

# Building more effective and attractive capital markets in the EU

Position Paper

Agence Europe

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## Executive Summary

The development and integration of capital markets has been a core ambition for the European Union for some time<sup>1</sup>. Faced with urgent financing needs and a necessity to boost the competitiveness of European businesses, a renewed effort to strengthen EU capital markets has emerged. In recent months, several views have been shared in this context<sup>2</sup>.

The European Securities and Markets Authority (ESMA) has comprehensively assessed the state of capital markets in the EU to identify ways for enhancing their effectiveness and attractiveness in the long term. This paper presents 20 recommendations to strengthen EU capital markets, to address the needs of European citizens and businesses.

Creating effective and attractive capital markets necessitates improving the wider market ecosystem and putting investors and companies at the heart of it. This means that many of the initiatives recommended in this paper go beyond changes to financial regulation and supervision, and are thus not only directed to capital market supervisors but also to Member States, the Commission, co-legislators, as well as financial industry. These recommendations focus on:

- **EU citizens:** Simple, cost-efficient investment options are crucial for empowering citizens to invest their savings in capital markets that serve their long-term needs. Key recommendations in this area include the development of **basic long-term investment products** and pension systems that are suitably incentivised and contribute to the development of capital markets. This should be complemented by efforts to **improve financial education**.
- **EU companies:** Diverse and sustainable financing options are critical for fuelling growth and innovation in the EU, especially for SMEs. Key recommendations in this area include developing a **conducive ecosystem for public companies**, and fostering **pan-European markets** while addressing barriers to integration, particularly for market infrastructures.
- **EU regulation and supervision:** EU capital markets must be agile to respond to evolving needs. Key recommendations to address this include **modernisation of the EU's regulatory framework**, to account for new tools such as **effective forbearance powers**. At the same time, **supervisory consistency** amongst EU supervisors should be prioritised, while further **centralisation of supervision at EU level** should be evaluated.

ESMA will continue to engage and collaborate with all stakeholders regarding the implementation the 20 recommendations outlined in this paper and work towards their

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<sup>1</sup> In the context of this paper, references to the EU capital markets also includes EEA states.

<sup>2</sup> Including a [Statement from the Eurogroup](#), [European Council conclusions](#), and a [report by Enrico Letta on the Single Market](#)

implementation in the interest of building more effective and attractive capital markets in the EU.

## 1 The state of EU Capital Markets

Capital markets serve as the lifeblood of modern economies, playing a pivotal role in financing economic activities, fuelling innovation, and fostering prosperity. By providing a platform for businesses to raise financing, capital markets enable companies to invest in expansion, research, and development, driving economic growth and job creation. Capital markets also offer citizens opportunities to invest their savings and participate in wealth creation, thereby promoting financial inclusion. In essence, capital markets are crucial for economic progress - empowering businesses, individuals, and societies to thrive and flourish.

While Europe has a strong and proud history of capital markets, it remains hampered by an over reliance on the banking system and the enduring fragmented nature of those markets. The Capital Markets Union (CMU) plan aimed to resolve some of these structural flaws by developing more diversified sources of financing for EU companies, improving economic risk sharing, and deepening financial integration between EU Member States. Since the first Action Plan was introduced in 2015, a series of measures have been implemented to this end. Some of the most recent ones, such as creation of a consolidated tape and a pan-EU access point for company information, still need to be implemented.

Yet, while gradual progress has been made to improve efficiency, scale and resilience in this period, EU capital markets remain underdeveloped. At the end of 2023, for example, the EU27 share of global equity market capitalisation stood at just 11% compared to 45% for the US<sup>3</sup>. Moreover, this share declined over the past 15 years, in 2009 it was 16% for the EU27 and 34% for the US.<sup>4</sup> Other statistics, such as on public listings, also paint a similar picture, whereby the EU share of global IPOs from 2015-2020 by value was 15%, less than half the US figure of 32%.<sup>5</sup>

The EU's capital market landscape also remains fragmented and complex. 27 different Central Securities Depositories (CSDs) and 14 different Central Counterparties (CCPs) are authorised and provide services in the EU, in comparison to 1 CSD and 8 CCPs in the US. Similarly for stock exchanges, despite the acquisition of national stock exchanges by EU-wide groups in recent years, this has not led to a unification of the operated stock exchanges. Exchanges continue to operate at the national level and without a cross-border order book, leading to a continued fragmentation of liquidity. While recognising that EU market infrastructures have evolved in this way to serve different purposes, such as the needs to multiple local markets

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<sup>3</sup> [SIFMA January 2024 'Quarterly Report: US Equity & Related, 4Q23](#)

<sup>4</sup> [World Bank statistics on market capitalisation in Current USD](#) + ESMA calculations

<sup>5</sup> Figure 3 in 'Empowering EU capital markets for SMEs - Making listing cool again', Final report of the Technical Expert Stakeholder Group (TESG) on SMEs, May 2021

that may be at different levels of development, nevertheless this has an impact in terms of inefficiencies and higher costs.

The EU's asset management sector portrays a similarly fragmented picture. As of Q3 2023, there were 31,004 UCITS funds authorised in the EU<sup>6</sup>, in comparison to 11,996 mutual funds/ETFs in the US<sup>7</sup>. This substantial number of investment funds in the EU affects the scalability of funds. As of 2021, the average US mutual fund had €2.7 billion in net assets, compared with €400 million for an average UCITS fund<sup>8</sup>.

Recognising the slow progress in delivering on CMU ambitions, and in the face of changing demographics, evolving geopolitics, and societal exigencies, renewed momentum and greater commitment is needed to create a genuine single market for EU capital that can support investors and companies.

In the years ahead, capital markets must play an increasingly important role in supporting growth, innovation and competitiveness in the European economy. This is particularly important in view of the green and digital transitions, and other emerging long-term needs. It will also be essential to attract greater levels of EU and international investment to strengthen European industries and support job creation and innovation, thus reinforcing the EU's global competitiveness and strategic autonomy.

Banks and public finances cannot shoulder these funding needs alone. There is therefore an overwhelming need, now more than ever, to achieve a more balanced way of financing the economy and to build effective and attractive capital markets in the EU.

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<sup>6</sup> <https://www.efama.org/sites/default/files/files/Quarterly%20Statistical%20Release%20Q3%202023.pdf>

<sup>7</sup> <https://www.sec.gov/files/im-registered-fund-statistics-20240418.pdf>

<sup>8</sup> [Comparing Apples and Pears: EU UCITS and US Mutual Funds | Investment Company Institute \(ici.org\)](#)

## 2 Broadening investment opportunities for EU citizens

Strengthening EU capital markets requires new and more long-term capital to be mobilised across different parts of the economy. Broadening the investor base can introduce more diverse sources of funding and inject liquidity into capital markets, enhancing market efficiency and resilience.

For EU citizens, while allocating their savings into capital market investments entails different degrees of risk, it also presents new opportunities to grow their savings - while at the same time supporting the financing needs of the European economy. Traditionally, EU households have a propensity to rely on bank deposits to safeguard their savings, even if the value of those savings may reduce over time. From 2015 to 2021 households in the EU27 held on average 32% of their financial assets in currency and deposits as compared to just 13% in the US.<sup>9</sup> The funding choices of companies can be significantly influenced by the behaviours of investors, so even small changes can have consequential effects. New Financial estimates that a 5% shift in household savings from deposits into capital market investments in the EU could unlock an extra €1.8tn to support economic growth and innovation<sup>10</sup>.

However, to instil a greater retail investment culture and trust amongst EU citizens, the conditions must be correct, and citizens must be reassured of the benefits of their participation in capital markets. This requires a suitable suite of straight-forward investment products, that are simple, easily accessible, cost-effective, accompanied by the availability of independent advice, and backed by an appropriate level of investor protection. Retail investment can also be stimulated through the use of appropriate incentives, most notably by national governments using favourable tax incentives. With these conditions in place, citizens can appreciate how capital markets could cultivate their savings over the long term. Enhancing the understanding of the benefits of capital markets for investors can also serve to discourage investment in unsuitable or more speculative products such as crypto.

Institutional investors also play a major role as a key channel for retail investors to invest in capital markets. Investment funds, pension funds and insurance companies represent the largest suppliers of capital in the EU, bringing significant financial resources, expertise, and a long-term investment horizon.

Regarding retirement systems, while some Member States have well-developed pension fund schemes, there is a significant scope to further develop this area across the EU as a whole, to better serve the long-term financial security and retirement needs of EU citizens.

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<sup>9</sup> [Figure 3 from Karel Lannoo and Apostolos Thomadakis, 'Unleashing retail investors' potential - the key ingredient for enhancing the EU's investment funds and capital markets', ECMI Policy Brief no. 34, March 2023](#)

<sup>10</sup> [Report - Widening retail participation in equity markets - New Financial](#)

## Recommendations

1

### Creating an EU-label for basic and simple investment products suitable for retail investors

The **European Commission** should explore the idea of creating a voluntary “basic” investment product label at EU level. Such a label could be assigned to a sub-category of non-complex financial instruments, such as certain basic UCITS funds, as well as suitable equity and debt securities. The investment products could be selected based on a set of common features related to complexity and cost efficiency. This EU label would be prominently displayed in all client dealings, and clients with lower knowledge and more basic investment needs could be directed towards such offerings, with the final choice of investment then based on the investors’ risk appetite.

2

### Creating a simple advice category for basic investment products

The **European Commission** should explore the idea of creating a simplified and streamlined advice segment or guided execution for retail investors with basic investment needs – thus creating a link with the “basic” product label concept. This advice could be based on a streamlined suitability assessment and lighter reporting requirements, thus reducing compliance costs for firms (not just independent advisors) and incentivising a shift away from promoting complex and costly products in favour of “basic” labelled products. The creation of a new segment of advice like this could also reduce advice costs for investors, increase efficiency in the interface with new clients, and allow for easier access to straight-forward investment products for investors.

3

### Supporting digital solutions for retail investors

To promote greater inclusivity and accessibility in capital markets for citizens, evolving digital solutions should be embraced. From interactive investment platforms, to personalised financial advice and educational content, digital solutions can enhance investor confidence, knowledge, and engagement, ultimately empowering individuals to take control of their financial futures.

The **European Commission, ESMA and financial sector** should examine and foster the use of technology in helping citizens access capital market investment products, by supporting investor friendly innovations, promoting interactive financial education, and

incorporating safe and suitable investor tools. This should keep in mind individuals who do not have access to such digital means or are less tech savvy.

#### 4 Focusing on the role of pensions and long-term savings in capital markets at national and EU level

**Member States** should assess long-term savings trends and the adequacy of their pension systems, in light of shifting demographics. This reflection should also consider on how pension systems and other long-term savings can contribute to the development of EU capital markets. In particular, consideration should be given to the use of the three-pillar pension model in use in some Member States such as Sweden and the Netherlands, which consists of a core publicly managed Pay-As-You-Go pillar, complemented by a mandatory or voluntary occupational pension pillar, and a voluntary individual savings pillar.

In addition, the **European Commission** and **Member States** should examine the contribution a revived Pan-European Personal Pension product or other pan-European long-term savings and investment products could make to EU capital markets.

Supporting more capital market-based pensions and investments in the EU can not only provide more promising long-term returns for citizens, but also deepen funding pools available to the EU economy.

#### 5 Re-evaluating tax incentives for retail investors

Tax considerations significantly influence investors' choices, affecting their asset allocation, investment horizon, and choice of investment products. **Members States** should consider how domestic tax policy can better incentivise retail investors to participate in and benefit from capital markets. This should draw on the successful experiences in some Member States who offer certain types of tax-advantageous investment savings accounts with low administrative burden, such as the Investeringssparkonto (ISK) in Sweden and Piani Individuali di Risparmio (PIR) in Italy, as well as employee investment schemes, such as the Plan d'Epargne Entreprise (PEE) in France. As these schemes provide a channel for the allocation of savings into capital markets, they may also promote better financial knowledge, as investors are incentivised to learn more about the investment options offered via these accounts. The digitalisation of financial services also makes it easier to access and manage such accounts.

6

## Promoting the use of employee share schemes among European companies

Employee share ownership can be a valuable source of long-term capital investment, which could diversify households' savings into capital markets, while also incentivising employee performance and fostering a culture of ownership and engagement. Currently employee share ownership remains underdeveloped at EU level. In 2019, about 65% of firms in the EU did not provide any form of financial participation to their employees. It was estimated that around 300,000 firms across the EU could be interested in this type of scheme.<sup>11</sup>

The **European Commission** should evaluate whether the introduction of a dedicated pan-European vehicle in EU law would help to reduce barriers for cross-border ESS plans and support their widespread introduction amongst firms operating in the EU.

7

## Reaffirming efforts to develop financial education across the EU

Since the 2020 CMU Action Plan, multiple initiatives have been launched by different bodies (including the European Commission, OECD, ESAs) to assess levels of financial knowledge in the EU and create dedicated programmes to improve financial education. Improving financial education is a long-term goal, necessary to empower citizens to manage, save and invest their money in a way that meets their needs.

In order to improve financial knowledge levels at an early age and stimulate a better investment culture in the EU over the long term, **Members States** should define clear learning objectives and embed those into national education curriculums. Similar measures should be taken to enable the continued enriching of financial knowledge throughout adulthood, and when taking significant financial decisions. The **European Commission** and **ESMA** should continue to coordinate initiatives at EU level.

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<sup>11</sup> ECS (European Company Survey) for the European Commission

### 3 Boosting the financing of European companies

One of the key objectives of the CMU project was to develop greater access to diverse sources of financing, especially for SMEs and startups, in order to reduce the reliance on bank financing. Yet, while progress has been made, European businesses continue to overly depend on banks as opposed to market financing. According to the IMF, Euro area non-financial firms relied on market finance for only 30% of their funding in 2017, as compared to almost 70% for their US counterparts.<sup>12</sup> Additionally, average IPO volumes in the EU over the last fifteen years have shown a generally flat trend, and in 2023, reached their lowest levels since 2009.<sup>13</sup> In parallel, the number of companies de-listing from EU markets has increased. There are a large number of factors that can affect a company's choice to go public or not, and where to do that, including the level of market integration, valuation levels, sell-side expertise and research coverage, home bias, corporate governance and other regulatory requirements. Besides, EU public equity markets have lost an element of appeal for European companies to raise capital.

As a consequence of this, a large portion of European savings migrate to other global markets. For example, while European stocks accounted for 51% of the total assets of UCITS equity funds in 2015, that portion fell to only 35% in 2022, while in parallel, the share of US stocks increased from 27% to 42%.<sup>14</sup> In a free global market, capital will inevitably flow to where it can most efficiently make optimal returns for investors. To attract more funding for European companies, measures should be considered to make investing in EU markets a more appealing choice, for example, through tax incentives.

While it is important to improve public equity financing (and the pronounced bias in how debt is taxed versus equity is something fundamental to address in this regard), it is also important to support the growth of a broad range of financing options in the EU, including corporate debt and private financing, such as private equity or venture capital. Different financing options can play different roles for corporates, including SMEs, depending on the specific funding needs of companies during different stages of their lifetime.

These wider financing options should act as a complement, and not a replacement, of existing bank financing. Improving the functioning of the securitisation market can help enhance the symbiotic relationship between bank and market-based financing.

Overall, different parts of the capital markets must work effectively together to ensure the efficient allocation of capital across the EU. However, the market structure landscape in the EU is currently quite complex and fragmented, in particular for trading and post-trading infrastructures. While market entities should explore opportunities to better integrate activities,

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<sup>12</sup> [Figure 2 in IMF \(2019\), 'A Capital Market Union for Europe'](#)

<sup>13</sup> Refinitiv EIKON data

<sup>14</sup> [EFAMA Fact Book 2023](#)

also leveraging off technological advancements in this regard, policy makers too should support this by intensifying efforts to create a more harmonised legal and regulatory environment. Addressing fragmentation issues and promoting further market integration can bring economies of scale to EU markets. At the same time, creating a unified market environment would facilitate efficient cross-border capital flows within the single market and broaden investment opportunities.

## Recommendations

<b>8</b>	<b>Fostering the pan-European markets</b>
<p>The fragmented nature of EU capital markets makes it difficult for businesses to identify and obtain different, and sometimes cheaper, forms of market financing. The issuance of debt or equity instruments often takes place on ‘home’ markets, where, depending on the size of that market, an effective market eco-system and market liquidity can be constrained.</p> <p>The <b>European Commission, ESMA and financial sector</b> should evaluate and foster the possibility for dedicated markets to develop at EU-wide scale, with sufficient size, liquidity, and visibility, to attract EU and international investors. Such market segments could be focused on specialised or critical industries in the EU, or be based on size or specific needs e.g., SMEs.</p>	

<b>9</b>	<b>Stimulating equity funding to support innovation and growth</b>
<p>Equity finance is a crucial component of a strong and effective funding environment in capital markets. Building a stronger equity culture for European businesses can improve their resilience to economic cycles, enhance risk sharing, and help reduce the overreliance on debt financing.</p> <p>It is also important to support the growth of diverse funding options beyond raising on public markets, including crowdfunding, venture capital and private equity, which can be important in supporting the lifecycle of SMEs, especially at late stage or IPO phase.</p> <p>The <b>European Commission, ESMA and financial sector</b> should evaluate the potential to further mobilise and scale institutional and retail equity capital through dedicated funds, including public-private partnerships, to better support the growth of critical business sectors in the EU and the objective of strategic autonomy.</p>	

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Reviving the securitisation market in the EU

The size of the securitisation market in the EU has decreased significantly since the Global Financial Crisis and continues to languish far behind global competitors. While the introduction of the Securitisation Regulation, as well as the Simple, Transparent and Standardised (STS) label for traditional securitisations, in 2019 represented an important step forward, the framework has not yet produced all the expected results.

The **European Commission** should put forward a proposal aiming to revitalise the EU securitisation market, on the basis of a holistic and comprehensive review of the current framework. While remaining conscious of potential risks to financial stability and investor protection this should particularly look at prudential treatments, due diligence rules for institutional investors, reporting requirements for certain types of assets, the consistency of STS criteria and the supervisory process. The **ESAs** will provide advice to the Commission in this respect in Q4 2024.

11

Creating conditions for pan-European partnerships

The EU capital market landscape paints a convoluted and fragmented picture of numerous trading venues and post-trading infrastructures. Many trading venues continue to operate at the national level to serve their local market, addressing issues such as language and local demands. However, at the same time, this can lead to complexity and potentially higher costs for market participants, with detrimental effects especially for smaller stocks in terms of liquidity fragmentation. Likewise, the post-trade landscape remains complex and fragmented for clearing and settlement, which in turn increases the cost for market participants and investors.

The **European Commission, ESMA, ECB and financial sector** should reflect on the merits of improving the connectivity and overall simplification of the trading (for example, creating pan-European specialised market segments) and post-trading landscape. This should aim at identifying and eliminating barriers that prohibit better collaboration and alliances and at supporting innovative solutions that can enhance interoperability, efficiencies, and network effects between systems. The **European Commission and co-legislators** should also ensure that EU competition policy is appropriately balanced to serve the EU's economic and political priorities.

## 12 Ensuring a balanced and conducive ecosystem for listed public companies

The strength and depth of the wider ecosystem for public markets plays a critical role in incentivising companies to consider listing. Factors such as valuations, the existence of comparable peers, the availability of sell-side expertise and research coverage, the quality and size of institutional investors, taxation and company law aspects, amongst others, can be key determinants.

Improving this ecosystem in the EU is interlinked with many of ESMA's other recommendations, as well as recent regulatory changes to simplify the EU listing process. While it will take time to see this ecosystem evolve, the **European Commission** should continue to evaluate whether the regulatory obligations applicable specifically to listed companies strike the right balance compared to those imposed on unlisted companies. The **European Commission, Member States** and **National Competent Authorities** should avoid any disincentives that may discourage companies from listing, such as introducing new disclosure or conduct requirements that are not justified from an investor protection perspective, but are rather triggered by the fact that the company is listed on public markets. Instead, the focus should be on helping to build a supportive ecosystem for listed companies and guide companies in navigating the listing process.

## 13 Advancing on harmonising key aspects of related law

Capital markets regulation in the EU is advanced and comprehensive. While there is scope for further harmonisation in those areas, fragmentation and obstacles to EU capital markets growth can often be driven by a lack of consistency and common approaches in other areas of law, particularly regarding issues such as taxation and insolvency that are in the remit of Member States.

In the next political cycle, the **European Commission** and **co-legislators** should focus on reaching practical and effective agreements on the proposed directive on insolvency proceedings, the proposed directive on the debt–equity bias reduction allowance (DEBRA), and the Shareholder Rights Directive. Further harmonisation of corporate law at EU level on matters affecting the whole investment chain should also continue to be assessed and progressed to enhance the single market for capital.

14

Promoting EU capital markets as a hub for green finance

The EU's sustainability goals present significant economic opportunities for investors and businesses alike. In recent years, targeted regulatory frameworks have been introduced in the EU to support growth and convergence in this area.

The **European Commission** and **ESMA** should ensure that EU capital market regulations and incentives align to help allocate public and private capital to support sustainable finance projects and EU decarbonisation objectives. This should include efforts to simplify the disclosure of sustainability information to aid comprehension by investors, also through the use of sustainability labels/categories as necessary. Reducing complexity and enhancing clarity for the industry can also serve to ease compliance burdens.

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## 4 Improving regulatory agility, supervisory consistency and global competitiveness

In today's fast-paced and ever-changing capital markets landscape, the EU faces the imperative to enhance regulatory agility and supervisory consistency to effectively navigate market developments, technological innovations, and maintain global competitiveness. The existing regulatory and supervisory framework must evolve to become more flexible, dynamic, harmonised and responsive to the demands of a rapidly evolving financial ecosystem.

The current EU regulatory framework, and approach to rulemaking for financial services, can be rigid and convoluted. A more forward-looking approach must be adopted. An approach that allows for greater adaptability and responsiveness to market developments and emerging risks, without needing to reopen framework legislation to make necessary adjustments. This would then allow for reviews of framework legislation to focus on important strategic policy matters and more holistic considerations by co-legislators. In addition, a more agile regulatory framework should also seek to cut red tape, reduce regulatory burden and streamline existing rules where possible.

Moreover, supervisory consistency is paramount for ensuring a level playing field and maintaining the integrity and resilience of the EU single market. Variations in supervisory practices and interpretations of regulations can create regulatory arbitrage, hinder efficient cross-border operations, and undermine the effectiveness of the single market. Therefore, it is necessary to constantly improve the methods by which supervisory convergence and collaboration among national competent authorities is achieved. Additionally, considering the merits of EU-level supervision in cases where it can bring tangible benefits to capital market firms and investors, as well as efficiency gains, is necessary.

To achieve these objectives, it is imperative that the parameters for administrative decision-making within the regulatory framework are viewed from a more open-minded and progressive perspective. A contemporary reading of the so-called 'Meroni doctrine', which traditionally limits the delegation of powers to EU agencies, would help foster the EU's ability to maintain efficient and effective capital markets. Otherwise, the competitiveness of EU capital markets may be disadvantaged on the global level, as other global regulators can act more swiftly and decisively within their jurisdictions, within appropriate accountability frameworks.

## Recommendations

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### Modernising the EU's regulatory framework for financial services

The process whereby EU legislation and financial markets rules are developed requires stability and clarity, alongside better responsiveness, simplification, and agility. As such, the **European Commission** and **EU co-legislators** should:

- consider orientating legislation to a more principles-based approach, whereby EU framework legislation focuses on reflecting the key strategic policy choices of co-legislators. Technical work should in turn be delegated to ESMA, with the concurrent enhancement of the powers of ESMA to develop and propose changes to certain technical rules and address non-strategic policy issues, within a streamlined procedure and appropriate accountability framework.
- continue to propose legislation in the form of regulations rather than directives, to improve consistency of implementation and interpretation, and agility in making changes.
- create a more dynamic approach to implementing EU framework legislation, which could provide for phased or staggered implementation or could indicate that the legislation becomes effective a certain period after implementing measures have been completed.

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### Reviewing financial regulation with a more holistic vision

Since the global financial crisis, the EU capital markets landscape has experienced an upsurge in rulemaking. When ESMA was established in 2011, there were 6 legal acts under its remit – today, there are 30. While the pace and breadth of rulemaking over this period was justified by the need to address pre-crisis vulnerabilities, as well as adapt to evolving circumstances and innovations in EU capital markets, it is now important to evaluate the regulatory landscape as it stands today, with an eye on the overall regulatory burden.

The **European Commission** and **ESMA** should take the opportunity of the next legislative cycle to focus on streamlining and tidying up the single rulebook. During legislative reviews, the focus should be on identifying and addressing inconsistencies and complexities across sectoral rules.

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**Implementing effective forbearance powers for ESMA**

The **European Commission** and **co-legislators** should revise the currently limited and ineffective regulatory forbearance powers in order to allow ESMA to temporarily suspend the application of provisions in EU law. Such a power would be limited to use in exceptional circumstances, where this is deemed necessary to avoid clearly identified disruption or risks to EU financial markets and investors. This should also include appropriate accountability measures, such as the right to object by the co-legislators. This would be in line with the powers of other regulators in other key jurisdictions such as the US and UK.

**18**

**Improving supervisory consistency amongst EU National Authorities**

The current supervisory convergence framework and toolkit has evolved substantially in recent years to a risk-based, outcome-focused and data-driven approach, allowing ESMA together with NCAs to enhance effective and coordinated supervision on the ground. In continuation of these efforts **ESMA** should progressively evolve from coordination and exchange of supervisory information towards:

- facilitating more cooperation and joint supervisory work amongst NCAs especially on large, cross-border firms, for example, in the form of mandatory supervisory colleges and coordinated supervisory teams. Such mechanisms can also help to ensure seamless supervisory interaction notably on cross-border issues, such as the digital distribution of products and services across the EU, or in crisis situations.
- carrying out more central work on selected tasks to increase efficiencies, integration, and optimisation, for example, common data or risk analytics.
- centralisation of certain supervisory data collection and processing, in line with the Eurogroup Statement<sup>15</sup>, Dutch paper on CMU<sup>16</sup>, and the ESMA Data Strategy 2023-2028<sup>17</sup>.
- fostering harmonised enforcement outcomes through enhanced cooperation and convergence.

<sup>15</sup> [Statement of the Eurogroup in inclusive format on the future of Capital Markets Union - Consilium \(europa.eu\)](https://www.europa.eu/press-room/media/30612)

<sup>16</sup> [https://www.dnb.nl/media/yvoblmwu/77976-2400069-dnb-brochure-kapitaalmarktunie-met-de-afm\\_tg-pdf.pdf](https://www.dnb.nl/media/yvoblmwu/77976-2400069-dnb-brochure-kapitaalmarktunie-met-de-afm_tg-pdf.pdf)

<sup>17</sup> [ESMA50-157-3404 ESMA Data Strategy 2023-2028 \(europa.eu\)](https://www.esma.europa.eu/press-room/media/30612)

The ESMA legislative framework and toolkit should evolve accordingly to allow for effective implementation of these objectives.

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### Evaluating direct supervision at EU level

ESMA's reputation and maturity as a risk-based and data-driven capital markets supervisor has grown over the years, as its supervisory responsibilities have expanded. While much of the capital market activity should continue to be supervised at national level, the **European Commission** and **co-legislators** should continue evaluating whether specific areas of EU capital markets may benefit from EU-level supervision, such as large pan-European market infrastructures or crypto-asset service providers. Such considerations should be based on certain criteria, such as whether those entities operate with a strong cross-border, pan-European dimension, whether they may present a high risk of regulatory arbitrage, or whether efficiency gains can be achieved better at EU level. Further criteria may need to be taken into account on a case-by-case basis, depending on the specific nature of the sector under consideration, and the risks it may present.

Finally, the **European Commission** and **co-legislators** should also evaluate the EU's approach to non-EU providers of financial services in the EU, in particular those providing critical services, and consider enhancing ESMA's role as a gatekeeper to EU capital markets in this context, including expanding direct supervision where appropriate.

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### Accounting for the EU's global competitiveness in policy making

Given the global nature of financial markets, and the ever-changing geopolitical landscape, it is important that EU policy making takes account of the competitiveness of EU financial markets versus other jurisdictions. The **European Commission** and **co-legislators** should respectively incorporate mechanisms into its work which, consistent with global standards, support the competitiveness of EU capital markets.

Likewise, while ESMA does not see the need for an explicit competitiveness mandate for itself, **ESMA** should continue to consider the impact of its activities "on the Union's global competitiveness", in line with the ESMA Regulation recital 13. In addition, maintaining orderly, safe, and efficient markets directly contributes to ensuring the competitiveness of EU capital markets.