good business case. We will not force private money into anything. For money to flow into sus-

8. The Center for Clean Air Policy listed 53 as of May 2025 [Pangelinan and Fuster (2025)].

9. The EU's May 2026 investor presentation says this is because NGEU Green Bond issuance predated the EU green bond standard [EC (2026a), (only the most recent presentations are shown)].

10. The six pillars are: affordable energy, boosting demand for clean products, financing the clean transition, circularity and access to materials, acting on a global scale, and skills and quality jobs [EC (2025a)].

tainable finance, it has to offer good returns, competing with other alternative investments. That is how it makes its way" [Albuquerque (2025)].

It is useful to review the way key officials address the discrepancies between the EU's ambitions and the investor-driven protocols. When asked in 2025 whether the EU standards could become more aligned with the ISSB rules, perhaps even permitting certain kinds of disclosure passporting, ISSB Vice Chair Sue Lloyd was not optimistic. In her view, the EU rules ask for information that "investors would not require" and the difference in focus cannot be easily reconciled, with "things built into ESRS that are based on the [European] Green Deal that are sort of policy focused, whereas the ISSB standards are very intentionally policy neutral" [Lloyd (2025)].

3. The EU simplification push and implications for green bonds

3.1 The 'Omnibus' test case

The EU's sustainable finance framework is a confusing sprawl of regulation, especially given its stated aims of providing straightforward information to market participants. Among the most important components are the Corporate Sustainability Due Diligence Directive [CSDDD; Directive (EU) 2024/1760], the Corporate Sustainability Reporting Directive [CSRD; Directive (EU) 2022/2464] and the EU taxonomy (section 2.4). Many aspects of these rules, plus related parts of auditing and accounting regulations, were revised in a simplification package proposed in February 2025 (known as "Omnibus I") and enacted a year later, even as technical revisions proceed at different speeds [EC (2025b)]. The EU is also revising the Sustainable Finance Disclosure Regulation and related standards (SFDR; see section 1) [EC (2025c)], to align better with the setup.

By putting sustainable finance at the top of its simplification wish list, the European Commission decided to try to streamline its rulebook before the new standards even took effect. This was contentious within the Commission as well as with outside stakeholders [Vigh (2025)]. On balance, however, there was a broad recognition that the EU sustainable finance framework had become too complex and might need recalibration [Merler (2025d)].

Unfortunately, the consensus so far about the omnibus is that it did not simplify the EU's rules; rather it has reduced the number of firms within their scope [Todeschini (2025)]. CSRD reporting thresholds were raised to companies with 1,000 employees or €450 million in revenues, compared to 250 employees and €50 million previously – a 90 percent reduction in firms covered. EFRAG, the Commission-backed advisory group that sets reporting standards, proposed reducing the number of data points by about 70 percent. As described in media reports [Costa (2025a)]: "A 10-year process to standardise mandatory climate reporting to inform investors and limit greenwashing was derailed in less than 12 months."

CSDDD thresholds were raised even higher: the requirements will only apply to companies with 5,000-plus employees and €1.5 billion in net annual revenues, up from 1,000 employees previously. These rules no longer include mandatory transition plans and call for much less supply-chain detail. CSDDD will now not come into force until 2028, a year later than the previous deadline, which raises the possibility that the rules could be changed again after further review.

At time of writing, work is ongoing on SFDR and revisions to the European Sustainability Reporting Standards (ESRS), and on what penalties will apply for noncompliance.

Critics have attacked the simplification push from all directions: for failing to simplify enough, exempting too many companies from reporting at all, penalizing early movers who were working with the old rules, and skipping impact assessments and other procedures [IIGCC (2025)]. Marcus and Thomadakis (2025) wrote that "bad process leads to bad outcomes. The process failures associated with the formulation of the legislative proposal for the Omnibus Directive are legion."

3.2 Green bonds as a testing ground

Green bonds have so far been the focus of the EU's sustainability standards [Merler (2025b)] and will offer the clearest case study of whether the approach can work or not. The EU's own green bond standard is off to a slow start after its December 2024 debut. Responsible Investor found 13 transactions in the first nine months of its use, largely in finance and energy [Webb (2025)]:

- Utilities: Terna, A2A, Snam, Iberdrola, Energias de Portugal, Norsk Hydro, Finnish nuclear power co.
- Finance: EIB, ABN Amro.
- Other: Ile de France Mobilité, Covivio, Community of Madrid, Latvian water utility.

This raises questions about whether the standard is scalable, and whether it is helping the green transition or just helping energy companies reframe their activities so they look greener. The 2026 Nordea bond issue, which raised funds for mortgages on energy-efficient housing [Nordea (2026)], suggests the use of the standards could broaden out. But one significant transaction is not a whole market.

In contrast, the International Capital Markets Association's (ICMA) Green Bond Standards (section 2.4) now cover about $3 trillion in market capitalization, with annual issuance of $700 billion per year [Demski et al. (2025)]. The market is also venturing into products such as sustainability-linked bonds, returns from which are tied to climate metrics, and transition bonds, which by definition cannot be aligned with the EU taxonomy to the required degree.

The dependence of the EU green bond standard on the EU taxonomy is an inherent liability: because the taxonomy does not describe the entirety of the real economy, market participants trading specifically taxonomy-aligned investments are not going to be very diversified [Merler (2025b)]. Only 16 percent of EU companies' eligible capital expenditure is taxonomy-aligned, with an especially large gap for transitioning sectors, including transport, construction, infrastructure, real estate, and chemicals [Merler (2025e)]. This could create financial risks that would seem counter to the risk-reduction intent of the protocols.

The EU itself has used the ICMA principles rather than the EU green bond standards on its way to becoming one of the world's largest green bond issuers. Through the NGEU pandemic recovery project, the EU has issued more than €80 billion in green bonds as of April 2026 [EC (2026b)]. Reliance on the ICMA standard was originally explained as a timing constraint: the need to start issuing before the EU taxonomy was ready. Now, with no announced transition to the EU standard, it seems more like a case of global inertia.

4. Conclusions and recommendations

4.1 Seeking a joined-up model of finance

The EU's sustainable finance framework is too complicated, too internally conflicted, and too disconnected from international standards to meet its policy aims. Its troubles start at the conceptual level: when it comes to the green transition, "finance" can be a tricky term. Some uses, such as "public finance", "energy finance", and "climate finance" are tied to budgets and policy planning, rather than financial services and private market infrastructure. Other terms, such as "blended finance" and "digital finance" are more financial-services adjacent but still well outside the scope of this paper: the former refers to public-private project funding and the latter is used when discussing tokenization and new payment technologies.

"Sustainable finance" is financial services, yet somehow set separate from the main finance agenda. Much of the market either ignores sustainability disclosures or makes its own indicators for suggesting where and how to invest. Sustainable finance is frequently described as encouraging investors to put their money into the green transition and to move away from fossil fuels. But in practice, management companies often compile climate-related indicators more as a way of choosing where not to invest, such avoiding regions hit by drought or rising sea levels, instead of providing the financing for those areas to adjust. Big asset managers frequently vote against sustainability initiatives to protect their own bottom lines [Schoenmaker (2026)].

The preferred branding for sustainability-minded investment is constantly shifting in the face of political headwinds, especially the anti-climate tone of Trump-era US politics. The once popular ESG label has given way to CSR, which itself has been replaced by more anodyne terms such as "resilience" and "security" [Darley (2026)]. Geopolitical tensions mean standard setters and fund managers must revisit political decisions, such as whether nuclear power or defense spending can qualify. The EU has been an early battleground for these debates [Merler (2025f)]. For a mix of compliance and reputational reasons, firms have introduced restrictions on defense investment and funding, which means the European Commission may need to explicitly tie security to its sustainability goals if it wants to attract private capital to the EU's strategic buildup [Merler (2025d)].

To cut through the noise, the EU should revamp its approach in a way that is more market-oriented, less dramatically political, and realistic about its influence over asset allocation. The following sections offer some suggestions on how to move in this direction.

4.2 Less politics, more integration

Europe's most significant financial services integration advances tend to happen on files that are managed on a technical and collaborative level, rather than in service of a political headline. Two examples are joint debt and cross-border trade settlement. The debates on how and whether the EU should have an officially permanent safe asset, and on completing the much touted capital markets union, have been loud, yet the biggest victories in this area have happened largely under the radar: the European Commission's diversified funding strategy and unified funding approach,[11] which created a single trading market for all EU-issued debt regardless of spending commitments, and the move to T+1 settlement, in which the EU and the U.K. are working to simultaneously shorten trade settlement timelines by one day.

For sustainable finance rules to be effective, they need to regulate finance and not try to govern other areas disguised as finance. Some climate-related information is clearly financially material, but other requested data may be less relevant to investor decisions. That other data may still be important, but should be addressed by other means. If the EU wants more data or more controls than the market consensus, it can address that through other channels. Trying to write in an inherent market-based incentive to change behavior could be at odds with market dynamics. Instead, the EU should create the best possible capital market it can, green finance included.

Recommendations: Lower the political temperature on finance as much as possible by focusing on technical challenges rather than weaponizing disclosures to score points in the global climate debate. Follow through on pledges to improve the single market for financial services and strengthen EU capital markets overall, by implementing more elements of the Savings and Investments Union and banking union integration channels.

4.3 Asset classes

The EU's current disclosure system largely revolves around bond markets, which means the framework is not instrument-neutral [Merler (2025b)]. It also reinforces the EU's longstanding dependence on debt compared to equity. In general, Europe should seek to increase equity and venture-capital participation to reduce its reliance on bank lending [Arampatzi et al. (2025)] and other forms of debt. Sustainable finance is supposed to be more forward-looking than other parts of the market, hence it should make greater use of forward-looking financial instruments.

Recommendation: increase the variety of assets considered within sustainable finance planning, including equities.

4.4 The role of subsidies and guarantees, especially in securitization

Government interaction with markets should be aimed at supporting the creation of public goods. To the extent that sustainable finance rules are intended to push investment into certain categories, policymakers should ask hard questions about what society wants more of, what the private sector is capable of providing on its own, and what the gaps are. For example, whether small government subsidies or first-loss guarantees can jumpstart private investment.[12]

In a sustainable finance context, these questions are most important when considering financial engineering and specialized products such as securitization, the practice of bundling loans and creating fixed-income securities with varying levels of risk. The EU's 2024 series of competitiveness reports [Draghi (2024), Letta (2024), France Trésor (2024)] all suggested the EU could make more use

11. This strategy was begun with the move away from back-to-back funding in April 2021 and matured with the unified funding approach in January 2023. It gave the EU much more flexibility on issuing debt by decoupling cash management from specific spending actions and it merged the different types of bonds the EU issues into one product, creating a bigger liquidity pool for trading and pricing benchmarks. See, EC, 'How EU issuance works," European Commission, https://tinyurl.com/pyxm6dk.

12. An example is that used via the InvestEU programme, a collaboration between the European Commission, European Investment Bank, European Investment Fund and national development banks. It uses layers of guarantees to spark investment and risk-taking. See European Union, "InvestEU," https://tinyurl.com/3yb7ry2p.

of securitization as part of its capital markets union initiatives.

France Trésor (2024)[13] went into the most detail, suggesting that the EU implement a platform for centralized trading and possibly support parts of the market with government guarantees. While the infrastructure aspects of these proposals are welcome, the provision of mass mortgage-market guarantees is very risky, potentially resulting in the importation of the worst parts of the US securitization landscape [Christie (2024)].

A better approach would be to focus on loans to small and medium-sized enterprises (SMEs) or on green loans. These loans are hard to bundle or market on a large scale because they are not standardized and require significant due diligence by would-be investors, both on the company or project itself and also on the national regulatory environment around that company/project. This could be done for taxonomy-aligned loans or using some other definition – for example loans to SMEs for a smaller list of pre-approved purposes.

Recommendation: limit securitization-linked government guarantees to green loans and develop first-loss structures that can smooth risk differences, allowing loans to be bundled and marketed more easily.

4.5 Too many standards, too many taxonomies

Despite the EU's efforts to establish a global standard for sustainable finance, as well as its relative success as a green-bond issuer, the global landscape of disclosures, protocols, and rating protocols has not consolidated around the EU's version. Companies must grapple with credit ratings, ESG ratings, audits, secondary opinions, and bespoke indicators, as well as regulatory requirements.

The EU's approach of reducing scope rather than reducing complexity is not helping. Companies face multiple deadlines, clashing standards, and in some cases the need to keep multiple sets of books as part of their compliance efforts. While it may make sense to exclude smaller companies from some requirements, simply moving the bar up does not address all the issues at stake.

At their best, sustainable finance disclosures are used by companies to get a better handle on their own practices, compare themselves with their peers, and make changes to align their business models with the needs of the green transition. This, in turn, can lead to innovation, jobs, and growth, as well as more care for the natural environment.

At their worst, these disclosures become compliance nightmares, demanding tremendous resources from companies to produce reports that virtually no one looks at. This data can be hard to compare across borders and asset classes, meaning even macroeconomic modelers may struggle to make use of it.

In practice, sustainable finance market participants are developing practices to support their own businesses and work constructively with the EU framework. The EU can do more to make its policies fit for purpose, particularly in the European Commission's implementing acts and related market guidance.

Recommendations: When putting the new framework into practice, prioritize simplification for everyone rather than compliance tiers by streamlining the number of forms to file and data points to track. Reduce the role of the EU taxonomy to specialized use cases, by using market standards as the main benchmark for new policies and regulation updates.

4.6 Global cooperation is better than global competition

The green transition is a policy integration problem. Solving it fundamentally requires money, not disclosures for their own sake. Transparency policy, therefore, needs to prioritize practical considerations to achieve its aim.

In general, global market standards are more effective than detailed government intervention. The role of governments and policymakers should, therefore, be to generate "voluntary adoption momentum" from companies and investors [Costa (2025b)].

Currently, the EU's double materiality mandate does not appear compatible enough with ISSB to allow for a passporting approach. Fixing that compatibility should be the priority.

There are various ways this could be conceptualized without dropping double materiality com-

13. Known as the Noyer Report.

pletely. One approach would be to split up how double materiality is reported. Elements that are intended to change behavior but do not fit within the ISSB framework could be reported separately, for example, ideally in a simplified and high-level way that makes firms evaluate their impact on nature. This would lessen the back-door regulation aspect of the current regime, while still allowing authorities to demand more quantifiable information about environmental impact. In this hypothetical scenario, nature and environmental impact disclosures might be easier to assemble if they do not need to be quantified with the same detail and inter-compatibility as the financial information.

Sustainability disclosure for financial markets needs to provide information that markets care about, and ISSB's evolving global standards have channeled and strengthened that relevance. Providing extra information that governments and activists care about may be a worthy goal, but it can be handled separately and ideally with a lower compliance burden.

Recommendations: EU policymakers should prioritize compatibility with ISSB and ICMA standards to facilitate integration globally, as well as within the single market. Double materiality should be revamped so that it can act as a "bolt-on" to ISSB, rather than requiring two full sets of calculations.

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Scaling Europe's Financial System

From rulemaking to system management: rethinking the governance of the Savings and Investments Union

Apostolos Thomadakis,
Head of Research, European Capital Markets Institute (ECMI);
Senior Research Fellow and Head of the Financial Markets and Institutions Unit, Centre for European Policy Studies (CEPS);
Associate Senior Fellow, International Economics and Development Laboratory; National and Kapodistrian University of Athens

ABSTRACT

After more than a decade of Capital Markets Union initiatives, the EU has established stronger foundations for financial integration, yet persistent structural barriers continue to constrain market development. This paper argues that the principal challenge is no longer simply identifying further reforms, but ensuring that legislation, institutions, and market initiatives function as a coherent system. It proposes treating the Savings and Investments Union as a permanent policy function supported by an operating model linking strategic coordination, rulemaking, implementation, performance monitoring, and accountability. The objective is to improve system-wide delivery and mobilize European savings for productive investment without creating another institutional layer.

1. Introduction: Europe moves into a new stage

Following years of initiatives aimed at the creation of a Capital Markets Union (CMU), Europe developed a much more robust financial legal, regulatory, and supervisory framework for deepening financial integration. Progress on increasing liquidity, depth, and integration of capital markets has, however, been uneven. While the presence of familiar hurdles does not suggest that the reform efforts under the CMU framework have failed, it does imply that the nature of the problem has changed.

The policy agenda has now widened with the launch of the Savings and Investments Union (SIU). In contrast to the previous effort, the SIU focuses on connecting Europe's sizeable pool of savings with investments and improving capital market and banking mechanisms. The economic case is clear. Europe needs a financial system that can finance innovation, support growth companies, and satisfy the investment requirements associated with green transition, digitization, defense, and economic security. Europe also needs companies and investors to operate at European rather than national level.

What is missing from the policy debate is no longer the diagnosis of the main factors preventing Europe from reaching these goals. What matters is how to turn the vast accumulated knowledge, legislation, and institutional development into better market outcomes. As the policy framework evolves, the success of the reforms increasingly depends on how the reforms complement each other, on how consistent the implementation is, and whether lessons learned from the process of implementation and market performance lead to improvement.

Existing attempts to address this challenge focus on the CMU and SIU as collections of concrete measures targeting savings, financing, market integration, and supervision. Instead of treating this problem as one of governance and delivery, this article addresses it from another perspective – the challenge of putting in place a policy framework that will allow delivering the desired economic results through the interaction between strategic objectives, rule-making, implementation, supervision, and market evidence-driven adjustment.

As a result, the article proposes an operational framework for the SIU. The novelty of this approach is not to argue for the importance of coordination, implementation, simplification, and supervision separately, but to propose a framework that integrates these functions into a comprehensive approach to governance. Under such an approach, the SIU should become a permanent policy function for Europe that will coordinate, implement, evaluate, and improve the financial ecosystem of Europe, and not just a collection of initiatives whose endpoint is the adoption of legislation.

Further reforms will of course be needed, but their success will increasingly depend on how well they fit the framework already put in place and whether they deliver measurable improvement in the degree of financial integration and efficient capital allocation. The next stage of European financial integration is thus not only about selecting further reforms to be undertaken. It is about building institutional capacity to ensure that future reforms can work alongside the reforms already in place to mobilize savings, finance productive investment, and strengthen Europe's competitiveness.

2. Why the CMU governance model needs to evolve

The traditional CMU approach was necessary to build the legal and institutional foundations of more integrated European capital markets. Its limits have become more visible, however, as financial regulation, market structures, and institutional responsibilities have grown increasingly interconnected. This article, therefore, examines what the first phase achieved, why the operating environment has become more complex, and why the next stage requires a more system-wide approach to governance.

2.1 What the existing debate has established

The diagnosis underlying European capital-market reform is by now well developed. The Commission's 2015 CMU Action Plan identified fragmented markets, limited financing choices, barriers to cross-border investment, and the need to connect savings more effectively with economic growth [EC (2015)]. The 2020 Action Plan retained much of this diagnosis while placing greater emphasis on supporting the green and digital transitions, improving access to market financing, and making the EU a safer place for individuals to save and invest [E.C. (2020)]. The 2025 SIU strategy subsequently broadened the agenda by bringing together capital-market development, retail savings, banking capacity, and productive investment within a single policy framework [EC (2025b)].

The reports prepared by Enrico Letta and Mario Draghi reinforced this assessment [Letta (2024), Draghi (2024)]. Both connected financial fragmentation with the wider weakness of the Single Market and Europe's difficulty in financing innovation and investment at scale. The Draghi report estimated that the EU would require additional annual investment of €750-800 bln by 2030, while also highlighting the limited development and integration of European capital markets. The policy debate has consequently converged around a relatively stable set of obstacles: fragmented taxation and insolvency regimes, nationally organized supervision, uneven household participation, insufficient growth financing, and fragmented market infrastructure.

The persistence of these obstacles is also visible in market outcomes. While retail savings in the EU remain high, household allocation to capital markets is low by international standards [Thomadakis (2026a)]. On average, European households allocate about 32% of their financial assets to cash and deposits, compared to just 12% for U.S. households. In contrast, U.S. households invest nearly 50% of their savings in equity and investment funds, while their European counterparts invest about 30% [Arnal and Thomadakis (2024)]. In 2024, the capitalization of EU stock exchanges amounted to approximately 64% of EU GDP, compared with 213% in the U.S. [Thomadakis and Calvo de Freitas (2025)]. The ECB's most recent assessment also finds that the quality of euro-area equity-market integration has weakened since 2022, while intra-euro-area foreign direct investment (FDI) fell to historically low levels as FDI positions stagnated [ECB (2026)]. These comparisons should not be interpreted as implying that the EU should replicate the U.S. financial system [Thomadakis (2024)]. They do, however, demonstrate that the development of the European legal framework has not yet produced capital markets of comparable depth, scale, or integration.

Academic analysis helps explain why progress has remained difficult. Political-economy research on the CMU has highlighted the differences among national financial systems, policy preferences, and institutional interests that shape the scope of politically feasible reform [Quaglia et al. (2016)]. Legal scholarship has similarly shown that harmonized rules do not necessarily produce integrated markets where supervision, enforcement, and national administrative practices remain fragmented [Gargantini (2024), Thomadakis (2025), Demarigny and Thomadakis (2025)]. Even directly applicable EU regulations may generate different outcomes when interpreted and enforced by authorities operating within distinct national systems.

Research on EU financial governance also points to the growing importance of the institutions and processes surrounding legislation. The EU has developed a vast and densely detailed financial-market rulebook, supported by an increasingly influential technocratic and supervisory architecture [Moloney (2023)]. This has strengthened its capacity to monitor risks, coordinate supervision, and adapt rules, but has also created greater complexity and an almost continuous process of review [Thomadakis et al. (2019)]. The effectiveness of EU financial regulation, therefore, depends not only on the content of its foundational legislation, but also on the capacity to interpret, implement, monitor, and revise it over time.

A related body of governance research treats EU policymaking as a recursive rather than linear process. It emphasizes the interaction between common objectives, decentralized implementation, performance reporting, peer comparison, policy learning, and periodic revision [Sabel and Zeitlin (2008, 2010)]. Research on regulatory governance similarly shows that legislation is more effective when implementation experience and ex-post evaluation feed back into subsequent policy design [Dunlop and Radaelli (2012)]. Although developed across a broader range of EU policy areas, these insights are directly relevant to the SIU. In a multilevel system characterized by uncertainty, institutional dispersion, and national diversity, effective governance requires mechanisms that identify differences in implementation, assess their consequences, and use that evidence to adjust common rules and priorities over time.

Taken together, these strands of policy and academic analysis move the debate beyond the familiar catalogue of barriers to capital-market integration. They show that formal harmonization alone is insufficient and that policy effectiveness also depends on the capacity to coordinate implementation across a multilevel system, learn from experience, and adapt rules and priorities over time. This provides the basis for examining the CMU and SIU not only as substantive reform agendas, but also as questions of governance and delivery.

2.2 Developing the legal and institutional foundations

During its first decade, the CMU was bound to be structured on the back of successive waves of legislation and institutional development. Capital markets in Europe were fragmented along several axes, and no single change could remedy their structural flaws. Improvement, therefore. required a multi-track effort in relation to corporate finance, investment products, market infrastructure, taxation, supervision, investors' protection, and access to information.

Such efforts have delivered considerable success. Indeed, the EU has reinforced the legal underpinning of cross-border financial transactions, established a unified rulebook in many areas of financial services, and intensified European coordination of supervision. It has simplified public markets' access, made financial information more available, updated long-term investment vehicles, and taken action to reduce tax and post-trading frictions. The Banking Union has revolutionized the supervision of major banks in the eurozone, whereas the European Supervisory Authorities (ESAs) have worked out common regulatory standards and convergence instruments in banking, securities, insurance, and pensions [Lamandini and Thomadakis (2024), Thomadakis and Arnal (2024)]. It has also built sophisticated frameworks related to sustainable finance, digital operational resilience, and innovative financial technologies.

It would be both fortuitous and inappropriate to describe such an evolution as being purely accidental or inherently excessive. Indeed, it has been caused by changes to the financial system itself. Markets have grown in scale and speed, and become more interdependent, while new instruments, technologies, and forms of intermediation have brought new activities and risks which earlier legal and regulatory structures did not cater for. The use of exchange-traded funds, algorithmic trading, private credit, tokenization, crypto-assets, and automated investment advice has transformed the way capital is raised, allocated, and managed. The financial crisis has also revealed weaknesses in prudential regulation, cross-border supervision, data management, and crisis resolution mechanisms. Regulation has had to adapt.

The result is a much more advanced legal and institutional framework than the one that existed at the time of creation of the CMU. Nevertheless, as demonstrated above by the indicators used, a more sophisticated legal framework has not led to equally important progress in market depth and integration. This does not mean that the reforms themselves were misplaced. It simply means that creating the building blocks of an integrated capital market is not enough to make them work together efficiently.

2.3 An increasingly interlinked regulatory and market environment

Increasingly, the challenge arises at the junctions of these frameworks. Financial regulation can no longer be neatly contained within the old sectoral boxes. A financial institution can be required to comply with prudential, conduct, data protection, resilience, artificial intelligence, and sustainability requirements all at once. Each may have its justification, but they are not always harmonized, designed, implemented, and overseen having regard to how they work together.

Artificial intelligence serves as an obvious illustration of this phenomenon. The use of AI in credit evaluation, investment decision making, risk management, or algorithmic trading may cause the financial institution to come under the ambit of sector specific financial regulation, general AI legislation, and data protection requirements. Such frameworks may have different definitions, documentations, governance provisions, and supervisory mechanisms. The problem is not necessarily that any of them individually is an unreasonable or unnecessary burden. It is rather that the cumulative framework may lack a hierarchy, consistency of interpretation, or single point of responsibility.

The problem of sustainable finance is analogous. Financial institutions depend upon information produced in the context of corporate reporting and sustainability taxonomies and disclosures. Definitions, scope, concepts of materiality, and timing of implementation do not always correspond between such frameworks. Change of just one component may influence classification, distribution, risk management, and reporting of the financial institutions. The test is thus no longer simply whether the frameworks work individually. What matters now is whether they continue to work together as an integral whole in the same institution, product, or transaction.

Changes in market structure further complicate the picture. A growing share of financing and risk-taking has shifted beyond traditional banking towards investment funds, asset managers, private markets, and other non-bank financial institutions. At the end of 2024, EU investment funds and other financial institutions held approximately €50.7 tln in assets, equivalent to 42% of total EU financial-sector assets [ESRB (2025)]. Banks are more resilient than before the global financial crisis, but the broader distribution of risk has become more complex [Thomadakis (2026b)]. Regulation and supervision remain organized largely around established institutional categories, even as activities increasingly cross their boundaries. Similar risks may, therefore, be treated differently depending on where they arise, while emerging vulnerabilities may fall between existing mandates.

2.4 From project-based reform to system-wide governance

The institutional framework reflects the same coordination challenge. Responsibility for policies affecting the SIU is distributed among several Commission directorates-general, the ESAs, the European Central Bank (ECB), national authorities, and bodies responsible for competition, cybersecurity, data, and digital regulation. Coordination takes place through formal committees, consultation procedures and informal cooperation, but it is frequently organized around individual mandates or legislative files.

The EU already has a substantial set of governance mechanisms. The Commission's Better Regulation framework already provides for impact assessments, evaluations, and fitness checks [EC (2021, 2025c)], while the REFIT program examines opportunities to simplify legislation and reduce unnecessary burdens. The 2016 Interinstitutional Agreement on Better Law-Making also recognizes the desirability of assessing substantial amendments introduced by the European Parliament or the Council [EC (2016)]. More recently, implementation dialogues and regulatory "reality checks" have been introduced to identify practical difficulties, examine the cumulative effect of EU rules, and inform simplification initiatives [EC (2025a)].

Financial supervision has its own convergence mechanisms. The ESAs use a range of instruments, including guidelines, recommendations, peer reviews, and coordinated supervisory exercises, to promote more consistent application of the single rulebook [e.g., ESMA (2025)]. The 2025 SIU strategy also provides for continuous monitoring through a range of indicators, closer integration with the European Semester, engagement with Member States and stakeholders, and a mid-term review by the second quarter of 2027.

These mechanisms perform important functions, but they differ in scope, timing, and institutional ownership. Better Regulation processes generally assess individual initiatives or defined areas of legislation. Implementation dialogues and reality checks identify operational problems but do not themselves create a permanent process for assigning and monitoring corrective action. ESA convergence tools operate primarily within sectoral mandates, while SIU monitoring remains connected to the implementation of the current strategy and its scheduled review. What is missing is, therefore, not monitoring, evaluation, supervisory coordination, or simplification as such. It is a durable SIU-specific framework that connects these activities within a common cycle of diagnosis, ownership, corrective action, and public follow-up.

The limits of the traditional approach, therefore, lie less in the individual measures than in the way the overall agenda is organized. Project-based policymaking is well suited to identifying a specific problem, negotiating a legislative response, and assigning implementation tasks. It is less effective when outcomes depend on the interaction of numerous rules, authorities, markets, and data systems over time.

This creates several recurring governance weaknesses. When reforms are developed file by file, their interaction with other requirements may be assessed only partially. When political attention moves elsewhere following adoption, operational problems may emerge too late to be addressed before application. When responsibilities are distributed across institutions, cross-cutting problems may remain unresolved because no authority owns the issue as a whole. Moreover, when progress is measured mainly through legislative completion, disappointing market outcomes do not necessarily trigger an assessment of whether the problem lies in regulatory design, implementation, supervision, or a persistent national barrier (see Table 1).

Table 1: How governance weaknesses affect SIU delivery

Existing weakness	Effect on delivery	Consequence
File-by-file rulemaking	Interactions with other rules are assessed only partially	Inconsistent definitions, duplicative requirements, and misaligned implementation timetables
Political attention shifts after adoption	Operational and supervisory problems become visible only during implementation	Delays, uncertainty, and uneven application across Member States
Responsibilities are dispersed across institutions	Cross-cutting problems lack a clearly identified owner	Issues that fall between mandates remain unresolved
Progress is measured mainly through legislative completion	Weak market outcomes do not systematically trigger diagnosis and correction	Additional initiatives may be proposed without establishing the source of underperformance
National barriers are treated as part of a general SIU assessment	Responsibility for politically sensitive obstacles remains unclear	Persistent tax, insolvency, and supervisory barriers receive insufficient follow-up

Source: Author's analysis

These mechanisms help explain why the adoption of individually justified reforms does not necessarily produce an integrated financial system. The problem is not simply a shortage of rules or policy initiatives. It is the lack of an integrated SIU-specific feedback process capable of identifying where delivery is failing, distinguishing among the possible causes, and assigning responsibility for corrective action.

Further reforms will remain necessary, particularly in taxation, insolvency, and supervision. But their effectiveness will increasingly depend on how they interact with the existing framework and how consistently they are implemented. The challenge is, therefore, no longer only to fill remaining regulatory gaps, it is to govern a financial system in which rules, institutions, markets, and technologies have become deeply interdependent.

3. The missing link: an operating model for the SIU

The previous section argued that the next phase of the SIU is no longer defined primarily by the identification of new barriers, but by the ability to govern an increasingly complex and interconnected policy framework. The question, therefore, becomes what kind of governance model is required.

In organizational practice, an operating model describes how a strategy is translated into delivery. As applied to the SIU, it can be defined as the institutional arrangement through which strategic objectives are translated into regulatory and supervisory action, coordinated across responsible authorities, monitored during implementation, and revised in response to evidence on outcomes. It, therefore, covers not only who is involved, but also how decisions, implementation, information, and accountability are connected over time.

An operating model is distinct from the SIU strategy itself. The strategy establishes the economic objectives and substantive priorities to be pursued. Nor is it another action plan, which normally identifies a set of initiatives to be completed within a particular period. The EU's institutional architecture, meanwhile, determines the formal mandates and powers of the Commission, the ESAs, the ECB, the co-legislators, and national authorities. The operating model does not replace any of these elements. It provides the process through which they are connected and directed towards common outcomes.

It also goes beyond ordinary interinstitutional coordination or performance monitoring. Coordination generally takes place within particular mandates, committees, or legislative processes, while a dashboard records whether selected indicators are moving in the desired direction. An operating model connects these activities within a continuous feedback process: strategic priorities inform regulatory design, regulatory design anticipates implementation, implementation and supervision are monitored, market outcomes are evaluated, and the resulting evidence informs corrective action and future priorities.

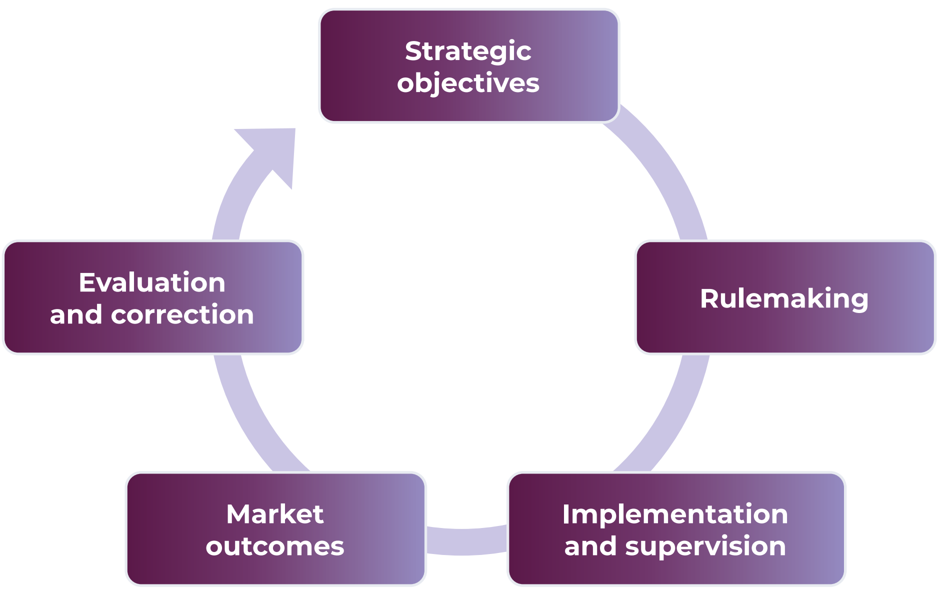
Many of these functions already exist within the EU framework. Impact assessments, evaluations, implementation dialogues, supervisory-convergence tools, and SIU monitoring each perform part of the required task. They nevertheless remain distributed across different institutions, policy processes, and time horizons. What is missing is not the individual mechanisms themselves, but an SIU-specific operating layer that connects their findings, identifies cross-cutting problems, assigns responsibility for corrective action, and monitors whether that action has been delivered. The operating model would, therefore, build on existing instruments rather than replace or duplicate them.

This requires a shift in perspective. Rather than viewing the SIU as a sequence of legislative initiatives, it should be managed as an integrated system whose overall performance matters more than the successful completion of any individual reform. Five shifts characterize this operating model, which connects strategic objectives, regulatory design, implementation, market outcomes, and corrective action within a continuous feedback cycle (see Figure 1).

3.1 From governing legislative files to governing the system

In the past, financial integration has been driven through individual legislative proposals each with its own goals, negotiation processes, and implementation deadlines. It made sense at the time

Figure 1: The SIU operating model



Source: Author's analysis

since the main objective was to establish the building blocks of the CMU.

However, as the policy framework grew, it would mean that governance will have to focus more on how the building blocks work together as a system. Legislative files should, therefore, not only be judged on their individual merit, but also for how they fit in relation to the overall objectives of the SIU. Governance, therefore, moves from optimizing individual legislative files to optimizing the performance of the financial system as a whole.

3.2 From legislation to lifecycle management

Governance of legislation usually means a series of political events: proposal, negotiations, adoption, and implementation. Once a legislative file has entered into force, political attention usually goes somewhere else.

A mature policy framework needs to have a longer term horizon. Governance of legislation implies evolution through technical standards, supervisory practices, market experience, and review. The SIU should, therefore, move to a lifecycle approach where policy design anticipates implementation, implementation is continuously monitored, results are measured, and legislation is reviewed and updated if needed in light of experience.

3.3 From managing the flow of regulation to managing the stock

It is natural for policy debate to be centered on new legislative proposals. However, it is the existing body of legislation that affects financial institutions.

The governance structure of the SIU should, therefore, pay as much attention to the stock of legislation as to the flow of new proposals. Every important proposal should, therefore, take into account not just what it introduces, but what it simplifies, consolidates, or makes redundant. The goal is not deregulation, but ensuring that the legislation continues to remain coherent and proportionate as it evolves [Thomadakis (2026d)].

3.4 From adoption of legislation to implementation

Adoption of legislation is only a starting point for achieving an integrated market. Implementation, supervisory convergence, preparation, and the ability of market participants to make use of new rules are also key elements for delivering the integration.

Governance should, therefore, start taking implementation as a specific policy objective. Progress should not be measured merely by the fact that legislation is adopted but by its ability to deliver comparable results in all Member States and reduce obstacles to cross-border transactions in practice.

3.5 From legislative outputs to market outcomes

Probably the most important shift here concerns the way progress is measured. Progress in the context of the CMU has been traditionally measured through the legislative activities: action plans produced, legislation adopted, or transposition of directive completed. These are important milestones but not the measure of success of the policy.

Governance of the SIU should be done using economic outcomes instead. More households participating in capital markets, more efficient financing of firms, increased cross-border investments, European equity markets deepening and liquidity, reduction in issuance, and post-trade costs. Only such indicators can properly assess whether the SIU delivers its main purpose of channeling savings into productive investments.

All together, these five shifts define the move from a legislative program to a permanent policy function. These principles define the basic tenets of the SIU governance model. What is left to do now is how to convert these principles into actual governance arrangements to support the SIU development in the long run.

4. What should the operating model contain?

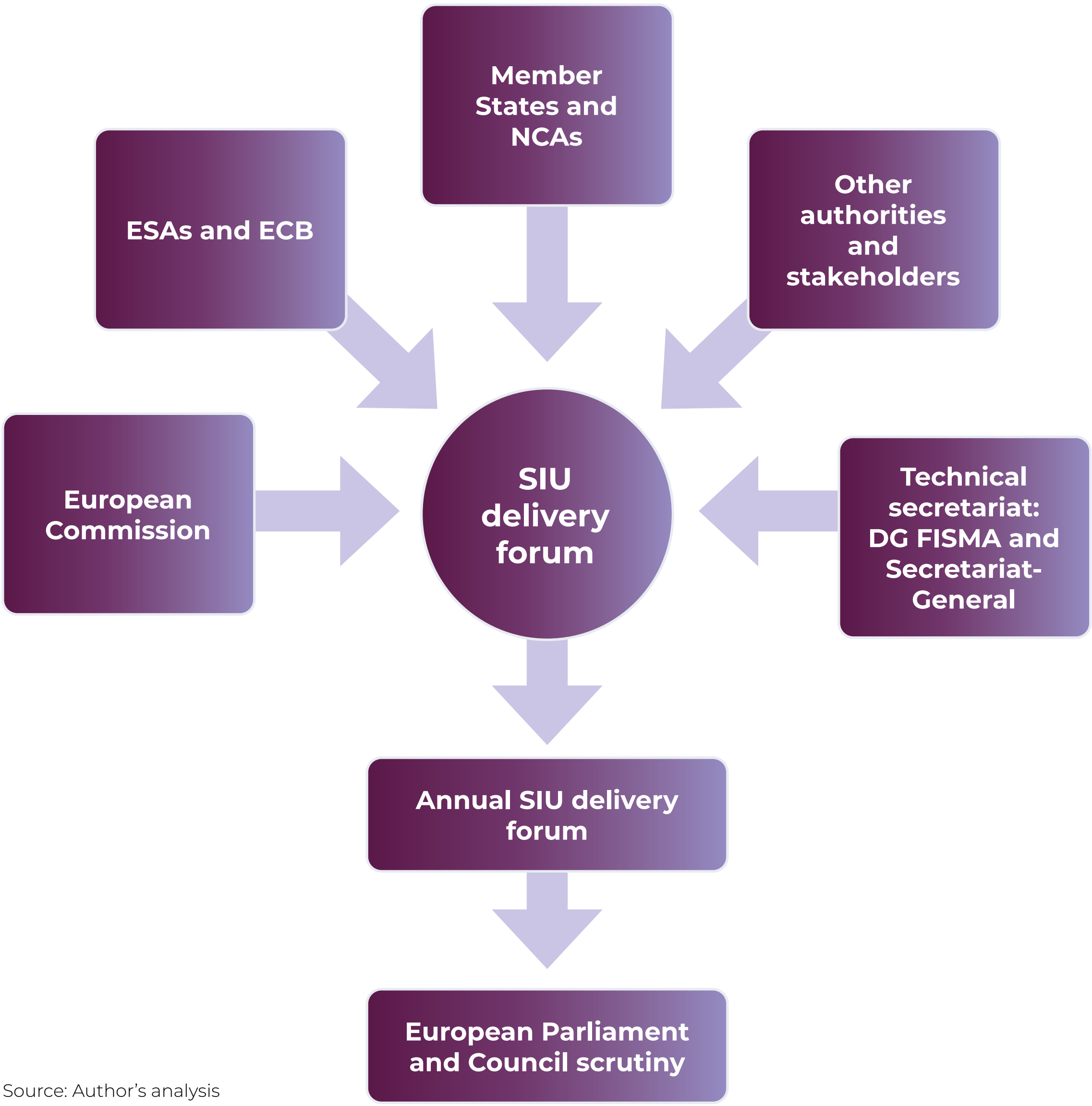
The five shifts described above set the principles for the SIU operating model. Implementation of this model requires the development of a delivery mechanism based on those principles through existing mandates of institutions rather than by substitution of these mandates. Such a mechanism should include four key capabilities: strategic coordination, integrated rulemaking and delivery, performance management, and ownership and accountability.

4.1 Strategic coordination

The SIU needs a delivery mechanism able to secure a systemic overview of the SIU reform agenda. Currently, such responsibility lies with the European Commission, the ESAs, the ECB, national governments, national supervisors, as well as national authorities dealing with the matters of taxation, insolvency, competition, cybersecurity, data, and digital policies. Such division of labor corresponds to the institutional set-up of the EU and cannot be overcome by centralization.

In the proposed model, these contributions are organized around common priorities and a procedure of identification of systemic barriers to the SIU implementation, alignment of implementation timetable, and assessment of coherence of the whole portfolio of reforms with economic goals of the SIU. The high-level SIU delivery forum assisted by a permanent technical secretariat could do this job. The forum should incorporate the main contributors, but preserve their mandates and channels of accountability (see Figure 2).

Figure 2: Proposed governance structure for SIU delivery



Source: Author's analysis

The proposed delivery forum will not replace existing committees, supervisory convergence mechanisms, and SIU mid-term review. It should provide an ongoing delivery process that connects all of them. Impact assessments, implementation dialogues, ESA convergence work, Commission monitoring of the implementation, and European Semester can provide evidence for the forum's assessment, while the forum itself identifies issues requiring action across institutional or sectoral boundaries. In turn, the scheduled SIU mid-term review can use the results of this ongoing process, thus monitoring relevant evidence, responsibilities, and institutional responses during the implementation period, rather than collecting them just prior to the review.

The delivery forum leadership could be undertaken by the European Commission. It is the leading body for launching of legislation, monitoring of the implementation process, and coordination of the whole SIU agenda. Joint support of the DG FISMA and the Secretariat-General of the Commission would ensure the combination of the financial sector expertise and coordination skills across Commission departments. Small technical secretariat staffed with the help of existing administrative resources will monitor SIU performance dashboard, organize meetings, monitor agreed actions, and prepare the annual assessment.

The main participants should include relevant Commission departments, the three ESAs, the ECB, and senior representatives of the Member States. Other authorities can join the discussion of the issues related to their mandate: competition, taxation, insolvency, data protection, cybersecurity, and digital regulation. Participation of the ECB and ESAs will not be in contradiction with their independence and mandates because the forum will not dictate any supervisory decisions or change the allocation of the regulatory responsibilities.

It will be a coordinating and advisory forum without decision-making powers. The forum will not launch the new legislation, issue supervisory instructions, or violate the mandates of participating institutions. Rather, it will identify systemic barriers to delivery, establish which institution or political body is responsible for their resolution, and monitor the subsequent actions. In case of disagreement with respect to the diagnosis or response to certain issues, it can be recorded in the annual assessment and referred to the relevant institution.

Democratic scrutiny remains the prerogative of the European Parliament and the Council, but not the task of the forum. The Commission can present annual SIU assessment to both institutions, giving them an opportunity to assess progress, question relevant authorities, and discuss the issues needing political resolution. In this way, the separation between the operational coordination, executive responsibility, and democratic control is preserved.

The structured stakeholder input can supplement the institutional process. Market participants, consumers' associations, investors, issuers, and other relevant stakeholders will contribute to the forum via targeted consultations, implementation dialogues, and periodic evidence sessions. The forum will get information about practical implementation problems and new market developments, but responsibility for assessment and action will rest upon public authorities.

Periodic strategic review will integrate all these components by reviewing implementation progress, cross-border frictions, market developments, and overlapping regulatory/supervisory responsibilities. Its results will go into annual SIU delivery report describing achievements, persistent problems, relevant institutions, and priorities for the actions.

Finally, the institutional form is less important than the function. What matters is the presence of an ongoing process through which the SIU will be assessed as one economic project rather than several sectoral initiatives.

4.2 Integrated rulemaking and delivery

The second capability is an end-to-end process covering regulatory design, legislative negotiation, and delivery. While most of the required tools are already included in the EU's Better Regulation framework, the challenge lies in applying them more systematically to the interaction between SIU initiatives and sustaining this process throughout the regulatory life cycle.

For major SIU initiatives, there should thus be an additional step of the impact assessment process focused precisely on the interaction between various legislative proposals. This step would address the relation of the proposed measure to the existing financial services rule-book, whether the new regulation repeats any reporting or disclosure requirements, whether definitions used in the new file coincide with definitions in other legislative files, and whether its implementation schedule is compatible with other measures. This step should also help to determine what elements of the existing regulatory framework can be aligned, streamlined, or removed.

As the 2016 Interinstitutional Agreement on Better Law-Making states, the necessity of such interaction check becomes especially acute when substantial changes to legislative text are proposed through amendments by the European Parliament or the Council in the course of legislative procedure. This principle should thus be applied more systematically in the context of major SIU initiatives, as the goal should be to assess not just the original proposal but the package that will eventually be adopted.

This principle also applies to significant level 2 and 3 measures, in particular technical standards, guidelines, and supervisory expectations. Being responsible for the operational details of legislation, level 2 and 3 measures form the part of the same regulatory delivery chain and thus should be subject to the same checks on their cumulative effects and implementation requirements.

Operational planning should be started earlier too. Essential technical standards, reporting taxonomies, data requirements, and supervisory arrangements should be determined before the application date is set. Where companies are unable to develop their systems until the final text is determined, the deadline of implementing new requirements should depend on the regulator's preparation rather than on the legislative adoption date.

Each major SIU initiative should also provide an assessment of its consequences for the stock of regulations. This could include simplification of provisions, consolidation of reporting requirements, alignment of definitions, and removal of obsolete obligations. The new requirements should not be imposed automatically on top of the existing framework without consideration of opportunities for replacing some other elements of regulation.

Finally, the existing competitiveness check should be applied consistently in relation to each major SIU initiative and taken into account at the portfolio of reform stage as well as in relation to a single proposal. It means, in particular, that the cumulative effect of the framework on market entry, innovation, cross-border scalability, financing, and the allocation of savings towards productive investments should be considered.

4.3 Performance management

Performance monitoring and a mid-term review of the SIU strategy have already been promised as part of the Commission's approach and are foreseen for the second quarter of 2027. The new operating model would embed this promise in a compact and continuous performance management structure that would integrate implementation indicators and market development indicators. Its objective would be to collect relevant information that is already being collected by the Commission, the ESAs, the ECB. and national authorities and give an idea of how reforms are being implemented and where further attention is needed.

An SIU dashboard could be divided in three dimensions.

- → **Capital mobilization**: potential indicators in this dimension could be the participation rate of households in capital markets, the allocation of financial assets to investment products, pension, and insurance investment and the share of equity financing of corporates.
- → **Market depth and integration**: could include cross-border investments, venture capital and growth finance, IPOs, secondary-market liquidity, issuance costs, and the use of markets different from the one in which the issuer or investor is located.
- → **Operational delivery dimension**: could include timelines for authorization and approval, implementation delays, differences in supervisory practices, reporting burden, post-trade transaction costs, and settlements.

The dashboard should not be comprehensive and should rely as much as possible on the use of existing indicators. There is greater value in having a limited number of reliable and comparable indicators than in having a lengthy list that create additional reporting requirements. The same goes for distinguishing between those indicators that measure implementation and those measuring market developments that also depend on macroeconomic conditions and public policies.

The dashboard should inform the process of periodic strategic review. Where progress is low, the review should identify the reason behind this issue and recommend follow-up actions accordingly. It could either require legislative change, supervisory

convergence, better data collection, clarification of technical issues, enforcement, or addressing a specific national barrier. The goal is to have focused follow-up actions rather than a general action plan.

4.4 Clear ownership and accountability

The final requirement is clear ownership of delivery.

There are many institutions involved in delivery of the SIU, but there is no clarity about who is responsible for its delivery as a whole. This makes it difficult to establish who is supposed to take action if implementation is delayed, supervisory practices differ, or market outcomes continue to disappoint.

Ownership of delivery does not mean that one institution should be responsible for all elements of the SIU. What it means is that clear responsibilities should be assigned to the relevant institutions within the SIU delivery framework. In particular, the designated coordinating forum should take responsibility for updating the dashboard, organizing the strategic review, issuing the annual assessment, and addressing any cross-cutting obstacles that arise.

Responsibility for particular areas should rest with individual institutions, according to their mandate. Their responsibilities can be stated in terms of specific implementation commitments, including milestones, deliverables and time frames.

The annual assessment should report not only on progress made, but also on what objectives and milestones set out in the implementation plan have not been fulfilled. Each such obstacle should be accompanied by identification of the institution to which it relates, recommended course of action, and timeline for taking this action. This would enable identification of the obstacle as arising due to EU legislation, differences in supervisory practices, national implementation, enforcement, lack of data, or market factors.

The framework should operate on a comply-or-explain basis. The forum's recommendations would not be legally binding, but the institution or Member State identified as responsible should either set out how it intends to respond or explain publicly why it does not consider the proposed action appropriate. This would preserve existing legal mandates while making inaction and disagreement more visible.

Different problems would require different routes of escalation. These routes would rely on existing institutional powers, including Commission monitoring and enforcement, ESA supervisory-convergence tools, and the established responsibilities of national authorities, rather than creating parallel enforcement arrangements. Technical implementation issues should be referred to the relevant Commission department, ESA, or national authority. Divergent supervisory practices should be addressed through the convergence tools available to the ESAs and, where relevant, the ECB. Questions requiring legislative amendment should be referred to the Commission and the co-legislators. Obstacles arising from taxation, insolvency, or other politically sensitive national rules should be brought to the attention of the Council and the European Parliament rather than remaining embedded in a general assessment of SIU progress.

Accountability should extend to follow-up. The technical secretariat should maintain a public record of agreed actions and report on their status in the following annual assessment. Items that remain unresolved should not disappear from the agenda: they should be reassessed, together with any explanation provided by the responsible institution and the effect of continued inaction on the objectives of the SIU.

This approach would not compel national authorities or independent supervisors to act outside their legal responsibilities. Its effect would instead come from transparency, political scrutiny, and the systematic attribution of ownership. At present, diffuse responsibility makes it difficult to determine why an obstacle persists. A public follow-up mechanism would make clearer whether the cause is a technical delay, institutional disagreement, insufficient enforcement, or the absence of political agreement.

These arrangements would not add another layer of regulation or transfer all responsibility to the European level. They would provide the coordination, evidence, and ownership needed to make the existing institutional architecture work as a coherent delivery system.

4.5 The limits of governance reform

An integrated operating model would enhance governance of the SIU, but it would not solve every problem of financial integration. Its goal is to improve diagnosis, coordination, and delivery within the current institutional structure without substituting administrative procedures for political decisions or suggesting that all market outcomes can be regulated through public policies.

- **Political constraints**: mean that some instances of fragmentation are not necessarily due to problems in regulatory design and implementation. Certain difficulties could arise from differences in national preferences, economic situation, and readiness to cede power to the EU level. Taxation, insolvency, and some aspects of financial regulation are politically sensitive because any changes can affect national revenues, creditor and debtor rights, powers of the institutions, and the distribution of risks among Member States. An SIU delivery forum could detect such obstacles, estimate their economic effects, and bring the issues into the spotlight. But it would not be able to solve certain disagreements, which require legislative negotiations or changes in the division of competences.
- **Causal attribution**: requires the model to differentiate between different reasons for poor market performance. A poor market outcome could be caused by flaws in the regulatory design, delayed implementation, divergence in supervision, low enforcement capacity, and even a persistent national barrier. It could also stem from the conditions that are beyond the scope of the SIU policy. The activity of IPOs, market liquidity, households' investments, and cross-border capital flows are influenced by interest rates, economic growth, characteristics of firms, preferences of investors, and developments in the global market. Thus, the proposed dashboard could only help diagnose the causes of the problem, but it should not imply a simple causality between every reform and the market outcome. Indicators could show where additional analysis is needed, whereas the evaluation would identify whether public policy could impact the result.
- **Coordination costs**: mean that coordination could itself become a new problem. A new forum could add value only if it consolidated monitoring activities, reduced duplications, and established a credible mechanism to assign and follow up on the necessary corrections. Otherwise, it would only create additional meetings, reporting procedures, and another stage of review. Hence, its success would depend on a narrow mandate, selective

dashboard, use of existing institutional capacities, and links with the decision-making and supervisory procedures.

- **Policy trade-offs**: would not be eliminated by system-wide governance. Any measures aimed at increasing depth of the market and enhancing its competitiveness should still be compared with respect to financial stability, market integrity, and protection of investors [Thomadakis (2026c)]. The objective of the operating model is not to prioritize any of them, but to bring trade-offs to light and estimate how they are managed in the different components of the SIU.

Such limitations do not undermine the relevance of the model. They define its role. Improved governance will not secure deep capital markets or solve the problem of lacking political agreement. Nevertheless, it can find out whether poor progress is caused by the flaw in policy-design, its poor implementation, supervisory divergence, a difficult political choice, or market conditions. This differentiation is necessary to ensure that the EU responds to underperformance with the right instrument instead of adopting another legislative initiative.

5. Conclusion: From legislative ambition to institutional maturity

More than ten years have passed since the EU identified the challenges standing in the way of a deeper and more integrated capital markets environment. This process has significantly changed the regulatory landscape. Unlike the CMU, which had been established on quite shaky grounds, the SIU is currently based on a much more robust legal and institutional framework. While further reforming efforts are still necessary - including tax reform, improvements in insolvency law, and supervisory convergence - the debate is now taking place in a totally different environment.

The main task today is not to define how Europe should act. It is to ensure that the expanding legislation, institutions, and policy proposals work together and help achieve better economic outcomes.

This is a question of institutional maturity. The mature policy systems are not defined by the volume of reforms implemented. What distinguishes them is their ability to implement the policies consistently, to monitor the impact of legislation, to learn from experience, and to respond to the changing conditions. They acknowledge that legislation is just one of the instruments of policy and that implementation is equally important as legislation itself.

This is increasingly becoming a crucial issue. The European financial system is rapidly evolving due to technological changes, shifting demographics, geopolitical challenges, and emerging forms of finance. Simultaneously, Europe finds itself in need of unprecedented investments in innovation, defense, digitalization, energy transition, and resilience of the economy. To meet these needs, it will require not only more capital, but also a well-functioning financial system capable of allocating the capital efficiently.

In such conditions, the SIU cannot be viewed as yet another legislative initiative that will eventually be completed. It has to become a permanent framework for the management of the evolution of the European financial ecosystem. Just like any other successful strategy, it has to include continuous monitoring, occasional adjustments, and clearly defined responsibility for implementation, rather than sequential rounds of legislative expansion.

This does not mean that there will be more regulation. This does not necessarily imply the creation of new institutions. The key point is to improve the existing institutional framework through improved coordination, better implementation, and evaluation of progress not only in legislative terms, but in terms of tangible market outcomes. Through improved governance we could achieve better diagnosis of the problems and, therefore, identify problems requiring legislative intervention and those caused by implementation gaps, supervisory divergence, regulatory overlap, and national barriers.

The success of the SIU cannot be judged by the number of action plans published, regulations adopted, and directives transposed. It will be assessed by the ability of Europe to convert its savings into investments more effectively, allow innovative companies to grow using European capital markets, and offer households opportunities to participate in the wealth creation process.

Europe has already created the necessary building blocks of a well-integrated financial system. The next step is to integrate them into a whole. This is the transition from legislative ambition to institutional maturity, and it might become the most important step towards achieving the goals of the SIU.

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Scaling Europe's Financial System

The future of European financial supervision: national autonomy, centralized oversight, or a new supervisory equilibrium?

Michael Huertas,
Partner and Global Financial Services Legal Leader, PwC Legal[1]

ABSTRACT

This article examines the EU's evolving approach to capital markets supervision in the context of the Savings and Investments Union (SIU) Strategy and the Market Integration and Supervision Package (MISP) of December 2025, as updated in June 2026. It analyzes the tension between national supervisory autonomy and centralized European oversight, assessing arguments on both sides. The article situates these proposals within the competitive and geopolitical pressures facing European capital markets, including Capital Market Union (CMU) fragmentation, the Draghi and Letta reports, and post-Brexit reconfiguration. Particular attention is given to the Irish Council Presidency, which commenced 1 July 2026 and its potential to broker compromise. The article concludes with strategic considerations for market participants navigating an increasingly integrated - yet politically contested - supervisory landscape.

1. The author is a Solicitor-Advocate (England & Wales), Solicitor (Ireland), and a German Rechtsanwalt. His professional practice focuses on emerging regulatory issues in the Banking Union and Capital Markets Union. The usual disclaimer applies. The views expressed here are purely personal and need not reflect those of PwC nor PwC Legal. The author would welcome dialogue on any of the issues raised herein or in relation to his research interests. Michael can be reached via: https://www.linkedin.com/in/michael-huertas-157a788.

1. Introduction: a debate entering its decisive phase

The EU finds itself in the midst of a consequential institutional debate. Few questions in European financial regulation have proven as enduring, or as politically charged, as the question of who should supervise its capital markets. Should oversight remain firmly in the hands of national competent authorities (NCAs), each operating within their own legal and institutional traditions, or should the EU move decisively towards a single, centralized supervisor capable of enforcing a truly uniform rulebook across twenty-seven Member States? Or is the answer, as is so often the case in European integration, some carefully negotiated middle ground?

This question re-emerged with force in 2025. Two landmark European Commission publications - the Savings and Investments Union (SIU) Strategy (March 2025) and the Market Integration and Supervision Package (MISP), published in December 2025) - have placed supervisory architecture at the center of the EU's capital markets agenda. Together, these represent the most significant reconsideration of European financial supervision since the establishment of the European Supervisory Authorities (ESAs) following the 2008 financial crisis.

This debate is no longer theoretical. Legislative negotiations are underway. Political lines are visible. By the time this article is published in September 2026, Ireland will have assumed the Council Presidency, positioning it to broker compromise. The supervisory question - national autonomy versus centralized European oversight - unfolds within the broader SIU framework: mobilizing European savings, deepening capital markets, and strengthening the Union's global competitiveness.

This article examines these proposals, the forces driving them, and the arguments on both sides of centralization. It proceeds in seven parts: context; the SIU Strategy; the MISP; the centralization debate; political dynamics and stakeholder positions; Ireland's Council Presidency; and implications for market participants.

2. Context — why now?

2.1 The unfinished business of CMU

The idea that Europe needs deeper, more integrated capital markets is not new. The CMU project launched in 2015 under Jean-Claude Juncker aimed to create a single market for capital across all Member States. The diagnosis was straightforward: European businesses, particularly small and medium-sized enterprises (SMEs), were excessively reliant on bank lending. Capital markets were fragmented along national lines, with different rules, supervisory practices, and infrastructures creating barriers to cross-border investment. European savings were not being efficiently channeled to European investment opportunities and European capital markets lagged far behind their American counterparts in depth, liquidity, and dynamism.

A decade on, the results have been disappointing. While important legislative measures have been adopted - including reforms to prospectus requirements, securitization frameworks, and fund regulation - fundamental fragmentation has persisted. Cross-border capital flows remain modest. NCAs continue applying harmonized rules divergently. The gap between European and American capital markets has, in several respects, widened. By 2024, US equity market capitalization exceeded the EU's by roughly four times, according to World Federation of Exchanges and ESMA data - reflecting not merely economic differences but fundamental differences in the depth and efficiency of capital allocation. Critics may reasonably ask whether this gap is attributable primarily to supervisory fragmentation or to other structural factors - such as tax regimes, corporate governance traditions, equity culture, and risk appetite - that would persist regardless of supervisory architecture.

The divergence in supervisory practices manifests concretely. Consider the application of the Markets in Financial Instruments Directive (MiFID II) product governance requirements. While the Directive establishes a harmonized framework for target markets and distribution strategies, NCAs have adopted markedly different enforcement approaches. Some interpret requirements narrowly, focusing on documentation; others take a more interventionist stance, scrutinizing distribution arrangements and imposing expectations beyond the Level 1 text (the primary legislative Act adopted by the European Parliament and Council) or Level 2 text (delegated and implementing acts adopted by the Commission).

Similarly, authorization of alternative investment fund managers (AIFMs) under the Alternative Investment Fund Managers Directive (AIFMD) reveals significant supervisory disparities. Timeframes vary from weeks in some jurisdictions to many months in others. Application requirements, due diligence on key personnel, and substance expectations differ materially. For cross-border fund managers, these differences translate directly into costs, delays, and strategic decisions about where to establish European operations.

Prospectus supervision offers another illustration. Despite the directly applicable EU Prospectus Regulation, NCAs retain discretion in review and approval processes. Market participants consistently report that the same prospectus submitted to different NCAs elicits different comments, scrutiny levels, and approval timelines. One NCA may focus on risk factors while another prioritizes financial information. These inconsistencies increase cross-border capital raising costs and undermine the purpose of a single European prospectus regime.

Enforcement practices present perhaps the starkest divergence. ESMA's data on administrative sanctions under MiFID II and the Market Abuse Regulation (MAR) reveal wide disparities in the frequency, nature, and severity of enforcement actions. Some NCAs pursue significant fines and public censures; others favor informal engagement, reserving formal enforcement for egregious cases. The European Parliament's June 2026 draft acknowledges this problem, noting that "divergent national supervision creates an uneven playing field and supervisory arbitrage risk" and proposing ESMA as single competent authority for market abuse enforcement under the Markets in Crypto-Assets Regulation (MiCAR).[2] For market participants, consequences of non-compliance depend as much on the supervising authority's identity as on the breach itself.

2.2 The Draghi and Letta Reports

Political impetus came from two influential 2024 reports. The first, by former Italian Prime Minister Enrico Letta, argued forcefully that the EU's failure to integrate capital markets was undermining European competitiveness and its ability to finance long-term investment needs, such as climate transition, digital infrastructure, defense, and strategic autonomy. Letta called for renewed commitment to breaking down barriers to capital flows and a more integrated supervisory approach. The second, by Mario Draghi, was more consequential. Draghi's diagnosis was stark: Europe faced an "existential challenge" to competitiveness, driven by underinvestment in innovation, regulatory fragmentation, and failure to mobilize private capital at scale. Among his recommendations was far-reaching reform of capital markets supervision, including a substantially enhanced role for ESMA. It bears noting that this competitiveness framing is itself contested. Some scholars question whether "depth and liquidity" are the appropriate metrics for capital market success, or whether the US model produces better outcomes for firms, investors, and society, as opposed to merely larger markets. The "existential challenge" rhetoric may reflect political positioning as much as analytical rigor.

These reports landed in a political environment shaped by growing concern about Europe's global position. The energy crisis from Russia's invasion of Ukraine, accelerating technological competition with the US and China. and the investment needs of green and digital transitions had all contributed to the urgency. If Europe was to finance its future, it needed capital markets that worked - confronting structural barriers, including supervisory fragmentation.

2.3 The institutional baseline

The current debate builds on an existing hybrid model. Since January 2011, the ESAs - ESMA, the European Banking Authority (EBA), and the European Insurance and Occupational Pensions Authority (EIOPA) - have promoted supervisory convergence across sectors. Yet primary supervision remains national in most areas. In banking, the 2014 introduction of the Banking Union's Single Supervisory Mechanism (SSM) with the European Central Bank (ECB) at its helm demonstrated that centralization is feasible where systemic stability requires it. Capital markets supervision has remained largely decentralized. The SIU debate,

2. European Parliament, 2026, "DRAFT REPORT on the proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 1095/2010, No 648/2012, No 600/2014, No 909/2014, 2015/2365, 2019/1156, 2021/23, 2022/858, 2023/1114, No 1060/2009, 2016/1011, 2017/2402, 2023/2631 and 2024/3005 as regards the further development of capital market integration and supervision within the Union (COM(2025)0943 – C10-0328/2025 – 2025/0383(COD))," Committee on Economic and Monetary Affairs, https://tinyurl.com/4xffdj3e

therefore, asks whether elements of Banking Union logic should extend - selectively and proportionately - to capital markets.

2.4 The geopolitical dimension

The 2025 debate does not occur in a vacuum. The geopolitical landscape has shifted markedly. Protectionist US trade policies, China's assertiveness in global financial markets, and broader economic nationalism have reinforced the argument that Europe needs financial sovereignty. A fragmented supervisory landscape - twenty-seven NCAs each overseeing a small slice of the market - is increasingly seen not merely as an efficiency obstacle but as a strategic vulnerability. Effective supervision of cross-border activity, swift response to emerging risks, and global regulatory influence all depend on supervisory coherence and capacity.

3. The SIU strategy

3.1 From CMU to SIU

In March 2025, the European Commission published its SIU Strategy, rebranding and relaunching the CMU agenda. The change of name was more than cosmetic. By placing "savings" alongside "investments", the Commission emphasized that the objective was not merely to develop capital markets but to ensure European citizens' savings - estimated at approximately €30 trillion - were put to productive use. The framing resonated with a broader audience: retail investors, pension savers, and policymakers concerned about long-term prosperity, rather than just the financial services industry.

The SIU Strategy is comprehensive, spanning many policy areas. For the purposes of this article, the most significant elements concern supervision and the regulatory framework underpinning capital markets activity.

3.2 Key pillars of the strategy

The SIU Strategy is built around several interconnected objectives. First, it aims to encourage greater retail participation in capital markets. European households hold a disproportionately large share of savings in bank deposits generating low real returns, rather than in equities, bonds, or funds. The Commission has proposed measures to improve financial literacy, simplify disclosure requirements, and create a more favorable environment for long-term saving through capital markets instruments. Harmonized auto-enrolment pension schemes, drawing on successful models in several Member States and the UK (while part of the EU), feature prominently. Notably, however, retail investor and consumer protection organizations have expressed mixed views on supervisory centralization. Some argue that proximity to national regulators - with local language capability, cultural understanding, and accessible complaint mechanisms - better serves retail investor interests than distant European supervision. Others contend that consistent, rigorous supervision across all Member States would better protect retail investors from varying enforcement standards. This tension remains underexplored in Commission proposals.

Second, the Strategy seeks to reduce regulatory burdens on companies accessing capital markets, including streamlined prospectus requirements, simplified listing rules, and reduced ongoing compliance costs. The Commission has been explicit that one reason European companies, particularly SMEs, are reluctant to list publicly is the sheer weight of regulatory requirements, often applied inconsistently across Member States.

Third, the Strategy addresses cross-border integration of market infrastructure, including post-trade harmonization, settlement cycle alignment, and development of a consolidated tape - a centralized data feed providing real-time transparency across European trading venues by aggregating price and volume information from multiple sources. The absence of a consolidated tape, long established in the U.S., has been a persistent frustration for market participants and a symbol of European fragmentation.

Fourth and most directly relevant here, the SIU Strategy sets out the Commission's supervisory vision. This vision stops short of calling for a single European capital markets supervisor but proposes significant enhancement of ESMA's role and a more structured framework for supervisory convergence.

3.3 The supervisory dimension of the SIU strategy

The Commission's supervisory approach is characteristically one of managed ambiguity. The Strategy acknowledges that fragmented supervision is a major obstacle to market integration and that divergent supervisory practices create an uneven playing field, increase compliance costs, and undermine investor confidence. Yet the Commission is acutely aware of the political sensitivities in transferring supervisory powers from national to European bodies.

The Strategy, therefore, proposes a graduated approach. ESMA's existing powers would be strengthened. Its role in promoting convergence - through guidelines, peer reviews, and coordination of supervisory responses - would be enhanced. In certain areas, notably EU-wide market infrastructure supervision and oversight of certain cross-border financial entities, the Commission envisages a more direct ESMA supervisory role.

At the same time, the Strategy reaffirms that day-to-day supervision of most market participants should remain with NCAs. The Commission frames this not as political concession but as recognition that effective supervision requires proximity to markets, knowledge of local conditions, and direct interaction with market participants. On further centralization, while the SIU Strategy drew parallels to the Banking Union model - a successful middle ground - any such move had received lukewarm reception from certain Member States with entrenched national agendas.

4. The market integration and supervision package

4.1 A More concrete proposal

If the SIU Strategy sets out broad direction, the MISP (December 2025) provides legislative detail. The package did not propose sweeping centralization but explored calibrated enhancements of EU-level oversight, particularly where cross-border externalities are strongest. This package represents the most concrete reform proposals for European financial supervision in over a decade, effectively seeking to overcome criticisms voiced in response to the SIU Strategy.

4.2 Enhanced role for ESMA

The centerpiece of the package is a proposed EU regulation significantly expanding ESMA's mandate and powers. The key elements include the following.

First, ESMA would be granted direct supervisory authority over certain cross-border market participants. The precise scope remains subject to intense negotiation, but the Commission's proposals encompass, at minimum, central counterparties (CCPs), entities that interpose themselves between counterparties to contracts traded on financial markets, becoming the buyer to every seller and the seller to every buyer; central securities depositories (CSDs), institutions that hold securities in dematerialized form and enable their transfer through book entries; and certain data reporting service providers. The European Parliament's June 2026 drafts go considerably further: one proposes ESMA exercise "direct supervisory powers over depositaries" under both the Undertakings for Collective Investment in Transferable Securities Directive (UCITS) and AIFMD, including powers for investigations, on-site inspections, supervisory warnings, and administrative fines. Another advocates extending ESMA's direct oversight to all EU CSDs, arguing that "uniform rules require uniform supervision" and that limiting ESMA's competence preserves "the supervisory fragmentation that CSDR was designed to eliminate."[3] The rationale is that these entities provide inherently cross-border infrastructure services whose national supervision creates coordination challenges and oversight gaps.

Second, ESMA would receive enhanced powers to ensure consistent EU law application across Member States. This includes new mechanisms to investigate potential breaches by NCAs, issue binding technical standards with greater autonomy, and intervene directly where divergent practices distort cross-border competition or create stability risks. The Commission has proposed a strengthened "comply or explain" mechanism, requiring NCAs to provide detailed public justifications for departing from ESMA guidelines.

Third, the package proposes ESMA governance reforms. Currently, ESMA's Board of Supervisors, which takes key decisions, comprises NCA heads. Critics argue this creates an inherent conflict of interest, as the authorities whose practices ESMA should converge make decisions about how aggressively to pursue convergence. The Commission's proposals include more independent members on ESMA's governing bodies and reconfigured

3. Ibid.

voting procedures to reduce individual Member States' ability to block convergence measures.

Governance reforms extend beyond board composition. The European Parliament's June 2026 draft proposes a "supervisory secondment program" under which NCA officials would be seconded to ESMA "to contribute to supervisory convergence activities."[4] Secondments would run six months to two years, renewable once, with four years maximum. The Parliament's explanatory statement frames this as essential to building "common methodological understanding, professional familiarity and institutional trust that can only be developed through sustained working experience." Effective supervision requires not merely aligned rules but shared supervisory culture, something that cannot be mandated but must develop through professional interaction.

Fourth, the package addresses ESMA's funding. The Authority's budget has long been regarded as inadequate. The Commission proposes greater industry funding, similar to the SSM model, where supervised entities contribute directly to supervision costs. This would increase ESMA's resources and reduce dependence on national contributions, enhancing institutional independence. The Parliament's drafts elaborate, proposing fees be "proportionate to the cost of supervision", "non-discriminatory", and structured to avoid "competitive disadvantages for Union financial market participants relative to participants in comparable third-country markets." Significantly, when ESMA assumes direct supervisory competences, NCAs must "reduce their supervisory fees... in proportion to the supervisory tasks transferred", a safeguard against supervisory cost accumulation that has been a persistent industry concern.

4.3 Harmonization of substantive rules

Alongside supervisory reforms, the MISP includes proposals to harmonize substantive rules where national divergence has been pronounced. These include rules governing investment firm authorization and operation, conduct of business requirements for cross-border services, and regulatory treatment of innovative products and services, including those involving distributed ledger technology (DLT) - a type of database technology that enables the recording, sharing, and synchronization of data across multiple sites without a central administrator, and tokenized assets.

The Commission has also proposed a single European regime for certain financial entities currently requiring authorization in each operating Member State. Under this regime, a firm authorized by its home supervisory authority would operate across the EU on a single license, with enhanced coordination mechanisms ensuring the home authority's supervision accounts for cross-border activities. This draws explicitly on the passporting framework for banks and certain investment firms but extends it to areas where passporting rights have historically been limited.

5. The centralization debate

5.1 The case for centralized supervision

Proponents of centralization advance several interconnected arguments.

The asset management sector illustrates the tension between harmonized rules and fragmented supervision. The European Parliament's June 2026 draft on the capital market directive identifies "EU groups of management companies and AIFMs" as a key innovation, enabling group-wide resource sharing that would no longer qualify as delegation. The draft notes that "currently, asset management groups operating across the Union are required to maintain standalone human and technical resources at each group entity level"[5] - imposing costs inconsistent with integrated group operations. Yet the Parliament simultaneously proposes ESMA directly supervise the largest such groups, recognizing that facilitating group-level operations creates corresponding group-level risks exceeding any single NCA's capacity.

First and most fundamental is the market integration argument. A single market, proponents argue, requires a single supervisor, or, at least, a much more powerful central authority ensuring uniform EU rule application. The past decade has demonstrated that harmonized rules applied by twenty-seven different NCAs with different tradi-

4. Ibid.
5. Ibid.

tions, resources, and priorities do not produce harmonized outcomes. Firms operating cross-border face a patchwork of supervisory expectations that increases compliance costs, discourages cross-border activity, and undermines harmonized EU legislation. This argument, while powerful, is not uncontested. Some scholars argue that regulatory competition between jurisdictions can drive innovation, prevent regulatory ossification, and produce welfare-enhancing outcomes, a perspective that frames supervisory diversity as feature rather than bug.

The banking sector provides an instructive analogy. The 2014 SSM, under which the ECB assumed direct supervisory responsibility for the largest euro area banks, was driven by recognition that national supervision in an integrated market was inadequate. The SSM has not been without challenges, but is widely regarded as having improved banking supervision quality and consistency. Proponents argue similar logic applies to capital markets.

Second is supervision quality and consistency. NCAs vary enormously in size, resources, expertise, and institutional capacity. Some, such as the French Autorité des marchés financiers (AMF) or the German Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin), are large, well-resourced organizations with deep expertise. Others, particularly in smaller Member States, may lack specialist staff, technological capabilities, or institutional weight to supervise complex markets effectively. A centralized supervisor, pooling resources and expertise at European level, could provide a higher and more consistent supervision standard.

Third is cross-border activity supervision. Financial markets are inherently cross-border. A transaction may execute on a trading venue in one Member State, clear through a CCP in another, settle through a CSD in a third, and involve counterparties in several more. Supervising such activity through national lenses inevitably creates gaps and overlaps. Information may not flow smoothly between national authorities. Supervisory action in one jurisdiction may be undermined by inaction in another. A centralized supervisor would be better placed to see the whole picture and act decisively when cross-border risks emerge.

Fourth is international competitiveness and influence. In global regulatory discussions, EU influence is diluted by supervisory fragmentation. The U.S. Securities and Exchange Commission (SEC) speaks with a single voice for the world's largest capital market. ESMA, constrained by limited mandate and dependence on national authorities for enforcement, struggles to project comparable influence. A more powerful European supervisor could engage more effectively with international counterparts, shape global standards, and ensure European interests are represented in international forums.

Fifth is supervisory efficiency for market participants. For firms operating in multiple Member States, dealing with a single European supervisor, or at least with a supervisor operating under a single set of procedures and expectations, would be significantly simpler and less costly than navigating multiple NCAs. This is particularly relevant for large cross-border institutions currently devoting substantial resources to managing relationships with multiple supervisors.

5.2 The case for national supervision

Opponents of centralization advance robust counter-arguments rooted in subsidiarity, democratic accountability, institutional capacity, and the practical realities of supervising diverse national markets.

First and most politically resonant is subsidiarity. Under this Treaty principle, decisions should be taken at the lowest level capable of addressing them effectively. Proponents of national supervision argue that capital markets, while increasingly cross-border, retain important national characteristics - different legal systems, corporate governance traditions, market structures, and investor profiles - best understood by national authorities. Centralized supervision risks imposing a one-size-fits-all approach, failing to account for legitimate national differences.

Second is democratic accountability, an objection that deserves more sustained engagement than it typically receives in policy discussions. NCAs are embedded within national institutional frameworks and are accountable, directly or indirectly, to national parliaments and governments. ESMA, as an EU agency, operates within a more attenuated accountability framework. While subject to European Parliament and Council oversight, the channels of accountability are less direct and less well understood by citizens. Transferring significant supervisory powers to ESMA would, critics argue, create a democratic deficit, placing important decisions affecting national markets in the hands of an institution lacking clear democratic mandate.

This concern intersects with the constitutional constraints arising from the *Meroni* doctrine, the principle established by the Court of Justice of the European Union that EU agencies may only exercise clearly defined executive powers subject to objective criteria and judicial review, rather than broad discretionary powers involving policy choices. The legitimacy question is not merely theoretical: financial supervision involves choices with distributional consequences, affecting which firms thrive, which products reach market, and how risks are allocated across society. These are, in a meaningful sense, political choices that democratic theory suggests should be subject to democratic control.

Third is practicality. Effective supervision requires more than rules and powers; it requires people, systems, relationships, and institutional knowledge. NCAs have built deep knowledge of their markets, participants, and environments over many years. A newly empowered ESMA would need to recruit substantial qualified staff (or absorb these from NCAs), develop new methodologies, and systems and build relationships across the EU, all while discharging existing responsibilities. Transition risk is significant and EU institutional reform history suggests such transitions are rarely smooth.

The EU depositary passport in the Parliament's drafts exemplifies the interaction between market access liberalization and supervisory allocation. The proposal would "remove the current restriction requiring the depositary to be established in the same Member State as the fund,"[6] allowing AIFMs and UCITS to appoint depositaries established anywhere in the Union. Yet this liberalization is coupled with ESMA direct supervision of depositaries, recognition that cross-border depositary services create supervisory challenges a purely national model cannot address. The Parliament's draft is explicit: given depositaries' "size and systemic nature," ESMA should "exercise direct supervisory powers over depositories… including ongoing compliance with organizational requirements, safekeeping duties, cash flow monitoring and oversight."

Fourth is the risk of regulatory capture and single points of failure. A single European supervisor would be a very large and powerful institution. Critics worry it could become bureaucratic, inflexible, and distant from supervised markets (unless NCAs become branches or follow the SSM's "hub and spoke" model). There is also concern about regulatory capture: the possibility that a single supervisor dealing with concentrated large institutions could become unduly influenced by supervised entities' interests. A plurality of national supervisors, each with different cultures and perspectives, may provide a healthier supervisory ecosystem than a single monolithic authority.

Fifth is the SSM experience. While often cited as a model, its record is more nuanced than proponents acknowledge. The SSM has faced significant challenges, including difficulties integrating supervisory cultures, tensions between the ECB and national authorities, and proportionality concerns, particularly for smaller banks. Capital markets supervision presents additional complexities given the greater diversity of entities and activities. The argument that the SSM model can simply be transplanted to capital markets is, at best, an oversimplification.

5.3 The middle ground: convergence without full centralization

Between full national sovereignty and full centralization lies a wide spectrum of possible arrangements. It is here that the Commission's actual proposals are situated and here that the most constructive debate is taking place.

One approach, favored by several Member States and some within ESMA, focuses on strengthening supervisory convergence rather than transferring powers. Under this approach, ESMA would continue coordinating, but with significantly enhanced tools to ensure national authorities apply EU rules consistently. These might include more intrusive peer reviews, power to issue binding EU law interpretations, and more robust procedures for addressing national supervisory failures. This preserves local supervision benefits while addressing egregious divergence.

A second approach involves selective centralization, transferring direct supervisory authority to ESMA where the case is strongest, while leaving the bulk with national authorities. The supervision of CCPs, CSDs, and other market infrastructures, which are inherently cross-border and systemically important, is the most obvious candidate. Credit rating agencies (CRAs) and trade repositories have already been centralized at ESMA, providing a precedent. The Commission's MISP largely follows this selective

6. Ibid.


Projective
GROUP

approach. Recent scholarship describes this pattern as "selective supranationalism", a model where Member States endorse supranational supervision generally whilst preserving national authority over strategically significant domestic institutions through legal, political, or institutional exceptions. A fair assessment of this precedent requires asking whether ESMA's supervision of CRAs has demonstrably outperformed national supervision. The evidence is mixed: ESMA has brought greater consistency and transparency to the sector, but critics note that significant market failures, including conflicts of interest and rating quality concerns, have persisted. The CRA precedent may support the feasibility of centralization without conclusively demonstrating its superiority.

A third approach, "twin peaks at European level", would reorganize supervision around functional lines - one authority for prudential supervision, another for conduct - rather than national lines. This model, adopted in the Netherlands, UK, and Australia, has theoretical attractions but would require far more radical restructuring than anything currently under serious consideration. A fourth approach, now formally proposed in the MISP, is the Pan-European Market Operator (PEMO) model. Under this model, an operator meeting specified criteria, including multi-Member State venues or cross-border clearing/settlement above defined thresholds, would be authorized and supervised directly by ESMA. The PEMO's "home" Member State would become commercially and operationally less meaningful; its regulatory treatment would be European in character. The PEMO model represents a potential institutional endpoint for the SIU: supervising the largest, most significant market infrastructures at the level at which their externalities are felt.

A fifth approach emphasizes technology in bridging national and European supervision. Common supervisory data platforms, shared analytical tools, and coordinated supervisory technology (SupTech) - the use of innovative technology by supervisory authorities to support supervision - could achieve many centralization benefits, such as consistency, efficiency, and comprehensive cross-border views, without formal power transfers. The European Parliament's June 2026 drafts substantially develop this approach, proposing a central data platform as "the central supervisory data infrastructure" for ESMA,[7] with sectoral databases under the European Market Infrastructure Regulation (EMIR), the Central Securities Depositories Regulation (CSDR), and the Markets in Financial Instruments Regulation (MiFIR) as "dedicated modules". Crucially, the Parliament proposes a "report only once" principle: "competent authorities and other Union bodies shall not require that entity to report the same information by separate means." This addresses long-standing complaints about duplicative reporting. While technology is not a substitute for institutional design, it may enhance the existing decentralized framework's effectiveness without confronting centralization's full political costs.

6. Political dynamics and stakeholder positions

6.1 The positions of key stakeholders

The debate on supervisory architecture does not map neatly onto familiar political cleavages. Support for and opposition to centralization cut across geographical, ideological, and institutional lines.

Among Member States, positions are influenced by a complex mix of factors: national capital market size and sophistication, NCA strength and prestige, and broader attitudes towards European integration. France has historically supported enhanced European supervision, reflecting its pro-integrationist stance and aspirations for Paris as the EU's primary financial center post-Brexit. Germany has been more cautious, reflecting attachment to BaFin (albeit not without supervisory failings) and the Bundesbank and broader skepticism about transferring powers to European agencies. Smaller Member States are divided: some see centralized supervision as access to otherwise lacking expertise and resources while others fear marginalization in a system dominated by larger Member States.

A significant resistance bloc has emerged among Member States that have long served as major cross-border financial services domiciles - notably Ireland, Luxembourg, and Malta. These jurisdictions have, over decades, built substantial financial services industries depending on EU-wide passporting rights and responsive national supervisory frameworks. Ireland and Luxembourg host the

7. Ibid.

vast majority of EU-domiciled investment funds, including UCITS and alternative investment funds (AIFs) - funds that do not qualify as UCITS and are typically marketed to professional investors - distributed across the continent and beyond. Malta has carved out notable positions in fund administration, fintech, and insurance. For all three, national supervision quality and efficiency is not merely institutional pride but a core element of their competitive proposition.

Third-country access provisions have emerged as a particularly contested element. The Parliament's June 2026 drafts propose tightening conditions for third-country fund and manager market access, adding references to Annex II of the Council conclusions on non-cooperative tax jurisdictions and to "the EU list in relation to third countries which have strategic deficiencies in their AML/CFT regimes."[8] These amendments would affect Articles 35, 36, 37, 40, and 42 of AIFMD, the full suite of third-country provisions. The Parliament's approach reflects broader concern that supervisory integration within the EU must be accompanied by strengthened external gatekeeping, lest third-country structures circumvent Union rules. This illustrates a recurring theme: movement towards EU supervisory centralization is often accompanied by corresponding third-country access tightening, a dynamic with significant implications for the EU's global financial market position.

These Member States have expressed concern that transferring supervisory powers to ESMA could erode the regulatory relationships and responsiveness underpinning their financial services ecosystems. A fund manager domiciled in Dublin or Luxembourg benefits from direct engagement with an NCA that understands the local market, operates in the same time zone, and responds agilely to authorization requests and queries. That NCA, however, may fail to understand what that firm does from that jurisdiction when passporting across the EU. The prospect of those interactions being replaced by engagement with a centralized European authority - inevitably more distant, more bureaucratic, and less attuned to individual domicile specificities - is viewed with considerable apprehension.

The political obstacles to supervisory centralization are well documented. Member States with significant domestic financial sectors, Germany, France, and the Netherlands in particular, have historically resisted transferring supervisory powers, viewing national supervision as a matter of sovereignty and influence over systemically important institutions. The SSM was achieved only after a severe banking crisis demonstrated national supervision's inadequacy; absent a comparable capital markets crisis, political impetus may be lacking. Recent scholarship frames this resistance through "selective supranationalism": Member States accept supranational supervision for certain activities whilst preserving national authority over "national strategic assets". The analysis identifies a "constitutional trilemma" among three objectives that cannot all be simultaneously achieved: national supervisory sovereignty, uniform market integration, and competitive neutrality. Whether this trilemma is genuine or constructed merits scrutiny. Its analytical utility depends on how precisely its terms are defined, and some may argue that well-designed convergence mechanisms could approximate all three objectives. Nevertheless, the framework usefully illuminates the trade-offs policymakers face. At "Corner 3" of this trilemma, nominal uniform integration coexists with national sovereignty, but competitive neutrality is sacrificed: "entities in Member States with sufficient political weight to negotiate effective carve-outs receive, in substance, different supervisory treatment from comparably significant entities in Member States without such weight."

The European Parliament has generally been sympathetic to enhanced European supervision, viewing it as a natural extension of the single market project and a means of strengthening European competitiveness. However, individual MEPs often reflect national constituency concerns and the legislative process is likely to produce significant amendments to the Commission's proposals.

ESMA itself has navigated the debate carefully. While the Authority would benefit from expanded mandate and resources, it has been cautious about advocating too aggressively for its own institutional interests. ESMA's public communications have emphasized supervisory convergence and level playing field needs, while acknowledging subsidiarity's importance and local supervisory knowledge's value.

A further consideration is that the distribution of supervisory powers between ESMA and national authorities raises accountability and legitimacy

8. Ibid.

questions beyond institutional efficiency. National supervisors are, at least indirectly, accountable to national parliaments and governments. ESMA's accountability structure is more diffuse, operating through the European Parliament, Council, and Commission, as well as its own governance arrangements. Some stakeholders question whether ESMA possesses the legitimacy to exercise the broad supervisory powers full centralization would entail. Recent analysis suggests this accountability question is particularly acute for market infrastructure, entities that are not merely regulated firms but are, in a meaningful sense, "constitutive of the markets themselves." A trading venue is the mechanism by which price formation occurs; a CSD is "the legal and operational mechanism by which ownership of dematerialized securities is constituted and transferred;" and a CCP is "the mechanism by which counterparty risk across an entire market is mutualized." Regulating ordinary firms concerns conduct and prudential standards; regulating market infrastructures "shades into the constitutional governance of the internal market in financial services itself."

6.2 The role of the U.K.'s departure

Any discussion of European supervisory architecture must reckon with U.K. departure. London was, by considerable margin, the largest and most sophisticated EU financial center and its departure has fundamentally altered the landscape. The loss of London has intensified integration urgency - if European capital markets are to compete globally, they need depth and liquidity centers within the EU. At the same time, it has complicated the supervisory picture, as the EU must now manage a significant, complex third-country relationship with a major financial center on its doorstep. A counterpoint deserves consideration: Brexit might also counsel caution about deep integration. The UK's departure demonstrated that political shocks can disrupt carefully constructed institutional arrangements. Some argue the EU should prioritize resilience and flexibility over scale; building supervisory architecture that can adapt to political change rather than assuming ever-closer integration is inevitable. The "compete with London" narrative, while politically resonant, may obscure alternative paths.

The Irish Presidency Programme addresses EU-U.K. relations directly: "The United Kingdom remains a key partner for the EU. The Irish Presidency will be ambitious in promoting positive EU-UK relations, while seeking new opportunities to advance the renewed agenda of cooperation in the interests of citizens in the UK and across the Union."[9] This framing suggests Ireland will approach EU-U.K. financial services questions constructively rather than competitively, potentially creating space for regulatory cooperation that could reduce pressure for defensive supervisory centralization.

The European Parliament has historically supported enhanced ESMA powers as a counterweight to both national regulatory capture and Member State dominance in Council. The Parliament may, therefore, be expected to support, or even strengthen, the Commission's proposals. Early indications confirm this: the Parliament's June 2026 drafts propose more extensive ESMA powers. In asset management, one draft proposes ESMA directly supervise "significant EU groups of management companies and AIFMs" meeting specified thresholds (aggregate net asset values above EUR 100–150 billion, cross-border presence in more than one Member State), assuming "the supervisory tasks and duties assigned under this Directive to the competent authority of the home Member State, including for their authorization and supervision."[10] The Parliament's approach reflects a consistent pattern: accepting selective centralization whilst pushing for broader scope than the Commission proposes. The outcome will depend on how effectively Member States defend existing supervisory prerogatives in Council negotiations.

The U.K.'s post-Brexit regulatory trajectory provides an interesting counterpoint. The U.K. has pursued regulatory reform aimed at enhancing London's competitiveness as a global financial center, including through the Edinburgh Reforms. This has created competitive pressure on the EU to ensure its regulatory and supervisory framework does not disadvantage European firms and markets; pressure that, in some respects, strengthens the case for a more streamlined European supervisory architecture.

6.3 Likely trajectory of reform

As negotiations proceed in 2026, the central policy tension is clear: can the SIU's objectives be achieved

9. Irish Presidency of the Council of the European Union 2026, Policy Programme, https://tinyurl.com/4t96p7m5
10. European Parliament, supra note 2

without strengthening European-level supervision and if so, to what extent? Predicting EU legislative outcomes is hazardous, but several observations can be made about the likely trajectory.

Market infrastructure provides the most instructive test case. The Commission's proposals contemplate direct ESMA supervision for "significant" trading venues, CCPs, and CSDs, with significance determined by activity levels, cross-border operations, and systemic importance. The Parliament's June 2026 draft goes further, proposing to extend ESMA's direct oversight to all EU CSDs, on the basis that "diverging national practices raise costs, enable regulatory arbitrage and deter cross-border activity."[11] For crypto-asset service providers (CASPs) - entities authorized under MiCAR to provide services such as custody, trading, and exchange of crypto-assets - the Parliament proposes a tiered approach: "significant" CASPs are subject to direct ESMA supervision and non-significant providers remaining under NCA supervision, with significance determined by client numbers exceeding 10 million, assets in custody exceeding €15 billion, or authorization in five or more Member States. The contrast with the Commission's proposal - blanket ESMA oversight of all CASPs - illustrates the Parliament's proportionality approach: "blanket ESMA oversight of all CASPs, including SMEs operating in a single Member State, is disproportionate and adds bureaucratic cost without supervisory gain." These thresholds will be intensely contested in trilogue, as they effectively determine which Member States retain meaningful supervisory authority over domestic market participants.

Second, full centralization - a single European capital markets supervisor with comprehensive direct authority - is not realistic near-term. The political obstacles are too great. Too many Member States are unwilling to contemplate such far-reaching sovereignty transfer and the institutional challenges of creating such an entity from scratch would be formidable.

Third, the most likely outcome is a package significantly enhancing ESMA's role and powers in specific areas while preserving national supervision for most market participants. The precise scope of ESMA's enhanced mandate will be intensely negotiated, with market infrastructure supervision (CCPs, CSDs, and consolidated tape providers) being where centralization is most likely to advance. Enhanced convergence mechanisms - robust peer review, binding mediation, and strengthened "comply or explain" procedures - are also likely to feature prominently.

The MiFID II/MiFIR implementation experience offers sobering lessons about harmonization limits without supervisory centralization. Despite these frameworks' ambition to create a unified regulatory environment, significant divergences have persisted in key concept interpretation, conduct rule application, and supervisory discretion exercise. The Parliament's June 2026 drafts acknowledge this structural problem in asset management, noting that "each Member State currently draws up national rules of conduct and prudential rules with which management companies and AIFMs are required to comply, leading to diverging national rulebooks that hinder the development of a true Single Market for fund managers."[12] The Parliament's remedy is mandatory ESMA development of "Union-wide rules of conduct", a shift from permissive ("may adopt guidelines") to mandatory language reflecting frustration with convergence pace. This suggests the relationship between harmonized legislation and supervisory convergence is more complex than early Single Rulebook advocates anticipated.

Fifth, the reform timeline is likely to be extended. The Commission's proposals must pass through the ordinary legislative procedure, involving both Parliament and Council. Given issue complexity and political intensity, a two to three year process, or longer, is entirely plausible. Market participants should not expect transformative change overnight.

7. Ireland's Council Presidency - a strategic SIU moment?

Before turning to Ireland's specific role, it is worth noting the European Parliament's approach to the transition from national to ESMA supervision. The Parliament's June 2026 draft proposes that the Commission's "permanent derogation for national

11. Ibid.
12. Ibid.

surveillance authorities risks entrenching supervisory fragmentation at the market-integrity layer indefinitely."[13] Instead, the Parliament proposes a three-year transitional period during which NCAs retain market surveillance responsibilities, followed by a mandatory ESMA readiness assessment. If ESMA concludes it is not operationally ready, it must "set out the measures required to achieve readiness and the expected timeline," and the Commission must either propose an extension or "publish a statement explaining why no extension is warranted." This converts permanent fragmentation into a transitional arrangement with a clear convergence trajectory, a politically significant design choice reflecting the Parliament's preference for evolutionary centralization over structural stasis. This transitional framework sets the stage for Ireland's Presidency.

7.1 Why Ireland's Presidency matters

When Ireland assumes the Council Presidency in July 2026, it will do so when the SIU's supervisory pillar is politically active but not yet settled. The rotating Presidency's responsibility is not to impose national preferences but to broker agreements, manage compromise texts, and guide negotiations towards common positions. Ireland's significance lies less in historical precedent and more in its structural position within European capital markets. Importantly, Ireland's own Presidency Programme, published in advance of the July 2026 assumption, provides concrete evidence of Irish priorities that moves this analysis beyond speculation.[14]

As one of the EU's largest domiciles for cross-border investment funds and asset management, Ireland sits at the heart of the ecosystem the SIU seeks to deepen. Its financial services model depends on passporting, regulatory credibility, and cross-Member State investor confidence. Ireland's domestic economic interests are closely aligned with SIU success. The Presidency Programme confirms this alignment explicitly: "A key priority of the Irish Presidency is the Savings and Investments Union (SIU). A stronger, more liquid EU capital market will improve the functioning of the real economy by offering more attractive opportunities to both businesses and investors and boosting Europe's capacity to finance innovation and support enterprises, both large and small."[15] The Programme commits Ireland to "aim to conclude negotiations on the Market Integration and Supervision Package" in line with the One Europe, One Market Roadmap, a significant undertaking given the MISP's supervisory centralization elements.

The Presidency Programme situates the SIU within a broader competitiveness agenda framed around the "One Europe, One Market Roadmap" agreed by the Council, Commission, and Parliament in April 2026. Ireland's three declared pillars - competitiveness, values, and security - place financial market integration squarely within economic strategy rather than treating it as a standalone regulatory exercise. The Programme states: "It is time to take a decisive step forward on the Savings and Investments Union, and to help channel Europe's substantial savings into more productive investments." This framing aligns Ireland's Presidency with the Draghi and Letta reports' diagnosis while committing to delivery within the Roadmap's "firmly ambitious and challenging"' timelines.

As discussed in Section 6 in the context of CASPs, MiCAR illustrates both the potential and limits of legislative harmonization. MiCAR establishes a comprehensive framework for CASP authorization, supervision, and conduct, including detailed custody, trading, and token issuance provisions. Yet MiCAR largely follows the traditional allocation model: NCAs responsible for authorization and ongoing supervision, with ESMA coordinating through guidelines, technical , and peer reviews. The Parliament's June 2026 draft proposes a more differentiated approach, distinguishing "significant" CASPs (subject to direct ESMA supervision) from non-significant providers (remaining under NCA supervision). The Parliament also proposes ESMA be designated "the single competent authority" for crypto-asset market abuse enforcement, with powers to "conduct investigations or take enforcement action" regardless of whether the target "is a significant crypto-asset service provider… not meeting the significance criteria… or a natural or legal person not otherwise subject to authorization."[16] This reflects recognition that market integrity functions may require centralization even where day-to-day prudential supervision remains national. The true test will come as NCAs apply the regulation across twenty-seven jurisdictions and divergent practices emerge.

13. Ibid.
14. Irish Presidency of the Council of the European Union 2026, supra note 9
15. Ibid.
16. European Parliament, supra note 2

7.2 What Ireland may prioritize under the SIU

The Irish Presidency is likely to approach the supervisory debate through the SIU's broader objectives rather than as a purely institutional power struggle.

ESMA itself has evolved significantly since 2011. Originally conceived primarily as a standard-setter and coordinator, ESMA has progressively acquired direct supervisory responsibilities - first for credit rating agencies, then trade repositories, and most recently certain securitization repositories and data reporting service providers. Each extension has been contested, incremental, and carefully circumscribed. Yet the cumulative effect has transformed ESMA from a coordinating body into something approaching a genuine European supervisory authority in specific areas. The Parliament's June 2026 drafts contemplate further substantial expansion. Beyond trading venues, CSDs, asset management groups, and CASPs, the Parliament proposes ESMA "direct supervision over depositaries" under both UCITS and AIFMD, with powers encompassing investigations, on-site inspections, supervisory warnings, and administrative fines. The Parliament also proposes enhanced information-sharing between ESMA and "members of the European System of Central Banks," recognizing that effective capital market supervision requires coordination with monetary policy authorities. The MISP represents the most significant proposed expansion of ESMA's direct supervisory powers to date.

Second, Ireland may seek pragmatic differentiation, supporting enhanced EU-level supervision for systemically relevant, cross-border market infrastructures or very large asset managers while advocating preserved national supervision for smaller, domestically oriented firms. Such proportionality would reflect both SIU ambitions and political realism.

Third, Ireland may prioritize legal certainty and operational clarity. A recurring market participant concern is uncertainty about supervisory interfaces. Clear competence delineation between NCAs and EU bodies could strengthen SIU credibility without necessitating full centralization.

The treatment of stablecoin issuers under MiCAR illustrates supervising entities operating across regulatory and geographic boundaries. The Parliament's June 2026 draft introduces provisions for "multi-issuance arrangements", structures where "a Union-authorised issuer collaborat[es] with a non-Union issuer to jointly issue tokens that share the same technical characteristics and are deemed interchangeable, with reserve assets distributed across both issuers' jurisdictions."[17] The draft notes that "the legal status of such arrangements under Regulation (EU) 2023/1114 is currently unclear, resulting in divergent interpretations by competent authorities across Member States." The Parliament's proposed remedy is outcome-based equivalence requiring issuers to demonstrate "similar prudential outcomes… across the full multi-issuance structure," including reserve coverage, governance, and "functionally equivalent redemption rights for all holders irrespective of the issuer from which their tokens originate." This seeks to accommodate global stablecoin operations within the EU framework without sacrificing prudential safeguards.

Fourth, Ireland may emphasize sequencing. The SIU is a multi-year project. Institutional reform progressing incrementally - allowing markets and supervisors to adapt - may be more politically sustainable than abrupt structural shifts.

Fifth, the Presidency Programme reveals Ireland's broader negotiating philosophy. The Programme emphasizes "simplification" repeatedly, not merely as regulatory burden reduction but as "better regulation, not deregulation."[18] This suggests Ireland may frame supervisory reform proposals through a proportionality lens, supporting enhanced powers where they genuinely reduce complexity and fragmentation while resisting expansions that add supervisory layers without corresponding simplification of the existing national architecture. The Programme's commitment to "a more coherent, streamlined and simplified regulatory framework at the EU level… fully respecting the principles of proportionality and subsidiarity" signals the balancing Ireland is likely to seek.

17. Ibid.
18. Irish Presidency of the Council of the European Union 2026, supra note 9

7.3 Brokering compromise: July 2026 to January 2027

Any assessment of supervisory integration prospects must also consider the financial industry itself. Large, internationally active institutions generally favor harmonized supervision, which reduces multi-jurisdictional compliance burdens and creates a more predictable environment. Smaller, domestically focused institutions may prefer NCA proximity and familiarity and may be more sympathetic to supervisory diversity arguments. However, this broad characterization may oversimplify industry positions, which are shaped by specific business models, competitive dynamics, and regulatory relationships that vary significantly across firms. A comprehensive analysis would require engagement with industry association position papers, consultation responses, and lobbying disclosure data that goes beyond the scope of this article. The Parliament's June 2026 drafts reveal attention to cost dynamics. The proposal that NCAs reduce fees proportionately when supervisory tasks transfer to ESMA responds directly to industry cost accumulation concerns. Similarly, the Parliament's insistence that ESMA's fees be "structured so as not to create competitive disadvantages for Union financial market participants relative to participants in comparable third-country markets" - including mandatory "benchmarking… against supervisory fees charged by comparable authorities in major third-country jurisdictions" - reflects awareness that regulatory costs affect global competitive positioning. Industry lobbying positions on specific proposals will, therefore, be fragmented, reflecting different market participant categories' diverse interests.[19]

The Presidency's approach may, therefore, focus on defining objective criteria for EU-level supervision - systemic relevance, cross-border activity thresholds, or market share - rather than pursuing open-ended institutional transfers. Such criteria-based differentiation would make reform more predictable and defensible.

When Lithuania assumes the Presidency in January 2027, it will inherit Ireland's compromise-building results. If substantial progress has been achieved in the second half of 2026, Lithuania may be positioned to finalize negotiations. If not, the debate may extend further into 2027.

8. Implications for market participants

8.1 Strategic considerations for firms

Beyond supervisory architecture, competition policy alignment has emerged as an underappreciated dimension of market integration. The Parliament's June 2026 draft notes that "eliminating this fragmentation requires not only harmonized rules and coherent supervision, but also a competition policy framework that actively supports cross-border consolidation."[20] The Parliament proposes the Commission assess whether "existing merger review thresholds, market definition methodologies, and national change-of-control regimes are consistent with the integration objectives of this Regulation and the broader Savings and Investments Union agenda." The explanatory statement is explicit: "Without a competition policy framework aligned with Single Market objectives, cross-border FMI consolidation will remain obstructed regardless of supervisory harmonization." This framing reflects recognition that supervisory architecture is only one dimension of structural barriers to genuine market integration, a point practitioners advising on cross-border transactions will recognize.

For firms operating in European capital markets, the evolving supervisory landscape presents both challenges and opportunities. Several strategic considerations merit attention.

First, firms should anticipate greater supervisory consistency across the EU, regardless of the precise institutional form emerging from the legislative process. Whether through direct ESMA supervision, enhanced convergence mechanisms, or both, the direction of travel is clearly towards reducing national supervisory divergence. Firms that have relied on "shopping" between national supervisory regimes for favorable treatment may find this strategy increasingly difficult to sustain.

Second, the evolution of European capital markets supervision will be shaped by broader geopolitical and economic developments that are inherently unpredictable. The EU-U.K. financial services relationship remains uncertain and contested, with implications for clearing activity, trading venues,

19. European Parliament, supra note 2
20. Ibid.

and asset management locations. The rise of digital assets and decentralized finance challenges traditional supervisory models premised on identifiable, regulated intermediaries. The Commission's proposals address this through the DLT Pilot Regime, which the Parliament's June 2026 draft significantly expands: the aggregate market capitalization threshold would rise from €100 billion to €1,000 billion, with the simplified regime threshold increasing from €10 billion to €25 billion. The Parliament characterizes this as "reframing the DLT Pilot as a permanent mainstream infrastructure regime," noting that "the €100 billion cap constrains the viability of large-scale DLT infrastructure: a single tokenized short-term financing market already exceeds €350 billion." These developments may accelerate or decelerate supervisory centralization in ways that cannot presently be anticipated with confidence. Scenario planning is valuable: what if a major EU financial institution fails under national supervision, vindicating centralization advocates? What if ESMA itself experiences a supervisory failure, vindicating subsidiarity proponents? What if U.S.-EU regulatory divergence accelerates, increasing pressure for a unified European voice? The prudent approach is to recognize that today's analysis is path-dependent on current trajectories that may shift.

Third, firms should consider the potential implications of enhanced ESMA supervision for their organizational structures and governance. If ESMA assumes direct supervisory responsibility for certain entities or activities, firms within scope will need to establish or strengthen ESMA engagement, develop new compliance and reporting procedures, and potentially restructure operations to align with ESMA's supervisory expectations.

Fourth, market participants should monitor the Parliament's June 2026 draft reports, which represent the most detailed statement to date of the Parliament's ambitions for supervisory integration. The capital market regulation draft proposes ESMA direct supervision for significant trading venues, all CSDs and significant CASPs, whilst designating ESMA as the single authority for crypto-asset market abuse enforcement. The capital market Directive draft proposes ESMA direct supervision for "significant EU groups of management companies and AIFMs" and for depositaries under both UCITS and AIFMD. Taken together, these would substantially extend ESMA's direct supervisory mandate. The explanatory statement frames the package ambitiously: "The Savings and Investments Union (SIU) strategy requires legislative delivery and the Market Integration and Supervision Package (MISP) is its most substantive expression to date."[21] Whether Council will accept proposals that materially reduce national supervisory authority over domestically significant market infrastructures and asset managers remains the central open question. The answer will reveal much about the future trajectory of European capital markets integration.

Fifth, for large cross-border actors, the Irish Presidency represents more than a procedural milestone. It may mark the phase in which the SIU's supervisory contours become materially clearer. Executives should monitor not only legislative texts but also political signaling emerging during Ireland's Presidency. The tone and framing adopted between July and December 2026 may shape European supervision's long-term trajectory.

Seventh and more broadly, firms should recognize that the supervisory debate is part of a larger European capital markets transformation. The SIU Strategy encompasses a wide range of measures - from retail investment reform to listing simplification to market data transparency - that, together, have the potential to significantly alter the competitive landscape. Firms taking a strategic view of these developments, rather than responding piecemeal to individual legislative proposals, are likely to be best positioned to thrive.

The ultimate trajectory will depend on whether the Union's political institutions can resolve what scholarship describes as the "constitutional trilemma" of capital markets supervision. The trilemma posits that the EU cannot simultaneously achieve: (i) national supervisory sovereignty; (ii) uniform market integration; and (iii) competitive neutrality. At most two of these objectives can be fully realized; pursuit of the third necessarily requires sacrifice of at least one other. The SIU's policy architecture implicitly chooses "Corner 3" - nominal uniform integration coexisting with preserved national sovereignty, at the cost of competitive neutrality. Whether this equilibrium can deliver the capital markets integration Europe requires, or whether it will require revisiting once its limitations become apparent, remains the defining question for EU financial regulation in the decade ahead.

21. Ibid.

8.2 Implications for third-country firms

For firms based outside the EU, including U.K.-headquartered firms, the evolving supervisory landscape has particular significance. Enhanced ESMA powers may affect the terms on which third-country firms access EU markets, equivalence determinations underpinning cross-border activity, and supervisory expectations applied to third-country branches and subsidiaries within the EU.

Third-country firms should pay close attention to the Commission's proposals for enhanced third-country entity oversight, including more granular reporting requirements and more active supervisory engagement. The trend is clearly towards greater scrutiny of third-country EU market access and firms that have relied on relatively light-touch arrangements may need to adapt.

9. Conclusion

As of March 2026, the EU is recalibrating its supervisory architecture to support the SIU's ambitions. The debate on the future of European financial supervision is, at its core, a debate about what kind of capital market Europe wants to build. A fragmented supervisory landscape, in which NCAs each oversee a small segment of the European market, is consistent with capital markets that remain primarily national in character, linked by harmonized rules but not truly integrated. A centralized supervisory architecture, in which a single European authority oversees the full breadth of capital markets activity, is consistent with genuinely integrated markets where capital flows freely across borders and firms operate on a truly pan-European basis.

Neither extreme is likely in its pure form. The EU has a tradition of finding institutional compromises that balance integration imperatives with national diversity realities and the current debate is unlikely to produce a radically different outcome. What is clear is that the status quo is widely perceived as no longer tenable, though this assessment should be understood as a political judgment rather than an analytical certainty. The combination of competitive pressure from other major capital markets, the enormous investment needs of green and digital transitions, and the geopolitical imperative for European financial sovereignty has created a powerful political case for reform. Whether that reform will ultimately deliver the benefits proponents anticipate, or whether unintended consequences will emerge, cannot be known in advance.

The precise shape of that reform remains to be determined. The Commission's proposals - strengthening ESMA's role and powers, centralizing supervision of certain cross-border entities and infrastructure, enhancing convergence mechanisms, and reforming ESMA's governance and funding - represent a pragmatic and politically realistic starting point. The legislative process will inevitably involve compromises. But the direction of travel is clear: towards a more integrated, more consistent, and more European approach to capital markets supervision.

Ireland's Council Presidency assumption in July 2026 coincides with this critical juncture. Its structural role within European capital markets and economic alignment with SIU objectives position it to shape compromise tone and direction. The question is no longer whether supervision will evolve, but how. The equilibrium forged during the Irish Presidency - balancing national autonomy with integrated capital market demands - may define European financial integration's next chapter.

For market participants, the message is equally clear: the supervisory landscape is changing and firms that engage proactively - understanding political dynamics, contributing to the legislative process, and preparing operationally for new supervisory arrangements - will be best placed to navigate the transition successfully.

The SIU is the most important project for the future of European finance. Whether it succeeds will depend not only on legislative proposal quality but on the willingness of Member States, supervisory authorities, and market participants to move beyond entrenched positions and work together towards a supervisory architecture fit for the twenty-first century. The debate is far from over, but the stakes - for Europe's competitiveness, its citizens' prosperity, and its place in the global financial system - could hardly be higher.


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Scaling Europe's Financial System

Regulatory sandboxes under scrutiny: five dimensions in need of attention[1]

Filippo Bagni,[2]
Research fellow, CybeRights Interuniversity Research Centre, and Legal Officer, European Commission

Ludovica Ciarravano,
Ph.D. Candidate in Cybersecurity, IMT School for Advanced Studies Lucca and University of Florence

Devit Keqi,
Ph.D. Candidate, University of Florence, and Public servant, Tuscany Region

Fabio Seferi,
Ph.D. Candidate in Cybersecurity, IMT School for Advanced Studies Lucca and University of Florence

Daria Vernon De Mars,[3]
Ph.D. Candidate in Legal Science, University of Florence, and Research Associate, European University Institute

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2. The views and opinions expressed are those of the author only and do not reflect or represent any official policy or position of the European Commission.
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ABSTRACT

Regulatory sandboxes have become a key instrument in EU digital governance, and substantial academic research has mapped their legal framework and assessed their operational effectiveness. This paper does not revisit that ground. Instead, it identifies a set of structurally important questions that have been inadequately investigated in the existing literature. These questions address the fundamental issue of whether sandboxes can function as legitimate, effective, and democratically accountable instruments of public law. The analysis is structured around five dimensions. The first concerns the co-regulatory shift that sandboxes represent, as well as the associated legitimacy issues and risks of regulatory capture. The second dimension examines the conditions under which sandboxes can facilitate genuine regulatory learning rather than merely bilateral information exchange. The third dimension addresses communication as a critical yet systematically underspecified governance function throughout the sandbox lifecycle. The fourth dimension examines the territorial aspect of sandbox governance, where a significant gap remains between legal possibility and operational readiness. The fifth dimension explores the relationship between sandbox design and the operational protection of fundamental rights. Together, these five dimensions reveal that sandboxes are not merely governance instruments; they also mirror the structural tensions running through EU digital governance. Improving them requires addressing issues that extend well beyond the instrument itself at a time when the current governance choices will indelibly shape how the digital domain is governed and organized.

1. Introduction

Regulatory sandboxes have become one of the most widely discussed instruments in contemporary EU digital governance. A substantial body of scholarship has now been established, laying out their conceptual foundations, mapping their legal architecture across key regulatory frameworks, and beginning to evaluate their practical applications. Rather than retracing this ground, this paper builds on it. It starts from the premise that regulatory sandboxes are structured environments for supervised experimentation, designed to facilitate compliance, enable regulatory learning, and support market access for innovators operating in complex regulatory landscapes.

However, regulatory sandbox literature and governance, despite its sophistication, has not adequately investigated a set of structurally important questions, essential to ensuring that the growing investment results in effective, inclusive, and democratically accountable governance. This contribution, therefore, aims to highlight aspects of the regulatory sandbox phenomenon that require sustained analytical attention, to propose frameworks where they are currently absent, and to begin evaluating tentative responses where the evidence permits.

Five dimensions structure the analysis.

The first of these dimensions concerns the potential "co-regulatory" approach that sandboxes embody, and the questions of legitimacy that it raises. As compliance solutions are (co)developed through structured dialogue between regulators and the entities they regulate, the traditional framework of public law-making is reshaped. The risk of regulatory capture and ethics washing remains insufficiently theorized and unaddressed.

The second dimension considers the conditions under which regulatory sandboxes can facilitate genuine regulatory learning rather than merely bilateral information exchange. Experimental governance literature identifies a demanding set of criteria (transparency of objectives, structured feedback mechanisms, periodic revision, and outward-facing accountability), which most existing regulatory sandbox designs should carefully consider in view of successful regulatory learning.

The third dimension concerns the role of communication as a governance function throughout the sandbox lifecycle. Empirical evidence from national implementations consistently identifies this as a critical determinant of effectiveness, yet the current legal framework leaves it almost entirely unspecified.

The fourth dimension relates to the territorial aspect of sandbox governance. Although Article 57(2) of the AI Act paves the way for local and regional experimentation, there is still a significant gap between legal possibility and operational readiness. Furthermore, the coordination challenges faced by territorial authorities within multilevel governance frameworks remain largely unresolved.

The fifth dimension relates to the relationship between sandbox governance and the protection of fundamental rights. Rather than treating compliance with rights as an ex-ante declaration, sandboxes offer the structural possibility of operationalizing rights through iterative testing under realistic conditions, but only if this function is built into their design from the outset rather than being treated as an incidental by-product.

Together, these five dimensions represent the areas in which the discrepancy between the institutional ambitions of regulatory sandboxes and the adequacy of their current design is most pronounced, and where further investigation is needed.

2. The blurring line between regulator and regulated

As anticipated, the first dimension to be investigated further concerns a transformation that is already underway, but which appears to be insufficiently theorized: the emergence of regulatory sandboxes as spaces of (co)regulatory (co)production, in which the classical boundary between those who make rules and those who follow them is being quietly but consequentially rearranged.

This dimension addresses the conceptual and constitutional question of whether the relationship between law and technology is changing the way public norms are produced. One of the defining features of contemporary digital governance is the emergence of the concept of "co-regulation": governance models in which the distinction between rule-maker and rule-taker is negotiable and increasingly blurred [Bagni (2026), Longo et al. (2025)]. In this context, regulatory sandboxes are one of the most institutionalized expressions of this phenomenon; however, it seems that the related risks are not sufficiently taken into consideration.

To understand the importance of this issue, it is helpful to provide some context. The EU's "Digital Decade Policy Programme 2030" has exposed a structural paradox: the more comprehensive the regulatory framework, the greater the risk that its compliance burden will undermine the very innovation it seeks to govern [Baldwin et al. (2010), Weimer and Marin (2016)]. The 2024 Draghi Report addressed this tension directly by placing innovation at the center of the EU's Strategic Agenda, while also warning that regulatory complexity could erode European competitiveness [EC (2024a, b)]. Finally, the 2025 Digital Omnibus Package has since elevated this concern to the top of the political agenda by explicitly pushing for simplification and burden reduction [EC (2025)]. As a consequence, the conclusion that innovation must be regulated but that the regulatory process itself must also innovate is now widely shared [Hofmann et al. (2022)].

This shift is the result of a structural transformation. The progressive transition from directives to regulations has significantly reduced the flexibility traditionally enjoyed by Member States through transposition. Consequently, the European Commission has become the primary regulatory interlocutor for technology providers worldwide, taking on new responsibilities in supervision, coordination, and enforcement. As the system can no longer deliver flexibility through national legislative design, this must now be achieved through structured dialogue with industry. In this evolving landscape, the European Commission is taking on an increasingly operational "listening" regulatory role, relying on regulatory dialogue, systematic evidence gathering, and structured cooperation with industry to reduce information asymmetries and enhance the effectiveness of enforcement [Bagni (2026), Longo et al. (2025)].

It is precisely in this context that regulatory sandboxes have attracted increasing enthusiasm. The Draghi Report described them as "a catalyst for innovation in Europe's digital economy". The Digital Omnibus Package has indicated the potential for the creation of an EU-level sandbox for general-purpose AI systems. From August 2027, national AI regulatory sandboxes will be mandatory across all Member States. Sandboxes are, therefore, becoming a permanent feature of EU regulatory architecture and a new model of law-making. In this emerging model, rules no longer flow exclusively from the top down; rather, they emerge through progressive, dialogic interaction between regulators and the entities they oversee [Ranchordas (2021), Ruschemeier (2025)].

On closer inspection, regulatory sandboxes reveal themselves to be part of something larger. They are not just a technical governance instrument; rather, they are the most vivid institutional expression of a deeper transformation in the relationship between public law and private technological power. From this perspective, two fundamental questions emerge as two sides of the same coin.

The first issue is the transformation of the lawmaking process itself. As mentioned previously, sandboxes are becoming laboratories for lawmaking, providing spaces in which regulators and innovators can collaborate to design regulatory solutions that, once validated, can inform future legislation and administrative practice [Ahern (2025), [Longo et al. (2025)]. This shift towards anticipatory, co-produced governance, rather than ex-post sanctioning, is largely a necessary response to the information asymmetry that regulators face in fields such as artificial intelligence (AI). The issue is, therefore, not whether this dynamic is underway, but how far it can legitimately go. A first question is: can public law absorb this degree of private participation without losing its character as a general, democratically grounded expression of public interest [Dizon (2012)]?

A second question reveals the "darker" side of the same coin: if sandboxes are becoming sites of quasi-normative co-production, who shapes what happens inside them and to what end? One under-examined trend is the growing number of experts from major technology companies serving on the advisory bodies of regulators and standard-setting groups that will eventually govern those same companies. This is an inevitable feature of highly complex regulation, where the knowledge required for effective governance is concentrated within the entities being governed. However, there is a risk of "regulatory capture": regulators may not only be influenced by industry but also begin to think like it. This involves adopting its conceptual frameworks, risk tolerances, and definitions [Dal Bó (2006), Vinci (2024), Zarra (2025)]. In this context, the sandbox tool risks further institutionalizing this dynamic by providing a legally approved space in which the distinction between regulator and regulated becomes increasingly blurred, and in the worst cases is even inverted.

This concern is exacerbated by the risk of "ethics washing", whereby participation in the sandbox is used primarily for reputational benefit or to obtain a regulatory shortcut, without any genuine commitment to compliance [Francis (2025), Schultz et al. (2025), Zarra (2025)]. Well-resourced actors can exploit sandboxes to influence regulatory expectations before rules are finalized, thereby transforming tools intended for SMEs and start-ups into instruments of disproportionate influence [Bagni and Lazzeretti (2026)]. The institutional response to these risks cannot merely be to slow down or reverse the co-regulatory shift represented by sandboxes. Structured dialogue is a functional necessity, not a political choice. The question, therefore, is not whether to engage, but how to do so without surrendering the independence, neutrality, and democratic accountability required by public law.

In this context, the most fundamental safeguard is structural rather than procedural. Participation in regulatory sandboxes for businesses is voluntary, and they are only effective if they attract the intended participants, such as SMEs and start-ups. However, if the sandboxes are procedurally complex or resource-intensive, or if the outcomes are uncertain and with no clear added value, these actors will simply not participate. The consequence is not merely underuse, but institutional substitution: the space vacated by SMEs and start-ups will be filled by large, well-resourced companies whose primary motivation could be privileged access to the structured regulatory dialogue that sandboxes provide, rather than compliance learning. In that scenario, an instrument designed to reduce competitive asymmetry could become a mechanism for perpetuating it. This is why properly designed sandboxes - ones that are accessible, proportionate, and genuinely useful to those who need them most - are not just a matter of good administration; they are a prerequisite for the instrument to fulfil its intended purpose as a public tool in the service of the public interest, rather than becoming a private arena for the most powerful actors.

3. Regulatory learning and its practical constraints

The second dimension relates to the conditions under which sandboxes can facilitate genuine regulatory learning, and the structural reasons why these conditions are challenging to fulfil in practice.

Regulatory sandboxes can be structured to produce better regulatory judgment under conditions of uncertainty. The strongest legal account of that claim comes from experimentalist-governance scholarship. In that tradition, decentralized discretion is justified only where local actors must report performance, participate in comparative review, and feed lessons back into periodic revision of goals, metrics, and procedures [Sabel and Simon (2011), Sabel and Zeitlin (2008)]. From that perspective, a regulatory sandbox is not valuable merely because it suspends or relaxes rules, its value depends on whether it converts bounded experimentation into disciplined regulatory learning.

Literature does not treat learning as an automatic by-product of experimentation [Seferi (2026)]. Instead, it argues that sandbox learning must be designed through transparent objectives, credible evaluation, structured information flows, and review mechanisms that can convert case-level experience into more general regulatory guidance [Ahern (2025), Chen and Taeihagh (2025), Philipsen et al. (2021), Ranchordas (2021)]. The same literature also shows why those conditions are hard to satisfy in practice: close regulator-firm relations may slide toward capture, evidence generated in small pilots may have weak generalizability, and fragmented jurisdictions may fail to consolidate knowledge beyond isolated cases [Ahern (2021), Brown and Piroska (2022), Johnson (2023), Ringe and Ruof (2020)].

From this perspective, there are several requirements that may support efficient and successful regulatory learning. The first requirement is systematic documentation. Poorly designed experimental regimes produce only a "scientific façade" for discretionary decision-making if objectives, variables, cohorts, duration, and evaluation criteria are not specified in advance [Ranchordas (2021)]. This matters both methodologically and legally. Without clear hypotheses and data-gathering plans, sandbox outcomes have weak internal validity because it is unclear whether observed effects were caused by the regulatory intervention rather than by background conditions. They also have weak external validity if the participating firms are too atypical to support broader inference [Ranchordas (2021)]. Sandbox learning, therefore, depends on design features that make the experiment legible before, during, and after operation.

A similar conclusion has also been reached through the concept of legal resilience rather than experimental validity [Philipsen et al. (2021)]. Because sandbox arrangements create temporary legal enclaves for a limited set of firms, they put pressure on legality, legal certainty, equality, and public accountability. That pressure can be mitigated only if the sandbox has a clear legal basis, transparent selection procedures, standardized reporting and data collection, defined success criteria, and clear ex-ante indications of what successful participation does and does not entitle a firm to expect [Philipsen et al. (2021)]. Transparency is, therefore, not only a procedural virtue [Rizzuto Ferruzza and Billi (2026)], but also part of the legal justification for differential treatment.

A second requirement is institutionalized feedback. A study of the U.K. Financial Conduct Authority sandbox has shown that frontline interactions can build trust, improve information sharing, and help firms understand how principles-based rules apply in practice [Fahy (2022)]. The same interactions also help regulators learn how new products work and where existing regulatory categories do not fit the technology. Sandbox-like public-health governance is also treated as a dialogic arrangement in which ongoing disclosure and real-world performance data allow the agency to revise authorization conditions over time [Sherkow (2021)].

Yet the same bilateralism that makes sandboxes informative also makes them normatively fragile. Regulatory sandboxes depend heavily on relational trust, but that can blur the line between supervision and collaboration, create uneven treatment between insiders and outsiders, and weaken the credibility of enforcement where regulators are effectively limited to persuasion or expulsion [Johnson (2023)]. Thus, constant regulator-experimenter dialogue can impede public accountability if responsibilities are not sharply demarcated [Philipsen et al. (2021)]. Regulatory sandbox governance can become opaque in ways that allow risk to be selectively framed or "risk-washed", especially when outsiders cannot see the dialogue through which regulators come to treat a technology as manageable [Brown and Piroska (2022)]. The question is, therefore, not whether dialogue should exist, but how it should be disciplined.

The key implication is that feedback mechanisms should not remain purely bilateral. They need forms that can be observed, challenged, and in some measure generalized [Seferi (2026)]. That supports measures such as structured debriefings at sandbox exit, published summaries of recurring compliance questions, opportunities for external experts or affected stakeholders to submit observations, and formal review processes in which authorities explain whether identified issues led to guidance changes or no action. Without such outward-facing channels, the sandbox may generate tacit knowledge for the regulator and the participating organization while failing to generate public regulatory learning.

The third requirement is periodic revision of the sandbox design itself. Experimental governance is iterative by structure: the framework, performance metrics, and decision procedures must themselves be open to revision in light of experience [Sabel and Zeitlin (2008)]. Regulatory sandboxes belong within a broader anticipatory-governance culture built around foresight, experimentation, and regulatory learning [Ahern (2025)]. In that model, revising policy direction in response to new evidence is not a sign of failure, it is the point of the exercise. A learning-oriented sandbox should be reassessed not only by reference to participant satisfaction or market-entry speed, but also by asking whether the existing design is producing usable regulatory knowledge.

Thus, there is a need to understand if the regulatory sandbox sufficiently includes cases from which broader learning can be drawn, since a non-representative cohort weakens external validity [Ranchordas (2021)]. Indeed, in order to avoid learning that remains private and fragmented across participating use cases, published outputs from the regulatory sandbox should turn case-level experience into generally accessible guidance [Brown and Piroska (2022), Johnson (2023), Ranchordas (2021)]. The regulatory sandbox should change wider regulatory practice, not merely handle a few firms individually [Ahern (2025), Sherkow (2021)].

4. Communication as a governance function

The third dimension concerns communication within regulatory sandboxes, considered here as a key pillar of effective sandbox governance, despite receiving relatively little attention in legal frameworks and academic literature.

Regulatory sandboxes are built upon sustained and iterative dialogue between regulatory authorities and innovators [Alaassar et al. (2020), Novelli et al. (2025), Ranchordas and Vinci (2024)]. Nevertheless, empirical evidence has consistently identified ineffective communication as a significant factor that contributed to compromising the effectiveness and proper operation of regulatory sandboxes established so far.

The European Commission's 2025 Survey Report on the use of regulatory sandboxes in EU Member States, drawing on fifty-seven responses from twenty-five Member States, places "open communication" among the key success factors identified by national authorities [Vuorinen et al. (2026)]. Furthermore, national experiences converge on this point: Austria has identified continuous, strategically targeted communication as a critical determinant of trust, collaboration, and transparency, while irregular communication and resource constraints were found to undermine project outcomes [FMA (2020)]; Italian authorities have stressed the need to clarify the scope of sandbox participation through communication [Vuorinen et al. (2026)]; and Italy, Lithuania, Spain, and Sweden all recommended transparent communication strategies to manage participant expectations [Vuorinen et al. (2026)]. Comparable conclusions emerge outside the EU survey: the AI regulatory sandbox piloted by the Canton of Zurich in 2021 integrated a dedicated communication function within its governance structure, highlighting the benefits of this decision [Von Thiessen (2025)], and empirical investigations with regulatory sandbox practitioners identified communication as a strategic variable across the entire experimentation cycle [Bagni (2026)].

Despite this convergence, the role of communication and how to properly manage it within regulatory sandboxes remains under-specified in the relevant legal framework. When considering AI regulatory sandboxes under the AI Act, for example, it provides only a weak normative anchor: Article 58.2(g) requires that procedures be "simple, easily intelligible, and clearly communicated" to facilitate SMEs and startups participation, while Articles 57.9(b) and (d), by identifying best-practice sharing and evidence-based regulatory learning among the objectives of regulatory sandboxes, assign to communication a crucial practical function, but yet without prescribing how communication should be operationalized across the sandbox life cycle. The Draft Implementing Act to the AI Act on AI regulatory sandboxes issued by the European Commission in December 2025 did not address communication explicitly, giving Member States full discretion regarding how engagement schemes are designed.


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This gap is deemed problematic for two main interrelated reasons. First, the absence of common guidance generates significant heterogeneity in practice, from comprehensive and specified in advance detailed phase-by-phase commitments such as the Danish model of the AI Regulatory Sandbox established by the Danish Data Protection Agency (Datatilsynet) and the Danish Agency for Digital Government, to a more negotiated, case-by-case logic exemplified by the sandbox model established by the Commission nationale de l'informatique et des libertés (CNIL) in France, jeopardizing in some cases the possibility for prospective participants to have clear expectations on the resources needed and the outcome of the sandboxing process [Novelli et al. (2025)]. Second, after the conclusion of the sandbox process, when results of regulatory sandboxes are not widely or effectively communicated, this can generate a phenomenon of "sandbox lock-in", here conceived as a regulatory sandbox that does not create positive effects of the instrument beyond the single experimentation.

Investigating the communication dimension within regulatory sandboxes thus requires moving beyond a normative reading of the legal framework toward an empirical assessment of communication practices as they unfold across the sandbox life cycle, and trying to build common references on it, together with a strategy for its effective implementation. In this regard, notwithstanding the wide range of means and modalities through which different authorities may implement effective communication, it is helpful to identify common conditions that communication should contribute to creating within regulatory sandboxes, and from these identify for each entity the most suitable means and contents to establish such conditions, based on the features of communication in the different stages of the regulatory experimentation.

Three conditions may be identified: trust, as companies may withhold information if they fear punitive responses or disclosure of commercially sensitive material [Alaassar et al. (2020)]; clarity on the role of the regulatory sandboxes and the foreseen outcomes; and expectation alignment: misunderstandings over reporting burdens, timelines, or the purpose of participation can, in fact, weaken cooperation and reduce the quality of knowledge exchange [Chen and Taeihagh (2025)].

As for the means through which to operationalize such conditions, regulators should assign stable contact points, as well as explain the sandbox's goals and participation criteria, calibrate interaction frequency to the testing stage, and define participation conditions clearly and in advance [Fahy (2022), Johnson (2023)]. Regarding the features of the communication, during the pre-application and application phases, it is predominantly unilateral, from the competent authority(ies) to the public, focusing on transparency regarding eligibility, procedures, and objectives. Once testing begins, communication becomes dialogical, where the participating companies also have a recognized role in making the sandbox process function effectively, requiring their active and good-faith commitment. Communication means and contents will need to adapt to such different features.

In conclusion, while empirical evidence highlights the need to accord greater attention to the role of communication in regulatory sandboxes, the relevant legal frameworks provide little guidance on how communication should be structured and implemented. In this regard, particularly in the context of AI regulatory sandboxes, the Implementing Act on Regulatory Sandboxes under the AI Act, under adoption, could provide a valuable contribution in highlighting the importance of establishing a sound communication strategy and laying down common principles and core elements with a view to achieving a coherent and harmonized approach to communication across jurisdictions. This should also preserve sufficient flexibility for competent authorities to adopt context-specific approaches tailored to their institutional frameworks and regulatory needs.

5. Local sandboxes between legal possibility and operational readiness

The fourth dimension addresses a structural gap largely overlooked by existing regulation: the position of local and regional authorities within a sandbox governance framework that is formally "polycentric", yet under-specified operationally at the territorial level.

The legal opening for local and regional AI regulatory sandboxes is real, but it is often observed that operational guidance, coordination, and institutional design remain underdeveloped [Ahern (2021), Longo (2025)].

Article 57(2) of the AI Act creates a significant opportunity for local and regional AI regulatory sandboxes, because the Union's sandbox model is explicitly conceived as decentralized, polycentric, and capable of including territorial authorities within a broader multilevel governance framework [Ahern (2021), Longo (2025)]. This matters for municipalities and regions because AI systems increasingly operate through public services, administrative processes, interoperability infrastructures, and citizen-facing digital environments that are territorially governed rather than exclusively national [Cohen et al. (2024, 2025)]. The sandbox is not framed as mere deregulation, but as a controlled environment for supervised development, testing, validation, and regulatory learning before market placement or operational deployment [Ahern (2021), Buocz et a. (2023)].

For territorial authorities, the main opportunity lies in using sandboxes as instruments of contextualized public innovation. As discussed above, the literature associates sandboxes with a range of positive features that are highly relevant where local authorities procure, host, or co-govern AI systems [Bagni (2025), Ranchordas and Vinci (2024)]. Territorial proximity also supports experimentation in areas such as digital public services, mobility, environmental monitoring, and public-sector interoperability, where public authorities need mechanisms that can test systems under real administrative conditions [Cohen et al. (2025), Cohen et al. (2025)].

Building on this, accounts of experimental regulation treat sandboxes not as one-off derogations but as iterative governance devices that generate knowledge feeding back into rule-making and supervisory practice over time [Ruschemeier (2025)]. For territorial authorities, this iterative dimension is decisive: a sandbox that produces no transferable regulatory learning risks becoming a localized exemption rather than a genuine instrument of public innovation. Embedding evaluation criteria, documentation duties, and structured reporting from the outset would let regional experiments inform regional policy as well as the national and EU frameworks within which they must ultimately co-operate [Ruschemeier (2025)].

The current framework, however, leaves major gaps. At EU level, the AI Act does not yet provide a complete operational blueprint for access, validation, supervision, and exit, and these elements still depend on implementing acts, guidelines, codes of practice, and other soft law measures that EU and national competent authorities have yet to define [Longo (2025), Ranchordas and Vinci (2024)]. More broadly, a unified consensus on the definition, functioning, and specific innovation rationale of sandboxes is still taking shape (considering the coexistence of multiple sandbox definitions), which can sometimes complicate the design process for authorities [Ranchordas and Vinci (2024), Ford and Ashkenazy (2025)]. That uncertainty is especially acute for territorial authorities, because the available materials point to the need for new policymaking mechanisms, stronger monitoring capacities, and better government digital infrastructures before experimental oversight can work credibly in practice [Cohen et al. (2024, 2025), Cohen et al. (2025)].

A second cluster of problems concerns coordination and legality. Sandbox participation does not displace other applicable legal regimes, and AI experimentation remains embedded within data protection, consumer protection, equality, competition, and product-safety frameworks [Ahern (2021)]. This creates a structural coordination problem for regional or local sandboxes: who authorizes participation, who supervises testing, and how regulatory learning inside a territorial sandbox connects to national conformity assessment and EU oversight remain under-specified [Longo et al. (2025)].

Examining early movers at the territorial level is, therefore, crucial to understanding the real-world challenges of designing sandboxes. The Italian region of Tuscany represents a highly instructive case study in this context. As a proactive territorial entity attempting to formalize local experimental frameworks to align with EU digital policies, Tuscany shows how a regional legislature can begin to occupy this space, but also how partial the current settlement remains. Article 25 of Regional Law 57/2024 defines regulatory sandboxes as controlled frameworks under competent-authority supervision and allows the Region, within its competences and in coordination with national authorities, to implement sandboxes for innovative fields including AI and cybersecurity [Regional Law (2024)]. The same law ties experimentation to transparency, ethics, non-discrimination, accountability, accessibility, inclusion, user information, data protection, environmental impacts, and technological lock-in, while also requiring structured experimentation with safeguards and risk evaluation. Yet

Article 25 does not resolve the precise internal allocation of competences, the procedural architecture of regional supervision, or the formal pathway by which a provider participating in a regulatory sandbox established under such a legal framework would obtain recognition within national and EU compliance channels.

The most plausible solutions are interpretive and institutional rather than purely declaratory. A possible reading of Article 57(2) is that territorial sandboxes are legally possible only within a nationally coordinated framework that sets minimum conditions for admission, supervision, reporting, and exit while still permitting local adaptation [Ahern, D. (2021), Longo et al. (2025)]. A second solution consists of shared supervision: territorial authorities could host or co-design experimentation, while national competent authorities and EU coordination bodies preserve consistency on core compliance questions [Ranchordas and Vinci (2024)]. A third solution is stronger public participation throughout the regulatory lifecycle, because participation improves legitimacy, reduces capture risk, and brings out information that formal administrative processes often miss [Cohen et al. (2025)].

In summary, Article 57(2) of the AI Act opens a meaningful path for territorial AI experimentation, but the current landscape shows a wide gap between legal possibility and operational readiness. Local and regional sandboxes appear capable of supporting context-sensitive innovation, public-service experimentation, and regulatory learning, yet they remain vulnerable to fragmentation, weak coordination, and under-specified safeguards unless clearer EU and national guidance emerge. For territorial authorities, the central question is no longer whether local and regional AI sandboxes are imaginable, but under what institutional conditions they can become lawful, coordinated, and trustworthy instruments of public governance.

6. The question of rights protection in AI governance and cyber resilience

The fifth and final dimension concerns the relationship between sandbox governance and the protection of fundamental rights. This relationship is structurally significant, yet it is rarely placed at the center of sandbox design.

Regulatory sandboxes are usually defended as tools for innovation support, compliance assistance, and regulatory learning. Yet this framing potentially understates their wider constitutional significance. In digital societies, where public administration, essential services, market participation, and democratic institutions depend on complex technical systems, the quality of oversight applied before broad deployment can have direct implications for the practical exercise of fundamental rights. It, therefore, becomes even more important to understand not simply whether sandboxes facilitate innovation, but whether they can help render rights protection operational in contexts where legal duties must be tested against real or realistic technical environments [Novelli et al. (2025, Buocz et al. (2023), Philipsen et al. (2021)].

This shift in lens holds even more significance when considering that most of the negative consequences of digital regulation do not arise at the level of abstract legal principle. They spill out when systems are used in settings where privacy, transparency, equality, and accountability depend on technical design choices, access to data, human oversight, security architecture, and the practical capacity of regulators to intervene [Yeung and Li (2025), [Chiara (2025)]. A sandbox can, therefore, be understood not only as a market-enabling instrument, but as a site where the gap between formal rights and operational protection can become visible and thus addressed.

The literature on AI governance already provides the clearest basis for this claim. Recent work on the AI Act increasingly presents regulatory sandboxes as structured environments for supervised experimentation rather than as enclaves of relaxed law [Novelli et al. (2025), Ahern (2025)]. On that view, their significance lies in their ability to expose whether a system can meet legal demands in practice: whether bias testing is meaningful, whether explainability claims survive contact with actual users, whether personal data are handled lawfully, and whether human oversight is more than a formal requirement [Buocz et al. (2023), Paul and Am (2025)]. This supports a more precise understanding of operationalization: rights become operational when they are not addressed only through ex-ante declarations of compliance, but through iterative testing of how systems handle personal data, explainability demands, bias risks, human oversight, and complaint pathways in practice [Buocz et al. (2023), Paul and Am (2025)].

Cases such as the Norwegian Data Protection Authority's AI sandbox illustrate both the promise and the limits of the rights-based lens. The Norwegian example shows that supervised dialogue can help translate broad GDPR norms into more concrete compliance practices around privacy, fairness, and transparency [Paul and Am (2025)]. At the same time, that experience also reveals the fragility of the model: selective participation, weak follow-up, and pressure on limited regulatory resources can blur the line between critical supervision and innovation partnership. The case is valuable not because it proves that sandboxes can solve rights problems, but because it shows how much depends on institutional design and on the regulator's ability to preserve distance while still engaging closely with innovators.

The problem becomes exacerbated when of live or quasi-live testing affects people directly. Studies of facial-recognition experimentation in Europe illustrate how real-world trials can undermine privacy, data protection, equality, and due process when legal basis, consent, testing metrics, and bias evaluation remain under-specified [Yeung and Li (2025)]. These examples, albeit not formally sandbox experiences established under the AI Act, show what happens when experimentation proceeds without a sufficiently robust account of whose rights are at stake, how harms are measured, and when testing must stop. The wider relevance is that rights-sensitive experimentation cannot be judged only by technological novelty or regulatory flexibility; it must also be evaluated by the conditions under which risk exposure is made acceptable.

This understanding strengthens the view that sandbox design should move away from an instrument for regulatory-compliant market entry and align more with evidence-producing institutions, in which the question of rights should become central, and not simply a byproduct of good administration. Thus, variables such as what must be tested, who bears the risk during testing, what kinds of harm trigger intervention, and what public record remains once the experiment ends should inform the foundation of the model [Novelli et al. (2025), Buocz et al. (2023), Philipsen et al. (2021)]. In this respect, the sandbox could effectively reinforce legal accountability beyond merely repackaging discretion.

Cyber resilience introduces a parallel, although increasingly cross-cutting, dimension. The Cyber Resilience Act represents the EU's main legal framework on cyber resilience, introducing mandatory cybersecurity requirements for products with digital elements across their lifecycle. While this Regulation is framed mainly in terms of product security, vulnerability management, software maintenance, and enforcement, those obligations also protect the conditions under which privacy, personal integrity, trust, and effective use of digital services can be sustained. In that sense, cyber resilience functions as an indirect layer for rights protection [Chiara (2025)]. Emerging work on sandbox models for cyber resilience extends this logic by treating experimentation as a way to test monitoring plans, emergency exits, documentation duties, and vulnerability handling across products and systems [Seferi (2025)]. This is a valuable consideration because it places security failures within the same governance problem as AI failures: rights violations often follow from design and deployment conditions that are difficult to assess in the abstract [Bagni, F. (2023, 2025)].

A comparative look at FinTech sandbox experimentation supports the relevance of this theme. The pertinent literature offers practical lessons on entry criteria, exposure limits, consumer safeguards, supervisory guidance, and structured exits [Ringe and Ruof (2020)]. It also supplies the strongest warnings: critics show that sandboxes can produce opacity, unequal access, favoritism, cognitive capture, and risk washing, especially when regulatory involvement creates a misleading appearance of safety or legitimacy [Johnson (2023), Brown and Piroska (2022)]. These concerns identify a core tension in sandbox governance: the same institutional form that promises closer oversight can also weaken scrutiny if participation itself begins to signal trustworthiness.

All these elements, when examined together through the rights-based analytical lens, tend to suggest that regulatory sandboxes deserve attention not only as instruments of innovation policy, but as sites where the practical meaning of rights protection is negotiated under conditions of uncertainty. The key contribution of this perspective is not a claim that sandboxes can inherently protect rights. It is a narrower and potentially more useful assertion: regulatory sandboxes could reveal whether legal protections can be made operational before large-scale deployment, and how easily that ambition can fail when experimentation is opaque, selective, or weakly supervised [Novelli et al. (2025), Philipsen et al. (2021), Ahern (2025)]. The sandbox debate then becomes part of a broader question in digital governance: how public authorities can test emerging systems without normalizing preventable harm or turning temporary experimentation into a substitute for accountable regulation.

7. Conclusion: The regulatory sandbox as a "mirror" for governance design

The five contributions gathered in this paper converge on a shared diagnosis. Examined carefully, regulatory sandboxes reveal something larger than themselves. The governance challenges they highlight - such as questions of legitimacy in co-produced law-making, the conditions for genuine regulatory learning, the role of communication as a governance function, the fragmentation of territorial oversight, and the discrepancy between declaratory and operational rights protection - are not pathologies unique to a single instrument. Rather, they are symptoms of structural tensions running through EU digital governance, such as persistent information asymmetries between regulators and the regulated, insufficient institutional capacity at the territorial level, the absence of common standards for participatory governance, and an unresolved tension between formal democratic legitimacy and the practical demands of governing highly technical domains in real time. What makes regulatory sandboxes analytically distinctive from other governance instruments is that they make tensions visible in ways that diffuse governance failures rarely do. In this sense, the regulatory sandbox is a "mirror": improving it requires addressing problems that extend well beyond the instrument itself.

This paper reflects a specific moment in time that is unlikely to be repeated. The EU regulatory sandbox ecosystem is still in the process of formation. The implementing acts that will define, for instance, the operational parameters of national AI regulatory sandboxes under Article 58 of the AI Act are still pending. The potential creation of a sandbox at the EU level for general-purpose AI systems under the Digital Omnibus Package has not yet taken definitive institutional form. Most national competent authorities are designing their sandbox frameworks for the first time, with limited precedent and significant discretion. In the precise sense of the term, this is a constitutional moment for regulatory sandbox governance: the choices being made now will determine not only how individual sandboxes function, but also the institutional practices, administrative cultures, and legal expectations that will be difficult to revise once consolidated.

This is why the five dimensions explored in this paper are not just peripheral refinements; they are preconditions. A sandbox that fails to address the questions of legitimacy raised by regulatory co-production risks becoming a legally sanctioned arena for asymmetric influence, rather than a genuine instrument of adaptive public law. Similarly, a sandbox that does not facilitate regulatory learning through transparent objectives, outward-facing feedback mechanisms, and periodic revision will generate tacit bilateral knowledge rather than public regulatory intelligence. If the communication function of a sandbox is left unspecified, it will undermine the essential objectives the regulatory sandboxes are designed to support. A sandbox lacking adequate territorial coordination will fragment along jurisdictional lines, producing isolated experiments rather than transferable regulatory knowledge. A sandbox that treats fundamental rights as an ex-ante declaration rather than a design constraint will also fail to close the gap between formal compliance and operational protection at the critical moment before large-scale deployment.

The regulatory sandbox is an institutional mechanism designed to strengthen the cooperation between regulators and those they regulate, in a way that serves the public interest while maintaining the independence and democratic accountability required by public law. Whether this bet pays off depends on the design of the governance structure. Empirical evidence shows that well-designed sandboxes generate genuine value, including bidirectional regulatory learning, reduced compliance costs for SMEs and startups, the early detection of emerging regulatory needs and meaningful engagement between public authorities and innovative actors. In contrast, poorly designed sandboxes produce the opposite outcomes: selective access for well-resourced actors, reputational signals that substitute for genuine compliance, regulatory expectations shaped by the most powerful participants before rules are formally consolidated, and learning that remains private rather than being made publicly available. The difference between these two outcomes is not a matter of good intentions, it is a matter of institutional design. Specifically, the five dimensions that this paper has identified as an urgent and under-investigated research agenda.

This contribution does not claim to have resolved the questions it raises. Rather, it aims to identify the areas in which these questions must be urgently pursued while there is still time to act on the answers. Whether this identification will be valuable ultimately depends on whether the institutions currently designing regulatory sandbox frameworks engage with these dimensions as operational imperatives rather than academic observations. The regulatory sandbox has become too significant a governance instrument, and the present juncture is too pivotal for governance choices to be made by default.

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Scaling Europe's Financial System

Supervision in Europe: ESMA, National Competent Authorities, and the road from the CMU to the SIU

Tom Hofland,
Senior Associate M&A and
Capital Markets, De Brauw Blackstone
Westbroek

ABSTRACT

More than a decade after the EU set out to build a single capital market, the same issuer, the same underlying business, and the same advisory team can still face fundamentally different outcomes depending on which national regulator happens to review the transaction. This article examines why that gap between a harmonized rulebook and divergent supervisory practice persists, and whether current reform proposals are likely to close it. It sets out the architecture of European financial supervision, contrasting the European Securities and Markets Authority's (ESMA) carefully limited mandate under the Treaty on the Functioning of the European Union with the differing institutional choices Member States have made, illustrated by the Dutch twin-peaks model and the Central Bank of Ireland's single-regulator model. It then turns to prospectus supervision, where a fully harmonized regulation still produces materially different approval timelines, transfer practices, and information-sharing outcomes across national competent authorities (NCAs). Taking stock of the Capital Markets Union's limited progress against its own targets, the article assesses the 2025 Savings and Investment Union and the December 2025 Market Integration and Supervision Package, which extends direct ESMA supervision only to defined categories of systemically significant infrastructure and crypto-asset service providers while leaving the general prospectus-approval model untouched. Drawing on the Dutch experience of a well-specified, cooperative division of labor between its two supervisors, the article concludes that the more fixable problem is not insufficient centralization but the EU's failure to fully use convergence tools it already has, above all ESMA's long-dormant power to standardize how NCAs exchange prospectus information, and proposes four concrete changes to close that gap.

1. Introduction

The same issuer, underlying business, team of supporting advisors and yet two fundamentally different outcomes. More than a decade after the EU set out to build a single capital market, this kind of episode still happens. Two regulators, working from the same rulebook, can reach different conclusions about the same offering and the difference lands squarely on the transaction timetable.

This article asks why that keeps happening, and whether anything now on the table is likely to change it. It starts with the architecture of European financial supervision: the European System of Financial Supervision (ESFS), the mandate and limits of the European Securities and Markets Authority (ESMA), and the rather different institutional choices Member States have made: the Dutch twin-peaks model against the Central Bank of Ireland's single-regulator model. It then turns to prospectus supervision specifically, which is where the gap between a harmonized rulebook and divergent practice shows up most clearly. From there, the article takes stock of what works and what does not, before assessing the Capital Markets Union (CMU) and its 2025 successor, the Savings and Investment Union (SIU), together with the Market Integration and Supervision Package (MISP) through which the SIU's supervisory ambitions are now being negotiated. It closes with a handful of concrete suggestions, drawing in particular on what the Dutch twin-peaks experience has to teach the wider debate.

2. Supervision in Europe

2.1 The road to harmonization

Before the financial crisis of 2007–2008, financial supervision in the European Union ran almost entirely along national lines. Supervisors cooperated through the informal committee structures of the so-called "Lamfalussy process", but no body held a European-wide view of risk, and national authorities kept wide discretion over how they applied common standards [de Larosière et al. (2009)]. The High-Level Group chaired by Jacques de Larosière concluded in its influential 2009 report that this fragmented landscape had made the crisis worse and called for a genuinely European system of supervision.

The ESFS followed, taking effect on January 1, 2011. It is not itself a single institution but a network: the European Systemic Risk Board, three European Supervisory Authorities (ESAs): the European Banking Authority (EBA), ESMA and the European Insurance and Occupational Pensions Authority (EIOPA), and the national competent authorities (NCAs) of the Member States (Regulation (EU) No 1093/2010; Regulation (EU) No 1094/2010; Regulation (EU) No 1095/2010). Each ESA has its own founding regulation, but the three are materially identical in structure, differing mainly in the sector each covers [Kämmerer (2025)]. All three may adopt binding regulatory and implementing technical standards (subject to Commission endorsement), issue guidelines and recommendations to NCAs, and, in the narrowly defined circumstances discussed below, intervene directly in the market (ESMA Regulation, arts 10–16). This article deals only with ESMA, as the authority responsible for securities markets and, in particular, prospectus supervision.

2.1.1 ESMA: mandate and limits

ESMA's statutory objective is to protect the public interest by contributing to the stability and effectiveness of the financial system for the Union economy, its citizens, and businesses (ESMA Regulation, art. 1(5)). Its strategic priorities, in short, are to foster effective markets and financial stability, strengthen the protection of retail investors, and reinforce supervision of EU financial markets, including through direct supervision of certain entities [ESMA; Kämmerer (2025)].

What matters most for a business reader is how limited and carefully calibrated ESMA's powers actually are. Article 291(1) of the Treaty on the Functioning of the European Union (TFEU) makes Member States, not the Union, responsible for implementing legally binding Union acts, so enforcement of EU law is by default an NCA competence; Union-level enforcement is the exception [Kämmerer (2025)]. ESMA's toolkit follows that hierarchy. Day to day, it acts as a coordinator and standard-setter: it drafts regulatory and implementing technical standards for the Commission to adopt, and issues guidelines and recommendations that NCAs must either follow or publicly explain why they have not [ESMA Regulation, arts 15–16; Kämmerer (2025)]. Because market participants need only disclose a departure from an ESMA guideline rather than justify it, and because NCAs risk reputational damage from open non-compliance, these instruments have been described as "semi-binding" in practice despite their formally non-binding status [Moloney (2018), Kämmerer (2025)].

ESMA's more intrusive powers switch on only where an NCA has breached EU law (Article 17 of the ESMA Regulation), in a declared emergency (Article 18), or where NCAs disagree in a cross-border matter (Article 19) (ESMA Regulation, arts 17–19). Each provision sets out a graduated ladder of intervention: consultation and a formal opinion first, then binding instructions to the NCA, and finally, if the NCA still fails to act, a binding decision ESMA can address directly to a market participant [Kämmerer (2025)]. A small number of standing direct-supervision mandates also exist, most notably over credit rating agencies and trade repositories, but these sit on separate legal bases outside the general ESMA Regulation scheme and remain the exception rather than the rule [Kämmerer (2025); Regulation (EC) No 1060/2009, art. 21 et seq). The Court of Justice confirmed in its 2014 short-selling judgment that conferring some supervisory powers on ESMA does not, in principle, breach the Treaty rules on delegation under the Meroni doctrine, provided the powers are precisely delineated and subject to conditions and judicial review; the judgment does not say how far that reasoning would stretch to a wholesale transfer of NCA competence [Case C-270/12, United Kingdom v European Parliament and Council [2014], discussed in Kämmerer (2025)]. For that reason, most scholarship treats a comprehensive "ESMAization" of enforcement as hard to square with Article 291(1) TFEU: it would reverse, rather than moderately extend, the constitutional default that in principle Member States enforce EU law [Kämmerer (2025)].

The upshot for an issuer or underwriter is straightforward: in almost every transaction, the body deciding whether the deal can proceed, and on what timetable, is the NCA or, at times, multiple NCAs. ESMA shapes the standards NCAs apply, and increasingly steers their practice through peer reviews, opinions, and common supervisory actions, but it is rarely at the table in a live transaction [Moloney (2025)].

2.1.2 National competent authorities: one Union, several models

National supervisory design differs markedly across Member States, with real commercial consequences. The Netherlands runs a twin-peaks model: under the Wet op het financieel toezicht (the Dutch Financial Supervision Act, Wft), prudential supervision (a financial institution's financial soundness) sits with De Nederlandsche Bank (DNB), while conduct-of-business supervision, including market conduct and investor protection, sits with the Autoriteit Financiële Markten (AFM) (Wft, arts 1:24–1:25). The two supervisors have overlapping jurisdiction over the same firms, viewed through different lenses, and are required to cooperate and share information under a formal covenant (Wft, arts 1:24–1:25; De Nederlandsche Bank).

Other Member States take the opposite route and concentrate prudential and conduct supervision in a single institution. The Central Bank of Ireland is one of the clearest examples: it is both prudential supervisor of Irish-authorized financial institutions and the sole competent authority for prospectus approval, fund authorization, and market conduct [Di Noia and Gargantini (2020); Central Bank of Ireland (2016)]. Part of Ireland's standing as a leading EU venue for prospectus approvals of internationally distributed debt programs, and for fund domiciliation, is plausibly attributable to that design: a single point of contact cuts internal coordination costs for the regulator and, in the experience of market participants, tends to mean faster and more predictable processing of routine filings [Di Noia and Gargantini (2020)]. Luxembourg and Germany have built similar reputations for other categories of cross-border issuance [Euijen and Scholten (2025)]. None of this is cosmetic. Choosing a home Member State for incorporation, listing, and prospectus purposes means choosing among different regulatory cultures, staffing models, and turnaround expectations; a choice that exists only because harmonized EU rules leave NCAs considerable latitude in how they apply them. Prospectus supervision is one of the regulatory areas where that latitude shows up clearly, and it is where this article turns next.

2.2 Prospectus supervision: is there really a Union?

2.2.1 The regulatory framework

The EU prospectus regime now sits in Regulation (EU) 2017/1129 (the Prospectus Regulation), which replaced the earlier Prospectus Directive from July 2019 and, being a regulation rather than a directive, applies directly and uniformly across Member States without national transposition (Prospectus Regulation, art. 49). It is supplemented by delegated and implementing measures, most significantly Commission Delegated Regulation (EU)

2019/980 on the format and content of prospectuses. The EU Listing Act has since amended the Prospectus Regulation to cut compliance costs and streamline listing: some changes took effect on December 4, 2024, and the rest, including a new EU Growth Issuance prospectus for smaller issuers, and a standardized format for equity prospectuses, are being phased in during 2026.

Under Article 20(1) of the Prospectus Regulation, a prospectus cannot be published until the "relevant competent authority" has approved it - in practice, the NCA of the issuer's home Member State. Each Member State must designate a single competent administrative authority for this purpose. That is stricter than the old regime, which let Member States designate multiple authorities or delegate specific tasks to third parties such as stock exchanges [Di Noia and Gargantini (2020)].

2.2.2 ESMA's role: standard-setter, not supervisor

ESMA does not approve prospectuses itself. Its job is to promote convergence in how NCAs apply the Prospectus Regulation: issuing supervisory briefings, coordinating peer reviews of NCA practice, maintaining a central repository into which every approved prospectus must be notified, and under Article 34 developing draft implementing technical standards on the procedures and forms NCAs use to exchange information with each other [Prospectus Regulation, arts 20(8), 25, 34; Di Noia and Gargantini (2020)]. ESMA has never actually used that Article 34 mandate. It has stuck to non-binding supervisory briefings instead, which recent scholarship flags as one of the clearer examples of an underused convergence power sitting idle in the prospectus regime [Euijen and Scholten (2025)].

2.2.3 The role of NCAs, and where they diverge

The Regulation defines "approval" as the positive outcome of an NCA's scrutiny of a prospectus's completeness, consistency, and comprehensibility - the "3Cs" [Prospectus Regulation, art. 2(r); Di Noia and Gargantini (2020)]. Recital 60 of the Regulation itself concedes that "not all issuers have access to adequate information and guidance about the scrutiny and approval process," because "different approaches by competent authorities exist in Member States," and that a convergent approach to the 3Cs depends on each NCA's attitude to proportionate scrutiny [Prospectus Regulation, recital 60; Di Noia and Gargantini (2020)]. The standard is harmonized but how rigorously and how quickly it gets applied is not. Three examples make the point concrete.

1. Approval timelines vary because NCAs differ in how often, and how deeply, they use their power under Article 20(4) to request supplementary information before approving a draft prospectus. Each round of comments can restart the review clock, so an NCA's house practice on the number and depth of comment rounds has a direct bearing on execution timetables [Prospectus Regulation, art. 20(4); Di Noia and Gargantini (2020)]. Other NCAs in practice agree timetables for review and approval of a prospectus that almost entirely side-step the timelines as laid down in the Prospectus Regulation. This creates flexibility but also ensures that there is no unified approach across jurisdictions.
2. The mechanism for transferring approval of a prospectus from one NCA to another under Article 20(8), which the Commission has treated since its 2005 White Paper on Financial Services as a tool for building a genuine single market [EC (2005)], is only used in limited circumstances and applied inconsistently where it is used at all. Neither the Prospectus Regulation nor its predecessor sets any criteria for granting a transfer, so NCAs have a free hand. Only a handful publish the factors they weigh: the Central Bank of Ireland, for instance, lists the issuer's domicile, the location of trading, and the location of any offer, while most NCAs offer no public guidance whatsoever [Di Noia and Gargantini (2020), Central Bank of Ireland (2016)]. Scholars have suggested giving ESMA the power to decide contested transfer requests, precisely because NCAs today face no binding standard and no external check when they simply refuse [Di Noia and Gargantini (2020)].
3. Information-sharing between NCAs, and between NCAs and ESMA, is uneven too. ESMA's 2022 peer review found several NCAs reluctant to share issuer-specific information with counterparts, and inconsistent internal information-sharing procedures even within individual authorities, exactly the kind of gap Article 34 implementing technical standards, had they been adopted, might have closed [Euijen and Scholten (2025)]. Partly as a result, a small group of NCAs, including those of Luxembourg, Ireland, and Germany, have become de facto hubs of expertise for

> particular categories of securities. Issuers gravitate to them less because the underlying rules differ, which they do not, than because those authorities' processing practices have become better known and, in the market's experience, more predictable [Euijen and Scholten (2025)].

None of this is academic for a prospective issuer running a cross-border offering across two or more Member States or having to choose a jurisdiction of incorporation. The choice of home Member State, the flexibility in the approval process, the number of information requests to expect, and how willing the relevant NCA is to cooperate with a host-state regulator can each move the execution timetable materially, which is exactly the dynamic in the type of scenario that opened this article.

2.2.4 Status quo, sufficient?

Start with what works. The substantive law is harmonized: the Prospectus Regulation applies uniformly, without transposition, and once a prospectus is approved, host Member State authorities cannot run their own approval or administrative procedures over it (Prospectus Regulation, art. 24). ESMA's coordination role, exercised through guidelines, peer reviews, and comply-or-explain, has narrowed, even if it has not eliminated, outright inconsistency in how common standards are applied, without displacing NCAs' local market knowledge or their proximity to domestic issuers. Some commentators go further and treat this as a genuine strength rather than a tolerable weakness: a system that lets NCAs experiment and specialize, with ESMA steering convergence centrally, may deliver more flexible and locally sensitive supervision than a single centralized regulator ever could [Moloney (2025)].

Now the other side of the ledger. Persistent divergence in supervisory style, application of standards, approval timelines, and cross-border cooperation survives despite a fully harmonized legislative text, precisely because the Regulation harmonizes the standard but not its application [Di Noia and Gargantini (2020)]. ESMA's unused Article 34 mandate illustrates both sides of this at once: it is a sign of a system that trusts NCAs enough to leave the detail to them, but also a missed opportunity to fix the gaps that a binding technical standard was designed to close [Euijen and Scholten (2025)]. More broadly, the architects of the current model themselves acknowledge that ESMA's influence has grown steadily through an accumulating body of soft law, more intrusive peer reviews and opinions on individual NCA decisions, producing a quiet, incremental shift of practical authority towards ESMA with no corresponding change in the formal allocation of competences. That raises real questions about legal certainty for market participants trying to work out who is actually setting the rules [Moloney (2025), Kämmerer (2025)]. In practice, NCAs can also struggle with this uncertainty, in particular when questions of interpretation arise that different NCAs approach differently. The coordinating and guiding role of ESMA will often take significant time, meaning NCAs (and market participants) can be left in limbo.

2.2.5 CMU – what does it entail?

The Capital Markets Union dates from 2015, with a further Action Plan in 2020, as the EU's flagship project to deepen market-based financing, particularly for smaller businesses, and diversify funding sources for the EU economy [Moloney (2025)]. Measures adopted under the CMU banner included the Prospectus Regulation itself, the 2020 Crowdfunding Regulation, revisions to the EU securitization framework and, most recently, the 2022–2024 EU Listing Act [Moloney (2025)]. More than a decade on, the CMU's own metrics show limited progress on its central aim: the value of EU initial public offerings has fallen relative to 2015, EU trading venues have failed to attract international issuers at scale, and the number of approved prospectuses across the EU dropped from 8,875 in 2007 to 2,425 in 2022 [Moloney (2025)]. The figure that has come to symbolize this shortfall is the approximately €33 tln in EU household savings sitting in low-yielding bank deposits rather than earning the higher returns capital markets could offer [Moloney (2025)].

On March 19, 2025, the Commission rebranded and re-launched this agenda as the Savings and Investment Union (SIU), presented explicitly as an evolution of the CMU project rather than a fresh start [EC (2025a)]. The SIU strategy rests on four pillars: citizens and savings, investments and financing, integration and scale, and efficient supervision in the single market. On the supervisory pillar, the Commission committed to bring forward legislative proposals by the fourth quarter of 2025 to strengthen ESMA's convergence tools and, in specified areas, centralize certain supervisory tasks at ESMA level [EC (2025a)].

That commitment landed on December 4, 2025 as the Market Integration and Supervision Package

(MISP), which the Commission and market commentators treat as the central legislative vehicle for the SIU's supervisory ambitions [EC (2025b)]. It comes in three parts: a master regulation amending the ESMA Regulation together with thirteen further existing regulations, including the European Market Infrastructure Regulation, the Markets in Financial Instruments Regulation, the Central Securities Depositories Regulation, the Digital Ledger Technology Pilot Regime Regulation, and the Markets in Crypto-Assets Regulation; a master directive amending the UCITS Directive, the Alternative Investment Fund Managers Directive, and the Markets in Financial Instruments Directive II; and a proposal for a new Settlement Finality Regulation to replace the 1998 Settlement Finality Directive [EC (2025b), PwC Legal (2025)]. For the ESMA/NCA relationship specifically, the proposals that matter most are the transfer of direct supervisory authority from NCAs to ESMA over defined categories of significant market infrastructure (significant trading venues, central counterparties, and central securities depositories, together with a new "Pan-European Market Operator" license) and over all crypto-asset service providers for whom crypto services are the main business. NCAs keep competence over infrastructure below the significance threshold and over crypto-asset service providers for whom such services are secondary [International Bulletin (CNMV) (2026)]. In asset management, supervision of funds and their managers stays with NCAs, but ESMA is to join periodic joint assessments of the largest cross-border asset management groups, and its power to mediate supervisory disagreements between NCAs is being strengthened [International Bulletin (CNMV) (2026)].

Two proposals published in April 2024 argued for going much further. The Draghi Report called for ESMA's transformation into a single EU securities regulator, on the model of the U.S. Securities and Exchange Commission; the French-government-commissioned Noyer Report proposed direct ESMA supervision of trading venues, central counterparties, and central securities depositories of European scale [Letta (2024), Noyer et al. (2024), Moloney (2025)]. The MISP does not adopt either. It confines direct ESMA supervision to defined, systemically significant infrastructure and to crypto-asset service providers, which is a targeted extension of the existing exceptional-competence model rather than the wholesale reversal of the Article 291(1) TFEU default that full centralization would represent [Kämmerer (2025)]. That restraint fits the view that the current NCA-anchored, ESMA-coordinated model is an underappreciated strength of the EU system: it lets supervisors experiment and specialize in a way a single centralized regulator would struggle to replicate, provided ESMA's coordination role is properly resourced and its convergence tools, including its long-dormant Article 34 mandate on prospectus information exchange, actually get used [Moloney (2025)]. Whether the MISP holds this line in practice depends on the trilogue negotiations expected to run through 2026, in which the boundary between ESMA and NCA competence remains one of the most contested points.

2.2.6 Worthwhile improvements

The Dutch experience is worth returning to here, but for a narrower reason than institutional design as such. What makes DNB and the AFM work together is not that their functions were split cleanly on paper, but that the split comes with a binding, specific duty to cooperate and share information (Wft, arts 1:24–1:25). The EU's equivalent horizontal duties, NCA-to-NCA and NCA-to-ESMA, are comparatively vague, resting on convergence tools that NCAs can use, decline to use, or use inconsistently [Di Noia and Gargantini (2020), Euijen and Scholten (2025)]. That gap, not the absence of a single European regulator, is the more fixable problem, and it points to four concrete changes.

ESMA should be required, on a fixed timetable, to use its existing Article 34 mandate and adopt binding implementing technical standards on how NCAs exchange information in prospectus matters. Leaving that mandate unused, as it has been since 2019, is the single clearest example of a convergence tool the EU already has but simply is not using [Euijen and Scholten (2025)]. ESMA should also be given a defined role in resolving contested requests to transfer prospectus approval between NCAs under Article 20(8), so that an issuer is not at the mercy of unpublished, or entirely absent, internal criteria at the NCA in question [Di Noia and Gargantini (2020)]. All NCAs, not just the handful that already do so voluntarily, should be required to publish clear, English-language guidance on their prospectus scrutiny and transfer practices. And as the MISP negotiations continue, the extension of direct ESMA supervision should stay tightly confined to genuinely systemic, cross-border infrastructure. The temptation will be to treat the boundary between ESMA and NCA competence as a question of institutional principle rather than of demonstrated supervisory need. It should be resisted [Kämmerer (2025), Moloney (2025)].

3. Conclusion

EU capital markets supervision rests on a constitutional default of enforcement by Member States, with the Union intervening only exceptionally, which has survived every wave of reform since the ESFS was created in 2011, through to the ongoing SIU/MISP negotiations. ESMA has become an increasingly influential standard-setter and convergence coordinator without becoming, outside a few narrow areas, a direct supervisor, while NCAs go on applying a harmonized rulebook with institutional structures, and a degree of rigor and speed, that still differ from one Member State to the next. Prospectus supervision shows this most clearly: a fully harmonized regulation, filtered through as many different national approaches to scrutiny and approval as there are NCAs applying it, still produces materially different outcomes for issuers depending on which authority happens to be in the lead.

The CMU never resolved that tension, and the SIU does not propose to either. The December 2025 Market Integration and Supervision Package extends direct ESMA supervision only to defined categories of systemically significant infrastructure and crypto-asset service providers, leaving the general prospectus-approval model, and the divergences it generates, essentially untouched. That is not necessarily a failure. The Dutch experience of a clear, cooperative split between DNB and the AFM suggests that a well-specified division of labor, backed by binding duties to cooperate and share information, can work perfectly well without full centralization. What the EU is missing is not more centralization, but fuller use of the convergence tools it already has - above all, ESMA's still-unused power to standardize the procedures that determine how quickly, and how consistently, a cross-border offering can actually get to market.

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